

02 February 2021

MACROscope Lite

Frozen

Polish GDP fell 2.8% in 2020, which was probably among the smallest recessions in Europe. It looks like the economy has frozen again in the final quarter of 2020 (seasonally adjusted GDP growth slightly below zero), but the activity contraction was (once again) smaller than we had anticipated.

The beginning of 2021 will not be easy, as many European governments are extending restrictions in reaction to the accelerating spread of Covid-19 pandemic and the new virus mutations, while the vaccination rollout is disappointingly slow in most countries. It may keep consumer demand idle in large parts of Europe until the spring comes. But at the same time the manufacturing sectors and international trade keep expanding. Poland, which has suffered a big wave of coronavirus infections in late 2020, now is preparing for a gradual relaxation of restrictions, which should help to heat up the economy. However, for a bigger recovery we will probably need to wait until the second year-half, until the pandemic-related uncertainty decreases. We still see many reasons to believe that Poland will outperform most countries on its way out from the pandemic shock, and may be one of the few economies in Europe returning to the pre-pandemic level of GDP before the end of 2021. Our GDP forecast remains broadly unchanged vs where it was in December.

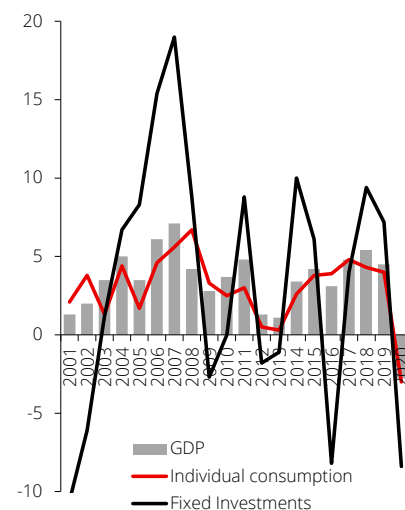
We have always argued that the pandemic was a disinflationary event. And indeed: Poland started 2020 with inflation in the upward trend and approaching 5%, and ended the year with CPI sliding just below the 2.5% official target. We think that inflation rate in 2021 should remain more or less stable near the target, with the room for further disinflation running out: at the start of the year the effects of negative output gap and high base being outweighed by the new wave of hikes in energy tariffs and taxes; later on the potential demand resurgence creating the potential upward risk for prices.

The Polish central bank managed to surprise recently by: (1) launching outright FX interventions weakening the zloty at the end of 2020, (2) declaring that further interest rate cuts cannot be ruled out in 1Q21, even to negative territory. How does it affect our thinking about monetary policy outlook? First of all, we still anticipate no changes in the NBP interest rates until the end of the MPC's term of office (i.e. early 2022). The NBP president said that rate cuts cannot be ruled out but only in the event of a significant deterioration of economic outlook. Meanwhile, the solid macro data and the recent news do not justify a sharp worsening of forecasts for Poland, in our view. To the contrary, we think that the next update of the NBP projection (to be released in early March) will show a major improvement versus its November version (which was quite pessimistic, at least for 2020-21). Also, we think that the use of the FX interventions confirms that further interest rate reductions are quite far on the list of the central bank's preferred policy actions – in line with what we have suggested in the middle of 2020 (see: [MACROscope](#), p.23-24).

The threat of central bank's intervention may keep the zloty anchored near 4.50 against the euro in the next weeks or even months, we think. However, in the medium run the Polish currency deserves some appreciation, given the economy's likely outperformance and the large external surplus. We think that in the second half of 2021, when the risk of very negative economic scenarios diminishes and the global market sentiment improves, the NBP will have no reasons to stay active on the FX market and thus, by the end of the year the EURPLN may return towards its pre-pandemic level of around 4.30.

On the fixed income market we see the struggle between the local demand-supply disequilibrium (huge excess liquidity in the banking sector, which will be boosted further by the PFR's Financial Shield 2.0, and still modest supply of government bonds) and the global trends (reflecting expectations regarding economic growth and inflation). The former factor (overliquidity) is not only keeping the front end of the yield curve low but increasingly affecting longer tenors. It may take until 2H21 until we see a clearer upward move in yields.

