

MACROscope Lite

High five

Only several weeks after the third wave of Covid-19 pandemic triggered a downward revisions of economic forecasts for Poland, we are witnessing the opposite trend: the most recent economic indicators are increasingly positive, signalling that the economic scenario may be actually much better than earlier predicted. The demand started reviving already at the very start of the year, in the period when pandemic restrictions were still in place, and it is rational to assume, we think, that once those restrictions are gone and uncertainty about future diminishes, the spending spree will gain momentum and economic growth will accelerate further. Especially that balance sheets of both households and companies are surprisingly healthy overall and did not suffer, but in fact improved during the pandemic. The most striking feature of 1Q21 GDP data were fixed investments, which jumped above the pre-pandemic level, much earlier than we had expected them to do. Consumption also proved to be stronger than we had thought. Overall, **we are moving our GDP growth forecast higher, to 5% in 2021, keeping 2022 also near the 5% level.**

It looks like not only the economic growth but also inflation will be higher than earlier anticipated. Nominal GDP growth may even top 10% this year (for the first time since 2007). No matter where you look, there is evidence of building inflationary pressure: CPI growth soared to 4.8% y/y in May, its highest level in a decade, with core inflation refusing to go down (contrary to what we expected) and possibly even rising to 4.0%. Retail sales deflator accelerated to 3.8% y/y in April, its highest since 2012, and may breach 4% in May. PPI is on its way to reach 6% y/y in May and possibly exceed 7% in late summer, with global commodity prices in the uptrend and all business surveys confirming growing cost pressures due to capacity bottlenecks and supply disruptions. Finally, GDP deflator rose to 5.8% y/y in 1Q21, its highest since 2004. **It is increasingly likely that CPI inflation will remain well above the NBP official target not only this year but also in 2022.**

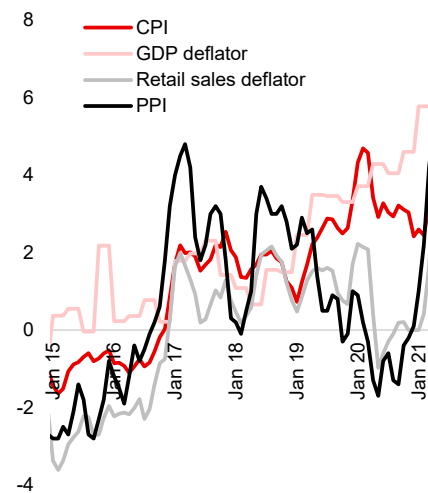
As the scenario is getting much more optimistic than predicted by the most recent central bank's official projections, the questions about monetary policy response are building. Especially when the fiscal policy is likely to be less anti-cyclical on the margin: the ruling party's new economic programme "Polish Deal" heralds reduction of tax burden for lower income groups (which should be moderately supportive for consumption), slower fiscal consolidation, and propping up demand on the housing market.

The next MPC meetings will be very interesting. We expect to see further shift of the central bank rhetoric towards less dovish. In fact this process started already in May, even if the NBP governor officially denied to admit it. The recent changes in NBP QE programme (no purchase of government bonds at the last QE auction in May, only one auction planned in June) seem to be signalling that the central bank is preparing ground for interest rate hike. **We see growing probability that the MPC will start normalising interest rates already this year.** The most likely moments of change, in our view, are the months when new NBP projections will be released: July and November. We think the latter is more likely, as in July the central bank may still argue that it is too early to react as the inflation rise could be transitory and the potential new wave of Covid-19 in the autumn may derail the economic revival.

The Polish zloty has been getting stronger, discounting the improving macro environment and supportive global sentiment. However, since the start of the year, and especially in May, the PLN has been clearly underperforming its CEE peers, possibly due to the more dovish rhetoric of the Polish central bank. We see the potential for further zloty appreciation, especially if the MPC keeps changing its rhetoric to less dovish. **The EURPLN may go towards 4.40 in the coming weeks.** By the end of the 2021 year we expect the weaker zloty (EURPLN at least 4.50) as the taper talk in the core markets intensifies.

