

## MACROscope Lite

### Better, faster, stronger

■ The recent macroeconomic data for Poland have confirmed a major pickup in both economic activity (despite the third wave of Covid-19 and the new socio-economic restrictions being imposed) and inflation. The ongoing recovery of international trade should keep supporting Polish manufacturing, while the progress in vaccination and relaxation of pandemic restrictions is likely to boost consumption later this year. What may be a drag on firms' activity is the growing problem of supply chain disruptions, lengthening delivery times, and component and staff shortages, widely reported in business surveys. However, we do not think these will be significant enough to prevent a major revival in economic activity in 2H21. However, they may have a notable impact on the inflation outlook.

■ It seems that **last month's downward revision in our GDP growth forecast was unnecessary**, as both industry and retail have rebounded sharply at the end of the first quarter and most indicators suggest that more improvement is coming soon. Thus, we restore our 2021 GDP growth forecast to 4.6%, back where it was at the start of March.

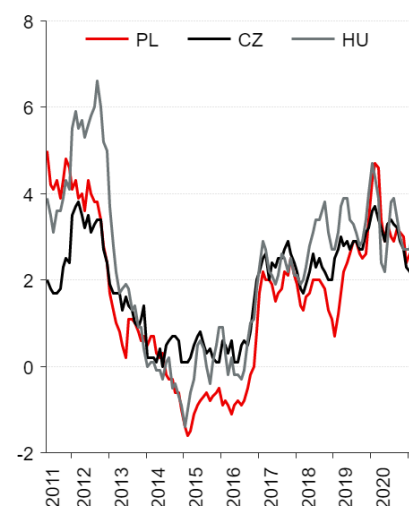
■ Our inflation forecast needs to be adjusted as well. April's flash CPI at 4.3% y/y was a huge surprise (beating market consensus by 0.4pp) and it looks like our long-held view that core inflation should decline sharply in 2021 is not materialising, at least yet. It seems very likely right now that the **inflation rate will remain well above the NBP official target not only until the end of this year, but also in 2022**. It should be noted that inflation data abroad are also exceeding forecasts more often than not.

■ Such a scenario (acceleration of economic growth, building inflationary pressures) could be a serious challenge for the Polish central bank's pledge to keep interest rates unchanged until the end of the MPC's term of office. Moreover, it may also be a challenge for the NBP's QE programme – if bond yields continue their upward trend should the NBP boost quantitative easing further, given inflation is already elevated and rising? **We think the NBP is unlikely to change its rhetoric any time soon**. It will probably stick to a dovish tone, stressing its conviction that higher inflation is transitory and driven by exogenous factors. As a result, we see growing risk that the financial markets will perceive the NBP as being well behind the curve, the result being further steepening of the POLGB yield curve. The central bank may try to contain this trend by boosting its QE programme, but such a policy could reinforce perception that the Bank is pro-cyclical and behind the curve. We think a better move would be a switch to a more neutral policy bias, emphasising that the NBP is ready to act to curb inflation when needed. As we wrote last month: **interest rate hikes could start before the end of 2022**, in our view.

■ On the fiscal policy front, the **2020 general government deficit has been confirmed at 7% of GDP, and the government planned almost the same fiscal gap (6.9%) for 2021**, in the recent Convergence Programme Update, with a moderate deficit reduction in the following years (to 4.2% of GDP in 2022 and 3.2% in 2023). These plans seem to have limited relevance, however, as they do not take into account the initiatives from the National Recovery Plan or the proposals from the Polish New Deal – the big political programme of the ruling party, to be revealed in the near future.

■ The zloty has recently been underperforming the regional currencies (e.g. the forint), which is not surprising given the increased uncertainty due to the recent ECJ ruling on the FX loans issue and the planned Supreme Court sittings (7 May, some of the judges, 11 May, full squad). As the decisions on the FX loans approach, the risk premium linked to this issue could shrink, allowing the zloty to strengthen. It would be a mistake, however, to disregard the global market environment which – via higher bond yields in core markets – may be quite challenging for the EM currencies. **EURPLN may exhibit heightened volatility in the next two weeks**. We expect the rate may rise above 4.60 again before the zloty starts appreciating slightly later this year, on the back of improving global environment and accelerating economic growth.