GDP growth, consumption, investments, %



Source: GUS, Santander

Recently released Economic Comments:

- [Economy in the second dip](#)
- [December surge of industrial output](#)
- [Retail sales and construction rebound](#)
- [Labour market data above expectations](#)
- [CPI's sub-target finish of 2020](#)

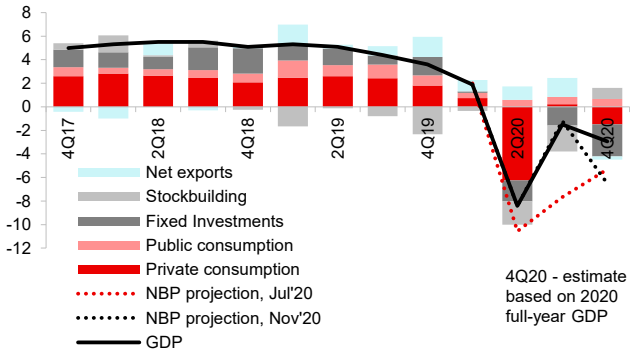
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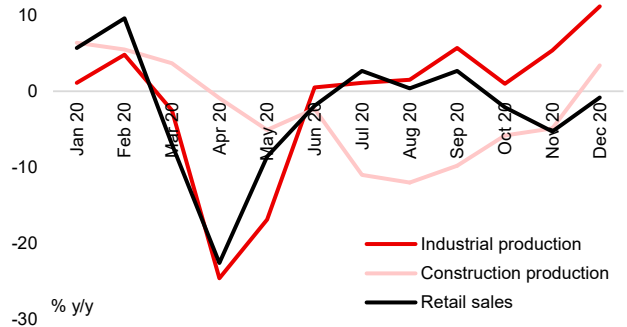
Economy in charts

GDP dip in 4Q was much milder than the 2Q one



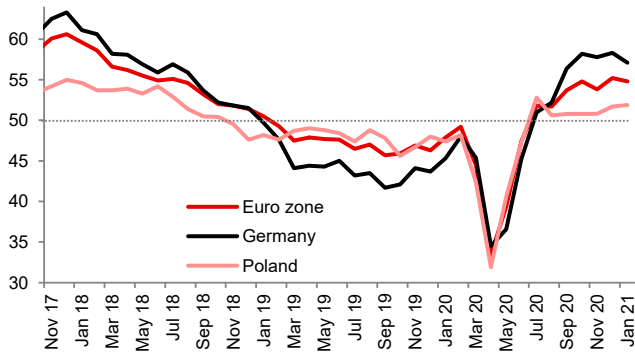
Source: GUS, NBP, Santander

The economy finished 2020 on a strong note



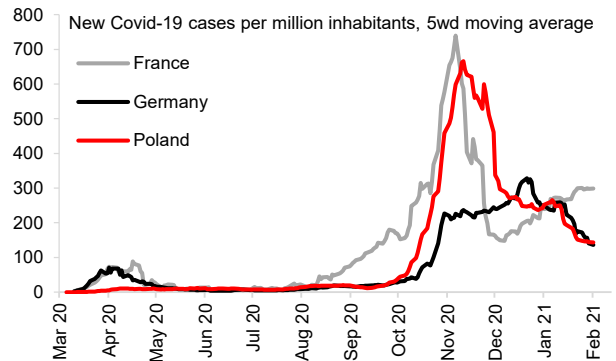
Source: GUS, Santander

Business sentiment in European manufacturing was still positive in January despite prolonging restrictions



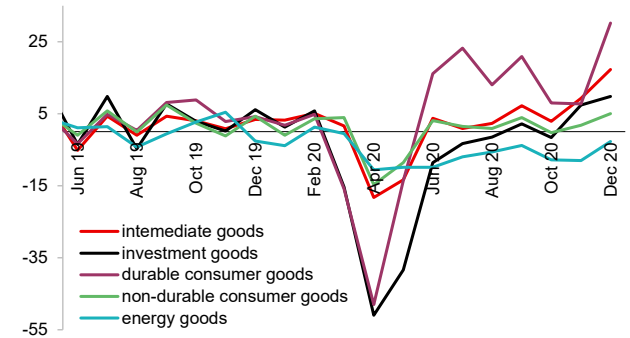
Source: Markit, Santander

New Covid cases in Poland decelerating, the government is preparing to ease restrictions



