MACROscope

Warsaw, 5 October 2021

Tides are turning

Poland: Economic Outlook

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Executive Summary (macro)

Global economic recovery has clearly lost momentum recently amid new coronavirus strains, supply chains disruptions, soaring energy costs. We still think the outlook for the global economy is positive, although 3Q21 apparently saw some weakness, which potentially may extend into 4Q, especially in the case of energy crisis escalation. However, we see it rather as a short-term disruption than a change in generally positive trend. (p.9)

Polish economy remains in good shape, being – as we expected – one of the leaders of the post-pandemic recovery. After strong performance in 2Q21 (when seasonally-adjusted GDP jumped above the pre-pandemic level), the third quarter saw some deceleration, it seems, but the outlook remains optimistic. The economy is likely to keep benefiting from consumption steadily returning to the pre-pandemic patterns, from rebuilding of depleted inventories, and from rebounding investments, driven by companies' needs to increase capacity and (later) by the large inflow of money from the EU recovery fund. The net exports' impact on economic growth is likely to be neutral or even mildly negative. This is because despite the ongoing export revival and high competitiveness of domestic manufacturing (boosted by the PLN weakness), the trade balance is worsening due to the quick import rise, as domestic demand strengthens. We keep GDP growth forecasts at 5% in both 2021 and 2022. (p.12-13)

Two major threats for the economic outlook seem to be the impact of the pandemic next wave and the potential freeze of EU money transfers. The vaccine rollout in Poland stalled quite far below the levels that could grant herd immunity and the fourth wave of the pandemic is in the making (although still at a very early stage) (p.7). The delay in EU funds payments could result from the government's growing conflict with the European Commission. Also, problems with supply chain disruptions, long delivery times, and component and staff shortages are still widely reported by businesses and are leading to high inflation pressure. (p.10-11)

Labour market is heating up. Employment has recovered from the pandemic losses in mid-year and demand for jobs is rising, which keeps wage growth elevated. Unit labour costs soared in 2020 and are likely to be pro-inflationary in the coming quarters. (p.18-21)

CPI inflation continued surprising to the upside, climbing in September to 5.8% y/y, the highest level in 20 years. High global commodity prices and hikes of regulated prices are partly responsible, but given the strong domestic demand environment and labour market already facing shortages, the CPI inflation is unlikely to fall towards the NBP target anytime soon. It seems the likely hikes of energy costs and other prices may push CPI to nearly 7% at the start of 2022 and average inflation next year will be above 5%. (p.22-25)

Polish MPC keeps interest rates unchanged. The majority of the Council still believe that elevated inflation is caused entirely by exogenous and transitory factors, and that the current monetary policy will stabilise inflation near the target in the medium run. In the meantime, the global tide is turning and world central banks are gradually moving towards removal of policy accommodation. In September, the majority of MPC members agreed that policy adjustment may be considered, if the pandemic uncertainty diminishes and forecasts confirm optimistic GDP outlook and inflation above the target for long. We think the first NBP rate hike in November is not ruled out, but we are not sure if the 4th pandemic wave will be already fading by then. If not November, then December or January are quite likely, as the last moments when the MPC is still there in the current setup (before some of the members get replaced by new ones). We do not think the replacement of MPC members in February-March will change much in the monetary policy, as the majority is probably still going to support views presented by the NBP president Glapiński. (p.27-29)

Government planned the 2022 budget with public finance (GG) deficit at 2.8% of GDP, while this year's gap is likely to be well below the initial estimates, possibly near 3.5% of GDP. (p.31)

Executive Summary (markets)

FX

The zloty remained relatively weak in the summer months vs. other currencies of the CEE region with EURPLN staying mostly in the 4.56-4.60 range. The most likely reason is the NBP's tolerance to very high CPI in Poland. Czechia, Hungary and Russia are already hiking interest rates to control the elevated inflation. There are other zloty-negative factors in the background: the ongoing rule of law conflict between the EU and Poland, which results in the recovery funds' freeze and may lead to financial penalties for breaching the EU law, the worsening external balance, and another Covid-19 wave likely to build amid low level of vaccination. We think that the short-term outlook for the zloty is rather grim and we expect EURPLN to head further north in the coming weeks, even to 4.70 or above, before it regains some strength in the coming months and quarters. (p.38-39)

FI

Polish yields and IRS rates moved up in 2021, following trends in the core debt markets (we expect 10Y UST at 1.75%, Bund at -0.15%, EoY), but also in reaction to rising political risk premium (the breakup of ruling coalition, worsening relations with the EU resulted in widening of the spread vs the German Bund) and also the strong local data fuelling rate hike expectations (even though the NBP president attempted to cool down hopes for policy tightening).

The market has recently started more aggressively pricing-in a scenario of interest rate hikes in Poland.

We think there is some room for yields decline in the short run, after (as we expect) the October's MPC meeting ends with no rate hike and no substantial change of central bank rhetoric. The short-end bonds are still well bid due to the structural excess liquidity of the banking system and the bank tax, increasing banks' demand for POLGBs. However once the central bank starts interest rate hikes (most likely in November or December) yields may go further up. We expect 2Y POLGB yield at 0.80% EoY and 1.00% at the end of 1Q21E. The long-end should keep following trends in the core markets. We think there is still some upside potential if the major central banks (Fed, ECB) continue drifting towards a removal of policy accommodation. We expect 10Y POLGB yield at 2.20% EoY and at 2.25% end of 1Q21E. Limited POLGB supply in 4Q21 means the scope for a wider ASW is limited. (p.33-37)

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2021 Forecasts – what has changed

Indicator	Our view at the end of June 2021	Our view at the end of September 2021
GDP	Our worries about the 3rd wave of the pandemic proved unfounded: the economy started reviving faster and stronger than expected as soon as in 1Q21. The 4th Covid-19 wave is now a possibility, but we think it will also have negligible impact. GDP growth forecast currently at 5% for both 2021 and 2022.	The outlook for the Polish economy remains optimistic, we still forecast GDP growth at 5% in 2021 and 2022. Seasonally-adjusted GDP in 2Q21 was already above the pre-pandemic level, making Poland a top ranking EU economy as regards the pace of economic recovery after the 2020 recession.
GDP breakdown	Instead of a delayed recovery, we have seen a much sooner revival of all demand components, investments in particular. We think they should continue contributing to a fast economic growth in the following quarters.	Investments disappointed in 2Q, correcting most of the earlier rebound, but we think the recovery should resume, mainly due to private sector spending. Private consumption is the main GDP driver and should keep growing quickly, supported by solid income growth. Net exports increasingly negative amid surge in imports.
Labour market	Firms started hiring already at the start of the year and the labour market slack started diminishing much earlier than we had thought. Wage growth continues surprising to the upside.	Labour demand revived and shortage of workers becomes one of the top problems for firms again, driving up wages. Economy is again increasingly reliant on inflow of migrant workers.
Inflation	CPI and core inflation went much higher than we had expected in 1H21 and we think they will remain elevated in 2H21 and 2022. Some components of the current high inflation are transitory but they will be replaced by other, more fundamental conditions, resulting from a strong demand expansion and tighter labour market.	Inflation is likely to breach 6% in October and may peak near 7% in 1Q22. High commodity prices and hikes of regulated prices are partly responsible, but the importance of demand-driven components is rising. CPI is unlikely to get anywhere near the inflation target before 2023.
Monetary policy	We think the MPC policy is turning towards a more data-driven one and the central bank may start interest rate hikes already in November in reaction to a much more optimistic economic scenario. The next projections of the NBP will be key.	The first rate hike in November is not ruled out, but we are not sure if the 4th pandemic wave will already be fading by then. If not November, then December or January are quite likely.
Fiscal policy	A surprisingly strong macro scenario (higher GDP, higher inflation) will support fiscal revenues, allowing for a faster fiscal consolidation: we think GG deficit may drop to c.4% of GDP in 2021 from c.7% in 2020.	Fiscal gap in 2021 could be near 3.5% of GDP thanks to a solid macro scenario. Draft budget for 2022 predicts 2.8% deficit, but we think it could be slightly lower, near 2.5%.
Fixed income market	Front-end bonds yields are likely to start increasing following the NBP hikes, despite the still abundant liquidity in the banking sector. Long-end bond yields will follow the core market yields higher with spread stable but with a risk of widening. July redemptions and coupon might keep ASW tight for another month after which the ASW should return to a widening (normalization) trend.	Front-end bonds yields are likely to stabilize by EoY; 2022 yield increases will be determined by pace of NBP rate hikes. Long-end bonds yields will follow the core markets higher, again. POLGB tight supply in 4Q21E means that the chances of ASW widening are low.
FX market	Strong macroeconomic fundamentals are supportive for the zloty. The main risks include Fed normalizing its monetary policy and Covid-19 case increases in the Autumn. The Supreme Court's ruling on FX loans still remains an unknown, both as regards the timing and the verdict.	Short-term outlook for the zloty is rather grim. Very accommodative NBP, Poland's tensions with EU, upcoming winter season (more Covid-19 cases), as well as worsening of the current account balance all point in one direction – that of a weaker zloty.

Economy

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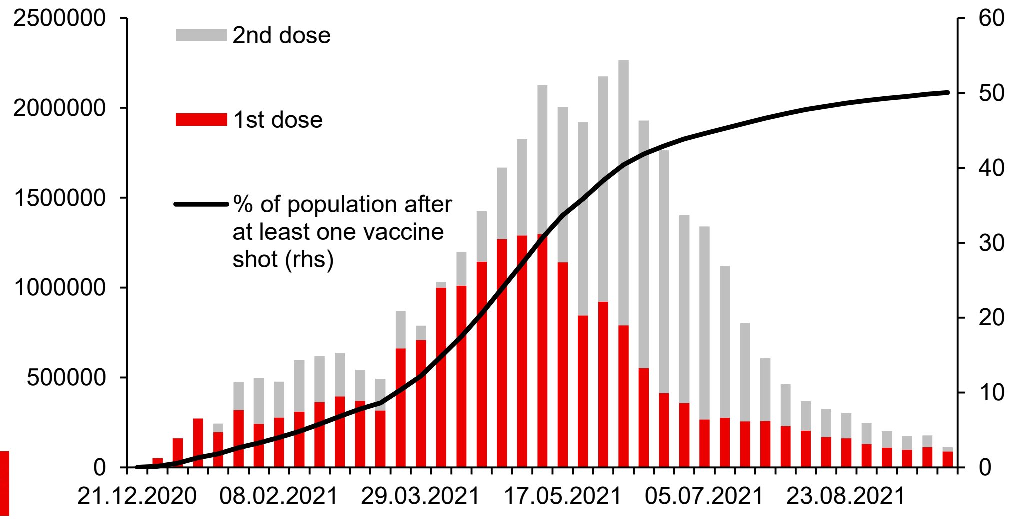
Covid update: vaccination rollout stalled

Summer was really quiet as regards COVID-19 in Poland. Since the start of August the number of new infections has been rising, but it is still way below the numbers seen in autumn 2020 or spring 2021 waves. Thus, there are currently barely any restrictions in Poland. Still, it seems that the pandemic momentum is similar as one year ago and forecasts suggest an incoming rise in the number of infections.

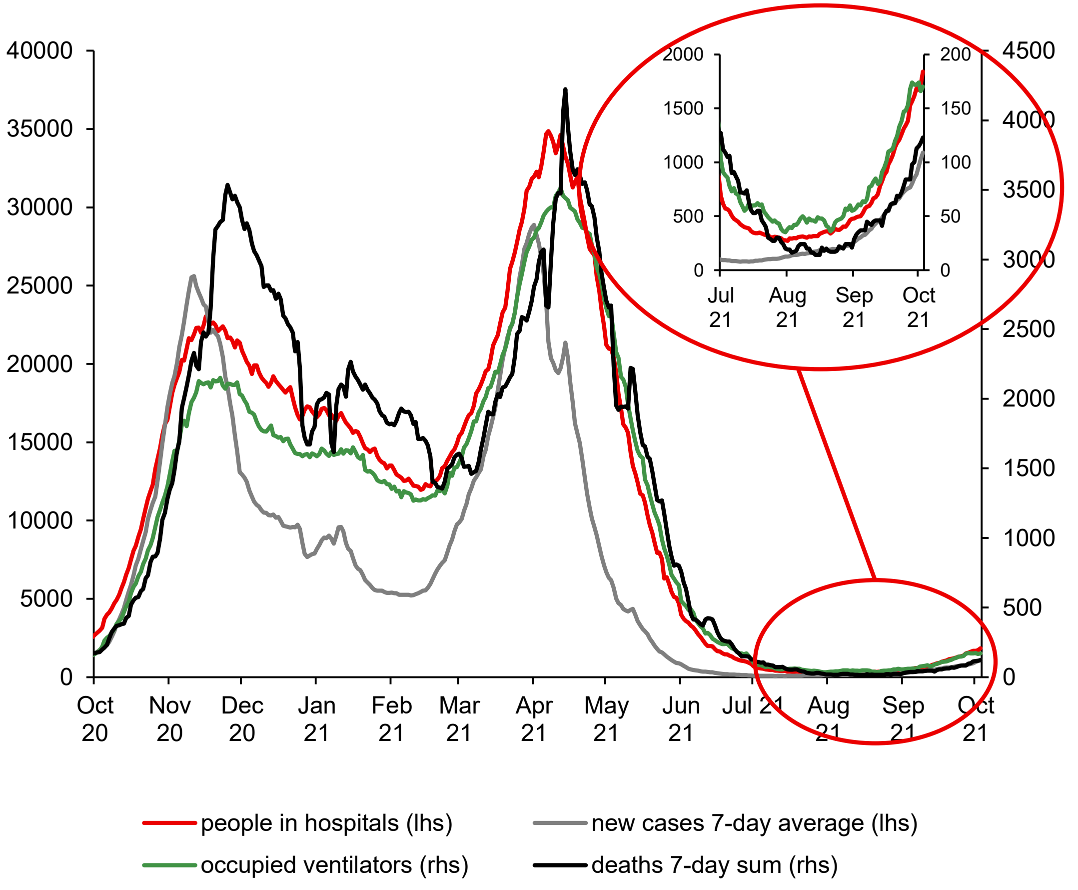
So far, about 50% of the population has received at least one dose of vaccination and slightly less has been fully vaccinated. **The vaccination rollout has stalled way below the herd immunity thresholds** estimated at 60-70% (or even 90%+ for the new strains) so a strong rise in the number of infections and new restriction tightening remain a viable option. Poland has become a vaccination laggard compared to other EU countries.

Our estimates based on the Polish infections data suggest that vaccines have been effective on average in 85% (two weeks after a full cycle), and this efficacy has fallen to about 60% in the last weeks (probably due to new strains). Thus, the effective vaccine-induced immunity in the population is at about 30%.

Weekly vaccinations in Poland, by dose



COVID-19 statistics in Poland



Source: ECDC, Michał Rogalski, Santander

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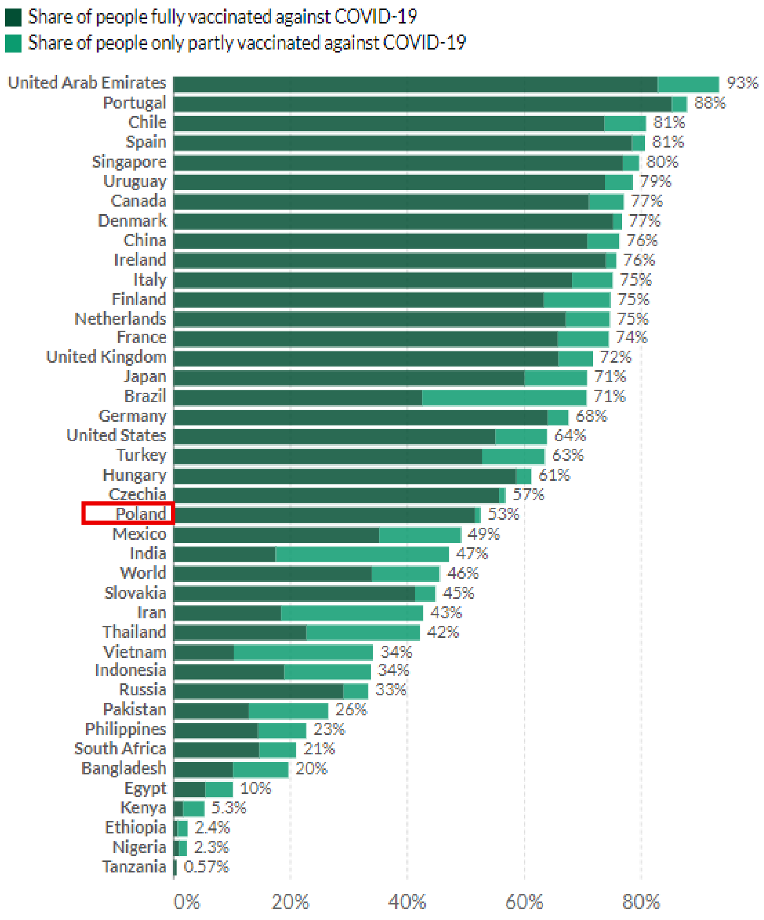
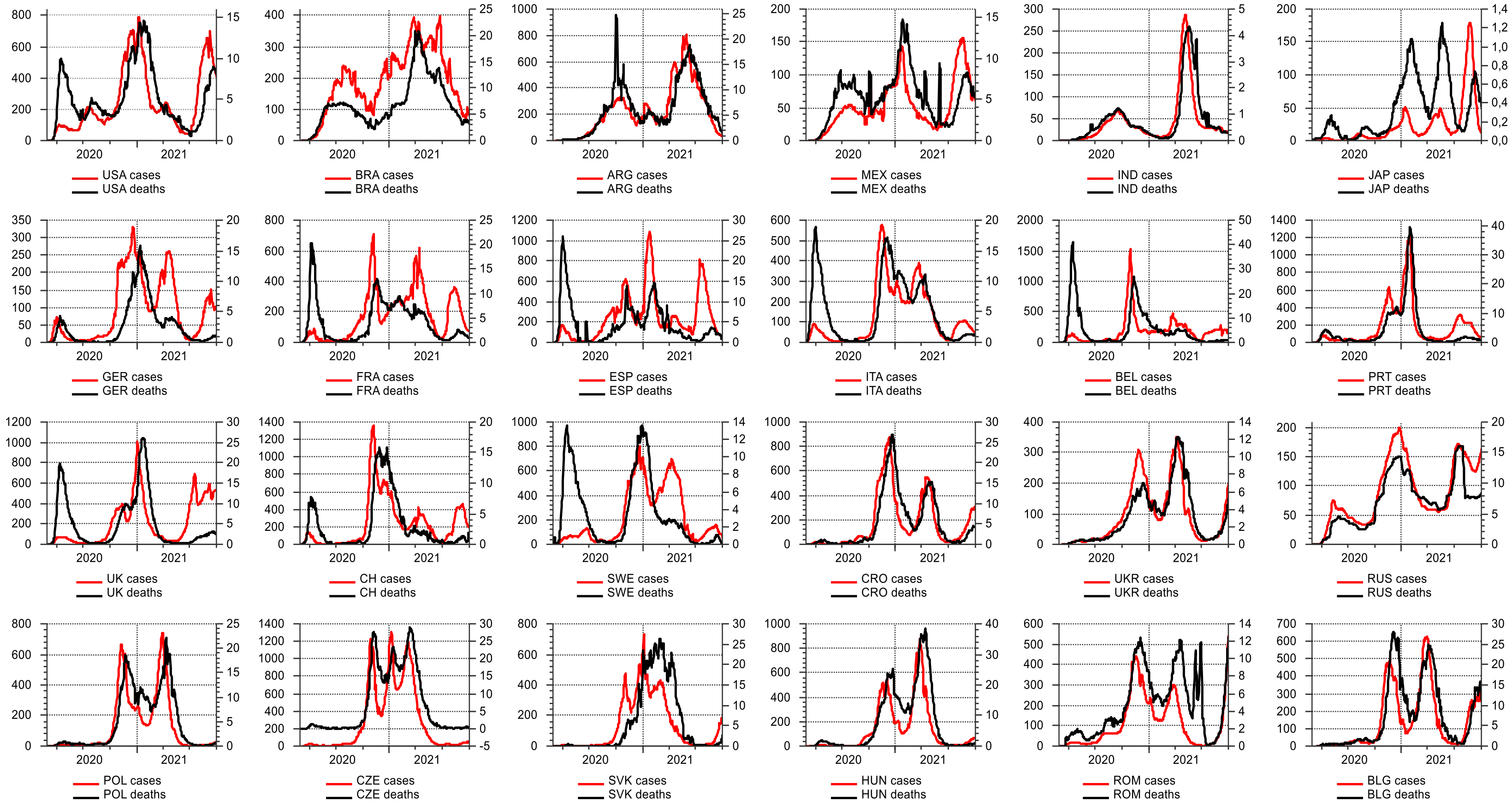
Covid update: international context

Share of people vaccinated against Covid-19, October 2



Source: Ourworldindata.org

Covid-19: new confirmed cases (lhs) and deaths (rhs) per 1m, 7-day rolling average



Source: Refinitiv Datastream, Santander

Source: Refinitiv Datastream, Santander

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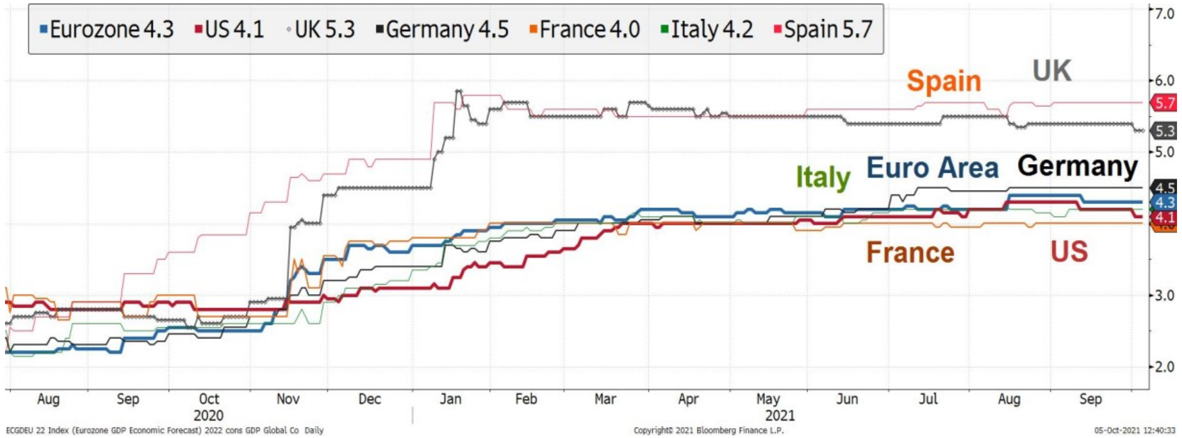
Global recovery stalled… hopefully only for a while

The global economic recovery has apparently lost momentum in the recent months, amid new Covid-19 waves (with new containment measures especially tight in Asia), and growing supply-side constraints (supply chain disruptions, soaring energy costs) affecting numerous industries. There are building signals that the surging inflation started eroding consumer confidence in some countries.

