

02 March 2021

# MACROscope Lite

## Reflation fever

■ Spring is coming but although it is getting warmer outside we would have to wait a bit more for the economic activity to heat up more broadly. We already see some evidence of the third wave of the Covid-19 infections in Poland rising, so it is quite likely that the partial relaxation of restrictions that took place in mid-February will have to be reversed in the coming weeks, which will keep services sector and the private consumption under pressure. Actually, the government has already started restoring restrictions on a regional level. At the same time, the pace of inoculation has been accelerating and Poland looks well in this area when compared to the other EU countries. However, this is still not enough to see any desired effects soon.

■ Meanwhile, Polish manufacturing sector continues rapid expansion, enjoying growing demand both domestic and from abroad. This is good news and this trend will continue, we think. But it is not enough to trigger a major growth re-acceleration alone, as long as sweeping restrictions and high uncertainty are constraining consumer demand and investments – as we have seen in 4Q20 when GDP contracted -0.7% q/q s.a. despite gross value added in manufacturing rising 2.0% q/q.

■ Overall, we think that the first part of the year will see a subdued economic growth, with quarter-on-quarter GDP (s.a.) barely above zero in 1Q and possibly also in 2Q if pandemic wave extends (the y/y growth will obviously improve due to low base effects). There seems to be a growing risk that the more pronounced recovery could take place a bit later than we earlier assumed. However, we still believe that in 2H21 we will reach a point when thanks to a massive vaccination the uncertainty will drop meaningfully which will unlock demand and boost economic activity. For the time being, our GDP growth forecast for 2021 remains at 4.6%.

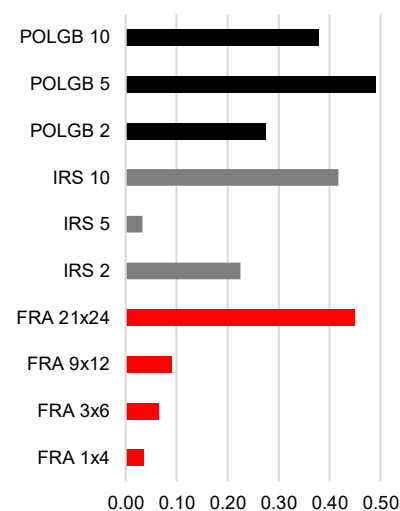
■ Reflation has been the main theme in the financial markets recently, fuelled by the positive surprises in the January inflation prints in many countries, mounting evidence of supply chains disruptions causing cost pressure in manufacturing across the globe and lifting commodity prices and concerns about the impact of large fiscal stimulus in the US. In Poland the CPI inflation increased in January to 2.7% y/y, in large part due to the jump in taxes and administrative fees plus rising food and fuel costs, while the HICP inflation rose to 3.7% y/y, the highest level in the EU. Moreover, the recent business surveys reveal growing evidence of surge in input costs in industry and their transmission to clients. We still think that core inflation will be gradually declining this year, to below 2% y/y in 2H21, amid subdued consumer demand in 1H and high base effects in H2. But we have lifted our forecast of the headline CPI due to mounting commodity prices: it is likely to fluctuate between the 2.5% inflation target and the 3.5% upper limit of tolerance band throughout the year.

■ The Polish central bank, which has signalled the possibility of interest rate cuts at the very start of the year, has returned to a more balanced policy bias in February by stating that neither rate cuts nor rate hikes cannot be ruled out. At the March MPC meeting the new central bank forecasts will be presented and, in our view, they are likely to be revised higher for GDP and remain more or less unchanged (slightly above the target) for CPI. It will be hardly any argument for a renewed twist towards more dovish rhetoric. But the central bank may try to talk down the building market expectations for policy tightening in the coming years (the FRA market started pricing-in rate hike by c.60bp by the end of 2022).