#### Inflation rate in CEE countries, % y/y



Source: Refinitiv Datastream, Santander

#### Recently released Economic Comments:

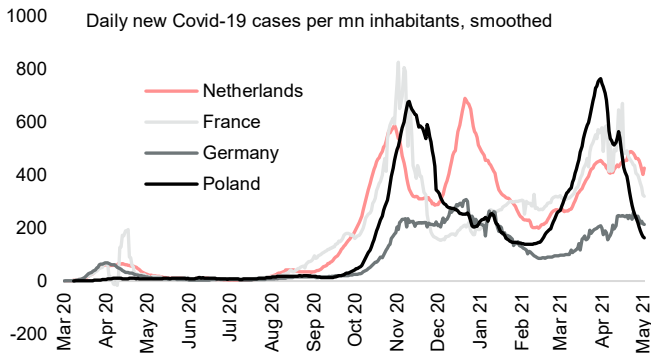
- [Law-breaking inflation surge](#)
- [Strong retail sales and housing, revised GDP](#)
- [March output and wages beat expectations](#)
- [CPI above 3%, core CPI might have hit 4%](#)
- [MPC less worried about the zloty?](#)

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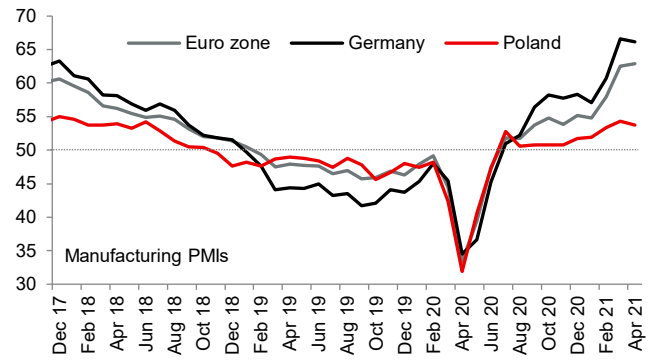
## Economy in charts