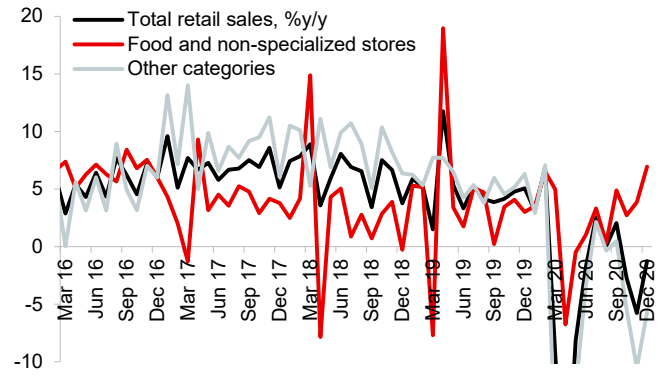
Source: Datastream, Santander

Output rebound was seen in many industries, not only in consumer durables



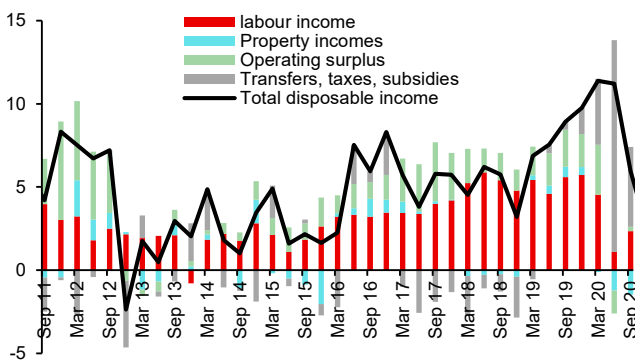
Source: GUS, Santander

Despite social restrictions, Christmas holidays supported sales



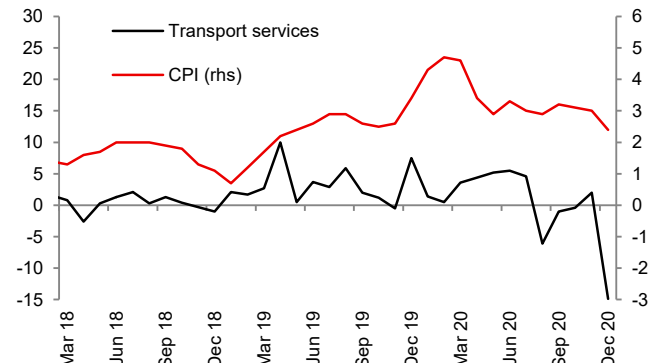
Source: GUS, Santander

Households' incomes grew despite the crisis



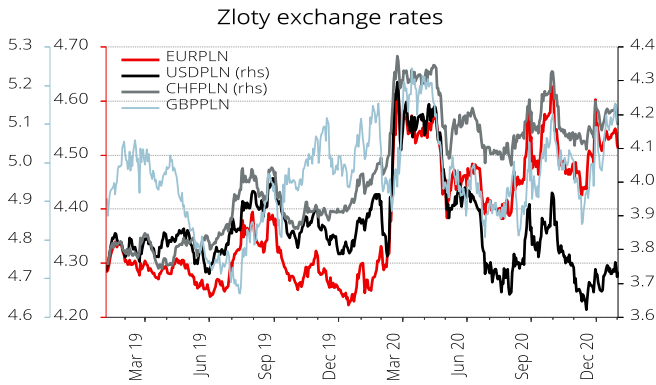
Source: GUS, Eurostat, Santander

The December fall is not necessarily an indicator of hard CPI deceleration in 2021