■ Bond yields surged in February in Poland and abroad. The Polish bonds eventually sold off even more than the core markets, even though initially their reaction was muted (spread vs Bund after sliding to 162bp rose to 185bp). While we see the potential for bond markets abroad to stabilise or even retrace somewhat if, for example, markets feel disappointed about the US fiscal package implementation, the local bonds do not have to follow the core markets 1:1, as the upward momentum was strong and flows-driven amid low liquidity. On the other hand, the upside potential for yields is limited by the ongoing QE program, which may stabilise the market if needed.

■ The EURPLN has been hovering near 4.50 in the last two months and we think that it may remain in a horizontal trend in the coming weeks, amid a threat of NBP intervention and the uncertainty ahead of the Supreme Court's ruling on FX loans issue. We still think the zloty may gain in 2H21, when it becomes more apparent that the revival is nearing.

### Change of bond yields and interest rates quotations 1 February and 1 March



Source: Bloomberg, Santander

### Recently released Economic Comments:

- [GDP dragged lower by the second wave](#)
- [Where is the pent-up demand?](#)
- [Large drops in retail sales and construction](#)
- [Output better than the headline suggests](#)
- [Employment down on sample change](#)
- [CPI inflation beats market consensus](#)
- [Inflation is not giving up](#)

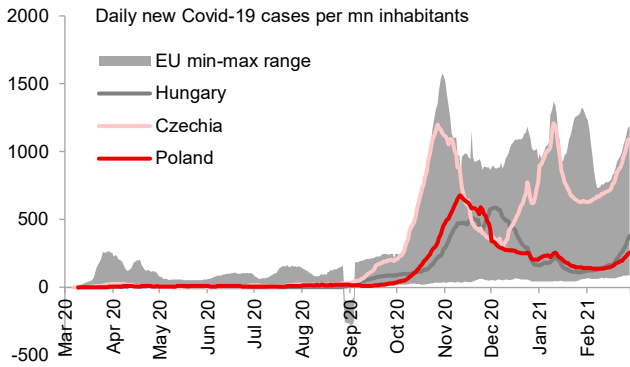
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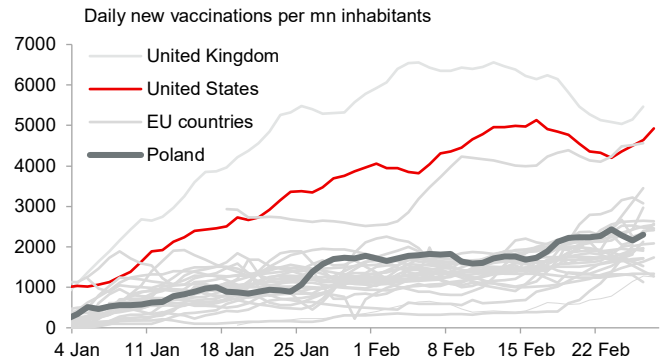
Economy in charts