However, we still think **the outlook for the world economy remains fairly optimistic** and the recent worsening of sentiment just represents a short-term correction in a generally positive trend. The solid economic growth in the advanced economies should be supported by the likely additional fiscal support in the US and the launch of the recovery funds in Europe, among others.

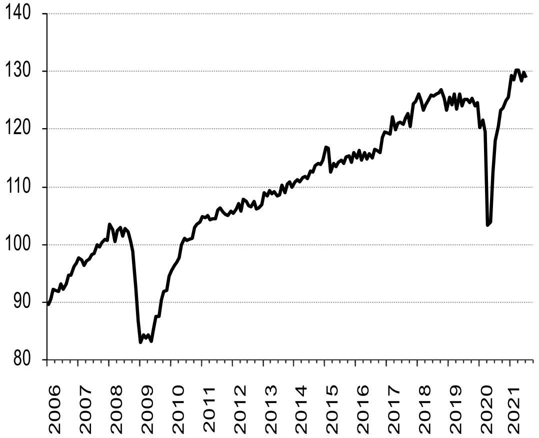
Such a view seems to be predominant among economists and investors, judging by the equity markets' performance, but also by the stability of market consensus forecasts for major economies or recent economic forecasts of major central banks and international organisations (which remain quite upbeat on GDP outlook).

2022 GDP growth – Bloomberg consensus forecasts for advanced economies



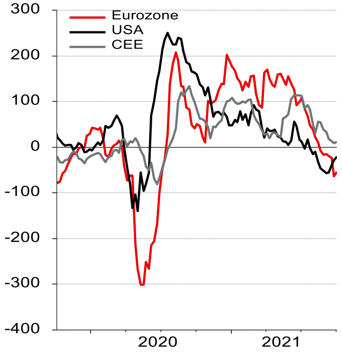
Source: Bloomberg, Santander

CPB World export volume index, 2010=100



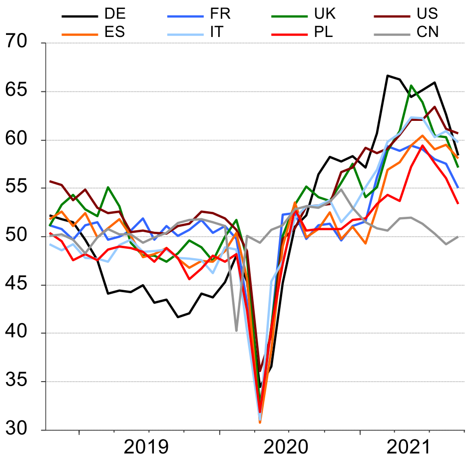
Source: Refinitiv Datastream, Santander

Citigroup's Economic Surprise Indices



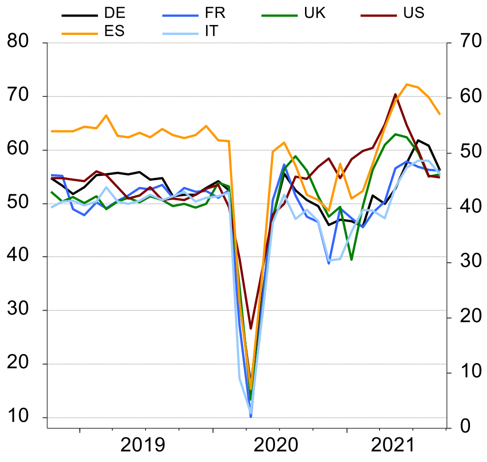
Source: Refinitiv Datastream, Santander

PMI manufacturing



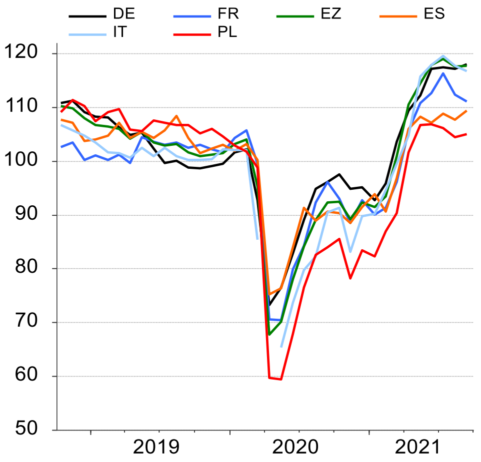
Source: Refinitiv Datastream, Santander

PMI services



Source: Refinitiv Datastream, Santander

Economic Sentiment Indicators



Source: Refinitiv Datastream, Santander

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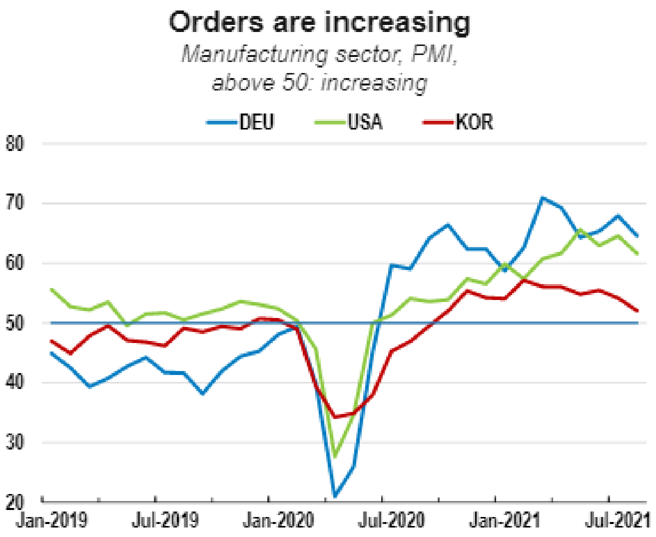
Tensions in global supply chains

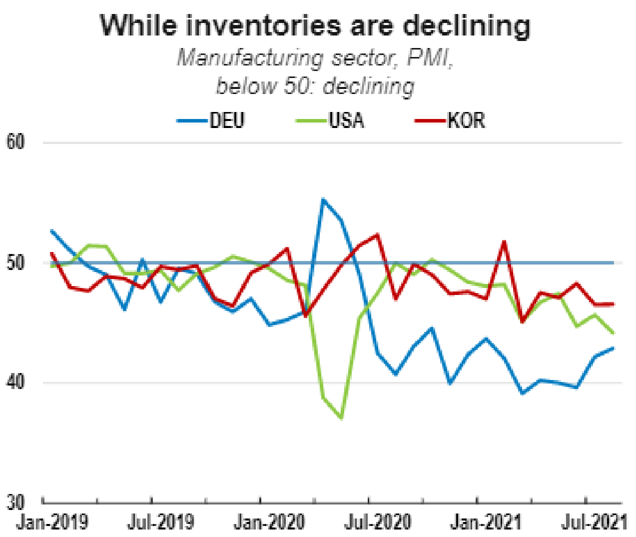
The consequences of growing supply-side constraints may be spotted in the behaviour of soft indicators for manufacturing across the globe. Companies are predominantly pointing to increasing orders (orders components of sentiment indicators are holding much above breakeven thresholds). On the other hand, the gauges of inventories are trending further down from the neutral levels or are holding at depressed levels below breakeven thresholds. This means that despite business opportunities in the form of the rising demand, companies not only are unable to replenish stocks of finished goods but they also see their inventories drop further.

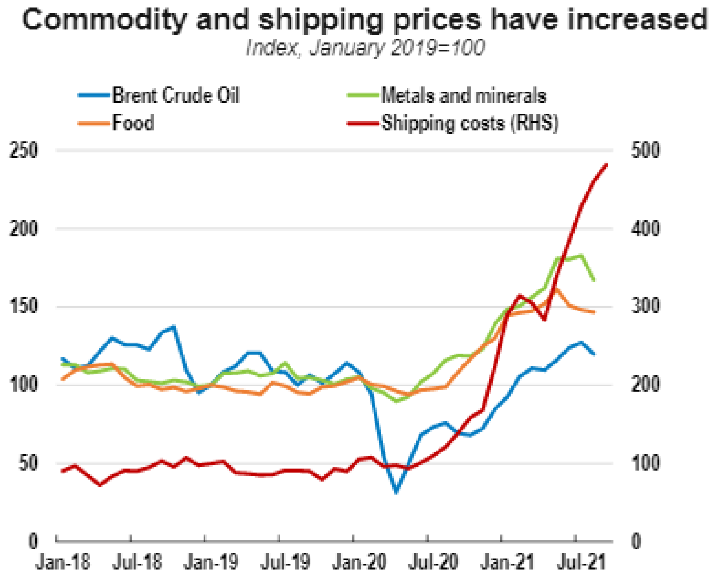
At the same time, given the uncertainty regarding the availability of production input, companies are most likely ready not only to restore their usual inventory levels but also to secure buffers larger than usual.

This is causing a severe pressure against the bottlenecks and, as a result, we are seeing strong price growth at the level of commodities, but also shipment costs and production materials (very high PPI growth globally).

Flash September German PMI report states that due to supply bottlenecks – currently the main hindrance – manufacturing output index dropped to the lowest value in 15 months. There is even anecdotal evidence in car industry that the shortages of semiconductors lead to cuts in new orders for all components. **The shortages are also weighing on indexes of business confidence towards future activity.**







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Source: OECD Economic Outlook, Interim Report September 2021

Tensions in supply chains: local dimension

Business surveys reveal how extraordinary the current period is when it comes to supply chain problems in the Polish economy. **For most industries, this is the first time that input shortages are experienced to such an extent.**

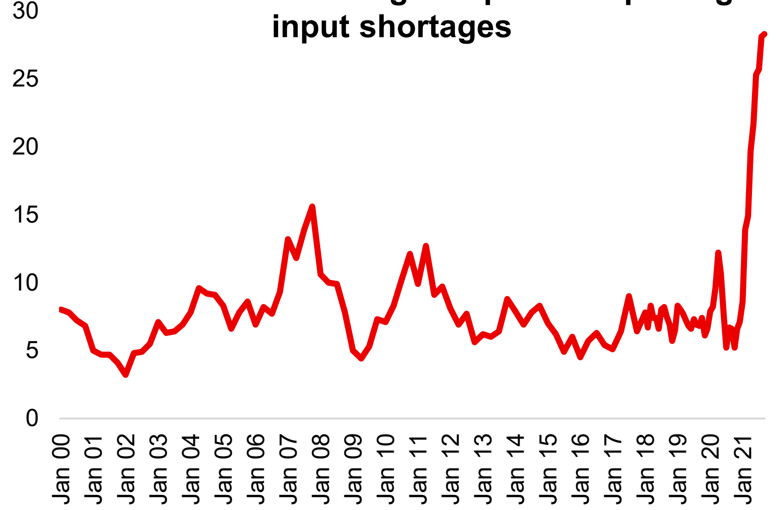
So far, the indexes of input shortages keep setting new records each month in most industries.

Retail trade sector is also reporting historically low levels of merchandise stock, which is most likely caused by delays in resupplies.

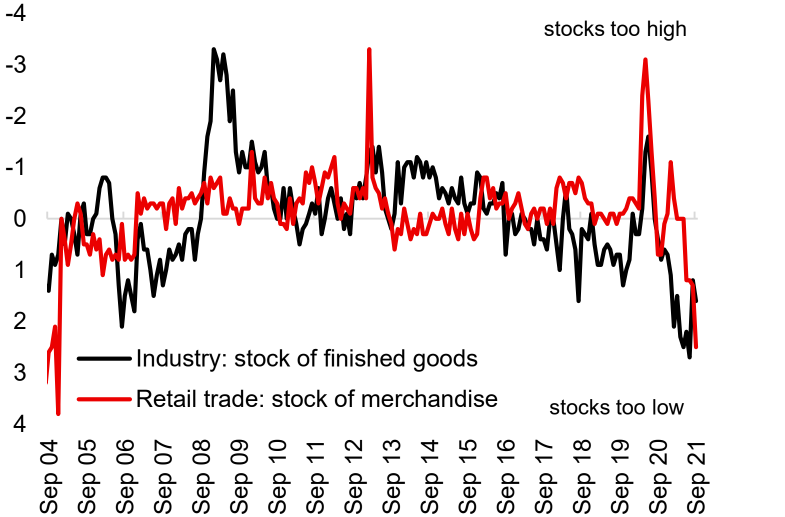
The consequence is seen in how quickly PPI inflation is rising (a streak of upside surprises has driven it to 9.5% y/y in August) but also several CPI components, like cars and shoes, behave in an unusual way (positive price growth is rarely seen in Poland in these categories).

This most likely also has real consequences, judging by the 50% fall y/y of car production in August.

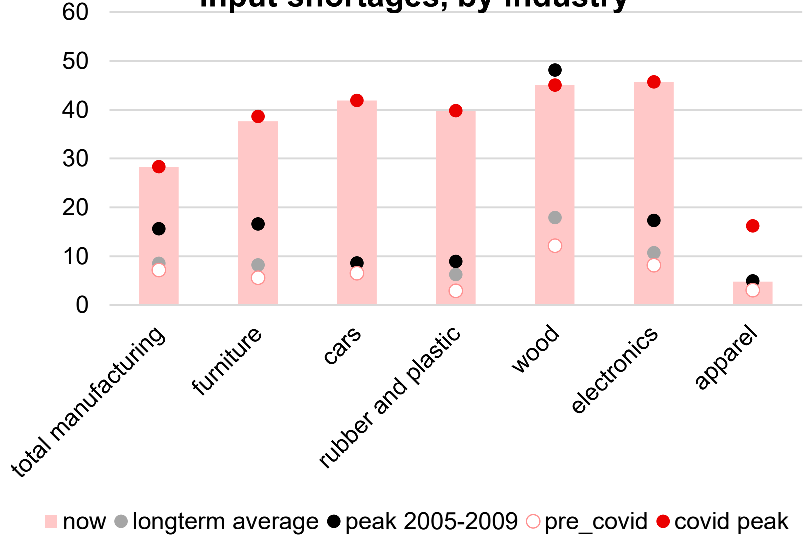
Share of manufacturing companies reporting input shortages



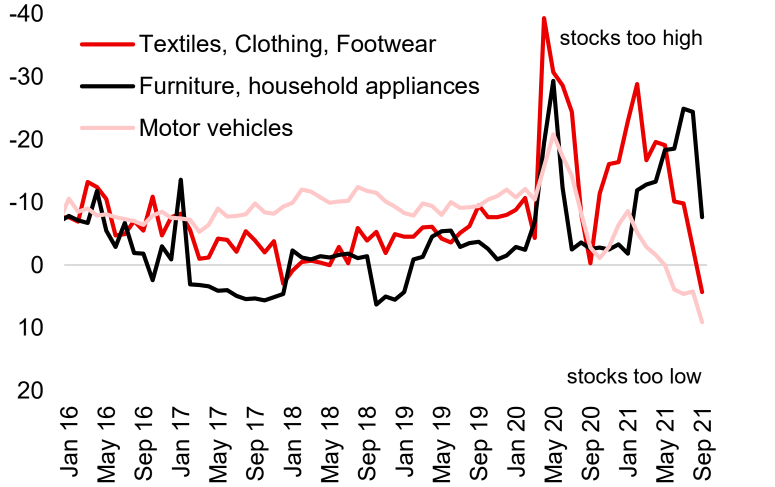
Indexes of inventories in retail trade and industry



Share of manufacturing companies reporting input shortages, by industry



Indexes of inventories in retail trade segments



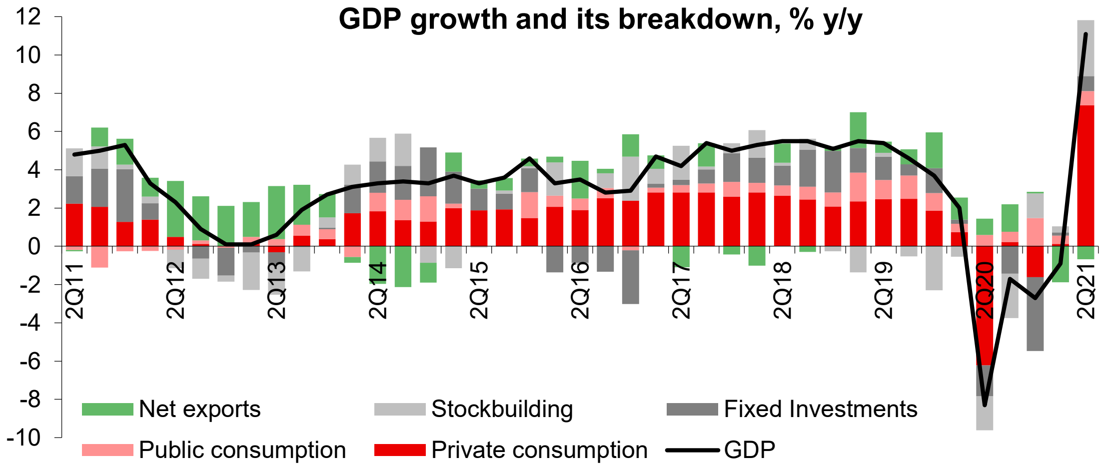
Source: GUS, Santander

GDP already above pre-Covid, but well below the trend

GDP growth in Poland accelerated in 2Q21 to 11.1% y/y, the highest on record, confirming a solid economic revival after restrictions were lifted. Seasonally-adjusted GDP already in 2Q21 rose above the pre-Covid level, which – as we expected – makes Poland one of the fastest recovering EU economies so far.

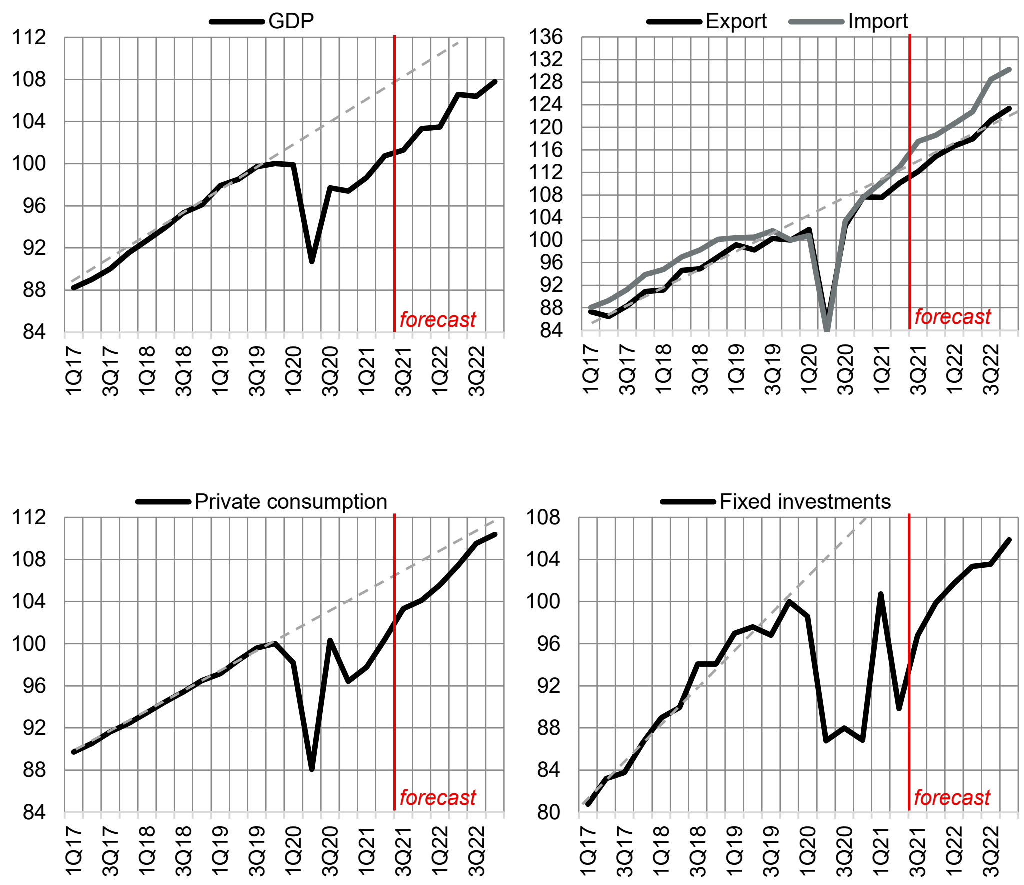
The private consumption rose 13.3% y/y and was the main driver of the revival. The rebuilding of inventories also significantly contributed to economic growth. Net exports' contribution was negative, as quickly growing export was outpaced by imports, boosted by reviving domestic demand.