### Poland: early in, early out of the third wave of Covid-19



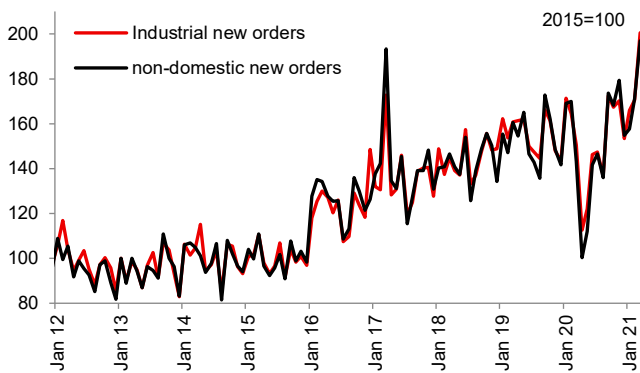
Source: ourworldindata.org, Santander

### Manufacturing PMIs keep showing expansion



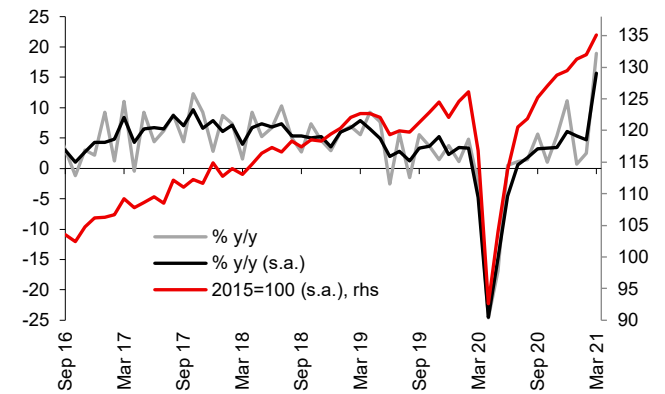
Source: Markit, Santander

### The optimism is confirmed by hard data: new orders value...



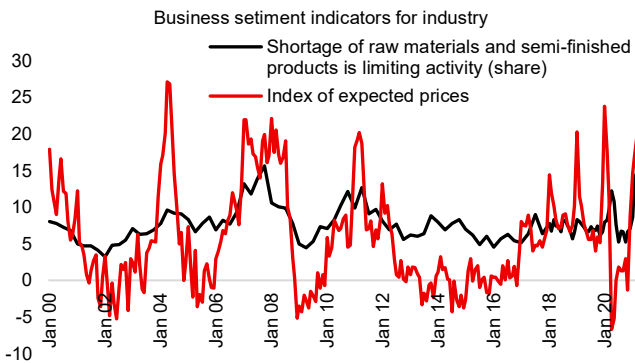
Source: GUS, Santander