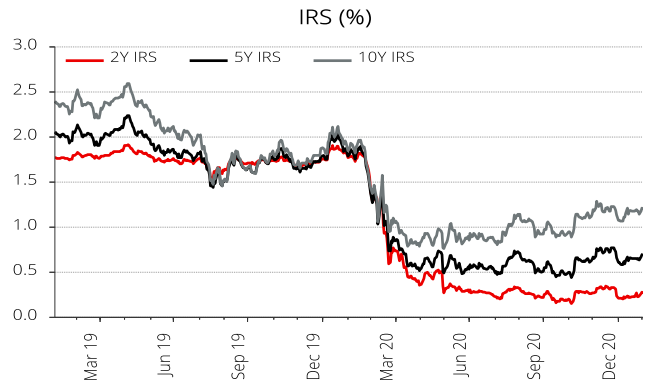


Source: GUS, Santander

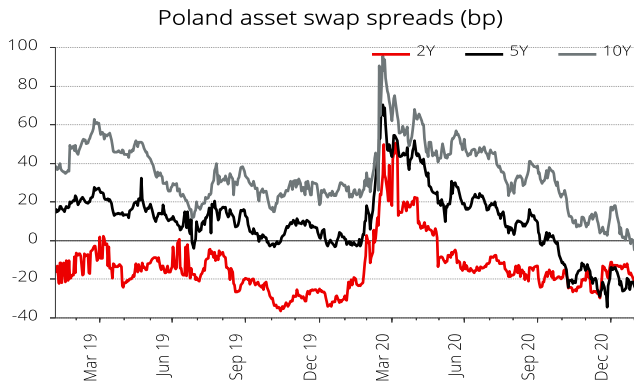
Markets in charts



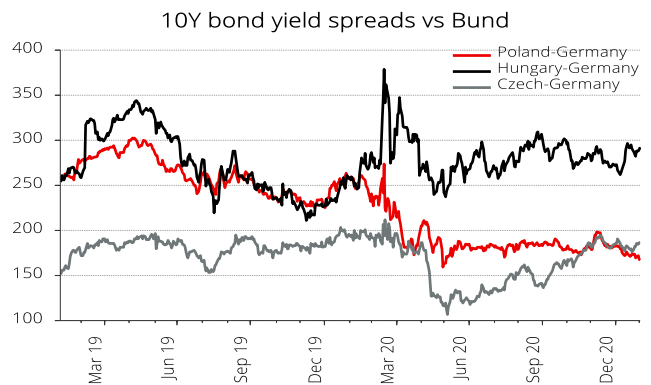
Source: Refinitiv Datastream, Santander Bank Polska



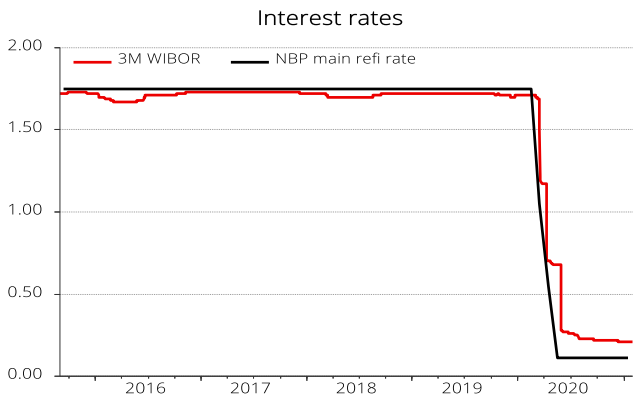
Source: Refinitiv Datastream, Santander Bank Polska



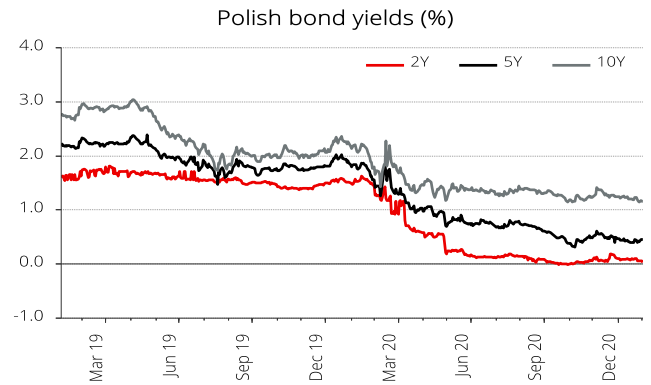
Source: Refinitiv Datastream, Santander Bank Polska