A disappointing part of the 2Q GDP release were fixed investments, up 5% y/y. In seasonally adjusted terms they fell by 10.8% q/q, reversing nearly all of the surprisingly strong rebound recorded in 1Q21. Possibly, it reflects the weakness of public investments (local governments in particular), as the activity in the private sector apparently continued reviving - investments in big companies were up +11% y/y.



Source: GUS, Santander

GDP and main components of final demand (s.a.), 2019Q4=100



Source: GUS, Santander

GDP outlook: solid growth ahead

We keep our GDP growth forecasts stable at 5.0% for both 2021 and 2022. The economy is likely to keep benefiting from consumption returning steadily to the pre-pandemic patterns, amid healthy households' income growth, from rebuilding of depleted inventories, and from rebounding investments, driven by companies' needs to increase capacity and (a bit later) by the large inflow of money from the EU recovery fund, fuelling big infrastructure projects. The net exports' impact on economic growth is likely to be neutral or even mildly negative. This is because despite the ongoing export revival and high competitiveness of domestic manufacturing (boosted by the PLN weakness), the trade balance is worsening due to the quick import rise, as domestic demand strengthens.

That said, economic growth in 3Q21 is likely to see some GDP slowdown, caused by temporary sentiment deterioration both on the domestic market and abroad. But we think that recovery will regain speed already at the end of this year, and will continue in 2022.

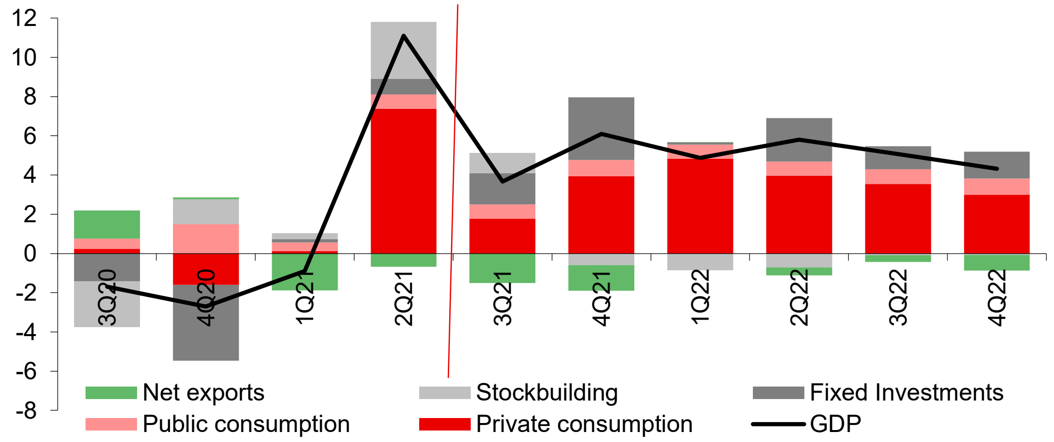
Looking ahead, the biggest risk factors seem to be the pandemic (considering low vaccination rate in Poland) and the EU funds freeze (as the government's conflict with the EU seems to be escalating). However, in both cases we do not expect those risks to materialise and to have a material impact on economy's performance.

GDP growth: forecasts of various institutions

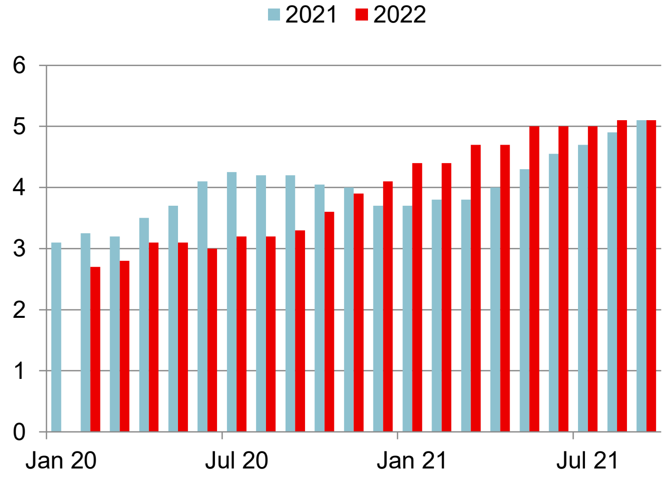
	2021	2022
SAN 2021/09	**5.0**	**5.0**
BBG 2021/09	5.1	5.1
MoF 2021/09	4.9	4.6
NBP 2021/07	5.0	5.4
IMF 2021/07	4.6	5.2
EC 2021/07	4.8	5.2

Source: NBP, MF, IMF, EC, Bloomberg, Santander

GDP growth: Bloomberg consensus forecasts for Poland



GDP growth: Bloomberg consensus forecasts for Poland



Source: Bloomberg, Santander

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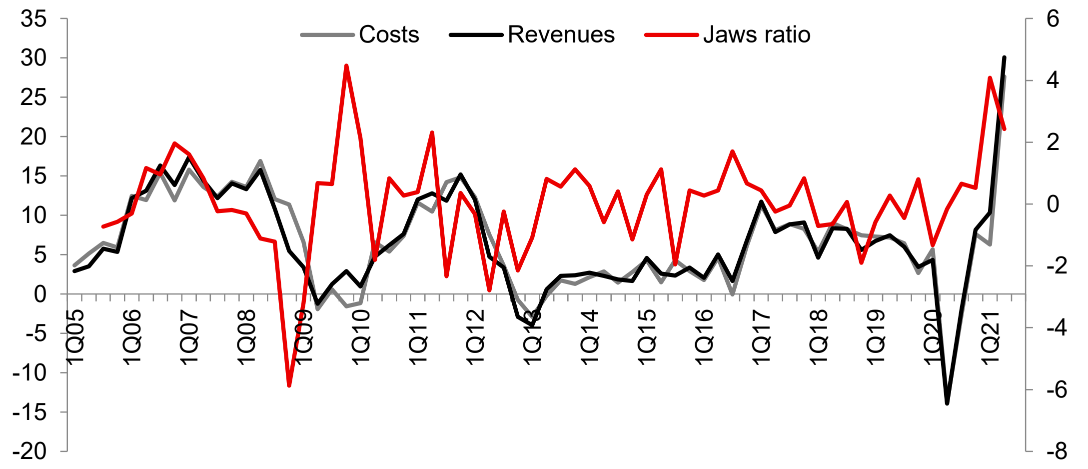
Firms’ profits surge despite cost inflation

The financial results of big companies (with at least 50 employees) improved further in 2Q21. **Both gross and net financial results in 2Q were the best in the recorded history, by 70% better than a year ago and 40% better than in 2Q19.** In 2Q21, the growth of operating costs shot up (27.6% y/y, highest since 1998) but this was accompanied by even faster revenues increase (30.0% y/y) while the gross sales margin increased to a record 7.3%.

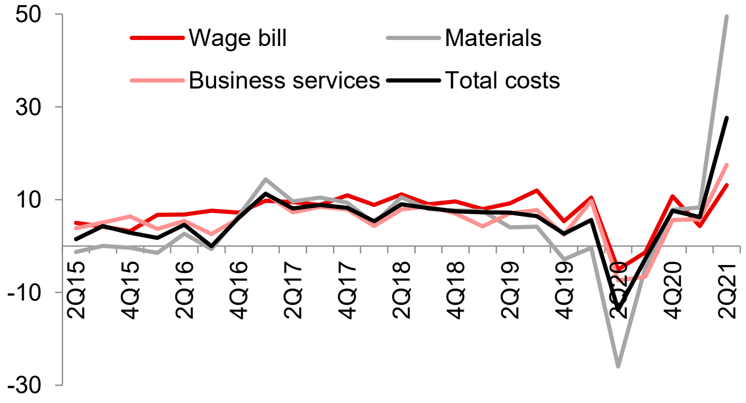
The main contribution to the rising costs came from materials, which is surely a function of the global supply chain issues. **It turned out that the surge in cost inflation did not trigger a compression of profit margins**, but it was the opposite – margins have widened. In the post-pandemic environment, companies did have pricing power high enough to efficiently pass the rising costs to customers, fuelling further inflation.

The investment outlays in 2Q21 were 11.0% higher than a year ago (and at 4.6% in 1Q21), which points to the fact that the investments rebound in the private sector keeps accelerating.

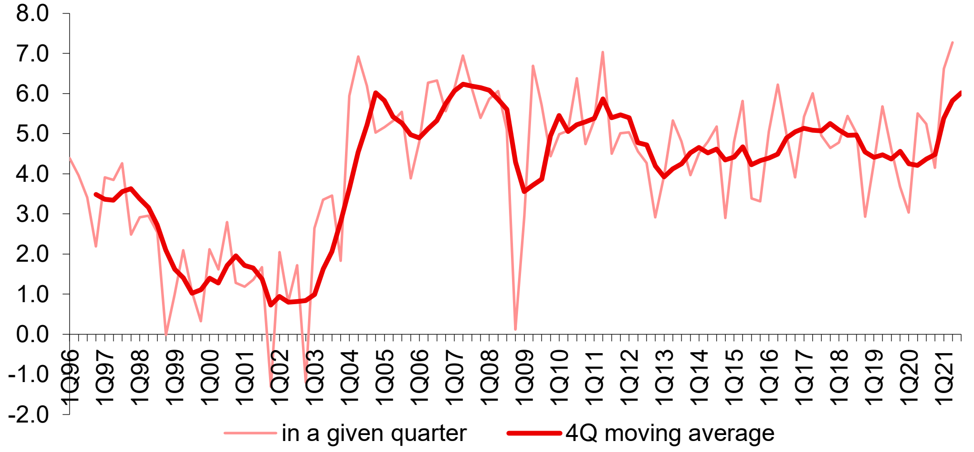
Results of non-financial companies, % y/y



Costs of non-financial companies, % y/y



Corporate profit margins: gross financial result in relation to total revenues, %



Source: GUS, Santander

Investments: public sector lagging private firms

Fixed investments were up 5% y/y in 2Q after 1.3% in 1Q, which was a major disappointment. Seasonally-adjusted investments fell by 10.8% q/q, reversing nearly all the rebound recorded in 1Q21 (+16.0% q/q). **We believe, though, that the private sector remains highly active, while the public sector is likely to disappoint.**

We blame the weaker performance in 2Q21 on two factors:

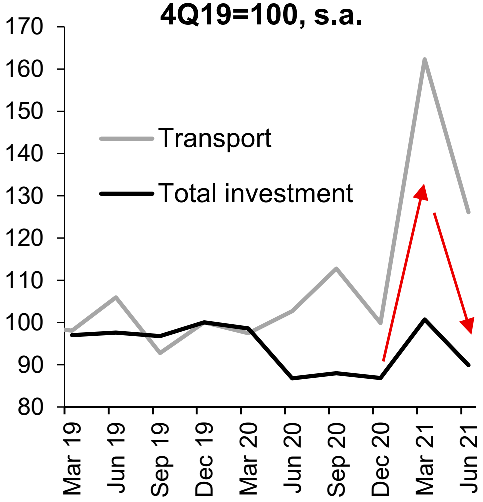
(1) Underperforming public investment. We already know that investment in local governments fell by 11.8% y/y in current prices in 2Q21, and it seems that weakness in this sector will last for longer, due to delays in major railway investment and in approval of the National Recovery Plan. While we are hoping for some rebound in the public sector in 2H21, it seems it will remain muted.

(2) Low total amount of investment in 1Q (usually 15% of the entire year), making data, especially after seasonal adjustment, vulnerable to one-off events. For example, transport sector could be eyed as a potential culprit.

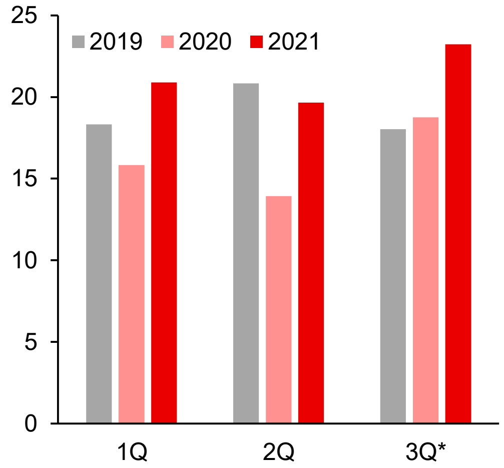
Meanwhile, investment activity of the private sector seems to be rising: outlays in big companies (employing 50+) accelerated to 11% y/y in 2Q21 from 4.6% y/y in 1Q21, leases are growing at a robust rate and investment confidence indicators are going strongly up. The remain thus optimistic as regards this part of the investment market.

Households' housing investments, while being a relatively small part of total investments, also remain strong, see details on the next page.

Total investment vs investment in big transport companies, 4Q19=100, s.a.

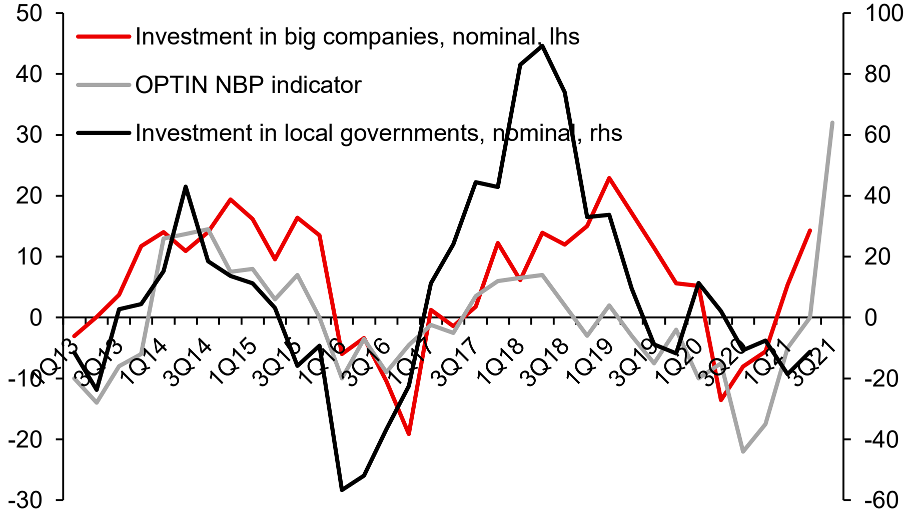


Total value of leases, PLNbn



*3Q21 forecast based on July-August data

Investment in big companies, local governments and NBP investment indicator



Source: GUS, ZPL, NBP

Housing market

The high pace of house price growth is not only related to the pandemic, but the additional easing of monetary conditions that it provided has helped keep prices growing.

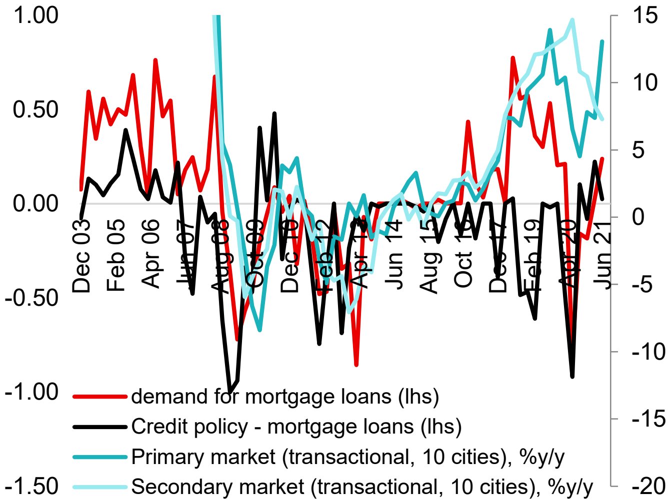
Judging by the NBP Senior Loan Officers' (SLO) survey, the 2019-2020 acceleration of real estate prices was caused by highly positive impact of comfortable economic situation of households on their demand for mortgage loans (a mix of record low unemployment and record low interest rates). Now, the labour market is already quite tight despite the early stage of economic recovery and interest rates are kept at an even lower level than before the pandemic (especially real interest rates).

The highly negative real interest rate may be forcing households out of bank deposits. The high activity on the housing market does not seem to be a reflection of broader affordability (rising incomes making more people eligible creditworthy, which makes them enter the housing market). On the contrary – our affordability index has been falling at a growing pace lately.

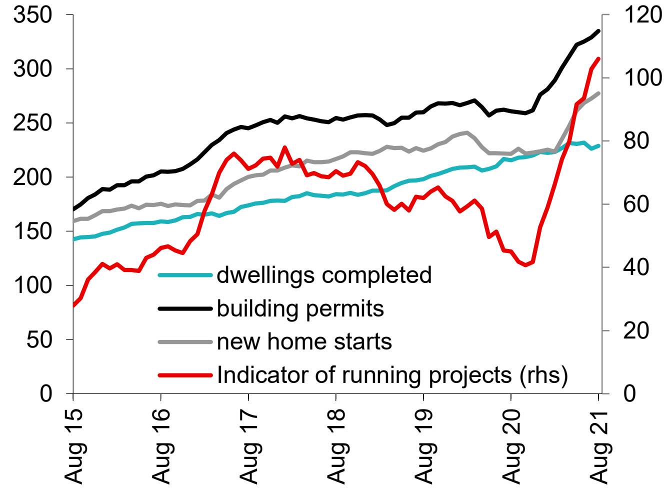
In August, on the housing market, the number of finished flats rose by 17.5% y/y, the number of building permits was up by 29.0% y/y and the number of house starts up by 23.7% y/y. This means that the running projects indicator (12M permits minus 12M finished) keeps climbing quite sharply and is at the highest level since 2008.

The wave of ongoing projects is constructed at a continuously growing costs which is another reason to expect house prices to go even higher.

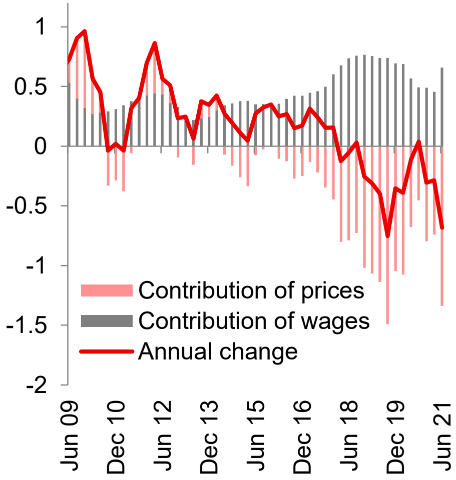
SLO survey results and house prices



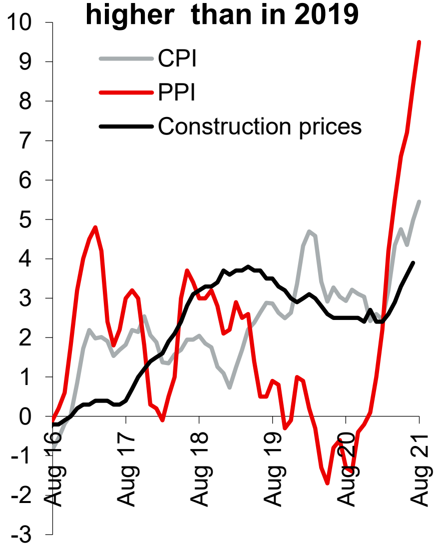
Housing market statistics, 12M sums in thousands



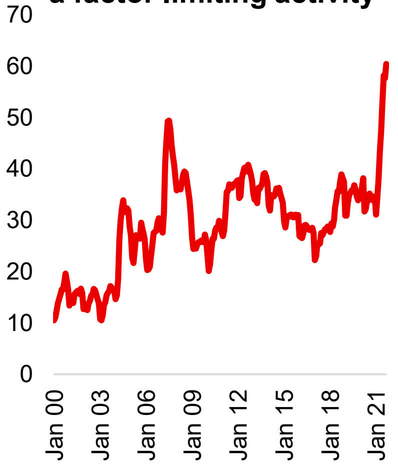
Housing affordability index y/y change



Construction prices growth higher than in 2019



Share of construction firms reporting costs of materials as a factor limiting activity



Source: GUS, NBP, Santander

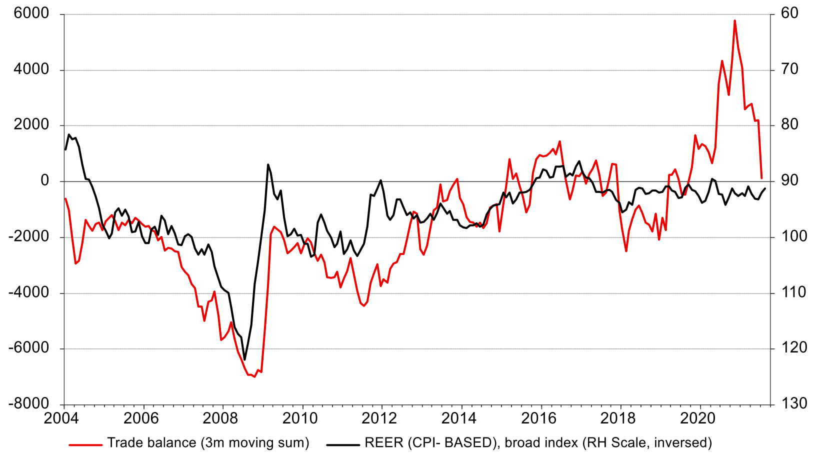
Foreign trade: disappearing surplus

Poland saw an impressive improvement in its C/A balance in 2020, and trade balance in goods in particular. However, as we argued in our April report (p.26), the huge trade surplus was largely a transitory effect of the pandemic disruption in the domestic demand (and thus in imports), rather than a reflection of improved external competitiveness. Thus, after the domestic demand revived, we have seen a sharp contraction in the external balance in recent months. The trend has been amplified by a surge in commodity imports (mainly from Russia) as their prices soared.