We expect POLGB yields to keep rising as the global economic situation improves. The ASW spreads should slowly widen, mostly from the bond "leg" and mostly on the front-end of the curve and the belly, as the markets price-in the possibility of the change to the MPC's rhetoric including the end of the QE program and the rise in the mandatory reserve ratio. **We expect the 10Y POLGBs to at 1.90% at the end of the current quarter while still 20bp higher at the end of 2021.**

Various measures of price growth, % y/y



Source: GUS, Santander

Recently released Economic Comments:

- [Red hot May economic indicators](#)
- [Strong domestic demand in 1Q21](#)
- [Low base boosted production and sales growth](#)
- [Consumer optimism is rising quickly](#)
- ["Polish Deal" focused on redistribution](#)
- [Decent 1Q GDP print, goods inflation rise](#)
- [NBP changes tone, even if it denies to do so](#)

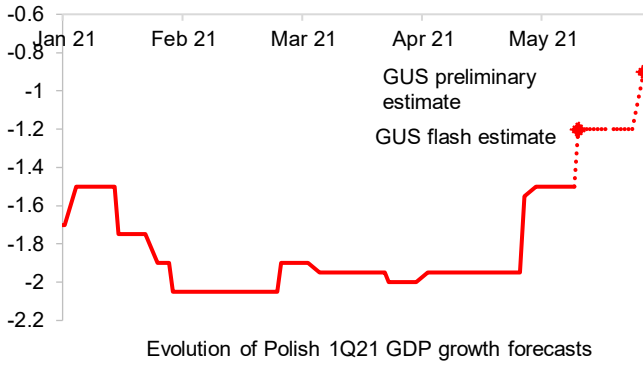
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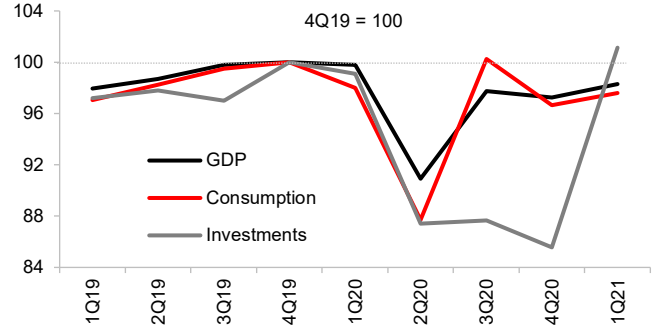
Economy in charts

Polish economy is recovering with impressive ease



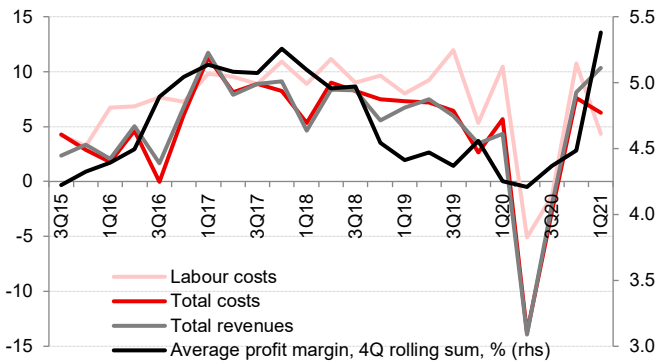
Source: Bloomberg, GUS, Santander

Investments and private consumption are the source of the recovery which makes it even more striking



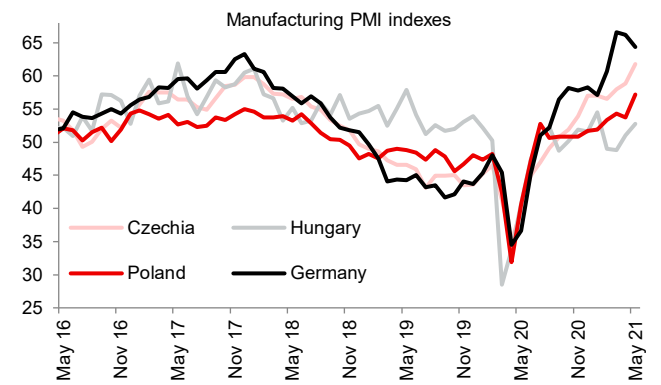
Source: GUS, Santander

1Q company results showed they are able to invest, do not have to cut labour costs