### ... and industrial output



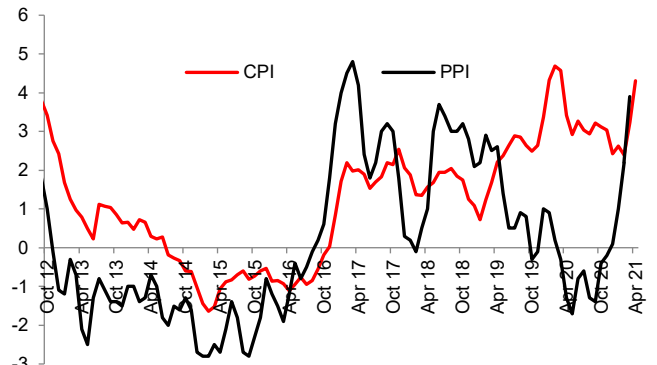
Source: GUS, Santander

### The supply side remains a problem for output and prices



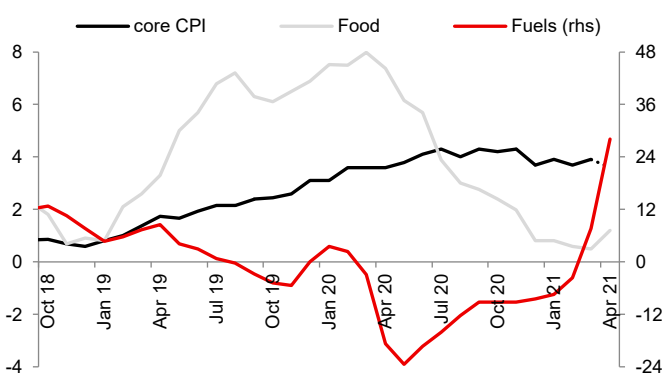
Source: GUS, Santander

### Inflation kept surging...



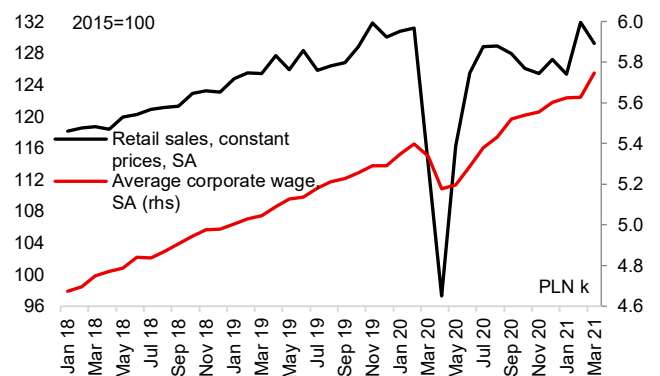
Source: GUS, Santander

### ... and core CPI still has not given up...



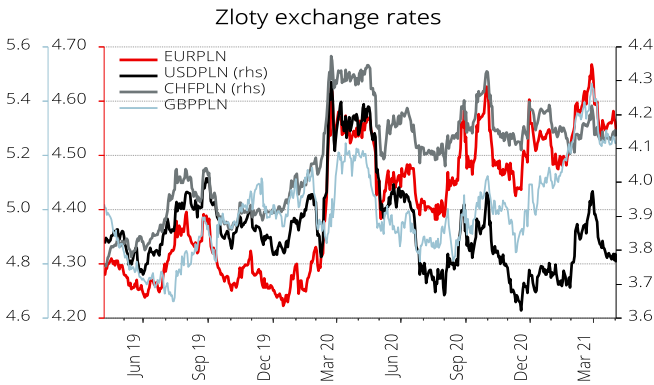