The third wave of Covid-19 has reached the CEE region



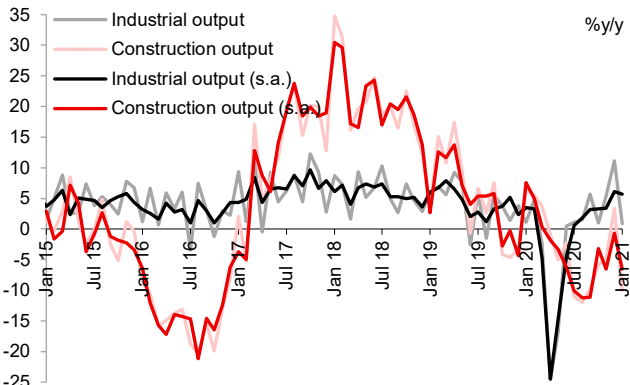
Source: ourworldindata.org, Santander

Low vaccine deliveries postponed the rollout in Europe



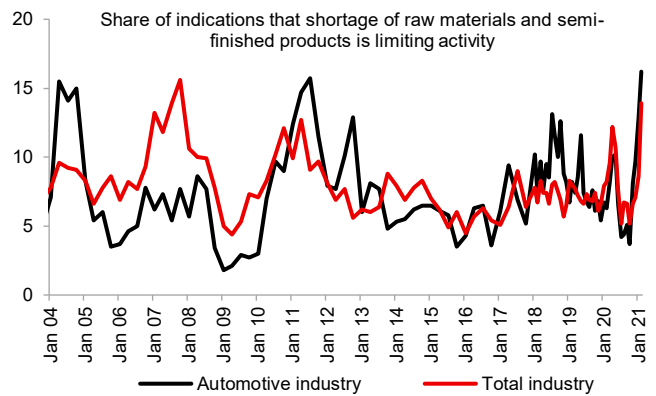
Source: ourworldindata.org, Santander

Economic activity remained solid in January...



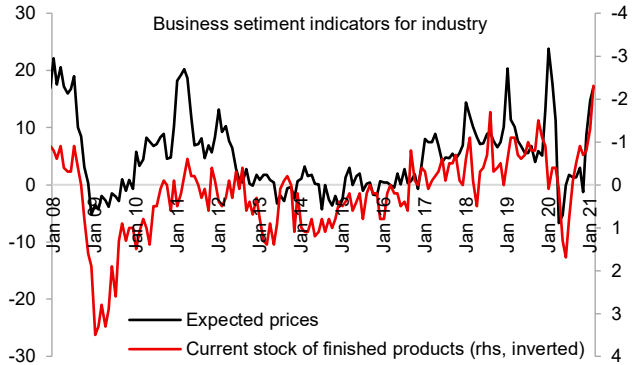
Source: GUS, Santander

... despite growing commodity and material shortages



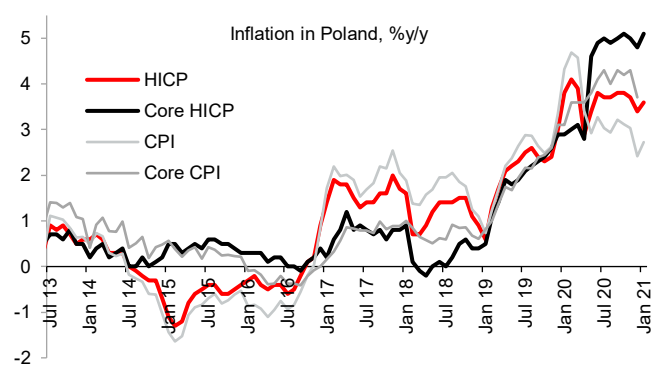
Source: GUS, Santander

The shortages caused depletion of stocks and cost pressures



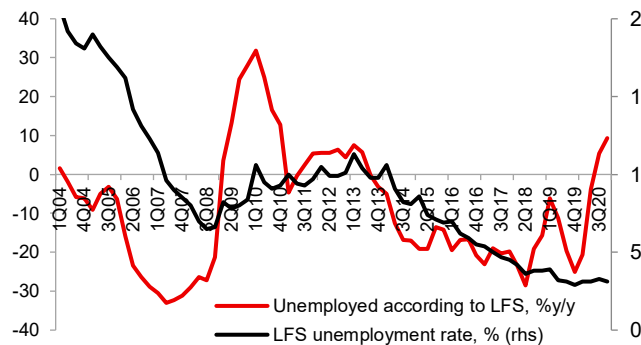
Source: GUS, Santander

... adding upside risk to the already high CPI



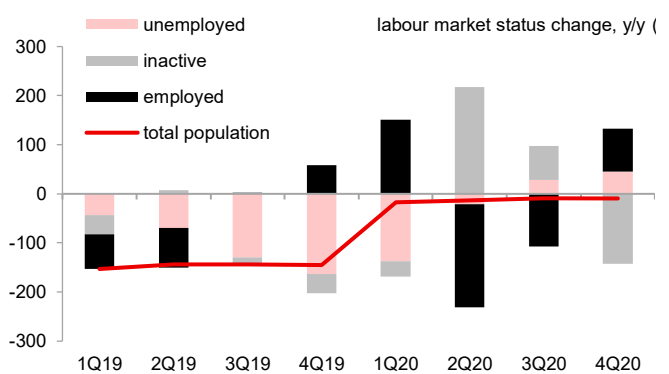
Source: GUS, Eurostat, Santander

But households' incomes do not seem threatened: LFS unemployment rate was still stable in 4Q