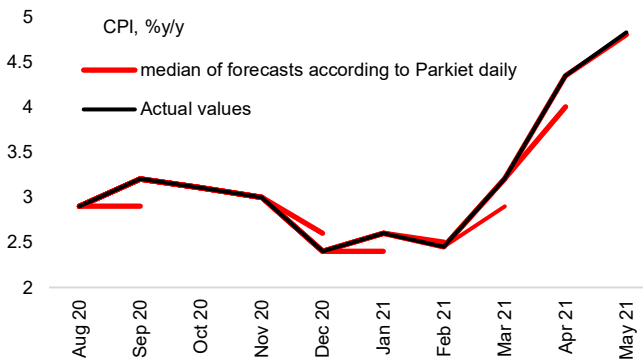
Source: GUS, Santander

There is much enthusiasm and expectation of more growth



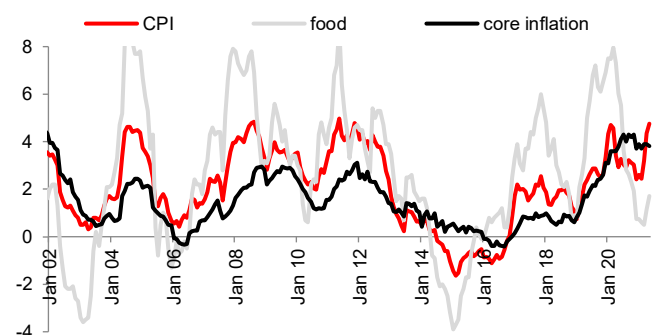
Source: Markit, Halpim, Bloomberg, Santander