The income balance also started deteriorating quickly, as the financial results of foreign-owned companies improved thanks to the economic recovery.

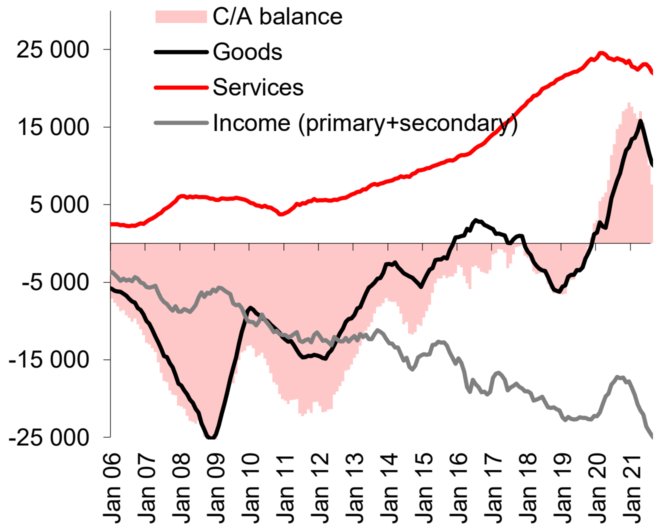
Given the expected continuation of domestic demand recovery in Poland, we see the C/A balance-to-GDP heading for small to moderate negative values. This would more or less match the situation before the pandemic, when C/A was in a much better shape than in 2007-2008 or 2010, despite a similar pace of the domestic demand growth.

Foreign trade balance vs real effective exchange rate

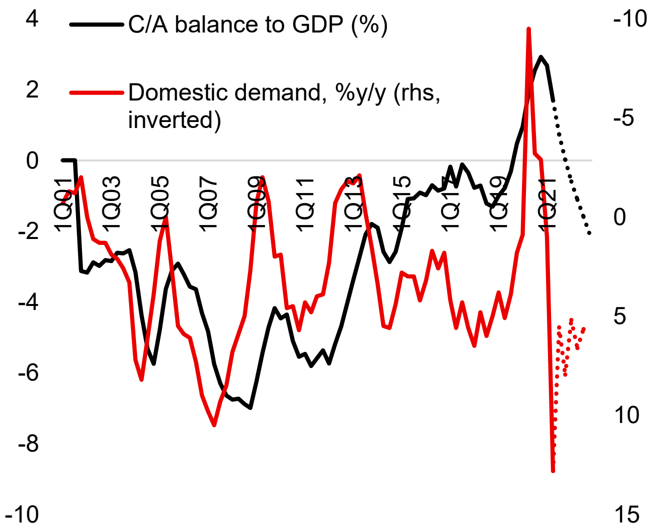


Source: Refinitiv Datastream, BIS, Santander

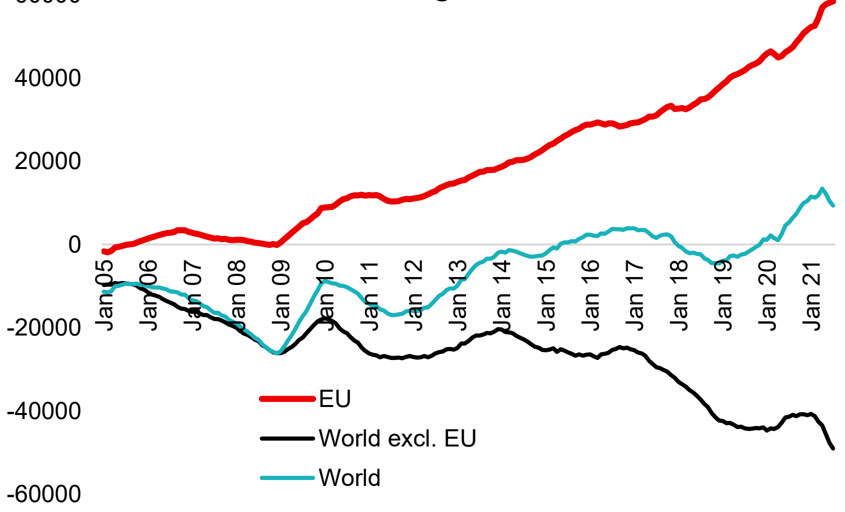
12M moving sum of balances, €mn



C/A balance vs domestic demand



12M moving sum of trade balance in goods with selected regions, €mn



Santander

Source: Bloomberg, Eurostat, Santander

Labour market: returning to pre-pandemic shape

Labour market has normalised quickly. The number of employed people in 2Q21 was back near its all-time high (16.6m), the number of vacancies has returned to pre-pandemic levels, **companies are reporting rising wage pressure and increasing problems with finding workers.**

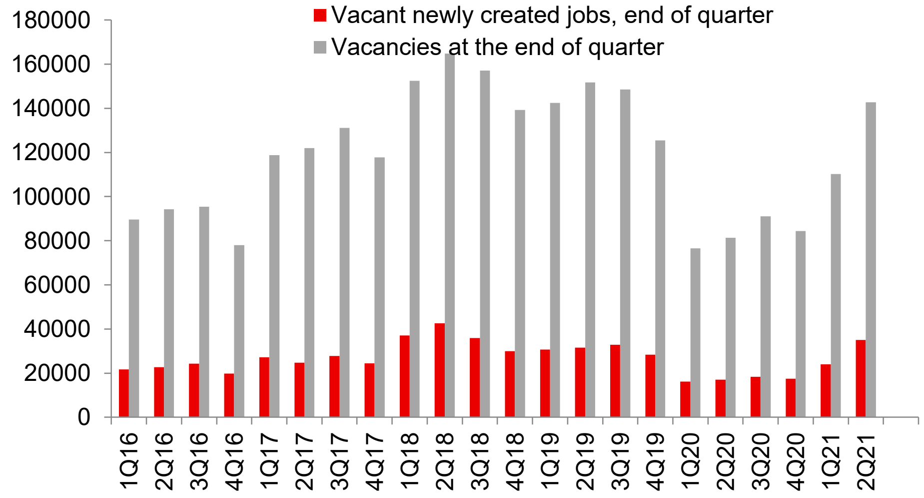
July and August data on employment were a fly in the ointment, as it showed a decline in the number of employees (-12k m/m) for the first time this year. A lion's share of this decline was reported in manufacturing (8k). We blame this on one-off factors, possibly reductions in staff after the end of labour protection period related to PFR financial help.

Interestingly, most manufacturing sectors, which were laying off workers, at the same time were reporting rising problems with the shortage of workers.

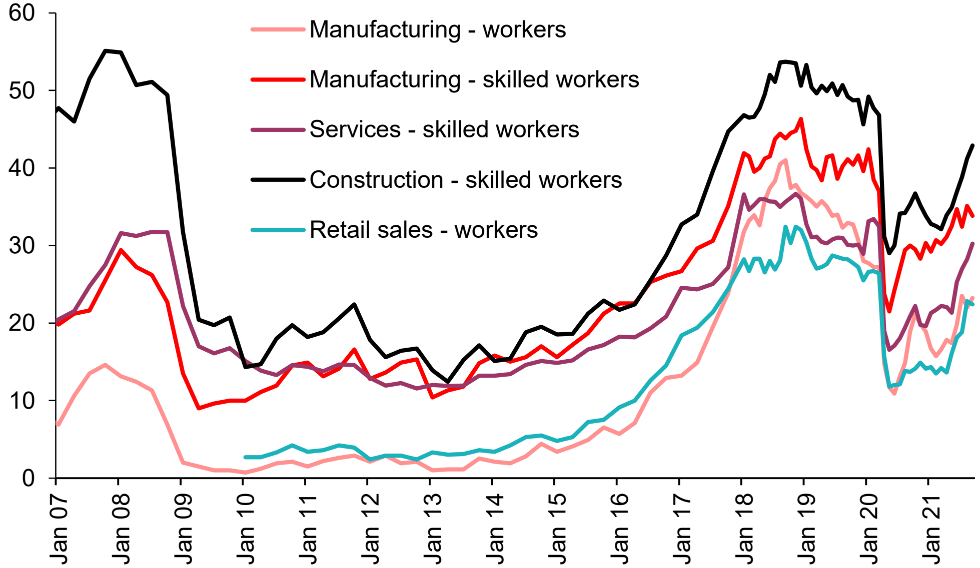
Change in employment in July and August vs change in % companies reporting staff shortages, by sectors

	Employees	Shortage of workers	Shortage of skilled workers
Food and beverages	-3	4.4	2.6
Clothing	-1	5.1	10.6
Wood	-1	10.7	-0.4
Chemicals	-1	-1.2	-0.3
Machinery	-1	0.5	1.0
Cars	-1	-3.2	0.4
Other transport	-1	3.7	6.3
Furniture	-2	5.1	4.2

Vacancies



GUS Survey: Are labour shortages as an obstacle to business growth? %



Santander

Source: GUS, Santander

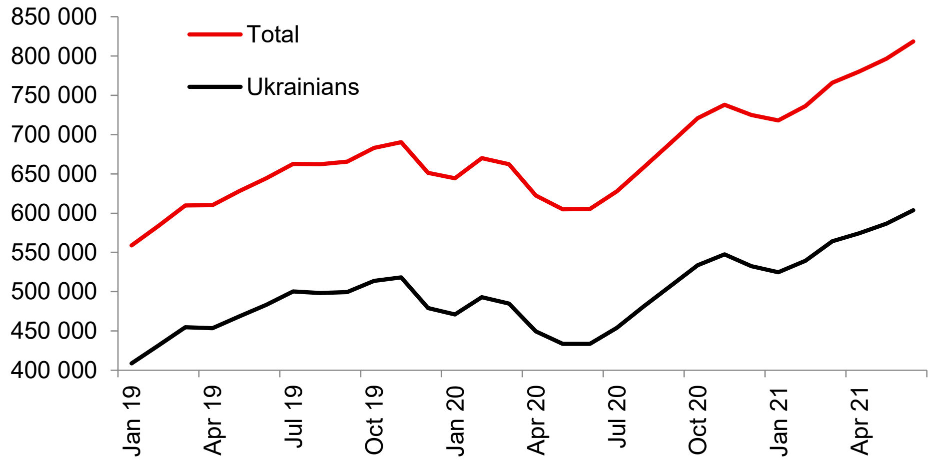
Labour shortages rising again

Companies are worried about staff availability not without a reason: Poland has returned to the pre-pandemic employment as one of the first countries in the OECD, the unemployment rate is falling and close to all-time lows, and the number of job offers per jobseekers is almost at the pandemic level.

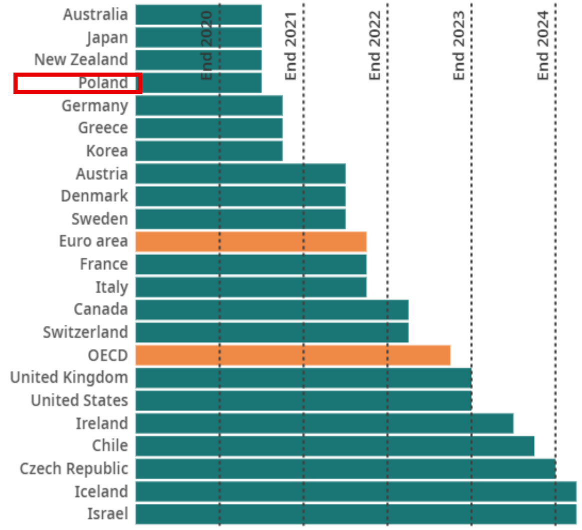
The drying-out labour supply will be fuelling demand for workers from abroad, and generating wage pressures.

As the domestic labour force is declining due to the ageing population, the economy is increasingly reliant on migrant workers.

Number of foreigners registered in Polish social security

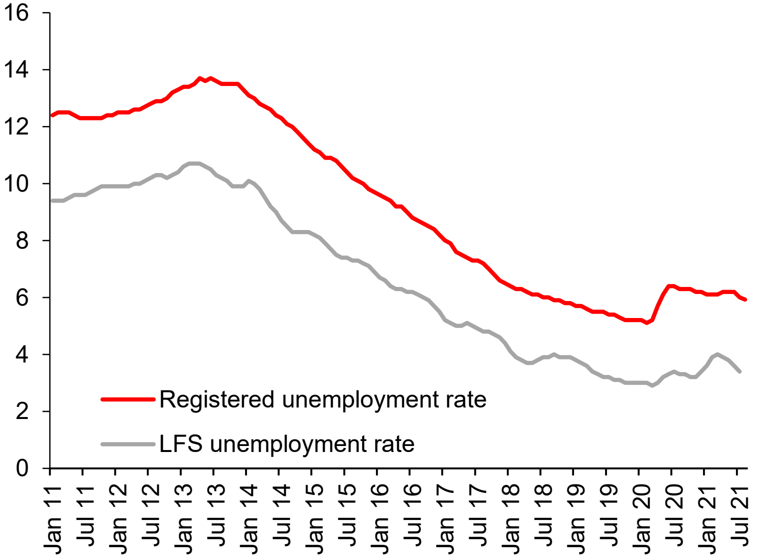


How long to return to pre-pandemic employment rates?

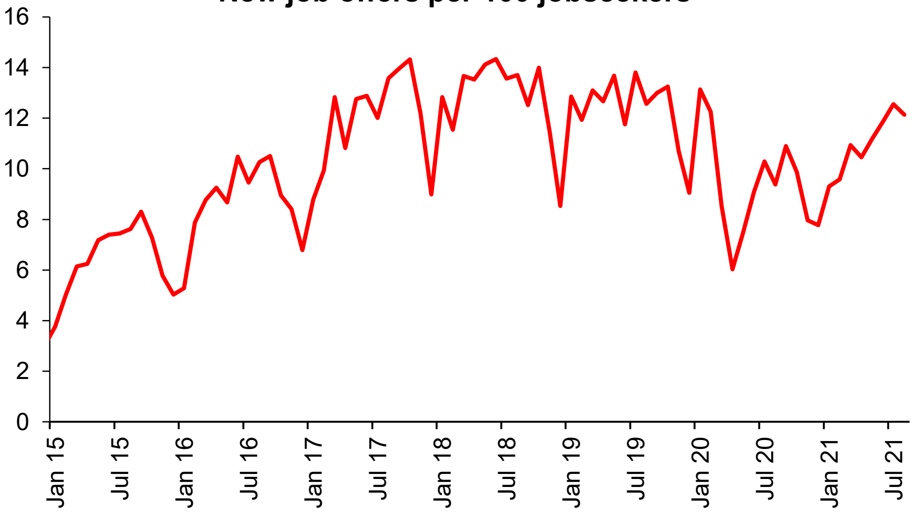


"Recovery to pre-pandemic level" refers to a sustained increase in employment level above its Q4 2019 level. • Source: OECD (2021), OECD Employment Outlook 2021

Unemployment rates, seasonally adjusted



New job offers per 100 jobseekers



Source: GUS, Eurostat, Santander

Doubts about the scale of migration

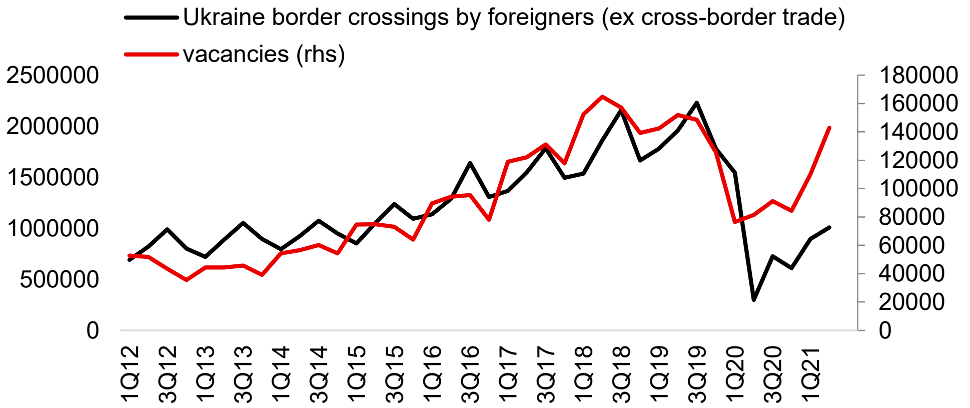
A sufficiently strong inflow of migrant work, mostly from the Ukraine, could mitigate the labour market tensions: labour shortages and wage pressure.

The data on the scale of inflow of the largest group of foreign workers, Ukrainians, is mixed. Ukrainian border crossings are much less frequent than before 2020 despite the almost complete recovery of labour demand in Poland to pre-pandemic levels (judging by the number of vacancies).

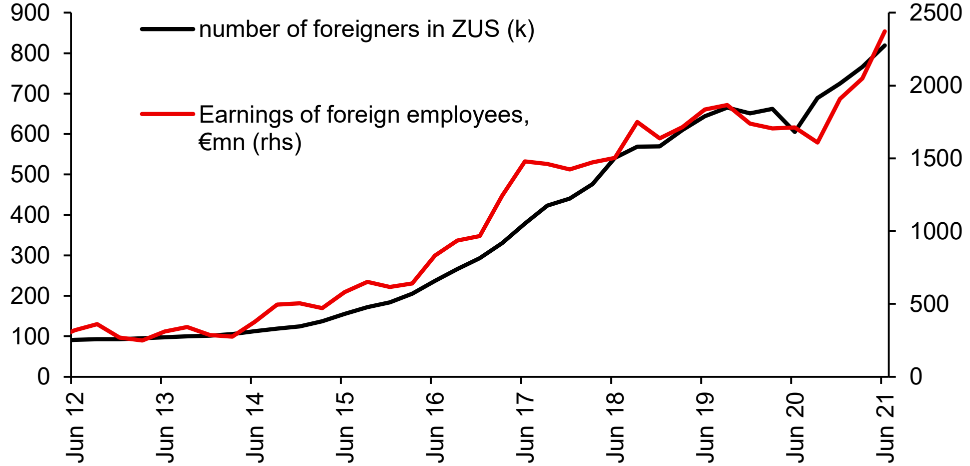
There is also anecdotal evidence from employment agencies specialising in bringing foreigners to work in Poland that it is hard to find enough people to cover the labour demand they see from Polish employers.

On the other hand, the number of foreigners registered in social security system (ZUS) is already back above the pre-pandemic level. Balance of payments data on transfers abroad also shows higher money outflow than before the pandemic. There are also growing statistics of other nationalities than the neighbouring Ukrainians choosing Poland in their search of economic activity.

Cross-border movement of foreigners vs vacancies



Foreigners registered in ZUS and money transfers abroad



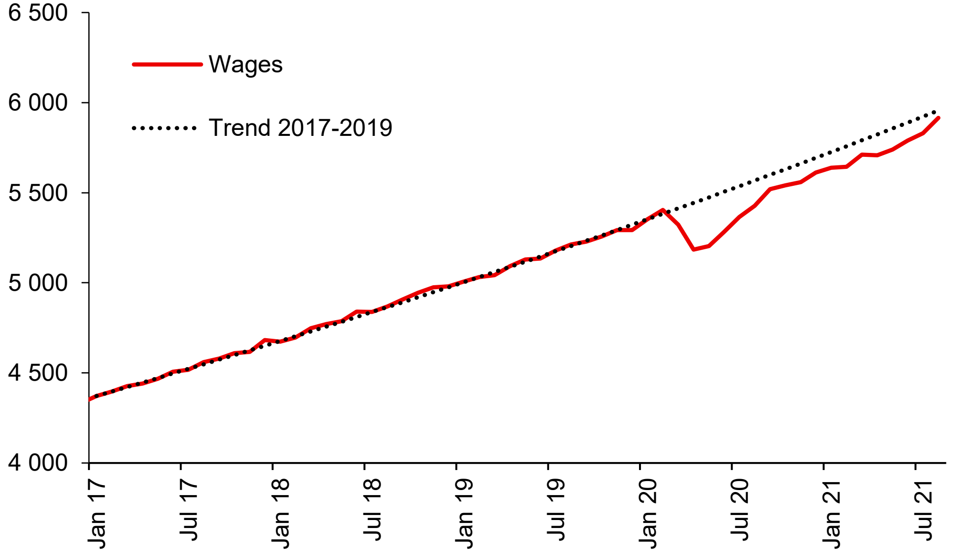
Source: GUS, NBP, Border Guard, Santander

Unit labour costs to fuel inflation

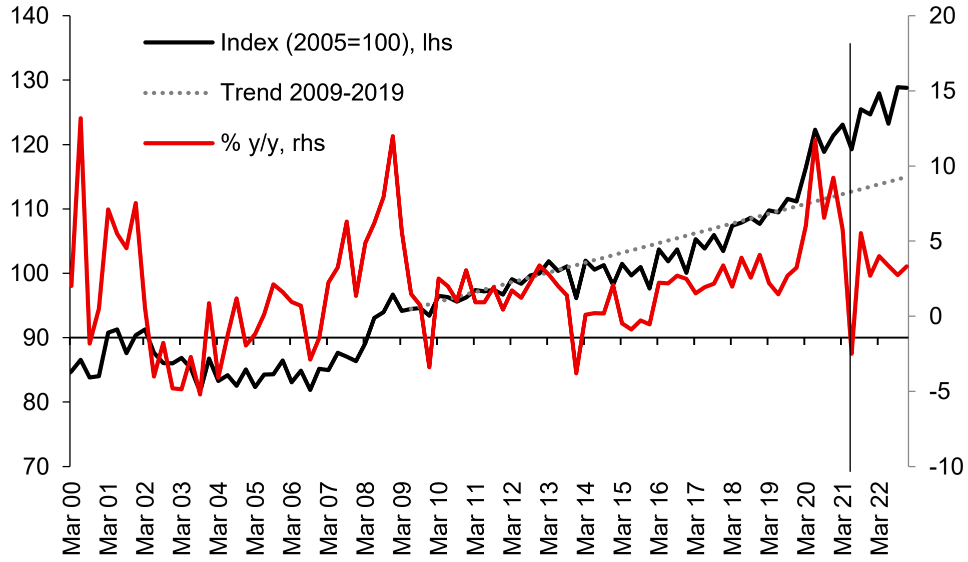
In our view the labour market situation will be fuelling wage pressures. Note that the pandemic caused a major rise in unit labour costs in Poland, as output was undermined but labour was often hoarded and wage growth remained fairly robust. 2Q21 brought some decline, but unit labour costs were still about 6% above the pre-pandemic trend.