Source: Refinitiv Datastream, Santander Bank Polska



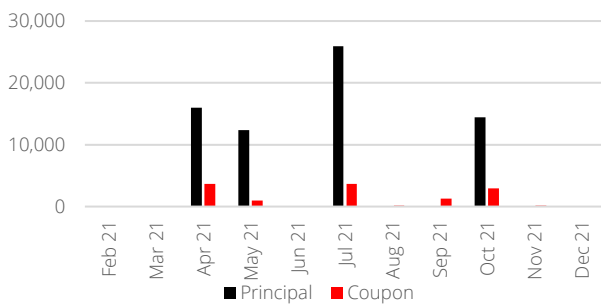
Source: Refinitiv Datastream, Santander Bank Polska



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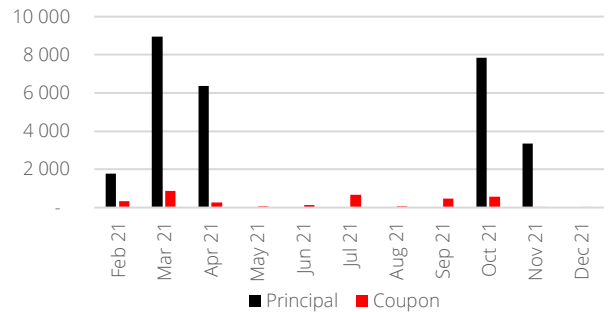
Principal and interest payments

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
1 February PL: PMI manufacturing (Jan) US: ISM manufacturing (Jan) EZ: PMI manufacturing (Jan) DE: PMI manufacturing (Jan)	2 CZ: Flash GDP (Q4) EZ: Flash GDP (Q4)	3 PL: MPC decision US: ADP report (Jan) US: ISM – services (Jan) EZ: PMI – services (Jan) DE: PMI – services (Jan) EZ: Flash HICP (Jan)	4 HU: Retail sales (Dec) EZ: Retail sales (Dec) CZ: Central bank decision US: Industrial orders (Dec)	5 PL: MPC minutes DE: Industrial orders (Dec) HU: Industrial output (Dec) CZ: Retail sales (Dec) US: Non-farm payrolls (Jan)
8 DE: Industrial output (Dec) CZ: Industrial output (Dec)	9 DE: Exports (Dec)	10	11	12 PL: Flash GDP (Q4) CZ: CPI (Jan) HU: CPI (Jan) EZ: Industrial output (Dec) US: Flash Michigan (Feb)
15 PL: CPI (Jan) PL: Balance of payments (Dec) DE: Flash GDP (Q4)	16 DE: ZEW index (Feb) EZ: Flash GDP (Q4) HU: Flash GDP (Q4)	17 PL: Employment (Jan) PL: Wages (Jan) US: Home sales (Jan) US: Industrial output (Jan)	18 PL: Industrial output (Jan) PL: PPI (Jan) EZ: HICP (Jan) US: House starts (Jan) US: Philly Fed index (Feb)	19 PL: Retail sales (Jan) PL: Construction and assembly output (Jan) DE: Flash PMI – manufacturing (Feb) DE: Flash PMI – services (Feb) EZ: Flash PMI – manufacturing (Feb) EZ: Flash PMI – services (Feb) US: Home sales (Jan)
22 PL: Money supply M3 (Jan) DE: Ifo index (Feb) DE: GDP (Q4)	23 PL: Unemployment rate (Jan) HU: Central bank decision	24 US: New home sales (Jan)	25 US: Preliminary GDP (Q4) US: Durable goods orders (Jan) US: Pending home sales (Jan)	26 PL: GDP (Q4) US: Revenues and personal spending (Jan) US: Michigan (Feb)
1 March PL: PMI - manufacturing (Feb) US: ISM manufacturing (Feb) EZ: PMI manufacturing (Feb) DE: PMI manufacturing (Feb) HU: GDP (Q4)	2 DE: Retail sales (Jan) EZ: Flash HICP (Feb) CZ: GDP (Q4)	3 PL: MPC decision EZ: PMI – services (Feb) DE: PMI – services (Feb) US: ISM – services (Feb) US: ADP report (Feb)	4 HU: Retail sales (Jan) EZ: Retail sales (Jan)	5 DE: Industrial orders (Jan) HU: Industrial output (Jan) US: Non-farm payrolls (Feb)