The rise of inflation is also surprisingly strong



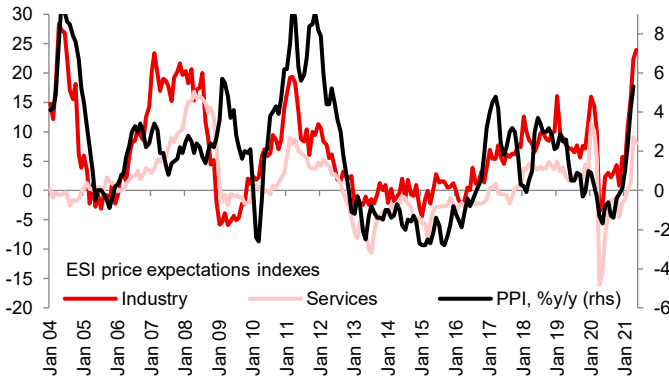
Source: GUS, Parkiet, Santander

Core inflation is still refusing to fall in 2021, upside turn in food prices



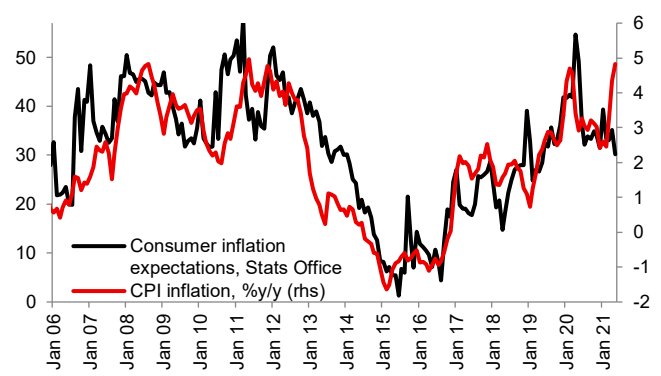
Source: GUS, NBP, Santander

No signs the price pressure could dissipate soon



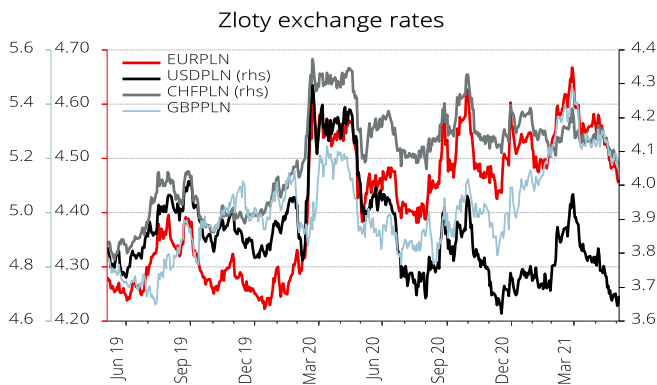
Source: GUS, NBP, Santander

And yet consumer inflation expectations have dropped

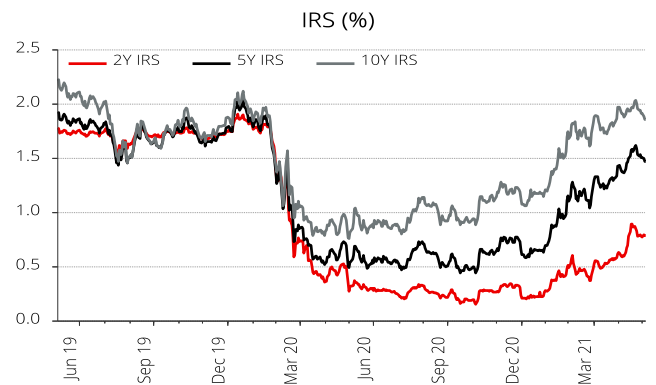


Source: GUS, Santander

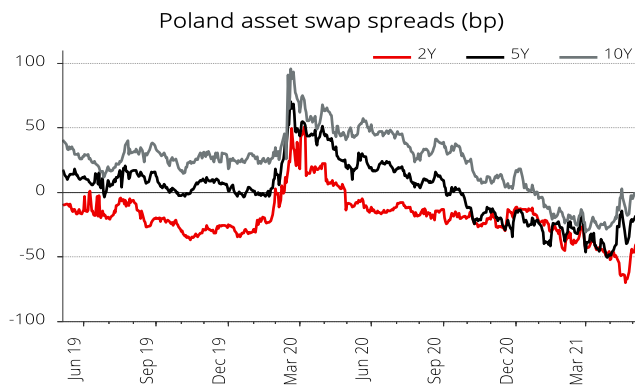
Markets in charts



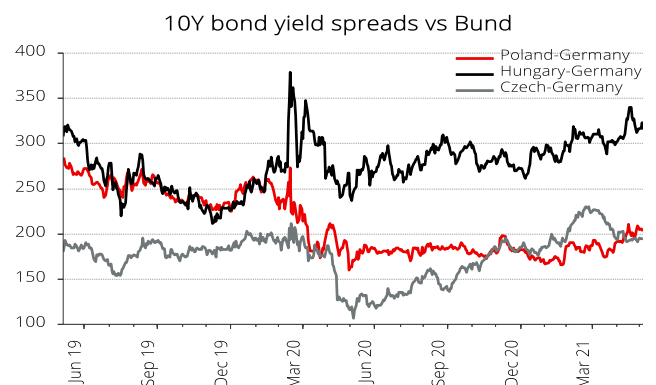
Source: Refinitiv Datastream, Santander Bank Polska