As the wage growth is quite high and we are expecting wage pressures to gain strength even more, we doubt whether the gap could be closed with rising real output. That having said, we are actually expecting the nominal ULC to rise and deviate from the trend even further after a temporary decline in early 2021. **Thus, elevated unit labour costs will remain a pro-inflationary factor.**

Average gross nominal wages in corporate sector vs pre-covid trend, s.a.



Nominal unit labour costs



Santander

Source: GUS, NBP, Eurostat, Santander

Inflation: breaking next thresholds

Inflation keeps surprising to the upside. The last CPI print, 5.8% y/y in September, was the highest in 20 years.

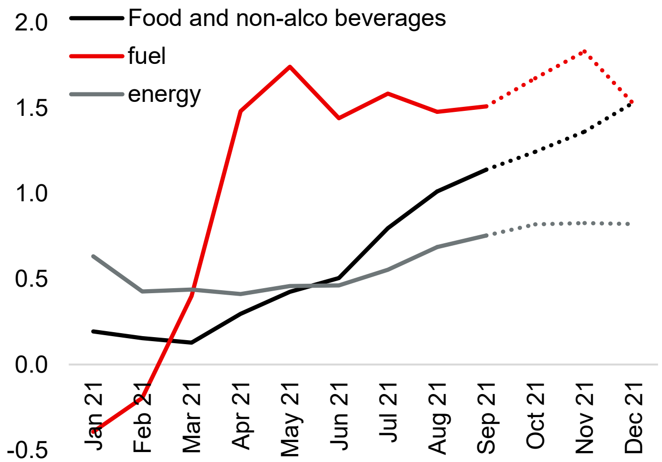
We now see average CPI growth at 4.8% in 2021 and above 5% in 2022 with the 6% level very likely to be breached already in October while the not so long ago unthinkable level of 7% is now a possibility in 1Q22.

What has developed contrary to our assumptions: there was no decay in high fuel contribution; food contribution went up faster than assumed; more energy price hikes are now possible in response to more expensive global energy commodities; Services inflation is not letting go – it was supposed to start fading while goods inflation pushes higher (this part has actually happened).

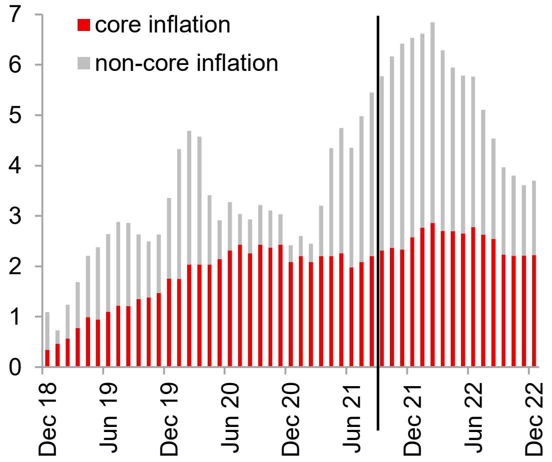
It is true that right now most of the inflation comes from non-core categories (considered outside of MPC's area of control). But this does not imply that the elevated path of inflation has a transitory nature. In our view the non-core part of CPI will ease in a year or so, but will not go to or below zero. What is more, such strong and lasting changes to non-core components are usually translating with a slight delay to higher core. We believe this will prevent a decline of core CPI significantly below 4% at least before the end of 2022.

Alternative core CPI measures that looked relatively benign still in 2020, this year are quickly catching up with the main one, CPI excluding food, fuel and energy.

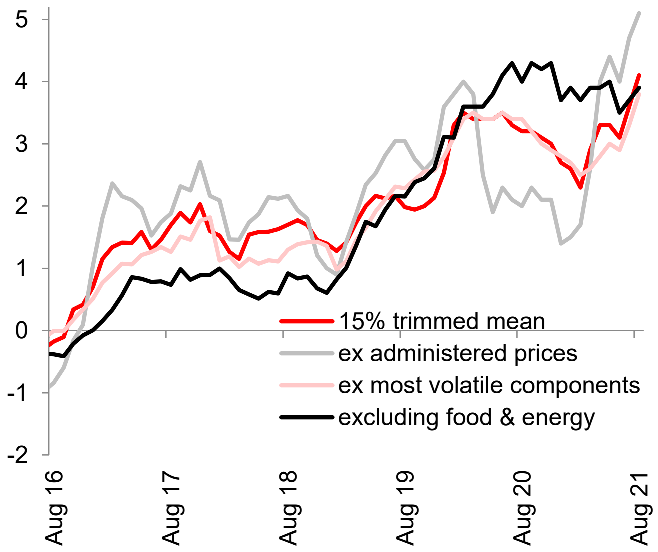
Contributions to y/y CPI growth



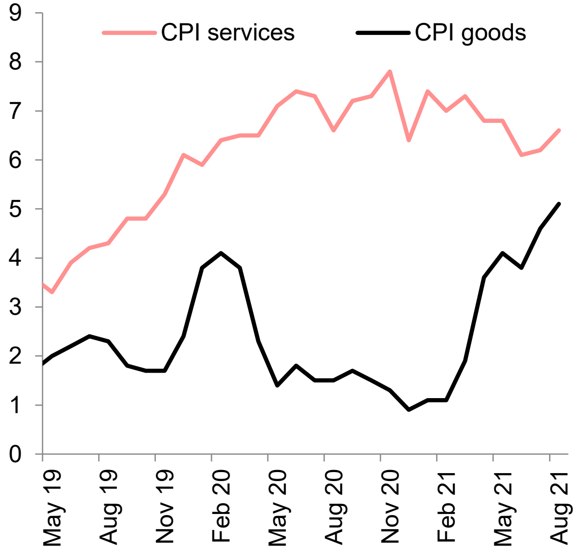
Contributions to y/y CPI growth



Core CPI inflation measures, %y/y



Main CPI components, %y/y



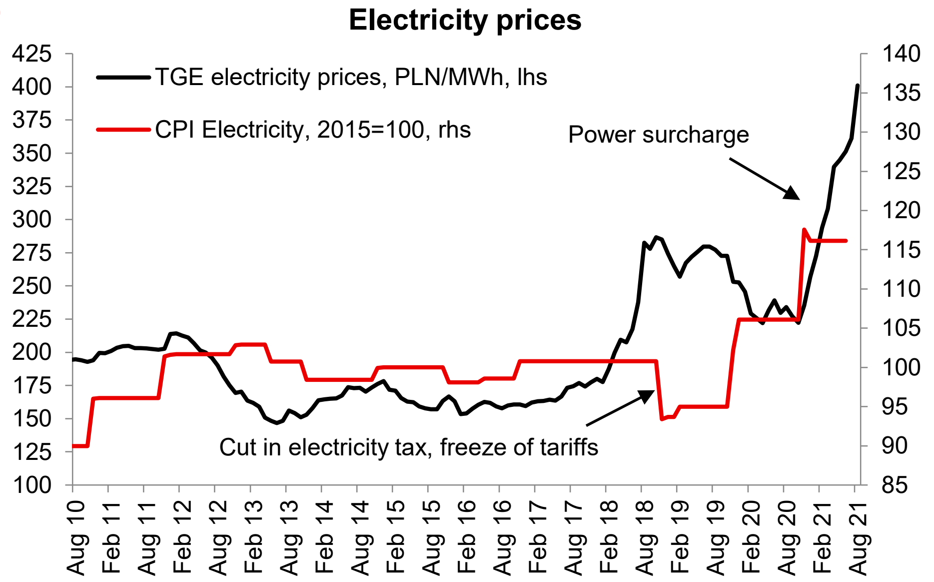
Santander

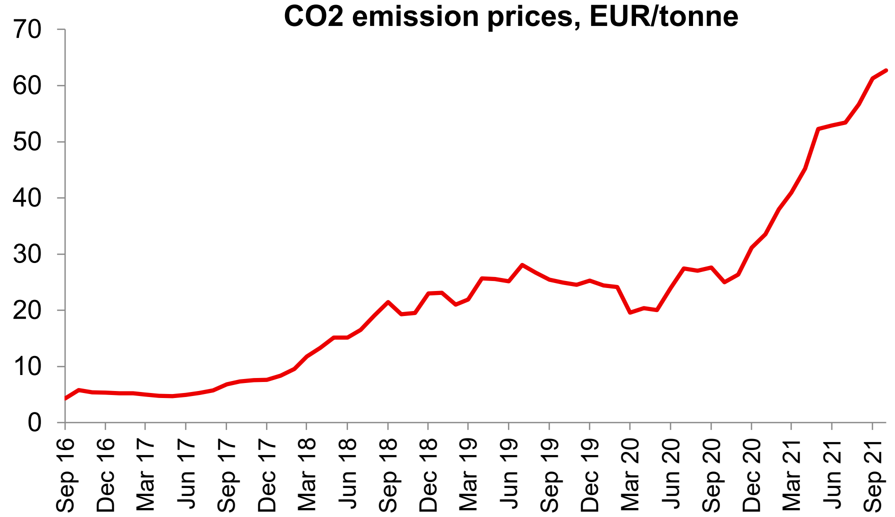
Source: GUS, NBP, Santander

Energy prices are bound to rise

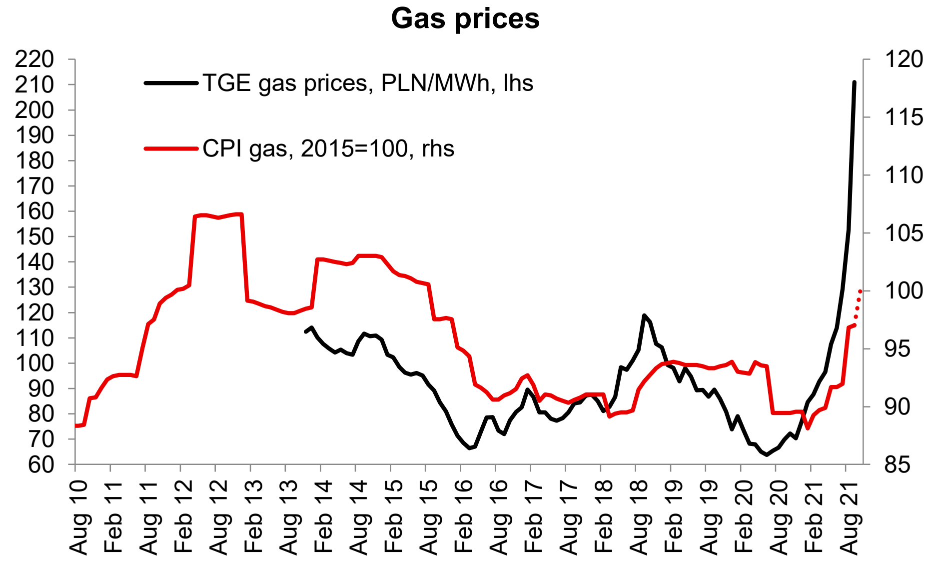
The energy component of CPI is likely to soon grow even more. Global energy commodities are still on the rise: in the last three months natural gas price was up c.35%, coal up c.50%. The cost of energy production is also pushed higher by the continued relatively steep trend in CO_2 permits prices (+15% in three months) – Poland is getting its electricity mostly from coal.

Polish households are not directly exposed to these prices, but the market regulator (URE) is already analysing utilities' motions to allow price hikes. It has already approved a gas tariff hike coming on 1 October (the third one this year after May and August) and we cannot rule another one still this year or in early 2022. One of the key electricity producers informed about application for a 40% electricity tariff hike explaining this would be a breakeven change for the company given how quickly the costs have been rising. **Our CPI forecast assumes electricity bills go up by 10% in 1Q22 and natural gas bills by 5% and the risk seems to be skewed to the upside.**





Source: Ember, Santander



Source: TGE, GUS, Santander

Services inflation fuelled by labour costs

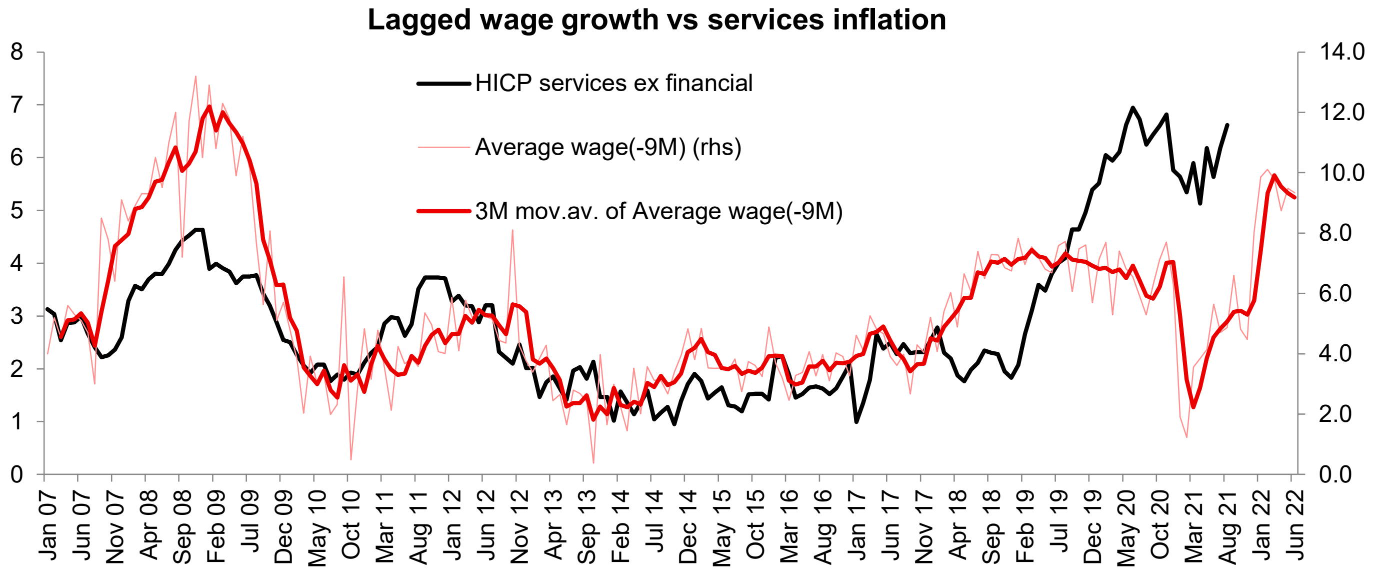
It seemed that after the rapid growth of services prices in 2019 and 2020, base effects should decrease significantly this part of inflation.

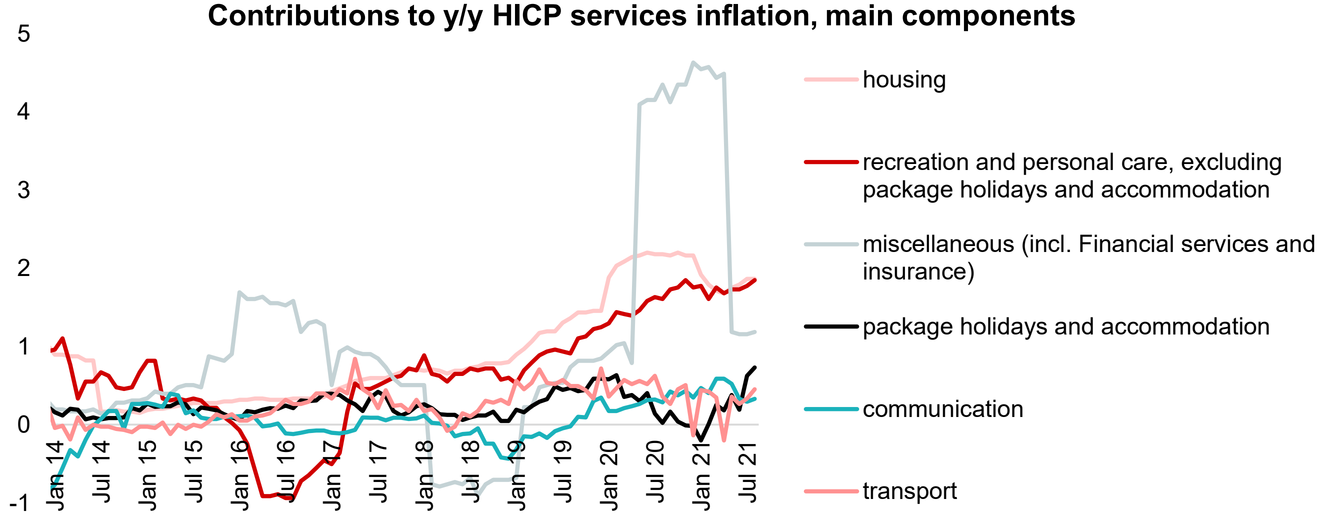
But services prices inflation proved stubbornly high also in 2021. Economy reopening was a good reason for this but so were the conditions on the labour market.

Behaviour of services prices inflation is decently correlated with lagged wage growth. **This means that if our forecasts for the nearest quarters of 9-10% y/y wage growth are correct then the services part of inflation is unlikely to drop.**

Note that it is hard to argue that the high level of services inflation is caused by the pandemic. Looking at the main components of services inflation one can see that the upside trend was already seen in 2019 in many items like housing and recreation and personal care. Some items were depressed by pandemic restrictions (package holidays and accommodation), but are now recovering.

The huge impact of financial services can be seen in HICP measure of inflation but not in CPI – due to different weighing. Its impact on total services inflation remains historically quite high as the driving factor are not Covid restrictions but the still present extremely low interest rates environment.





Santander

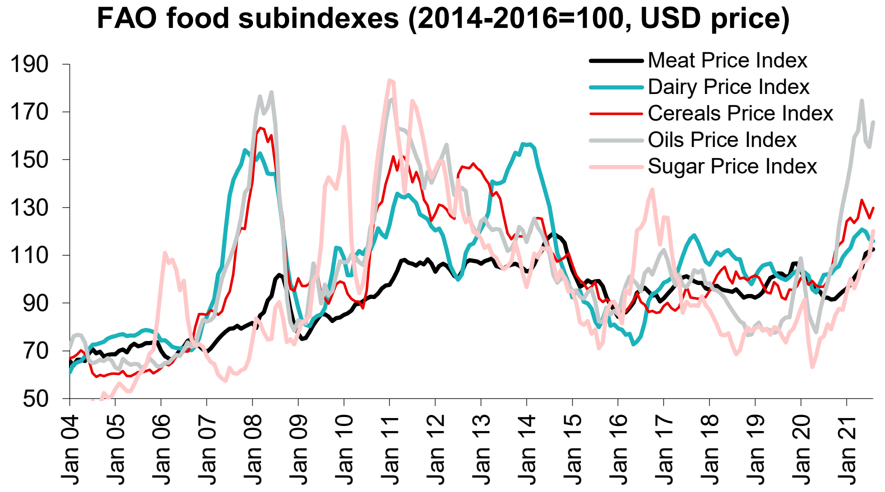
Source: Eurostat, GUS, Santander

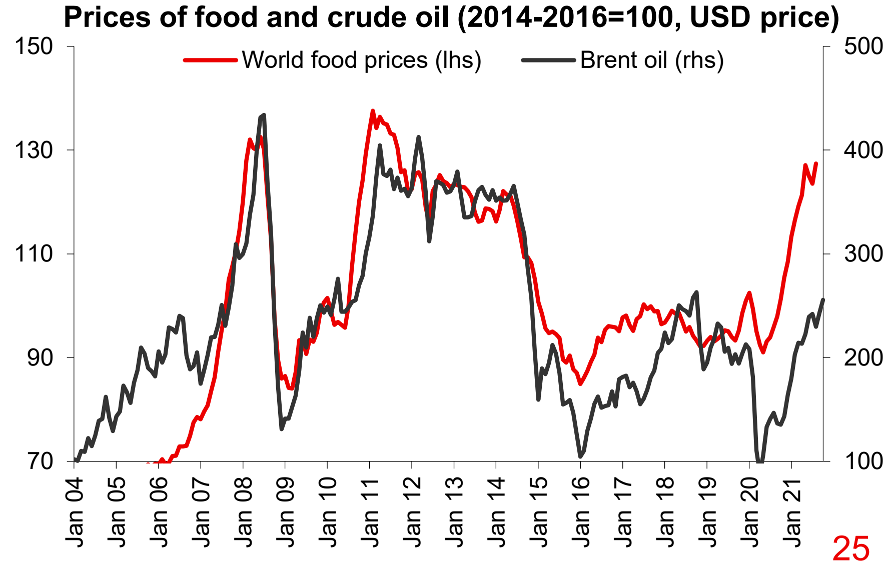
Food inflation: fuelled growth

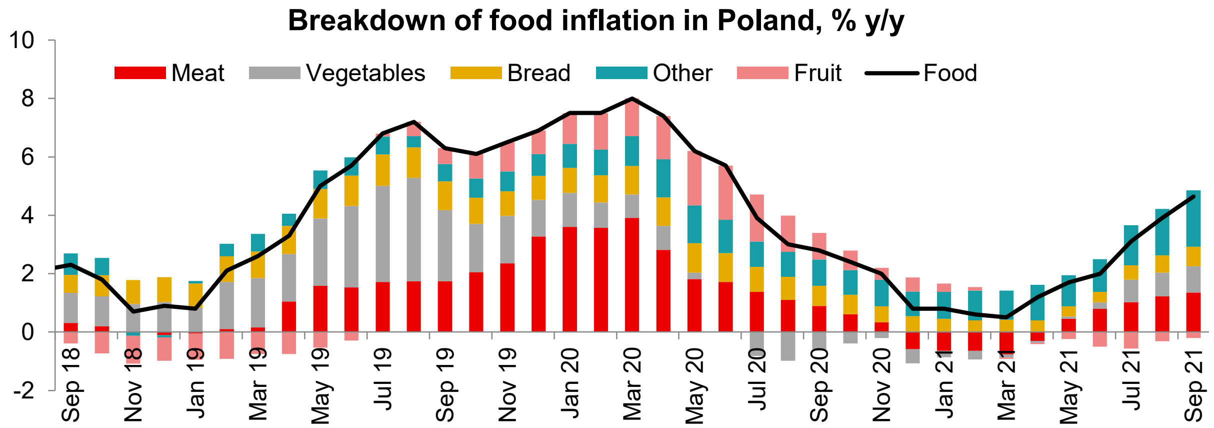
The acceleration of food inflation in Poland is part of a broader trend. This is best illustrated by FAO world food price indexes. They usually respond to large oil price swings and this is also true this time – in the upswing of global food index that has started in 2020, but the rise of oil price is not the sole reason of the move (e.g. ASF outbreak is another contributor).