Source: GUS, NBP, Ministry of Finance, Bloomberg

Calendar of MPC meetings and data releases for 2021

	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
ECB decision	21		11	22		10	22		9	28		16
Fed decision	27		17	28		16	28		22		3	15
MPC decision		3	3	7	5	9	8		8	6	3	8
MPC minutes	15	5	5	9	7	11	9	26		8	5	10
Flash GDP*		12			14			13				12
GDP*		26			31			31				30
CPI	15	15	15	15	14	15	15	13	15	15	15	15
Core inflation			16	16	17	16	16	16	16	18	16	16
PPI	22	18	18	22	21	21	20	19	20	20	22	20
Industrial output	25	18	18	22	21	21	20	19	20	20	22	20
Retail sales	22	19	19	22	24	22	21	20	21	21	23	21
Gross wages, employment	21	17	17	21	20	18	19	18	17	19	19	17
Foreign trade												
Balance of payments*			31									
Balance of payments	13	15	16	13								
Money supply	26	22	22	23								

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

Economic data and forecasts for Poland

Monthly economic indicators

		Jan 20	Feb 20	Mar 20	Apr 20	May 20	Jun 20	Jul 20	Aug 20	Sep 20	Oct 20	Nov 20	Dec 20	Jan 21	Feb 21
PMI	pts	47.4	48.2	42.4	31.9	40.6	47.2	52.8	50.6	50.8	50.8	50.8	51.7	51.9	52.0
Industrial production	% y/y	1.1	4.8	-2.5	-24.6	-16.9	0.5	1.1	1.5	5.7	1.0	5.4	11.2	0.1	3.8
Construction production	% y/y	6.4	5.5	3.7	-0.9	-5.1	-2.3	-11.0	-12.0	-9.8	-5.8	-4.9	3.4	-12.8	-11.3
Retail sales (current prices)	% y/y	5.7	9.6	-7.0	-22.6	-8.6	-1.9	2.7	0.4	2.7	-2.1	-5.3	-0.8	-4.5	-2.5
Unemployment rate	%	5.5	5.5	5.4	5.8	6.0	6.1	6.1	6.1	6.1	6.1	6.1	6.2	6.6	6.6
Gross wages in corporate sector	% y/y	7.1	7.7	6.3	1.9	1.2	3.6	3.8	4.1	5.6	4.7	4.9	6.6	4.7	5.0
Employment in corporate sector	% y/y	1.1	1.1	0.3	-2.1	-3.2	-3.3	-2.3	-1.5	-1.2	-1.0	-1.2	-1.0	-1.3	-1.4
Exports (€)	% y/y	4.9	8.0	-6.6	-29.6	-19.3	3.9	1.7	1.9	6.1	3.8	9.5	12.5	-3.3	3.0
Imports (€)	% y/y	3.9	0.9	-3.9	-28.9	-27.3	-7.4	-4.3	-4.7	1.8	-3.5	5.3	7.4	-7.8	-1.5