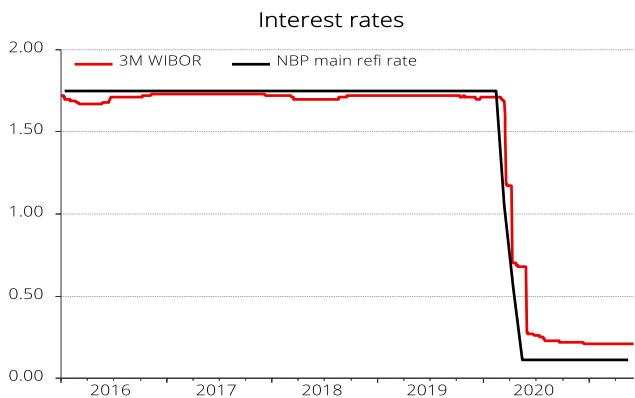
Source: Refinitiv Datastream, Santander Bank Polska



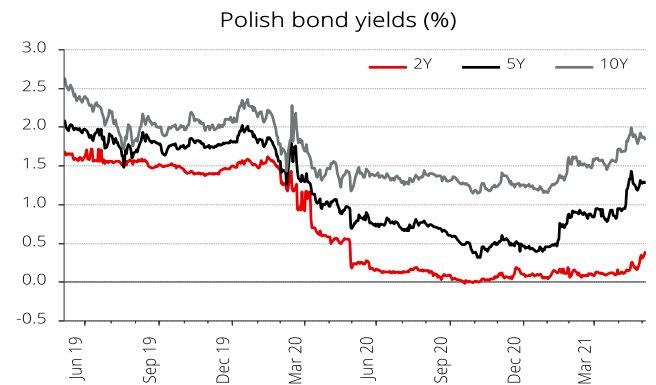
Source: Refinitiv Datastream, Santander Bank Polska



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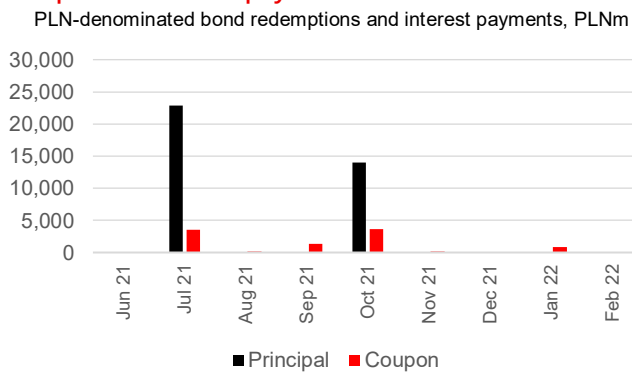