Source: GUS, NBP, Santander

### ... but consumers kept on spending and got high wage hikes

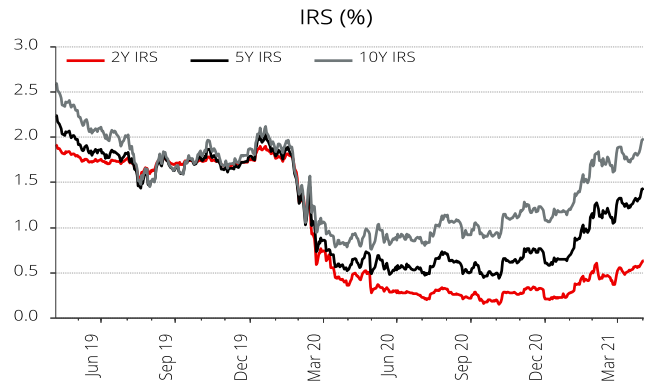


Source: GUS, Santander

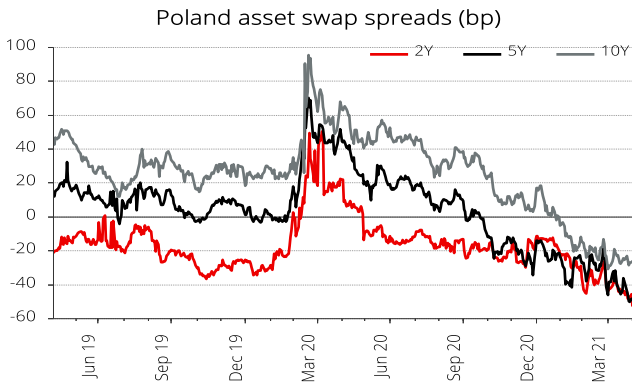
Markets in charts



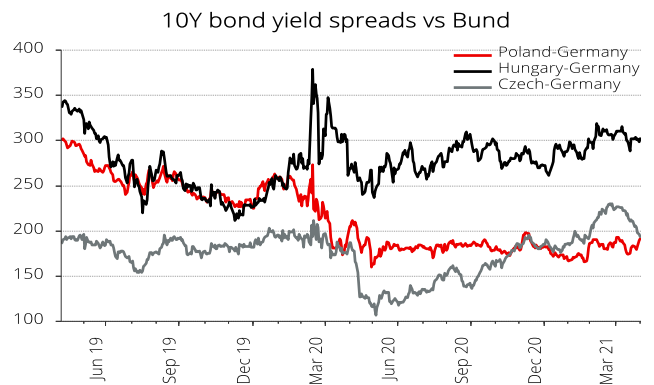
Source: Refinitiv Datastream, Santander Bank Polska



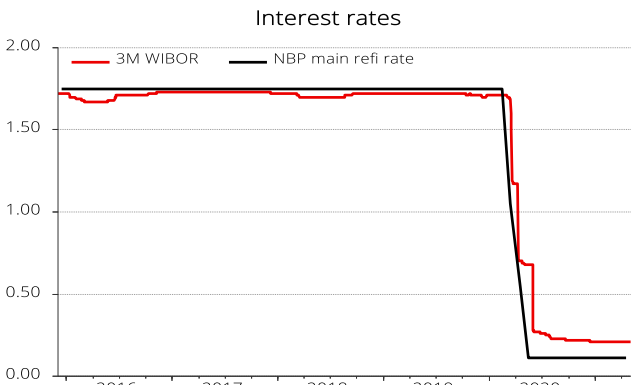
Source: Refinitiv Datastream, Santander Bank Polska