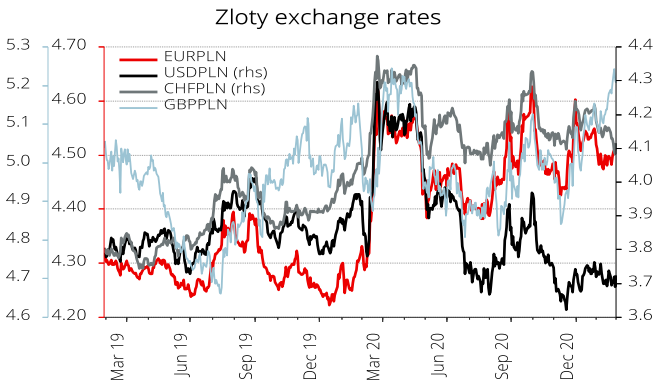
Source: GUS, Santander

People returning to the labour market started finding new jobs

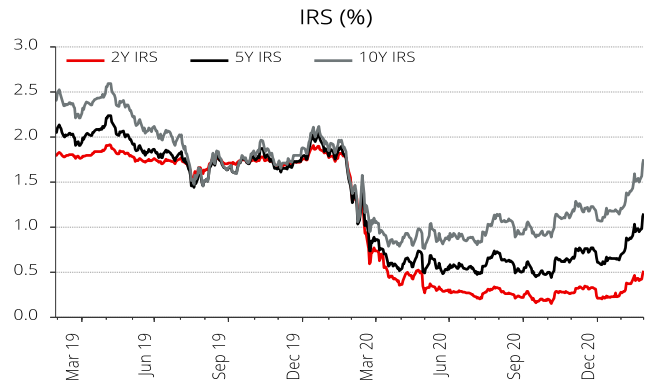


Source: GUS, Santander

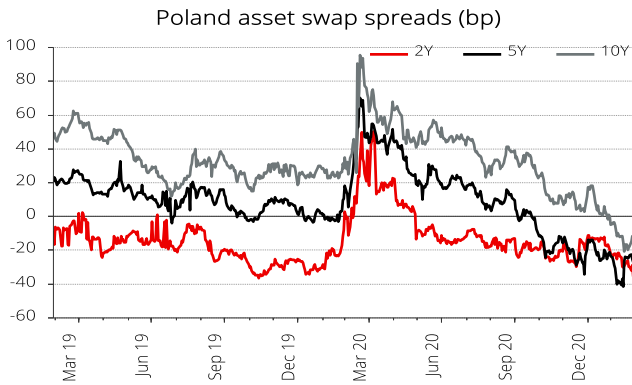
Markets in charts



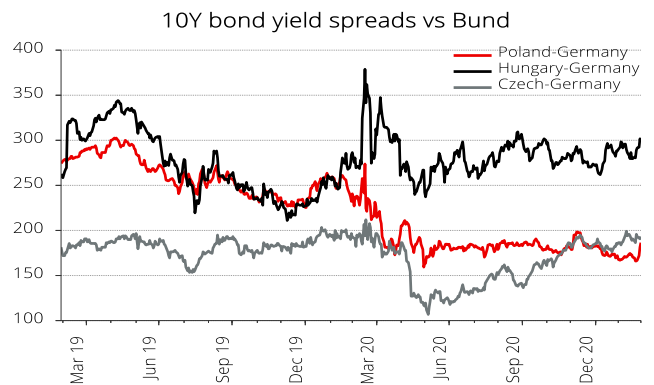
Source: Refinitiv Datastream, Santander Bank Polska