Source: Refinitiv Datastream, Santander Bank Polska

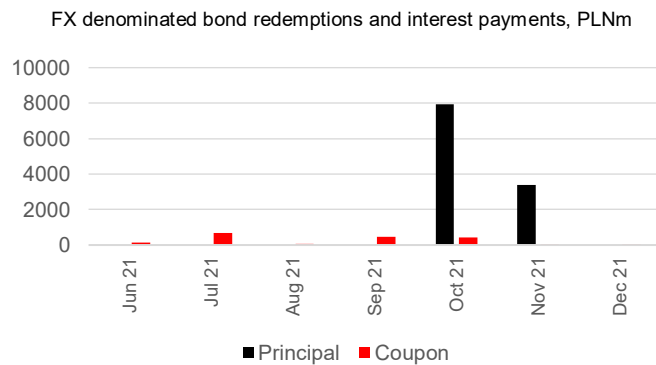


Source: Refinitiv Datastream, Santander Bank Polska

Principal and interest payments



Source: Ministry of Finance, Santander



Source: Ministry of Finance, Santander

Economic Calendar

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
	1 June PL: CPI (May), flash PL: PMI manufacturing (May) CZ: GDP (Q1), flash HU: GDP (Q1), flash CZ: PMI manufacturing (May) HU: PMI manufacturing (May) EZ: PMI manufacturing (May) DE: PMI manufacturing (May)	2 EZ: PPI (Apr) DE: Retail sales (Apr)	3 EZ: PMI services DE: PMI services US: ADP report (May) US: ISM Services	4 HU: Retail sales (Apr) EZ: Retail sales (Apr) US: Non-farm payrolls (May) US: Unemployment rate (May) US: Durables (April), final US: Factory orders (April)
7 DE: Factory orders (Apr) CZ: Industrial output (Apr)	8 DE: Industrial production (Apr) DE: ZEW (Jun) CZ: Retail sales (Apr) HU: Industrial production (Apr) EZ: GDP (Q1), final US: Trade balance (Apr)	9 DE: Balance of payments (Apr) PL: NBP rate decision (0.10%) HU: CPI (May), flash HU: NBH minutes (May Meeting) US: Wholesale inventories (Apr)	10 CZ: CPI (May), flash EZ: ECB rate decision (-0.50%) US: CPI (May), flash US: core CPI (May), flash	11 PL: NBP Minutes (May meeting) PL: NBP governor conference US: University of Michigan indices (Jun), Flash
14 PL: Balance of payments (Apr) EZ: Industrial production (Apr)	15 PL: CPI (May), final DE: CPI (May), final US: Retail sales (May) US: Industrial production (May) US: PPI (May)	16 PL: Core CPI (May) CZ: PPI (May) US: Building permits (May) US: Housing starts (May) US: FOMC rate decision (0.25%) US: IOER (0.10%)	17 EZ: CPI (May), final	18 PL: Wages (May) PL: Employment (May) DE: PPI (May)
21 PL: PPI (May) PL: Industrial output (May)	22 PL: Retail Sales (May) HU: NBH rate decision (0.60%) US: Existing home sales (May)	23 CZ: CNB rate decision (0.25%) EZ: PMI manufacturing (Jun) DE: PMI manufacturing (Jun) US: PMI manufacturing (Jun) US: New home sales (May)	24 PL: Unemployment rate (May) PL: M3 money supply (May) DE: IFO index (Jun) US: Durables (May), flash US: GDP (Q1), third	25 EZ: M3 money supply (May) DE: Consumer confidence (Jul) US: Personal income, spending US: PCE deflator (May) US: core PCE deflator (May)
28	29 CZ: GDP (Q1), final EZ: ESI (Jun)	30 PL: CPI (Jun), flash DE: CPI (Jun), flash HU: Wages (Apr) HU: PPI (May) EZ: CPI (Jun), flash EZ: core CPI (Jun), flash US: Pending home sales (May)	1 July PL: PMI manufacturing (Jun) HU: PMI manufacturing (Jun) EZ: PMI manufacturing (Jun) DE: PMI manufacturing (Jun)	