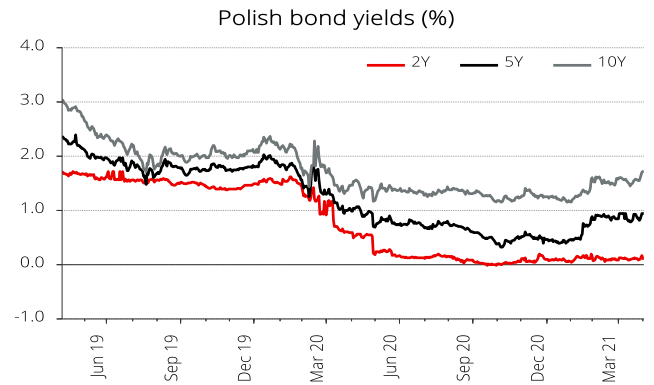
Source: Refinitiv Datastream, Santander Bank Polska



Source: Refinitiv Datastream, Santander Bank Polska

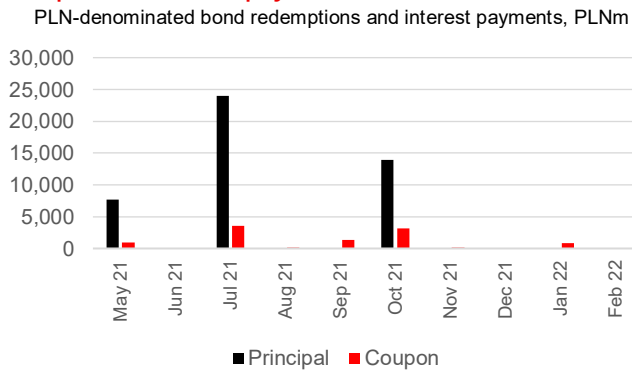


Source: Refinitiv Datastream, Santander Bank Polska

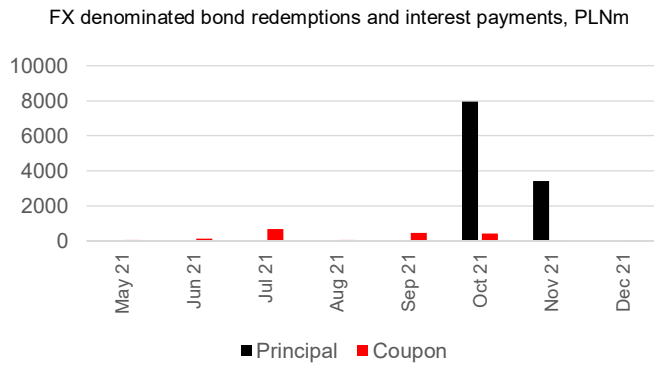


Source: Refinitiv Datastream, Santander Bank Polska

Principal and interest payments



Source: Ministry of Finance, Santander



Source: Ministry of Finance, Santander

## Economic Calendar

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
<b>3 May</b>	4 US: Trade Balance (Mar) <b>PL: PMI - manufacturing (Apr)</b>	5 <b>PL: NBP rate decision</b> EZ: PMI - services (Apr) DE: PMI - services (Apr) US: ADP report (Apr) US: ISM - services (Apr)	6 EZ: Retail sales (Mar) HU: Industrial output (Mar) CZ: Retail sales (Mar) CZ: Central bank decision DE: Industrial output (Mar)	7 <b>PL: NBP Minutes</b> <b>PL: NBP Governor conference</b> CZ: Industrial output (Mar) US: Non-farm payrolls (Apr)
10	11 CZ: CPI (Apr) HU: CPI (Apr) DE: ZEW index (May)	12 EZ: Industrial output (Mar) US: CPI (Apr)	13	14: <b>PL: CPI (Apr), final</b> <b>PL: GDP (Q1), flash</b> <b>PL: Balance of Payments (Mar)</b> US: Retail sales (Apr) US: Industrial output (Apr) US: University of Michigan indices (May), Flash
17 <b>PL: Core CPI (Apr)</b>	18 EZ: GDP (Q1) HU: GDP (Q1) US: Building permits (Apr) US: Housing starts (Apr)	19 EZ: HICP (Apr) US: Fed decision	20 <b>PL: Wages (Apr)</b> <b>PL: Employment (Apr)</b> US: Philly Fed index (May) US: PMI - manufacturing (May) US: PMI - services (May)	21 <b>PL: PPI (Apr)</b> EZ: Flash PMI - manufacturing (May) EZ: Flash PMI - services (May) DE: Flash PMI - manufacturing (May) DE: Flash PMI - services (May) US: Existing home sales (Apr)
24 <b>PL: Industrial output (Apr)</b> <b>PL: Retail sales (Apr)</b>	25 <b>PL: M3 money supply (Apr)</b> HU: Central bank decision DE: IFO index (May) US: New home sales (Apr) US: Consumer confidence index (May)	26 <b>PL: Unemployment rate (Apr)</b>	27 US: Durable goods orders (Apr) US: GDP (Q1), Second US: Pending home sales (Apr)	28 US: Pending home sales (Apr)
31 <b>PL: GDP (Q1)</b> <b>PL: CPI (May), flash</b>	<b>1 June</b> EZ: Flash HICP (May) <b>PL: PMI - manufacturing (May)</b> US: ISM manufacturing (May) CZ: GDP (Q1)			

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			30						
Balance of payments	13	15	16	13	14	14	14	13				
Money supply	26	22	22	23	25	24	22	23				