The fact that global natural gas price is rising much faster than oil price adds more upside risk to food inflation outlook. Natural gas, apart from being an energy commodity, is also key input for nitrogenous fertilizers production which are broadly-used, efficient booster to crop output. Its potentially reduced supply - as this winter natural gas may be used up more as a source of energy – and a much higher price may lead to either lower usage and lower crops going forward or higher costs of agricultural production.

As for local food supply, according to a preliminary estimate of the main crops, in 2021 34.5mn tonnes of cereals were produced (3% less than in 2020), vegetable output was c.3.9mn tonnes, down 2%y/y, fruit from trees 4.4mn tonnes (+13%y/y) and fruit from bushes and berries 0.6mn tonnes (-1%y/y). In our view this means a mild positive pressure on vegetable prices in 1H22 and possibly a larger drop of fruit prices. Unless higher costs offset the higher supply effect.







Source: FAO, Bloomberg, Santander

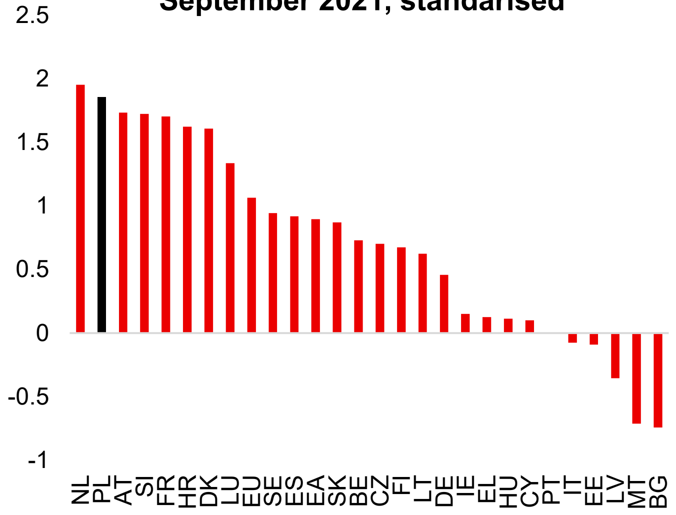
Inflation expectations

CPI inflation reached levels where it can be easily spotted and felt by consumers. Consumer prices are growing broadly, with only c.10% of HICP basket not seeing positive changes. **This could leave a mark on inflation expectations, possibly leading to their further rise.**

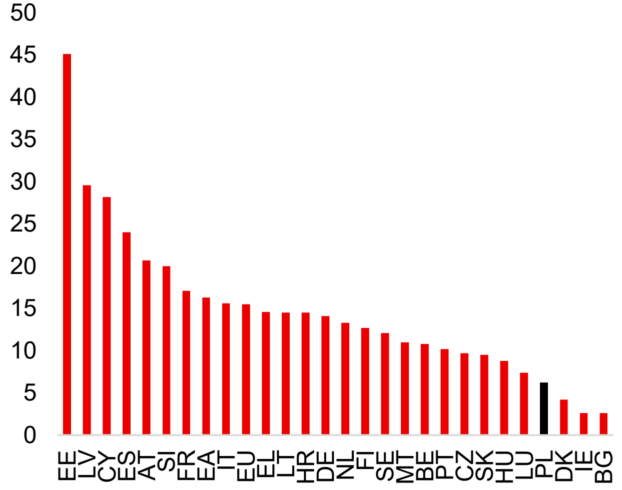
Evidence is mixed. Two alternative measures of inflation expectations for Poland keep pointing in two directions: GUS is showing relaxed consumers, anchoring their inflation views around the official 2.5% y/y target, ESI – serious anxiety about price growth.

According to the latter, Poland has the second highest index of (standarized) consumer inflation expectations in the EU but at the same time one of the most stable ones (judging by its ytd change) while in most of the countries these measure has been going up in 2021.

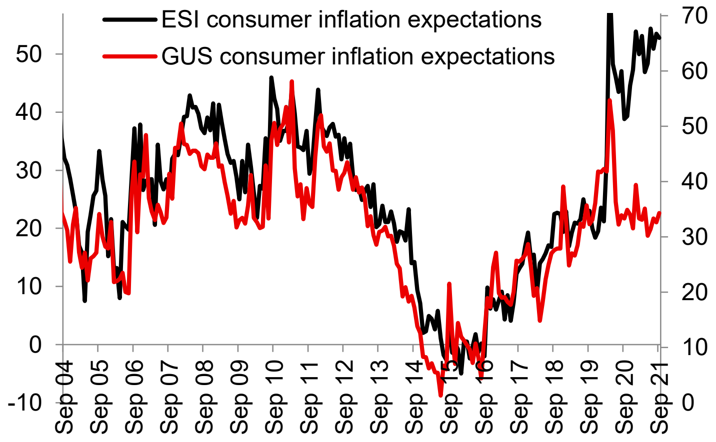
ESI consumer inflation expectations, September 2021, standarised



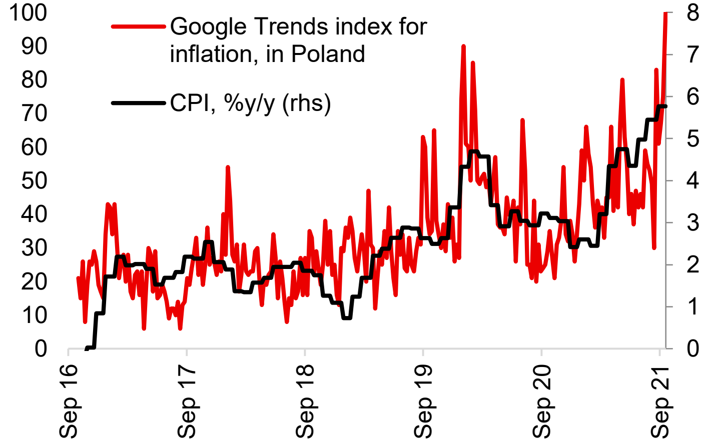
ESI consumer inflation expectations, YTD change



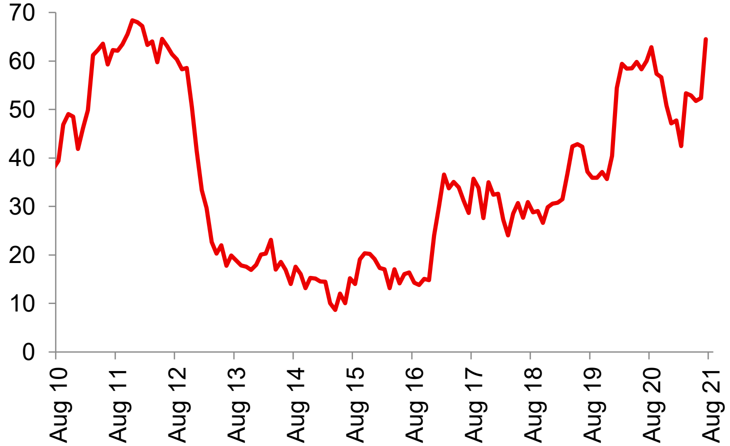
GUS and ESI consumer inflation expectations



Google searches on inflation vs actual inflation



Share of HICP categories with prices rising more than 2.5% y/y (%)

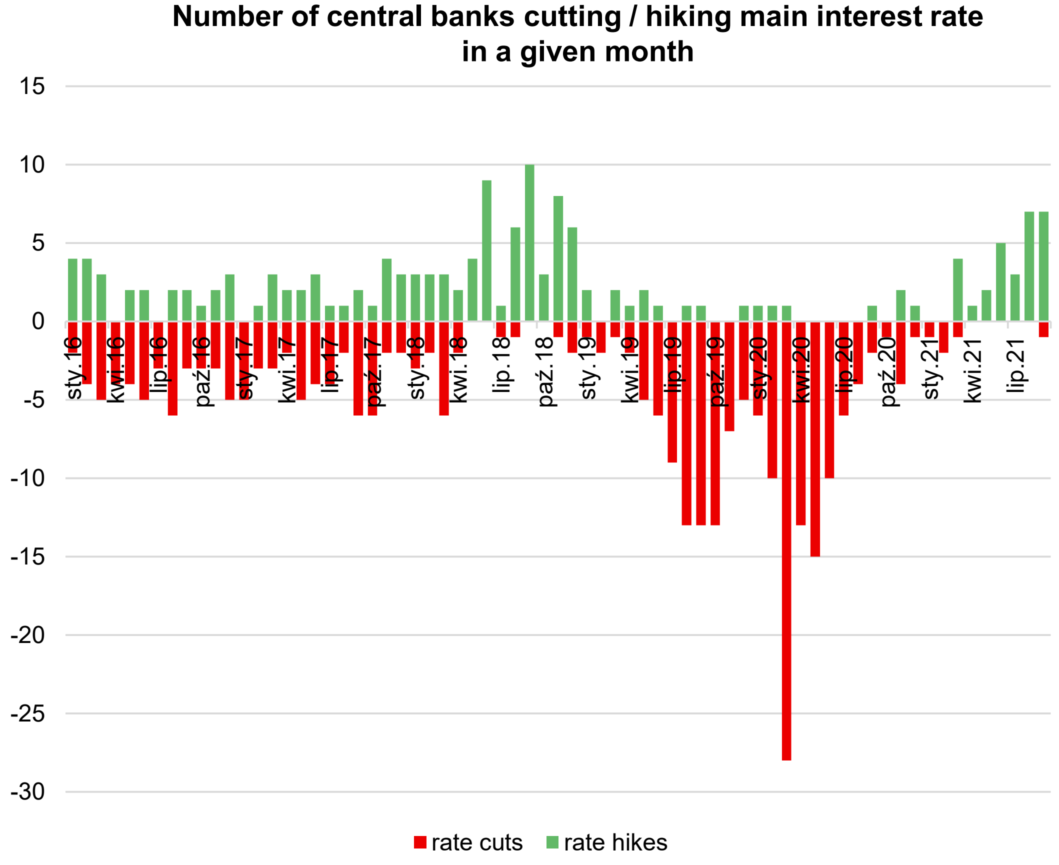


Source: Bloomberg, Eurostat, Santander

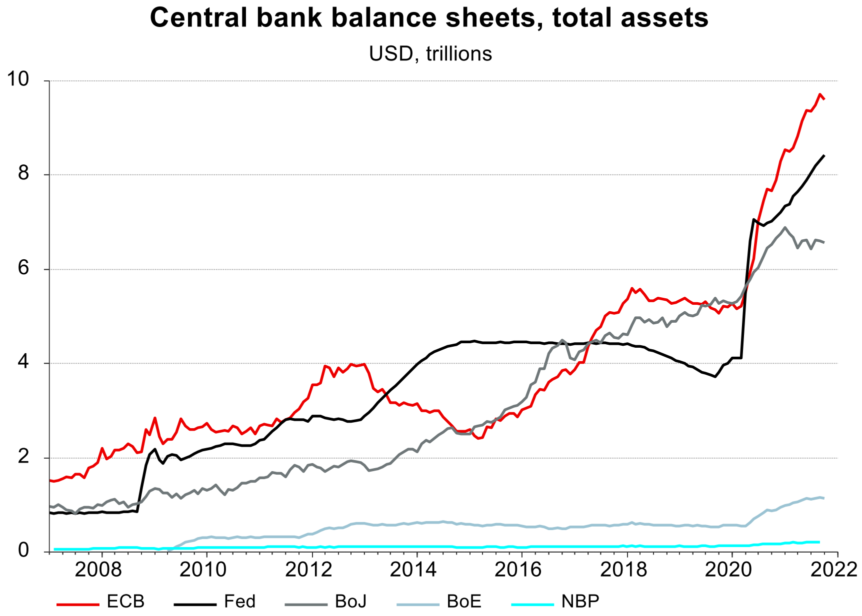
Monetary Policy: global tide is turning

As the global economic outlook has improved and inflation rates soared across the world, the tide in global monetary policy started turning. **Since the start of 2021 there were already 29 interest rate hikes delivered by 12 central banks** (among 38 CBs tracked by the Bank of International Settlement's database), while only five banks cut interest rates (most of them in 1Q). Among the countries that started raising borrowing costs there are CEE countries: Czechia, Hungary, Russia, but also some developed economies like South Korea and most recently Norway.

The world's biggest central banks are continuing their asset purchases programmes, but both the Fed and the ECB have already signalled the tapering is likely to start soon, possibly even before the year-end.



Source: BIS, Santander



Source: Refinitiv Datastream

Santander

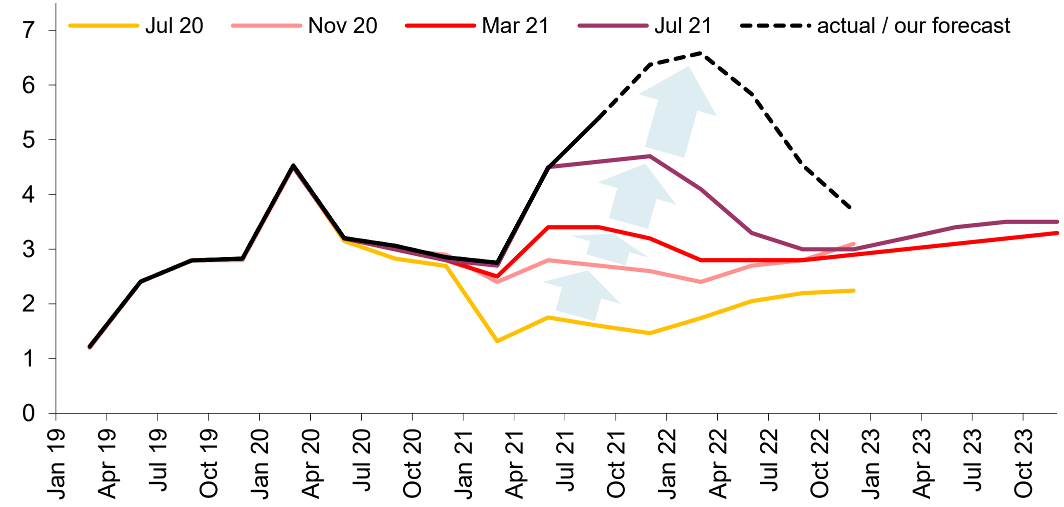
Monetary Policy: delaying the inevitable

The MPC maintains the view that currently there is no need to change monetary policy, as inflation rise is transitory and driven entirely by factors beyond the central bank control. But it also suggested that the next central bank projection, to be released in November, may be key for future decisions. The NBP governor defined three conditions to consider policy normalisation: 1) Covid-19 pandemic no longer threatens the growth outlook, 2) inflation is demand-driven, 3) forecasts point to CPI remaining above 3.5%. We think that by November it should be clear, also for the MPC, that the two latter conditions will be met. The NBP's inflation forecast is very likely to be revised up again, as the starting point jumped well above previous predictions and the economic outlook remains optimistic. The first condition is more uncertain, as it cannot be ruled out that 4th pandemic wave will peak in November.

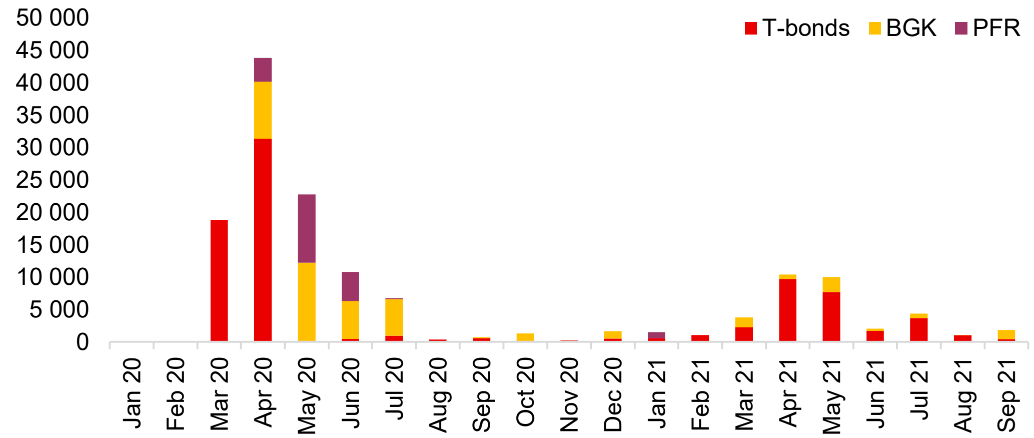
While the first interest rate hike in November is not ruled out, the chances have decreased, in our view, after the dovish comments from the NBP president downplaying inflationary risks after the September MPC meeting**.** However, we still think that monetary policy normalisation will start in the next few months (if not in November, than in December or January, which are the final two months when the MPC meets in its current setup), and will continue in 2022. We expect the NBP reference rate at 1.0% at the end of 2022.

It is still not clear what are the NBP plans for its QE program. The NBP governor in March said NBP's QE may be live forever, in May he claimed the program must be terminated before any rate hikes, and recently said there is no reason to expect any communication from the central bank about QE tapering, as the purchases have already been trimmed. We do not rule out that, contrary to earlier declarations, there will be no formal suspension of the NBP asset purchases before interest rate lift-off.

CPI according to NBP inflation projections & our current forecast



NBP's monthly bond purchases, in PLNmn



Source: NBP, Santander

Monetary Policy: will reappointments matter?

Most of the MPC members (except Cezary Kochalski) end their term of office in 2022, including the NBP governor, who – unlike the rest – has the option to be re-elected for the second term. Adam Glapiński has already declared he will run for the second term and he seems to have the support of the Poland's president (who designates the candidature, to be approved later by the parliament). We do not know any potential candidates for the next Council members. However, it seems quite unlikely that the reshuffle will change the balance of votes towards more hawkish at any of the Council meetings.

The Senate (controlled by the opposition) will most likely appoint advocates of more hawkish monetary policy, but it will be maximum three people out of ten.

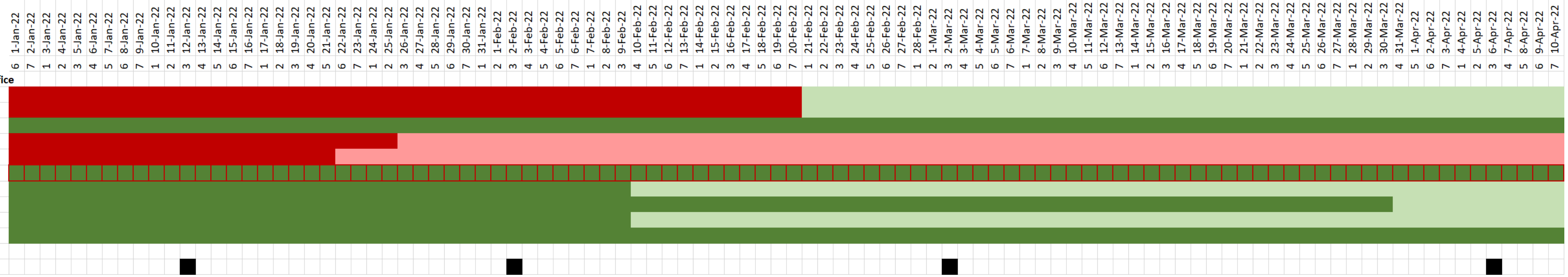
The Sejm will probably approve candidates proposed by the ruling party (PiS), with views potentially not very different from their predecessors (i.e. very similar to Mr. Glapiński's). There is some uncertainty related to the fact that PiS currently does not control stable majority in Sejm, but we think it implies the risk of a delay in nomination, rather than the appointment of the hawkish member(s).

The President will reappoint two members; his previous nominees proved to be one of the most hawkish in the MPC, but we think such situation is unlikely to be repeated, and the new candidates will share similar views as the current NBP governor.

The timeline of nominations does not seem to warrant big chances that the NBP governor could lose control over the MPC majority, in our view.