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

		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	Jun 21
PMI	pts	40.6	47.2	52.8	50.6	50.8	50.8	50.8	51.7	51.9	53.4	54.3	53.7	57.2	57.5
Industrial production	% y/y	-16.9	0.5	1.1	1.5	5.7	1.0	5.4	11.1	0.7	2.5	18.6	44.5	26.8	15.8
Construction production	% y/y	-5.1	-2.3	-11.0	-12.0	-9.8	-5.8	-4.9	3.4	-10.1	-16.9	-10.8	-4.2	2.7	8.6
Retail sales (current prices)	% y/y	-8.6	-1.9	2.7	0.4	2.7	-2.1	-5.3	-0.8	-6.0	-2.7	17.1	25.7	17.8	10.5
Unemployment rate	%	6.0	6.1	6.1	6.1	6.1	6.1	6.1	6.2	6.5	6.5	6.4	6.3	6.1	6.0
Gross wages in corporate sector	% y/y	1.2	3.6	3.8	4.1	5.6	4.7	4.9	6.6	4.8	4.5	8.0	9.9	10.2	10.7
Employment in corporate sector	% y/y	-3.2	-3.3	-2.3	-1.5	-1.2	-1.0	-1.2	-1.0	-2.0	-1.7	-1.3	0.9	2.5	2.5
Exports (€)	% y/y	-19.2	4.3	2.2	2.4	6.6	3.7	10.0	14.6	-0.9	5.9	27.7	64.8	37.1	13.4
Imports (€)	% y/y	-27.3	-7.4	-3.6	-4.0	2.1	-4.2	4.1	12.4	-4.0	6.2	24.6	59.6	35.1	11.8
Trade balance	EUR mn	1,366	2,291	766	817	1,525	1,873	2,103	511	979	771	589	717	2,163	2,866
Current account balance	EUR mn	1,556	3,333	650	1,273	1,330	2,307	1,956	477	3,341	1,585	938	1,721	2,205	3,884
Current account balance	% GDP	1.5	2.2	2.4	2.8	2.9	3.3	3.5	3.6	3.7	3.7	3.7	3.9	3.9	4.0
Budget balance (cumulative)	PLN bn	-25.9	-17.1	-16.3	-13.3	-13.8	-12.1	-13.2	-85.0	6.6	0.9	-3.4	9.2	1.6	1.0
Budget balance (cumulative)	% of FY plan	23.7	15.7	14.9	12.2	12.6	11.0	12.1	77.7	-8.1	-1.1	4.2	-11.1	-2.0	-1.3
CPI	% y/y	2.9	3.3	3.0	2.9	3.2	3.1	3.0	2.4	2.6	2.4	3.2	4.3	4.8	4.4
CPI excluding food and energy	% y/y	3.8	4.1	4.3	4.0	4.3	4.2	4.3	3.7	3.9	3.7	3.9	3.9	4.0	3.8
PPI	% y/y	-1.7	-0.8	-0.6	-1.3	-1.4	-0.4	-0.2	0.1	1.0	2.2	4.2	5.3	6.0	5.9
Broad money (M3)	% y/y	16.0	18.1	16.8	16.2	17.0	17.0	16.1	16.4	16.8	16.3	14.4	13.5	12.6	11.8
Deposits	% y/y	14.1	15.8	14.4	13.9	14.5	13.9	12.8	12.3	12.2	12.0	11.8	9.1	6.2	5.6
Loans	% y/y	4.3	2.9	1.3	0.1	0.1	0.8	-0.1	0.2	-0.7	-0.8	-2.1	-1.6	-0.9	0.0
EUR/PLN	PLN	4.53	4.44	4.45	4.40	4.47	4.52	4.49	4.48	4.54	4.50	4.60	4.56	4.52	4.44
USD/PLN	PLN	4.16	3.94	3.88	3.72	3.79	3.84	3.78	3.68	3.73	3.72	3.86	3.81	3.73	3.65
CHF/PLN	PLN	4.28	4.15	4.15	4.09	4.14	4.21	4.16	4.14	4.20	4.14	4.16	4.14	4.12	4.04
Reference rate *	%	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	0.10
3M WIBOR	%	0.66	0.27	0.25	0.23	0.23	0.22	0.22	0.21	0.21	0.21	0.21	0.21	0.21	0.21
Yield on 2-year T-bonds	%	0.51	0.21	0.11	0.13	0.09	0.01	0.03	0.08	0.05	0.10	0.07	0.09	0.17	0.32
Yield on 5-year T-bonds	%	0.94	0.78	0.74	0.72	0.67	0.51	0.41	0.47	0.42	0.67	0.86	0.85	1.17	1.25
Yield on 10-year T-bonds	%	1.41	1.39	1.35	1.34	1.35	1.27	1.21	1.29	1.21	1.32	1.54	1.56	1.82	1.88