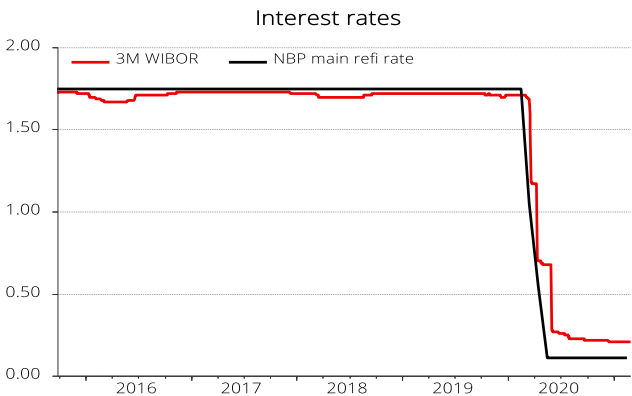
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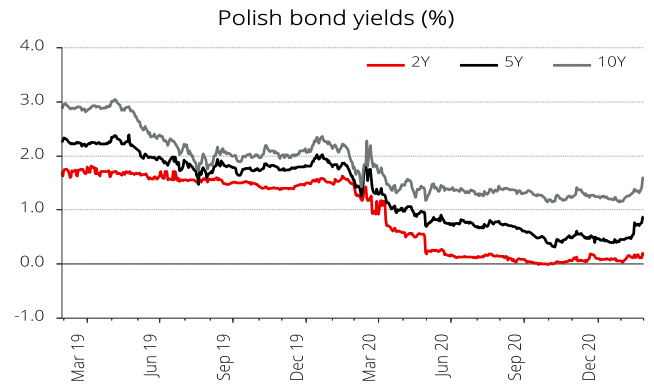
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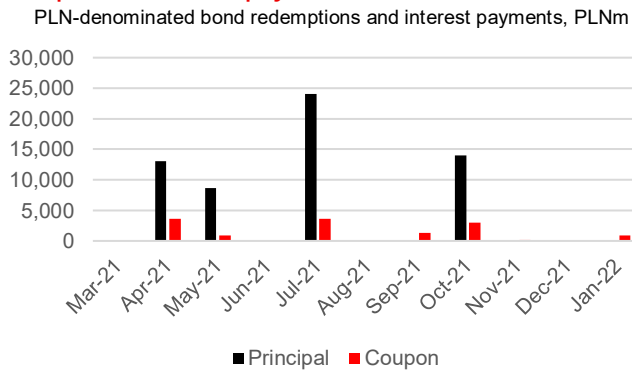