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

## Economic data and forecasts for Poland

### Monthly economic indicators

		Apr 20	May 20	Jun 20	Jul 20	Aug 20	Sep 20	Oct 20	Nov 20	Dec 20	Jan 21	Feb 21	Mar 21	Apr 21	May 21
PMI	pts	31.9	40.6	47.2	52.8	50.6	50.8	50.8	50.8	51.7	51.9	53.4	54.3	53.7	55.0
Industrial production	% y/y	-24.6	-16.9	0.5	1.1	1.5	5.7	1.0	5.4	11.1	0.7	2.5	18.9	43.6	25.0
Construction production	% y/y	-0.9	-5.1	-2.3	-11.0	-12.0	-9.8	-5.8	-4.9	3.4	-10.1	-16.9	-10.8	-7.6	-3.7
Retail sales (current prices)	% y/y	-22.6	-8.6	-1.9	2.7	0.4	2.7	-2.1	-5.3	-0.8	-6.0	-2.7	17.1	25.3	13.9
Unemployment rate	%	5.8	6.0	6.1	6.1	6.1	6.1	6.1	6.1	6.2	6.5	6.5	6.4	6.2	6.1
Gross wages in corporate sector	% y/y	1.9	1.2	3.6	3.8	4.1	5.6	4.7	4.9	6.6	4.8	4.5	8.0	9.9	9.6
Employment in corporate sector	% y/y	-2.1	-3.2	-3.3	-2.3	-1.5	-1.2	-1.0	-1.2	-1.0	-2.0	-1.7	-1.3	1.1	2.4
Exports (€)	% y/y	-29.6	-19.2	4.3	2.2	2.4	6.6	3.7	10.0	14.6	-0.9	6.2	28.8	53.3	36.4
Imports (€)	% y/y	-28.9	-27.3	-7.4	-3.6	-4.0	2.1	-4.2	4.1	12.4	-4.0	6.0	23.5	51.2	34.4
Trade balance	EUR mn	-8	1,366	2,291	766	817	1,525	1,873	2,103	511	979	883	1,017	281	2,153
Current account balance	EUR mn	717	1,556	3,333	650	1,273	1,330	2,307	1,956	477	3,341	1,619	1,654	543	2,364
Current account balance	% GDP	1.2	1.5	2.2	2.4	2.8	2.9	3.3	3.5	3.6	3.7	3.7	3.9	3.8	3.9
Budget balance (cumulative)	PLN bn	-18.9	-25.9	-17.1	-16.3	-13.3	-13.8	-12.1	-13.2	-85.0	6.6	0.9	-3.4	-10.7	-18.2
Budget balance (cumulative)	% of FY plan	17.3	23.7	15.7	14.9	12.2	12.6	11.0	12.1	77.7	-8.1	-1.1	4.2	12.9	22.1
CPI	% y/y	3.4	2.9	3.3	3.0	2.9	3.2	3.1	3.0	2.4	2.6	2.4	3.2	4.3	4.5
CPI excluding food and energy	% y/y	3.6	3.8	4.1	4.3	4.0	4.3	4.2	4.3	3.7	3.9	3.7	3.9	3.6	3.3
PPI	% y/y	-1.3	-1.7	-0.8	-0.6	-1.3	-1.4	-0.4	-0.2	0.1	1.0	2.2	3.9	4.5	4.8
Broad money (M3)	% y/y	14.0	16.0	18.1	16.8	16.2	17.0	17.0	16.1	16.4	16.8	16.3	14.4	13.6	12.8
Deposits	% y/y	12.1	14.1	15.8	14.4	13.9	14.5	13.9	12.8	12.3	12.2	12.0	11.8	9.9	7.4
Loans	% y/y	5.9	4.3	2.9	1.3	0.1	0.1	0.8	-0.1	0.2	-0.7	-0.8	-2.1	-2.0	-0.9
EUR/PLN	PLN	4.54	4.53	4.44	4.45	4.40	4.47	4.52	4.49	4.48	4.54	4.50	4.60	4.57	4.57
USD/PLN	PLN	4.18	4.16	3.94	3.88	3.72	3.79	3.84	3.78	3.68	3.73	3.72	3.86	3.82	3.83
CHF/PLN	PLN	4.31	4.28	4.15	4.15	4.09	4.14	4.21	4.16	4.14	4.20	4.14	4.16	4.14	4.14
Reference rate *	%	0.50	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3M WIBOR	%	0.83	0.66	0.27	0.25	0.23	0.23	0.22	0.22	0.21	0.21	0.21	0.21	0.21	0.20
Yield on 2-year T-bonds	%	0.71	0.51	0.21	0.11	0.13	0.09	0.01	0.03	0.08	0.05	0.10	0.07	0.09	0.15
Yield on 5-year T-bonds	%	1.10	0.94	0.78	0.74	0.72	0.67	0.51	0.41	0.47	0.42	0.67	0.86	0.85	0.91
Yield on 10-year T-bonds	%	1.48	1.41	1.39	1.35	1.34	1.35	1.27	1.21	1.29	1.21	1.32	1.54	1.56	1.73