Trade balance	EUR mn	378	797	-77	-12	1,337	2,219	786	863	1,486	1,755	1,756	999	1,235	1,691
Current account balance	EUR mn	2,756	1,100	805	823	1,560	3,175	625	1,093	1,517	2,356	1,725	823	3,454	2,007
Current account balance	% GDP	0.6	0.9	1.1	1.2	1.5	2.1	2.4	2.7	2.8	3.3	3.4	2.7	2.8	3.0
Budget balance (cumulative)	PLN bn	3.4	-3.3	-9.4	-18.9	-25.9	-17.1	-16.3	-13.3	-13.8	-12.1	-13.2	-94.7	1.1	-7.6
Budget balance (cumulative)	% of FY plan	-	3.0	8.6	17.3	23.7	15.7	14.9	12.2	12.6	11.0	12.1	86.6	-1.4	9.3
CPI	% y/y	4.3	4.7	4.6	3.4	2.9	3.3	3.0	2.9	3.2	3.1	3.0	2.4	2.7	2.3
CPI excluding food and energy	% y/y	3.1	3.6	3.6	3.6	3.8	4.1	4.3	4.0	4.3	4.2	4.3	3.7	3.8	3.3
PPI	% y/y	0.9	0.2	-0.3	-1.3	-1.7	-0.8	-0.6	-1.3	-1.4	-0.4	-0.2	0.0	0.5	0.7
Broad money (M3)	% y/y	9.3	9.4	11.8	14.0	16.0	18.1	16.8	16.2	17.0	17.0	16.1	16.4	15.5	14.6
Deposits	% y/y	9.7	9.7	10.6	12.1	14.1	15.8	14.4	13.9	14.5	13.9	12.8	12.3	13.7	13.0
Loans	% y/y	6.3	5.5	6.4	5.9	4.3	2.9	1.3	0.1	0.1	0.8	-0.1	0.2	-1.1	-1.4
EUR/PLN	PLN	4.25	4.28	4.43	4.54	4.53	4.44	4.45	4.40	4.47	4.52	4.49	4.48	4.54	4.54
USD/PLN	PLN	3.83	3.92	4.01	4.18	4.16	3.94	3.88	3.72	3.79	3.84	3.78	3.68	3.73	3.76
CHF/PLN	PLN	3.95	4.02	4.19	4.31	4.28	4.15	4.15	4.09	4.14	4.21	4.16	4.14	4.20	4.19
Reference rate *	%	1.50	1.50	1.00	0.50	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3M WIBOR	%	1.71	1.71	1.45	0.83	0.66	0.27	0.25	0.23	0.23	0.22	0.22	0.21	0.21	0.20
Yield on 2-year T-bonds	%	1.53	1.53	1.11	0.71	0.51	0.21	0.11	0.13	0.09	0.01	0.03	0.08	0.29	0.05
Yield on 5-year T-bonds	%	1.90	1.76	1.49	1.10	0.94	0.78	0.74	0.72	0.67	0.51	0.41	0.47	0.46	0.53
Yield on 10-year T-bonds	%	2.23	2.08	1.84	1.48	1.41	1.39	1.35	1.34	1.35	1.27	1.21	1.29	1.22	1.21

Note: * at the end of the period.

Source: GUS, NBP, Finance Ministry, Santander Bank Polska estimates.