Source: Refinitiv Datastream, Santander Bank Polska

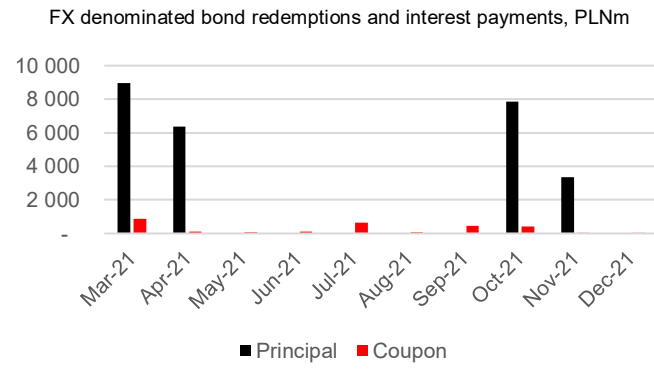


Source: Refinitiv Datastream, Santander Bank Polska

Principal and interest payments



Source: Ministry of Finance, Santander



Source: Ministry of Finance, Santander

## Economic Calendar

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
<b>1 March</b> <b>PL: PMI - manufacturing (Feb)</b> US: ISM manufacturing (Feb) EZ: PMI manufacturing (Feb) DE: PMI manufacturing (Feb) HU: GDP (Q4)	2 EZ: Flash HICP (Feb) CZ: GDP (Q4)	3 <b>PL: MPC decision</b> EZ: PMI - services (Feb) DE: PMI - services (Feb) US: ISM - services (Feb) US: ADP report (Feb)	4 EZ: Retail sales (Jan)	5 <b>PL: NBP governor conference</b> DE: Industrial orders (Jan) HU: Industrial output (Jan) US: Non-farm payrolls (Feb)
8 DE: Industrial output (Jan)	9 HU: CPI (Feb) EZ: GDP (Q4)	10 CZ: CPI (Feb) US: CPI (Feb)	11 EZ: ECB decision	12 CZ: Industrial output (Jan) EZ: Industrial output (Jan) US: Flash Michigan (Mar)
15 <b>PL: CPI (Feb)</b> CZ: Retail sales (Jan)	16 <b>PL: Balance of payments (Jan)</b> <b>PL: Core inflation (Jan, Feb)</b> DE: ZEW index (Mar) US: Retail sales (Feb) US: Industrial output (Feb)	17 <b>PL: Employment (Feb)</b> <b>PL: Wages (Feb)</b> EZ: HICP (Feb) US: House starts (Feb) US: Fed decision	18 <b>PL: Industrial output (Feb)</b> <b>PL: PPI (Feb)</b> US: Philly Fed index (Mar)	19 <b>PL: Retail sales (Feb)</b>
22 <b>PL: Money supply M3 (Feb)</b> US: Home sales (Feb)	23 <b>PL: Unemployment rate (Feb)</b> HU: Central bank decision US: New home sales (Feb)	24 DE: Flash PMI - manufacturing (Mar) DE: Flash PMI - services (Mar) EZ: Flash PMI - manufacturing (Mar) EZ: Flash PMI - services (Mar) US: Durable goods orders (Feb) CZ: Central bank decision	25 US: GDP (Q4)	26 DE: Ifo index (Mar) US: Personal incomes and spending (Feb) US: Michigan (Mar)
29	30 US: Consumer confidence index (Mar)	31 EZ: Flash HICP (Mar) US: ADP report (Mar) US: Pending home sales (Feb)	<b>1 April</b> <b>PL: PMI - manufacturing (Mar)</b> US: ISM manufacturing (Mar) EZ: PMI manufacturing (Mar) DE: PMI manufacturing (Mar) CZ: GDP (Q4) US: Non-farm payrolls (Mar)	2

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	about 50 days after reported period											
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