The timeline of MPC member's reappointment at the beginning of 2022

Appointed by	Name	Ends term of office
President	Zubelewicz	20/02/2022
President	Hardt	20/02/2022
President	Kochalski	21/12/2025
Senate	Gatnar	25/01/2022
Senate	Kropiwnicki	21/01/2022
Senate	Sura*	16/11/2022
Sejm	Ancyparowicz	09/02/2022
Sejm	Żyżyński	30/03/2022
Sejm	Łon	09/02/2022
Sejm	Glapiński	21/06/2022
	MPC meeting ? **	



Note: MPC members with more hawkish bias are market red / pink, MPC members with dovish bias are market green / light green
* Sura received recommendation to the Supreme Administrative Court, his appointment to the Court is up to the President and could take place any time
** MPC meetings agenda for 2022 has not been published, the dates above are hypothetical, based on the rule of first Wednesday of the month.

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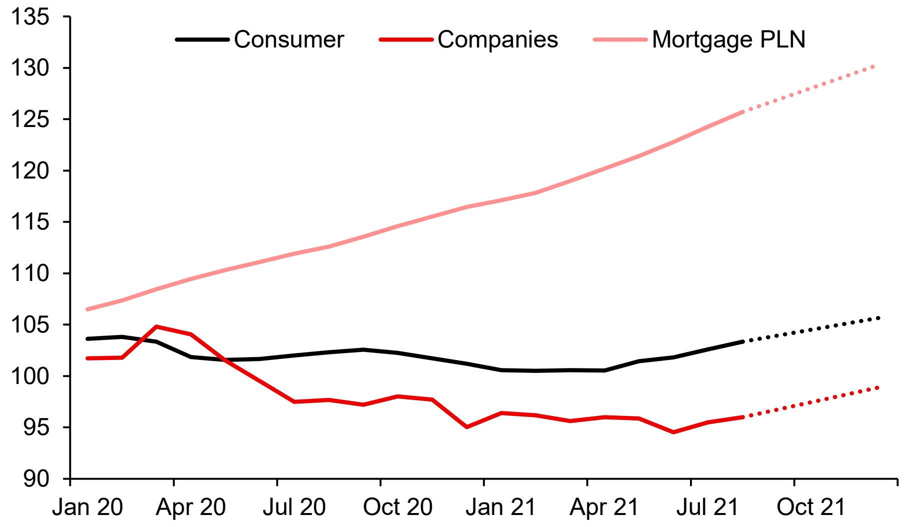
Source: NBP, Santander

Loan market in line with expectations

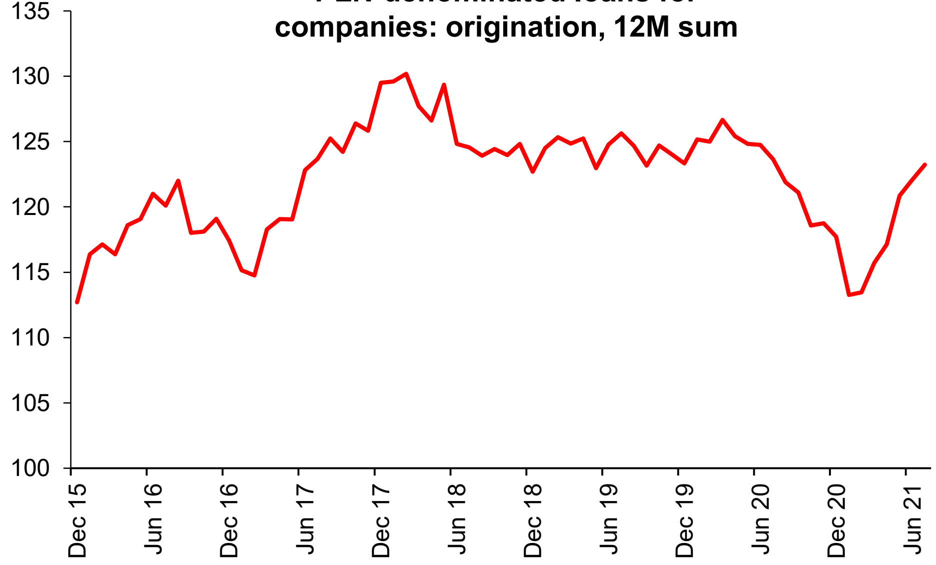
So far the loan market volumes are developing roughly in line with our expectations: (1) housing market generates high demand for mortgage loans and the upcoming months could even prove somewhat higher than we are expecting, (2) consumer loans rebounded in May and since that month are gradually going up, (3) companies loans remain in stagnation. Meanwhile, deposits are rising faster than loans thanks to ongoing bond issues of BGK and rising stock of foreign assets in the banking system.

3Q21 loan officer survey suggested a rise in demand for loans among companies in 2Q21. Banks are expecting a broad-based recovery of demand in 3Q21. While total volumes of corporate loan remain more or less flat, new PLN-denominated loan origination accelerated to PLN46.5bn in April-July 2021 from PLN39.0bn in April-July 2020. Rising origination is accompanied by high redemptions. Clearly, the market is not idle, but rather restructuring, and in our view positive growth rates of volumes are possible soon.

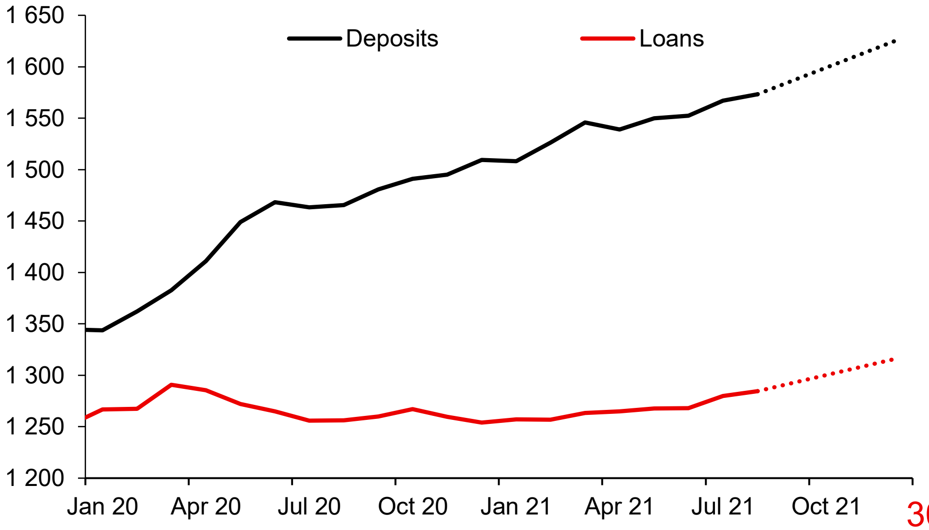
Loan volumes, 2019=100



PLN-denominated loans for companies: origination, 12M sum



Loans and deposits, PLNbn



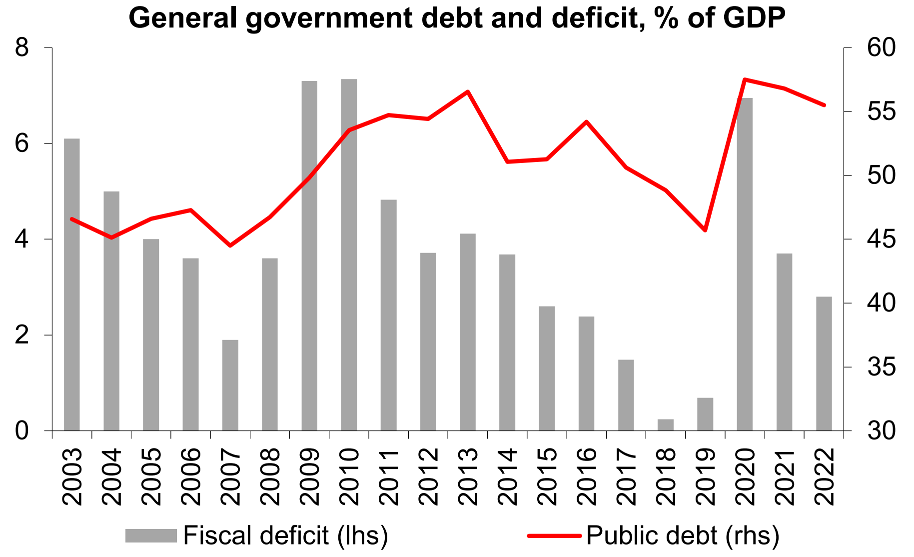
Source: NBP, Santander

Fiscal consolidation on its way

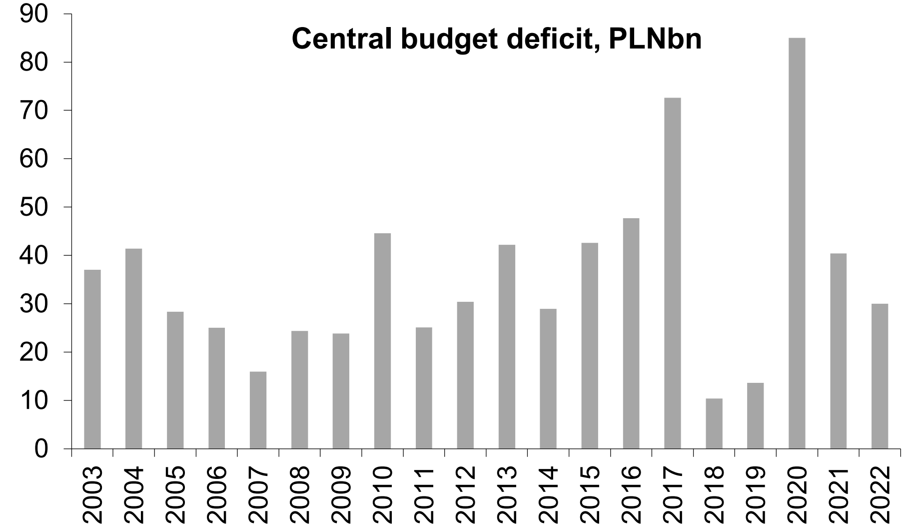
The government plans to amend the 2021 budget, with expected revenues corrected to PLN483bn from PLN404.5bn (+19.5%) and spending limit increased to PLN523.4bn from PLN486.8bn (+7.5%). Deficit limit was changed to PLN40.4bn from PLN82.3bn. Update of revenues was possible mostly thanks to fast economic rebound. Spending limit, on the other hand, was raised mostly as regards subsidies for local governments (+PLN12.0bn) and spending on roads and railways (+PLN10.1bn). We guess that the government is just moving 2022 spending items into 2021 to reach 2022 fiscal targets with more ease. We think that the final realisation is likely to be markedly below revised deficit at PLN40.4bn and the GG deficit is likely to be way below 6% of GDP assumed in the budget act.

Meanwhile, draft budget for 2022 assumes the central budget deficit at PLN31bn (slightly above 1% of GDP) and the general government deficit at 2.8% of GDP. We think that the macroeconomic assumptions behind the budget are rather cautious. Read more about the 2022 budget in our Economic comment.

It seems that the public finance imbalance caused by the pandemic (7% GG deficit in 2020) will be curbed markedly as early as this year, mostly thanks to a fast rebound in revenues, and the following year can also prove better than assumed in the draft bill. The think that 2021 will be close to 3.5% GDP (we revised it higher after budget amendment) and 2022 near 2.5% of GDP. Recently the government corrected its estimate of 2021 GG deficit to 5.3% of GDP from 6.0% of GDP, but we are a bit more optimistic. The spending rule is effectively enforcing a fiscal consolidation amid high nominal growth of GDP and revenues, even though it was temporarily loosened during the pandemic. This is a positive piece of news for investors and rating agencies.



Values for 2020 and earlier: actual data
Deficit in 2021: our forecast
Deficit in 2022, debt in 2021 and 2022: 2022 budget bill



Values for 2020 and earlier: actual data
Deficit in 2021-22, budget bills

Source: Finance Ministry, Santander

Financial markets

2

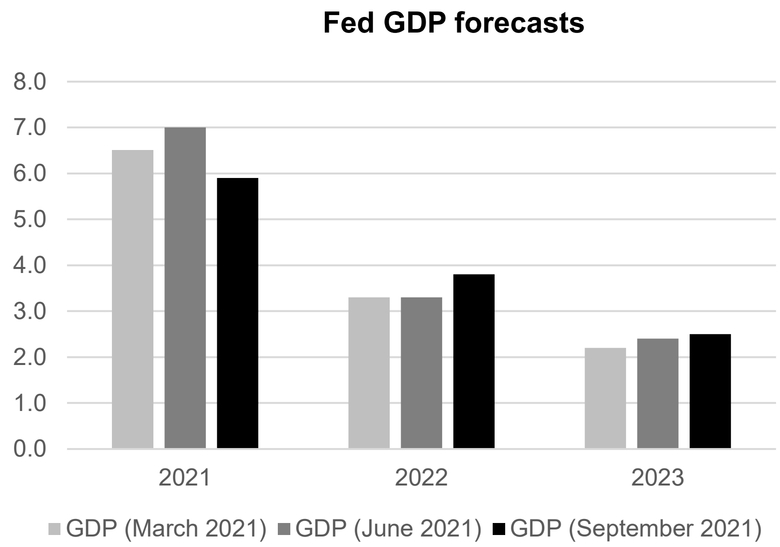
Core market yields heading up

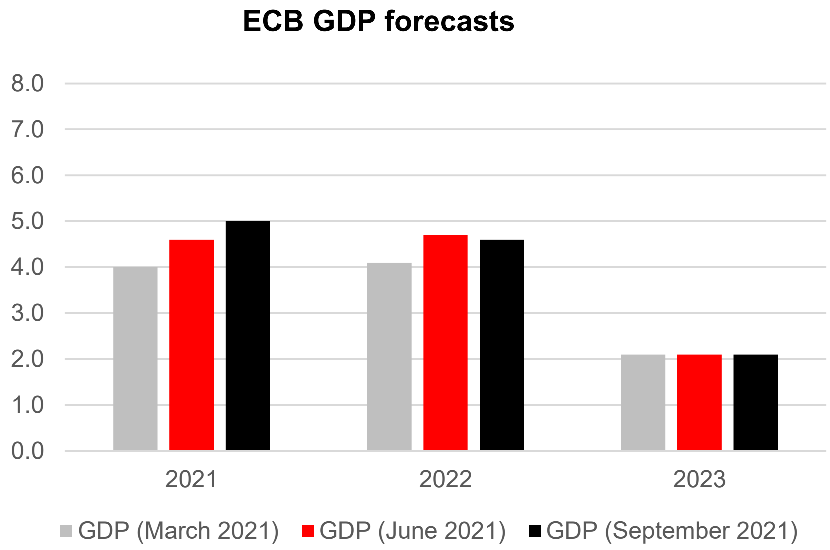
Bond yields in the core markets increased significantly in the last few weeks amid rising inflation and changing rhetoric of the main central banks, signalling nearing withdrawal of monetary accommodation.

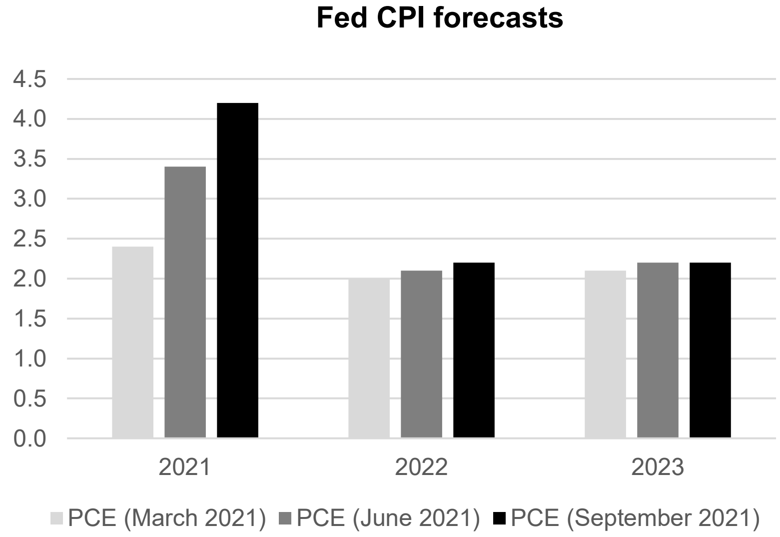
At end of 2021 we expect 10Y UST at 1.75% and Bund at -0.15%.

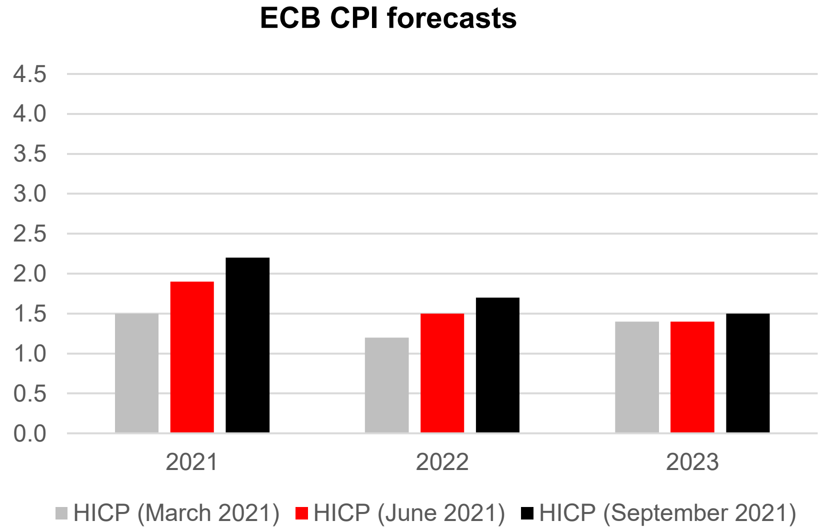
Looking at the evolution of economic forecasts of the Fed and ECB one might see that:

- **USD inflation forecasts** (as measured by PCE) for 2021 saw another significant increase to 4.2% from 3.4%. Those for 2022 got moved to 2.2% from 2.1, the ones for 2023 were left unchanged at 2.2%
- **Eurozone inflation forecasts** (as measured by HICP) were moved higher for 2021 to 2.2% from 1.9%, for 2022 to 1.7% from 1.5% and for 2023 to 1.5% from 1.4%
- Forecast of **core inflation** measures (not pictured) got moved higher as well both at the Fed and the ECB.
- **US GDP forecasts** for 2021 were moved lower (to 5.9% from 7.0%) but upgraded for 2022 (to 3.8% from 3.3%) and in 2023 (to 2.4% from 2.3%).
- **Eurozone GDP forecasts** were moved higher for 2021 (to 5.0% from 4.6%), tad lower for 2022 (to 4.6% from 4.7%) and left unchanged in 2023 at 2.1%.









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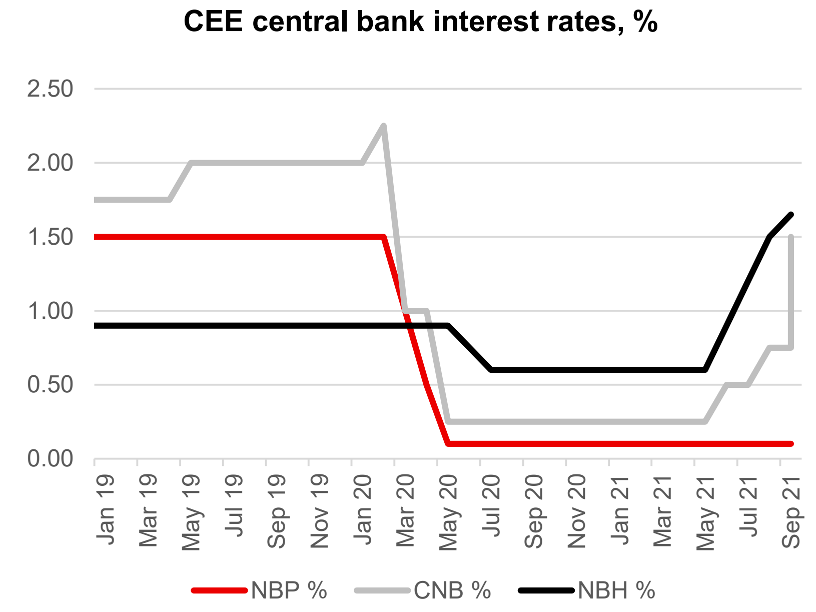
CEE3 context

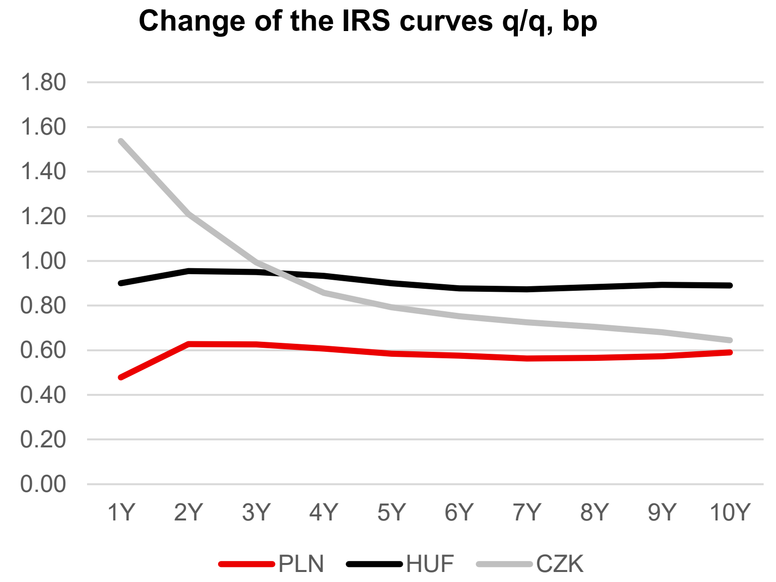
NBP remains the regional outlier as far as central bank policy is concerned (top, left). MNB has already hiked 105bp (to 1.65%) in this cycle (likely with smaller 15bp per meeting steps going forward) while CNB has hiked 125bp so far to 1.50% (but, contrary to Hungarian bank, is likely to increase the hiking steps to 50bp per meeting).