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	1Q21	2Q21E	3Q21E	4Q21E
GDP	PLN bn	2,121.6	2,287.7	2,323.9	2,513.9	558.3	531.0	582.9	651.7	575.1	603.9	620.7	714.2
GDP	% y/y	5.4	4.7	-2.7	4.6	2.0	-8.3	-1.7	-2.7	-0.5	8.9	3.9	6.3
Domestic demand	% y/y	5.6	3.6	-3.7	4.1	0.9	-9.5	-3.2	-2.9	-1.3	7.7	2.8	7.0
Private consumption	% y/y	4.3	4.0	-3.0	4.1	1.2	-10.8	0.4	-3.2	-1.0	11.0	0.5	7.0
Fixed investments	% y/y	9.4	6.1	-9.7	0.4	1.7	-9.8	-8.2	-15.4	-14.0	-2.0	1.0	9.0
Industrial production	% y/y	5.9	4.2	-1.1	9.5	0.9	-13.6	3.2	5.2	7.5	26.5	4.7	2.2
Construction production	% y/y	19.7	3.6	-3.5	3.0	5.0	-2.8	-10.9	-2.0	-12.5	-2.9	7.2	13.2
Retail sales (constant prices)	% y/y	6.5	5.1	-3.0	5.5	0.8	-10.7	1.0	-2.8	1.7	10.8	0.9	8.6
Unemployment rate *	%	5.8	5.2	6.2	6.2	5.4	6.1	6.1	6.2	6.4	6.0	6.0	6.2
Gross wages in the national economy	% y/y	7.2	7.2	5.3	8.8	7.7	3.8	4.8	5.0	5.8	9.5	9.8	10.1
Employment in the national economy	% y/y	2.6	2.2	-0.9	0.1	0.6	-1.7	-1.5	-1.0	-1.4	1.4	0.5	0.1
Exports (€)	% y/y	7.4	7.3	-0.1	12.5	1.9	-15.4	3.9	9.0	11.2	32.1	7.3	3.7
Imports (€)	% y/y	10.3	3.8	-4.9	11.9	0.2	-21.6	-1.7	3.4	8.5	31.0	7.5	5.2
Trade balance	EUR mn	-6,219	1,204	12,392	15,139	1,159	3,625	3,111	4,497	2,879	5,286	3,239	3,735
Current account balance	EUR mn	-6,518	2,611	18,538	19,215	4,958	5,573	3,255	4,752	6,614	6,909	2,616	3,076
Current account balance	% GDP	-1.3	0.5	3.5	3.5	1.1	2.1	2.9	3.5	3.9	4.0	3.9	3.5
General government balance	% GDP	-0.2	-0.7	-7.0	-5.9	-	-	-	-	-	-	-	-
CPI	% y/y	1.6	2.3	3.4	3.6	4.5	3.2	3.1	2.9	2.7	4.3	3.6	3.6
CPI *	% y/y	1.1	3.4	2.4	3.7	4.6	3.3	3.2	2.4	3.2	3.9	3.4	3.7
CPI excluding food and energy	% y/y	0.7	2.0	3.9	3.0	3.4	3.8	4.2	4.1	3.8	3.3	2.6	2.3
PPI	% y/y	2.2	1.2	-0.6	3.6	0.3	-1.3	-1.1	-0.2	2.4	4.6	4.3	3.4
Broad money (M3) *	% y/y	9.2	8.3	16.4	7.4	8.3	18.1	17.0	16.4	14.4	12.0	9.7	7.4
Deposits *	% y/y	8.7	8.5	12.3	8.4	10.6	15.8	14.5	12.3	11.8	7.1	7.9	8.4
Loans *	% y/y	7.6	5.2	0.2	3.9	6.4	2.9	0.1	0.2	-2.1	0.7	1.6	3.9
EUR/PLN	PLN	4.26	4.30	4.44	4.54	4.32	4.50	4.44	4.50	4.54	4.57	4.55	4.48
USD/PLN	PLN	3.61	3.84	3.89	3.76	3.92	4.09	3.79	3.77	3.77	3.83	3.76	3.68
CHF/PLN	PLN	3.69	3.86	4.15	4.12	4.05	4.24	4.13	4.17	4.17	4.14	4.14	4.05
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	0.10	1.39	0.48	0.11	0.04	0.08	0.11	0.10	0.10
Yield on 5-year T-bonds	%	2.51	1.99	0.96	0.92	1.72	0.94	0.71	0.46	0.65	0.90	1.03	1.09
Yield on 10-year T-bonds	%	3.21	2.41	1.52	1.71	2.05	1.43	1.35	1.26	1.35	1.69	1.84	1.94

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

This analysis is based on information available until 4.05.2021 has been prepared by:

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