		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	Mar 21
PMI	pts	48.2	42.4	31.9	40.6	47.2	52.8	50.6	50.8	50.8	50.8	51.7	51.9	53.4	54.0
Industrial production	% y/y	4.8	-2.5	-24.6	-16.9	0.5	1.1	1.5	5.7	1.0	5.4	11.1	0.9	4.7	16.8
Construction production	% y/y	5.5	3.7	-0.9	-5.1	-2.3	-11.0	-12.0	-9.8	-5.8	-4.9	3.4	-10.0	-9.3	-5.7
Retail sales (current prices)	% y/y	9.6	-7.0	-22.6	-8.6	-1.9	2.7	0.4	2.7	-2.1	-5.3	-0.8	-6.0	-3.7	10.8
Unemployment rate	%	5.5	5.4	5.8	6.0	6.1	6.1	6.1	6.1	6.1	6.1	6.2	6.5	6.4	6.4
Gross wages in corporate sector	% y/y	7.7	6.3	1.9	1.2	3.6	3.8	4.1	5.6	4.7	4.9	6.6	4.8	5.3	5.8
Employment in corporate sector	% y/y	1.1	0.3	-2.1	-3.2	-3.3	-2.3	-1.5	-1.2	-1.0	-1.2	-1.0	-2.0	-1.8	-1.2
Exports (€)	% y/y	8.0	-6.6	-29.6	-19.3	3.9	1.7	1.9	6.1	3.8	10.1	14.8	1.9	4.5	18.5
Imports (€)	% y/y	0.9	-3.9	-28.9	-27.3	-7.4	-4.3	-4.7	1.8	-3.5	5.3	13.6	-0.6	0.5	15.0
Trade balance	EUR mn	797	-77	-12	1,337	2,219	786	863	1,486	1,755	1,872	333	881	1,607	584
Current account balance	EUR mn	1,100	805	823	1,560	3,175	625	1,093	1,517	2,356	2,116	430	3,124	2,119	728
Current account balance	% GDP	0.9	1.1	1.2	1.5	2.1	2.4	2.7	2.8	3.3	3.4	3.5	3.6	3.8	3.8
Budget balance (cumulative)	PLN bn	-3.3	-9.4	-18.9	-25.9	-17.1	-16.3	-13.3	-13.8	-12.1	-13.2	-85.0	6.6	1.3	-3.6
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	77.7	-8.1	-1.6	4.3
CPI	% y/y	4.7	4.6	3.4	2.9	3.3	3.0	2.9	3.2	3.1	3.0	2.4	2.7	2.6	2.9
CPI excluding food and energy	% y/y	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	3.0
PPI	% y/y	0.2	-0.3	-1.3	-1.7	-0.8	-0.6	-1.3	-1.4	-0.4	-0.2	0.1	0.7	1.2	2.1
Broad money (M3)	% y/y	9.4	11.8	14.0	16.0	18.1	16.8	16.2	17.0	17.0	16.1	16.4	15.4	14.4	13.4
Deposits	% y/y	9.7	10.6	12.1	14.1	15.8	14.4	13.9	14.5	13.9	12.8	12.3	12.2	11.4	11.0
Loans	% y/y	5.5	6.4	5.9	4.3	2.9	1.3	0.1	0.1	0.8	-0.1	0.2	-0.7	-1.3	-2.6
EUR/PLN	PLN	4.28	4.43	4.54	4.53	4.44	4.45	4.40	4.47	4.52	4.49	4.48	4.54	4.50	4.50
USD/PLN	PLN	3.92	4.01	4.18	4.16	3.94	3.88	3.72	3.79	3.84	3.78	3.68	3.73	3.72	3.69
CHF/PLN	PLN	4.02	4.19	4.31	4.28	4.15	4.15	4.09	4.14	4.21	4.16	4.14	4.20	4.15	4.17
Reference rate *	%	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	0.10
3M WIBOR	%	1.71	1.45	0.83	0.66	0.27	0.25	0.23	0.23	0.22	0.22	0.21	0.21	0.21	0.20
Yield on 2-year T-bonds	%	1.53	1.11	0.71	0.51	0.21	0.11	0.13	0.09	0.01	0.03	0.08	0.05	0.10	0.07
Yield on 5-year T-bonds	%	1.76	1.49	1.10	0.94	0.78	0.74	0.72	0.67	0.51	0.41	0.47	0.42	0.67	0.68
Yield on 10-year T-bonds	%	2.08	1.84	1.48	1.41	1.39	1.35	1.34	1.35	1.27	1.21	1.29	1.21	1.32	1.55