Quarterly and annual economic indicators

		2018	2019	2020	2021E	1Q20	2Q20	3Q20	4Q20	1Q21E	2Q21E	3Q21E	4Q21E
GDP	PLN bn	2,121.6	2,287.7	2,323.4	2,495.8	556.4	528.2	582.5	656.3	560.7	599.4	630.0	705.8
GDP	% y/y	5.4	4.5	-2.8	4.6	1.9	-8.4	-1.5	-2.9	-2.0	9.1	5.2	6.1
Domestic demand	% y/y	5.6	3.5	-3.7	4.6	1.0	-9.5	-3.2	-2.8	-3.6	9.6	5.6	6.7
Private consumption	% y/y	4.3	4.0	-3.0	4.6	1.2	-10.8	0.4	-3.0	-3.5	12.0	3.5	7.5
Fixed investments	% y/y	9.4	7.2	-8.4	5.4	0.9	-10.7	-9.0	-10.7	-7.0	5.0	5.0	12.0
Industrial production	% y/y	5.9	4.2	-1.1	11.7	0.9	-13.6	3.2	5.2	7.4	30.4	7.7	4.6
Construction production	% y/y	19.7	3.6	-3.5	0.4	5.0	-2.8	-10.9	-2.0	-10.3	-4.5	3.1	8.3
Retail sales (constant prices)	% y/y	6.5	5.1	-2.9	3.8	0.8	-10.7	1.0	-2.8	1.8	10.7	-1.2	3.8
Unemployment rate *	%	5.8	5.2	6.2	6.3	5.4	6.1	6.1	6.2	6.6	6.1	6.1	6.3
Gross wages in the national economy	% y/y	7.2	7.2	5.4	5.5	7.7	3.8	4.8	5.5	5.1	5.3	5.6	5.9
Employment in the national economy	% y/y	2.6	2.2	-0.9	0.6	0.6	-1.7	-1.5	-1.0	-1.0	1.9	1.0	0.6
Exports (€)	% y/y	7.4	7.3	-0.6	13.4	1.7	-16.0	3.3	8.3	5.4	37.0	10.4	5.8
Imports (€)	% y/y	10.3	3.8	-5.5	11.8	0.2	-22.7	-2.3	2.6	1.2	35.9	8.6	7.3
Trade balance	EUR mn	-6,219	1,204	12,630	17,823	1,081	3,904	3,135	4,510	3,608	5,863	4,469	3,884
Current account balance	EUR mn	-6,518	2,611	19,338	18,657	4,623	6,576	3,235	4,904	6,120	6,183	3,259	3,095
Current account balance	% GDP	-1.3	0.5	3.7	3.3	1.0	2.3	3.0	3.7	4.0	3.8	3.7	3.3
General government balance	% GDP	-0.2	-0.7	-8.4	-5.9	-	-	-	-	-	-	-	-
CPI	% y/y	1.6	2.3	3.4	2.5	4.5	3.2	3.1	2.9	2.5	2.9	2.2	2.3
CPI *	% y/y	1.1	3.4	2.4	2.3	4.6	3.3	3.2	2.4	2.5	2.9	2.2	2.3
CPI excluding food and energy	% y/y	0.7	2.0	3.9	2.2	3.4	3.8	4.2	4.1	3.4	2.2	1.6	1.6
PPI	% y/y	2.2	1.2	-0.6	0.5	0.3	-1.3	-1.1	-0.2	0.7	1.4	0.3	-0.4
Broad money (M3) *	% y/y	9.2	8.3	16.4	5.4	8.3	18.1	17.0	16.4	13.7	10.9	8.1	5.4
Deposits *	% y/y	8.7	8.5	12.3	7.8	10.6	15.8	14.5	12.3	12.6	7.2	7.6	7.8
Loans *	% y/y	7.6	5.2	0.2	3.0	6.4	2.9	0.1	0.2	-2.9	-0.3	0.7	3.0
EUR/PLN	PLN	4.26	4.30	4.44	4.42	4.32	4.50	4.44	4.50	4.54	4.49	4.35	4.30
USD/PLN	PLN	3.61	3.84	3.89	3.66	3.92	4.09	3.79	3.77	3.75	3.74	3.61	3.54
CHF/PLN	PLN	3.69	3.86	4.15	3.95	4.05	4.24	4.13	4.17	4.17	4.01	3.85	3.79
Reference rate *	%	1.50	1.50	0.10	0.10	1.00	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3M WIBOR	%	1.71	1.72	0.67	0.20	1.62	0.59	0.24	0.22	0.20	0.20	0.20	0.20
Yield on 2-year T-bonds	%	1.59	1.56	0.50	0.14	1.39	0.48	0.11	0.04	0.14	0.13	0.14	0.15
Yield on 5-year T-bonds	%	2.51	1.99	0.96	0.61	1.72	0.94	0.71	0.46	0.51	0.59	0.64	0.71
Yield on 10-year T-bonds	%	3.21	2.41	1.52	1.38	2.05	1.43	1.35	1.26	1.22	1.33	1.43	1.53

Note: * at the end of period. Source: GUS, NBP, Finance Ministry, Santander Bank Polska estimates.

This analysis is based on information available until 1.02.2021 has been prepared by:

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