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	2,556.8	558.3	531.0	582.9	651.7	585.2	625.3	625.6	720.7
GDP	% y/y	5.4	4.7	-2.7	5.0	2.0	-8.3	-1.7	-2.7	-0.9	10.4	3.1	7.4
Domestic demand	% y/y	5.6	3.6	-3.7	6.6	0.9	-9.5	-3.2	-2.9	1.0	12.4	4.6	8.4
Private consumption	% y/y	4.3	4.0	-3.0	5.1	1.2	-10.8	0.4	-3.2	0.2	14.0	0.5	7.0
Fixed investments	% y/y	9.4	6.1	-9.7	14.3	1.7	-9.8	-8.2	-15.4	1.3	15.0	15.0	20.0
Industrial production	% y/y	5.9	4.2	-1.1	10.5	0.9	-13.6	3.2	5.2	7.4	28.0	6.2	3.7
Construction production	% y/y	19.7	3.6	-3.5	8.5	5.0	-2.8	-10.9	-2.0	-12.5	2.6	14.3	20.7
Retail sales (constant prices)	% y/y	6.5	5.1	-3.0	7.6	0.8	-10.7	1.0	-2.8	1.7	12.8	3.8	12.2
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	9.3	7.7	3.8	4.8	5.0	6.6	9.8	10.3	10.6
Employment in the national economy	% y/y	2.6	2.2	-1.0	0.2	0.6	-1.7	-1.5	-1.3	-1.3	1.4	0.6	0.2
Exports (€)	% y/y	7.4	7.3	-0.1	13.4	1.9	-15.4	3.9	9.0	10.7	35.9	7.9	4.2
Imports (€)	% y/y	10.3	3.8	-4.9	13.0	0.2	-21.6	-1.7	3.4	8.9	34.0	8.0	5.7
Trade balance	EUR mn	-6,219	1,204	12,392	15,101	1,159	3,625	3,111	4,497	2,339	5,746	3,257	3,759
Current account balance	EUR mn	-6,518	2,611	18,538	18,484	4,958	5,573	3,255	4,752	5,864	7,810	2,175	2,635
Current account balance	% GDP	-1.3	0.5	3.5	3.2	1.1	2.1	2.9	3.5	3.7	4.0	3.7	3.2
General government balance	% GDP	-0.2	-0.7	-7.0	-5.9	-	-	-	-	-	-	-	-
CPI	% y/y	1.6	2.3	3.4	3.9	4.5	3.2	3.1	2.9	2.8	4.5	4.1	4.2
CPI *	% y/y	1.1	3.4	2.4	4.3	4.6	3.3	3.2	2.4	3.2	4.4	3.9	4.3
CPI excluding food and energy	% y/y	0.7	2.0	3.9	3.7	3.4	3.8	4.2	4.1	3.8	3.9	3.5	3.4
PPI	% y/y	2.2	1.2	-0.6	5.5	0.3	-1.3	-1.1	-0.2	2.5	5.8	6.9	7.0
Broad money (M3) *	% y/y	9.2	8.3	16.4	6.6	8.3	18.1	17.0	16.4	14.4	11.8	9.2	6.6
Deposits *	% y/y	8.7	8.5	12.3	7.4	10.6	15.8	14.5	12.3	11.8	5.6	6.9	7.4
Loans *	% y/y	7.6	5.2	0.2	4.0	6.4	2.9	0.1	0.2	-2.1	0.0	1.7	4.0
EUR/PLN	PLN	4.26	4.30	4.44	4.49	4.32	4.50	4.44	4.50	4.54	4.51	4.43	4.48
USD/PLN	PLN	3.61	3.84	3.89	3.71	3.92	4.09	3.79	3.77	3.77	3.73	3.66	3.68
CHF/PLN	PLN	3.69	3.86	4.15	4.08	4.05	4.24	4.13	4.17	4.17	4.10	4.02	4.05
Reference rate *	%	1.50	1.50	0.10	0.25	1.00	0.10	0.10	0.10	0.10	0.10	0.10	0.25
3M WIBOR	%	1.71	1.72	0.67	0.26	1.62	0.59	0.24	0.22	0.21	0.21	0.24	0.39
Yield on 2-year T-bonds	%	1.59	1.56	0.50	0.26	1.39	0.48	0.11	0.04	0.08	0.19	0.38	0.40
Yield on 5-year T-bonds	%	2.51	1.99	0.96	1.12	1.72	0.94	0.71	0.46	0.65	1.09	1.33	1.40
Yield on 10-year T-bonds	%	3.21	2.41	1.52	1.81	2.05	1.43	1.35	1.26	1.35	1.76	2.02	2.10

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

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