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	2,317.1	2,497.7	556.4	528.2	582.5	650.0	559.0	597.5	631.7	709.5
GDP	% y/y	5.4	4.5	-2.8	4.6	1.9	-8.4	-1.5	-2.8	-1.9	8.4	5.0	6.8
Domestic demand	% y/y	5.6	3.5	-3.9	4.5	1.0	-9.5	-3.2	-3.4	-3.9	9.0	5.6	7.3
Private consumption	% y/y	4.3	4.0	-3.0	4.2	1.2	-10.8	0.4	-3.2	-4.0	11.0	3.5	7.5
Fixed investments	% y/y	9.4	7.2	-8.5	5.4	0.9	-10.7	-9.0	-10.9	-7.0	5.0	5.0	12.0
Industrial production	% y/y	5.9	4.2	-1.1	11.0	0.9	-13.6	3.2	5.2	7.6	29.2	6.8	3.7
Construction production	% y/y	19.7	3.6	-3.5	2.8	5.0	-2.8	-10.9	-2.0	-8.0	-2.3	5.5	10.8
Retail sales (constant prices)	% y/y	6.5	5.1	-2.9	0.0	0.8	-10.7	1.0	-2.8	-0.5	6.2	-5.2	-0.2
Unemployment rate *	%	5.8	5.2	6.2	6.1	5.4	6.1	6.1	6.2	6.4	6.0	5.9	6.1
Gross wages in the national economy	% y/y	7.2	7.2	5.3	5.8	7.7	3.8	4.8	5.0	5.4	5.6	5.9	6.2
Employment in the national economy	% y/y	2.6	2.2	-0.9	0.2	0.6	-1.7	-1.5	-1.0	-1.4	1.5	0.6	0.2
Exports (€)	% y/y	7.4	7.3	-0.2	12.4	1.7	-15.6	3.4	9.1	7.1	34.4	8.7	4.3
Imports (€)	% y/y	10.3	3.8	-4.8	11.1	0.2	-21.6	-2.3	4.4	3.8	32.6	7.3	5.8
Trade balance	EUR mn	-6,219	1,204	11,698	16,063	1,081	3,519	3,138	3,960	3,075	5,571	4,239	3,178
Current account balance	EUR mn	-6,518	2,611	18,289	17,947	4,623	5,527	3,237	4,902	5,973	5,891	3,029	3,053
Current account balance	% GDP	-1.3	0.5	3.5	3.2	1.0	2.1	2.8	3.5	3.8	3.8	3.6	3.2
General government balance	% GDP	-0.2	-0.7	-8.4	-5.9	-	-	-	-	-	-	-	-
CPI	% y/y	1.6	2.3	3.4	3.0	4.5	3.2	3.1	2.9	2.7	3.5	2.8	2.9
CPI *	% y/y	1.1	3.4	2.4	2.9	4.6	3.3	3.2	2.4	2.7	3.5	2.8	2.9
CPI excluding food and energy	% y/y	0.7	2.0	3.9	2.1	3.4	3.8	4.2	4.1	3.4	2.1	1.6	1.5
PPI	% y/y	2.2	1.2	-0.6	1.5	0.3	-1.3	-1.1	-0.2	1.3	2.6	1.5	0.7
Broad money (M3) *	% y/y	9.2	8.3	16.4	4.4	8.3	18.1	17.0	16.4	13.4	10.4	7.4	4.4
Deposits *	% y/y	8.7	8.5	12.3	6.6	10.6	15.8	14.5	12.3	11.0	5.8	6.3	6.6
Loans *	% y/y	7.6	5.2	0.2	3.3	6.4	2.9	0.1	0.2	-2.6	0.1	0.9	3.3
EUR/PLN	PLN	4.26	4.30	4.44	4.41	4.32	4.50	4.44	4.50	4.51	4.49	4.35	4.30
USD/PLN	PLN	3.61	3.84	3.89	3.64	3.92	4.09	3.79	3.77	3.71	3.71	3.60	3.54
CHF/PLN	PLN	3.69	3.86	4.15	4.05	4.05	4.24	4.13	4.17	4.18	4.14	3.97	3.89
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	0.21	0.20	0.20	0.20
Yield on 2-year T-bonds	%	1.59	1.56	0.50	0.12	1.39	0.48	0.11	0.04	0.08	0.13	0.14	0.15
Yield on 5-year T-bonds	%	2.51	1.99	0.96	0.76	1.72	0.94	0.71	0.46	0.59	0.71	0.83	0.89
Yield on 10-year T-bonds	%	3.21	2.41	1.52	1.61	2.05	1.43	1.35	1.26	1.36	1.59	1.69	1.78

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

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