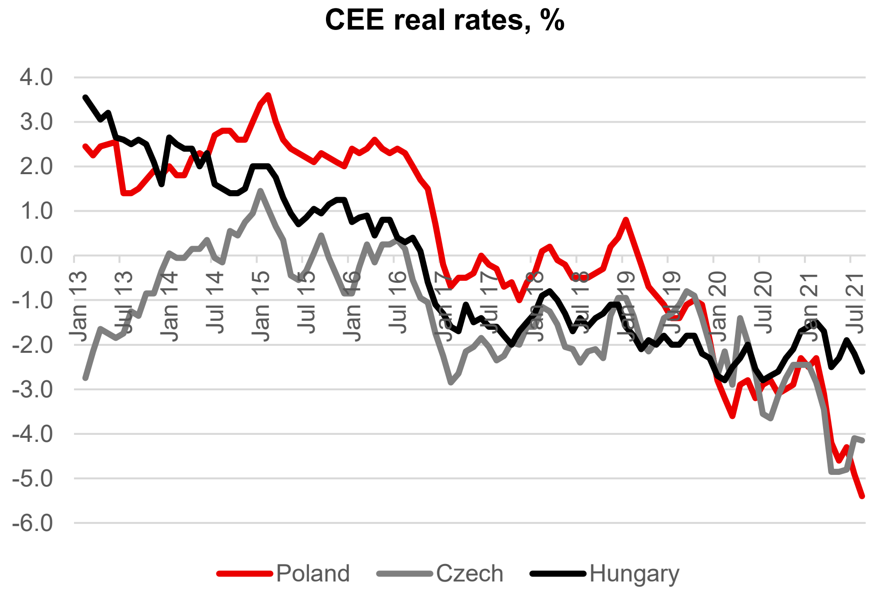
IRS curves (top, right) in Hungary and (especially so) Czech Republic have moved up noticeably and more so at the front end of the curves.

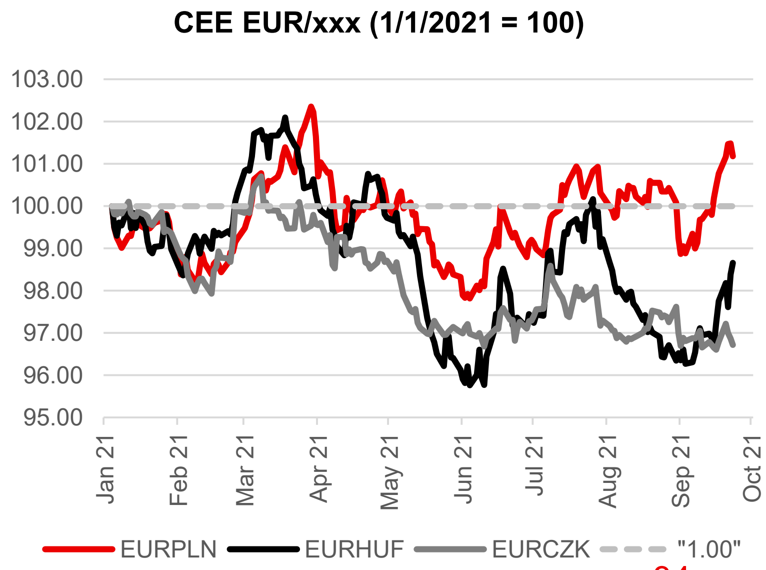
Accelerating inflation (Hungary and Czechia have overshoot their respective mid of targets 3.0 and 2.0 by around 2pp; in Poland the 2.5 mid has been overshoot by 3pp now) in light of lack of NBP reaction means that **Polish real rates are the lowest in the CEE** and are heading for an eye-opening -6% by the end of the year, we reckon.

Such monetary policy has contributed to the zloty weakness. It is the only CEE3 currency that has weakened YTD vs EUR (although other factors like the conflict with the EU might have contributed as well).









Short-end of the yield curve forecast

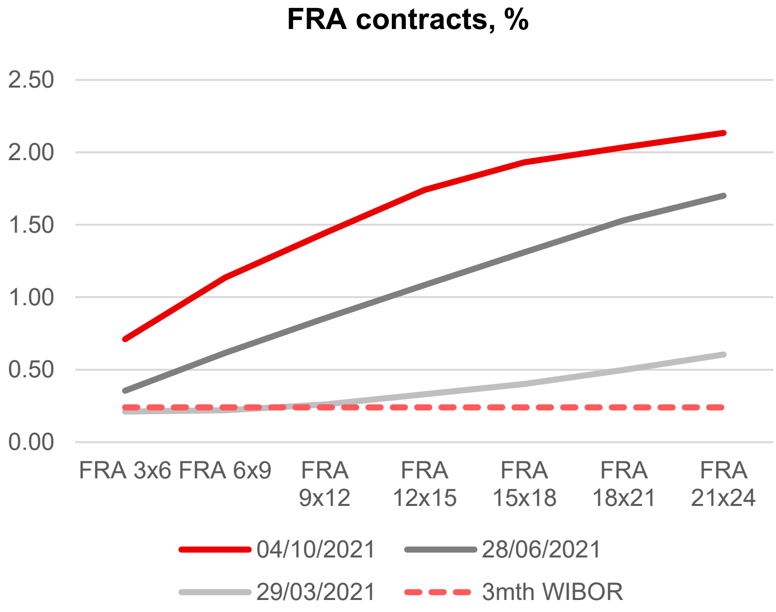
Judging from the FRA contracts (top, left) market expects 120-130bp of hikes by the end of 2022 which is slightly above what we expect (100bp).

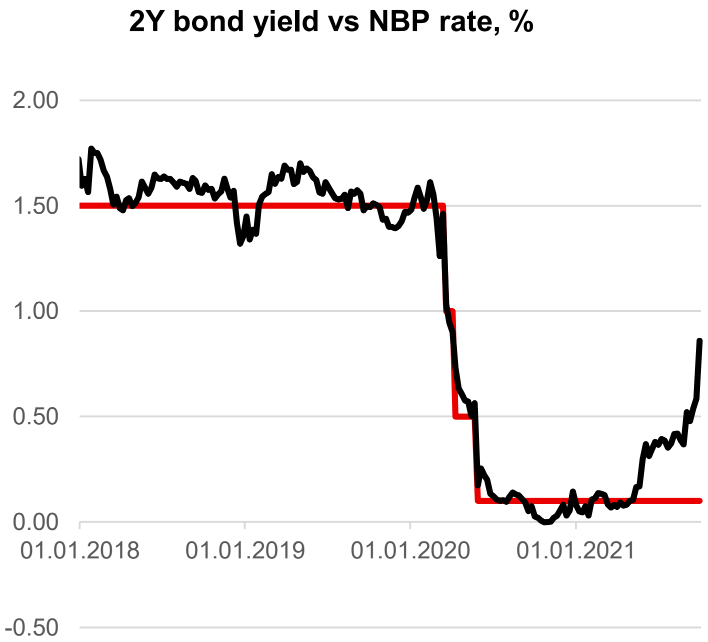
The NBP should start delivering this interest rate path by delivering its first hike in the cycle in November this year. If this happens, this should help the **2Y bond yields (top, right) settle near 0.80% by end of 2021 and near 1.00% by 1Q22, we reckon.**

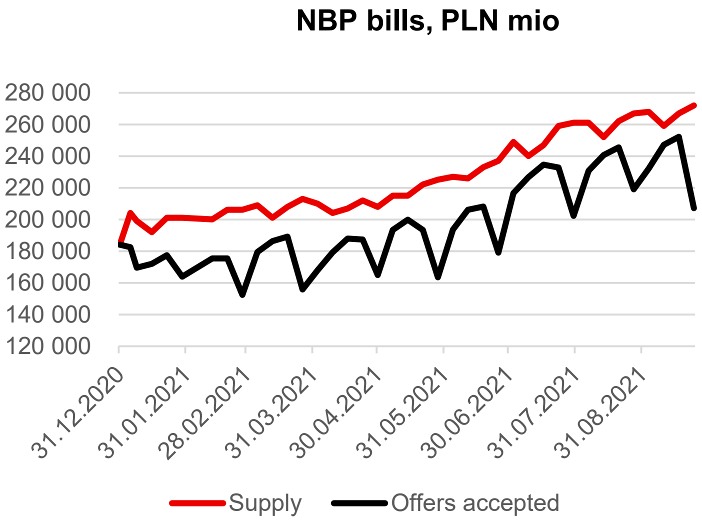
At the same time, the short end bonds are still strongly supported by both the liquidity situation in the banking sector and the bond supply. This helps keep ASW tight vs history (bottom, right). **We expect this situation to persist over the upcoming quarter**.

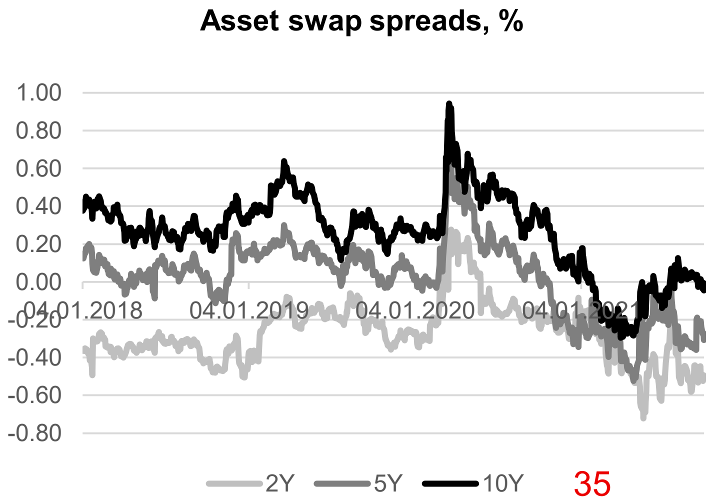
Liquidity in the banking sector as measured by the size of weekly NBP bills auction size (bottom, left) is already well over PLN 200bn and still rising. Banks seem to have no better idea to use the liquidity than to park it at the NBP at 0.10% p.a.

Ministry of Finance seems to be happy with the tight ASW spreads and seems to be supporting this situation by limiting bond supply. October will be especially interesting because of a decent redemption and coupons (see further slides for details)









Long-end of the curve forecast

Global factors are currently supportive for higher yields both in the core markets and in Poland as well

- Fed turned less accommodative (bond tapering likely to start in November/December 2021). US 10Y market real rates keep rebounding and have broken a important resistance level (top, left). As for nominal rates, **Santander forecasts the Bund at -0.15% and UST at 1.75% at the end of 2021**
- Increasing energy prices (price of a barrel of Brent over 20% above the levels from early 2020) towards the winter season risk contributing even higher CPI (top, right).

Local factors are mixed. If NBP starts the hiking cycle this November (our base case) the long end yields should keep marching higher.

If we are wrong and no hikes are made this year, the yield curve should additionally steepen.

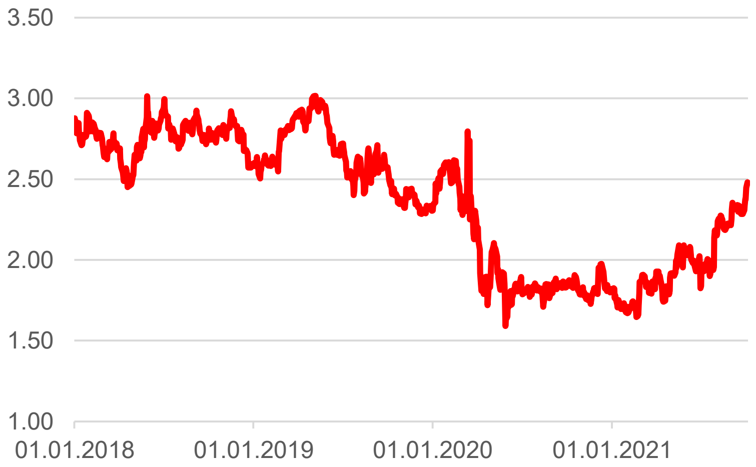
On the other hand bond supply is limited and keeps government bonds expensive on ASW basis.

We expect 10Y POLGB yield at 2.20% at the end of 2021 and at 2.25% in March 2022.

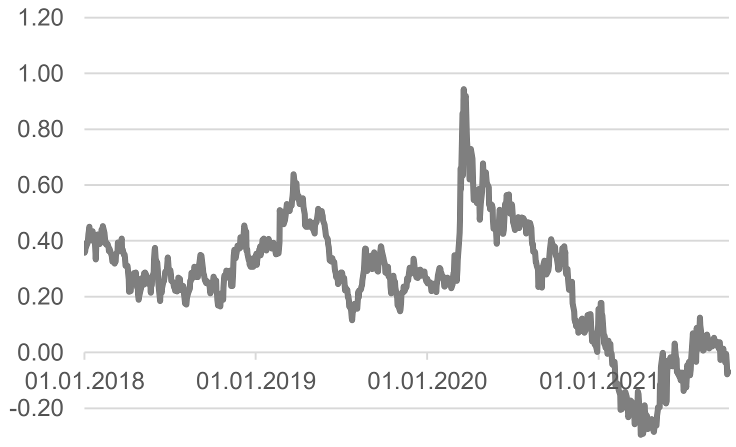
US 10Y market real rate

Price of a barrel of Brent, USD

10Y spread POLGB vs Bund

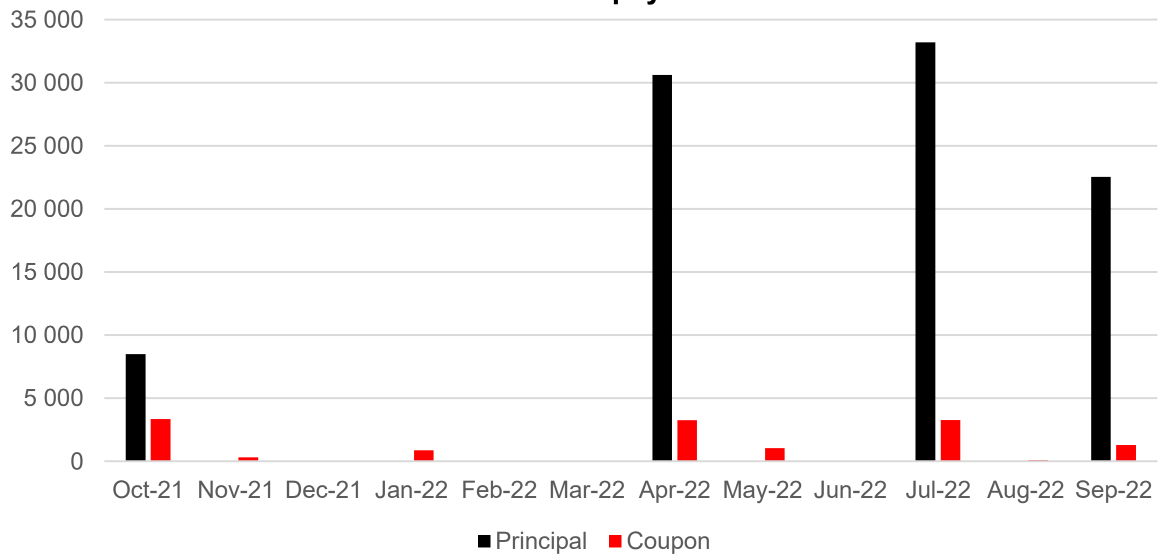


10Y Polish ASW

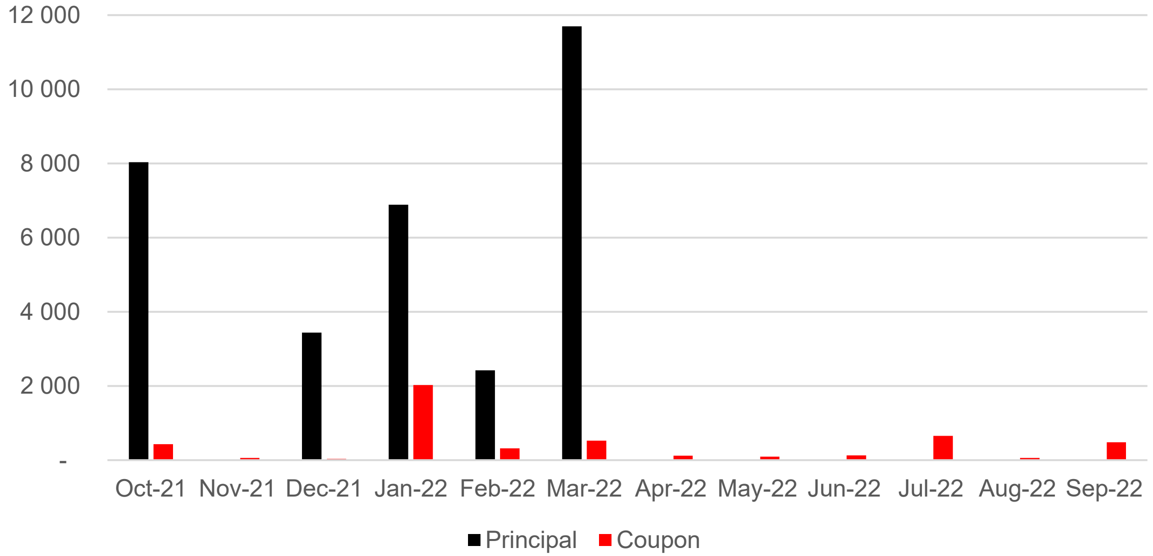


Bond redemptions and coupons

Till the end of 2021 POLGB the redemptions and coupons are concentrated in October. Not only there is a c. PLN 8.5bn redemption (DS1021) but also a c. PLN 3.3bn sum of coupon payments (mainly from DS1023 and DS1029). Ministry of Finance announced that till the end of the year there would be no outright sale auctions, just 5 switch auctions. In October there will be 2 switch auctions: on 7th and 21st. Given diminished supply, front end bonds might be supported a bit. In 2022 decent POLGB redemptions happen in April (PS0422), July (OK0722) and September (WZ0922). The redemption sizes will likely be smaller than currently as many switch auctions happen in the meantime.



As for non-PLN bonds, in 2021 there are 2 redemptions of EUR denominated bonds one in October (c PLN 8.0bn equivalent), the other in December (c PLN 3.4bn equivalent). In 2022 redemptions are concentrated in in the first quarter of the year with decent redemptions both in EUR (January, c. PLN 6.9bn and February c. PLN 2.4bn equivalents) and USD (March, c. PLN 11.7bn equivalent).



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PLN: headwinds still blowing

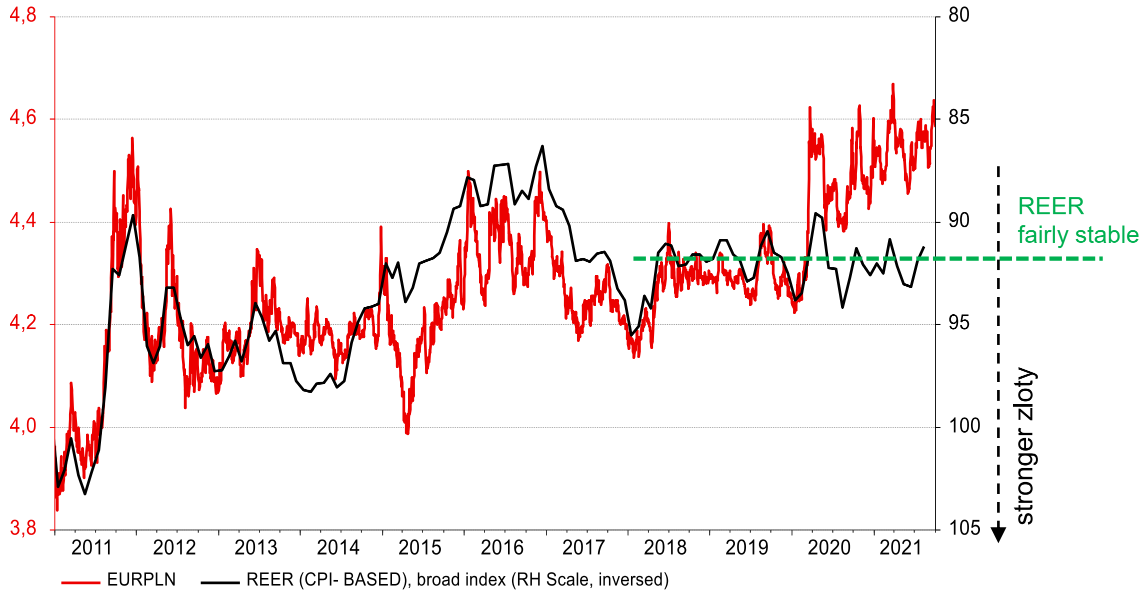
We think that the short-term outlook for the zloty is rather grim. After the recent breach of 4.60, we expect EURPLN may head further north in the coming weeks, even to 4.70 or above, before it regains some strength next year.

One of the main factors working against the zloty is the relentlessly dovish MPC rhetoric and its tolerance for surging inflation, which seems to be more and more at odds with trends observed abroad (other CEE central banks already in the process of policy tightening, Fed and ECB signalling a looming turn towards withdrawal of monetary accommodation).

Other negative factors include: global risk-off mood and the EM markets weakness, stronger US dollar, growing tensions in Poland's relations with the EU, plus (potentially) the fourth wave of Covid-19 (Poland has one of Europe´s lowest vaccination rates, at around 52% of the population).

Among the more fundamental factors supporting elevated EURPLN we should mention the rapid worsening of Poland's trade balance (in July the current account was in deficit for the first time in two years), and the very high spread between inflation in Poland and abroad, which implies that despite seemingly high EURPLN as compared to its historical levels, the real effective exchange rate of the zloty (REER) remains fairly stable, near the pre-pandemic average.

EURPLN vs real effective exchange rate of the zloty



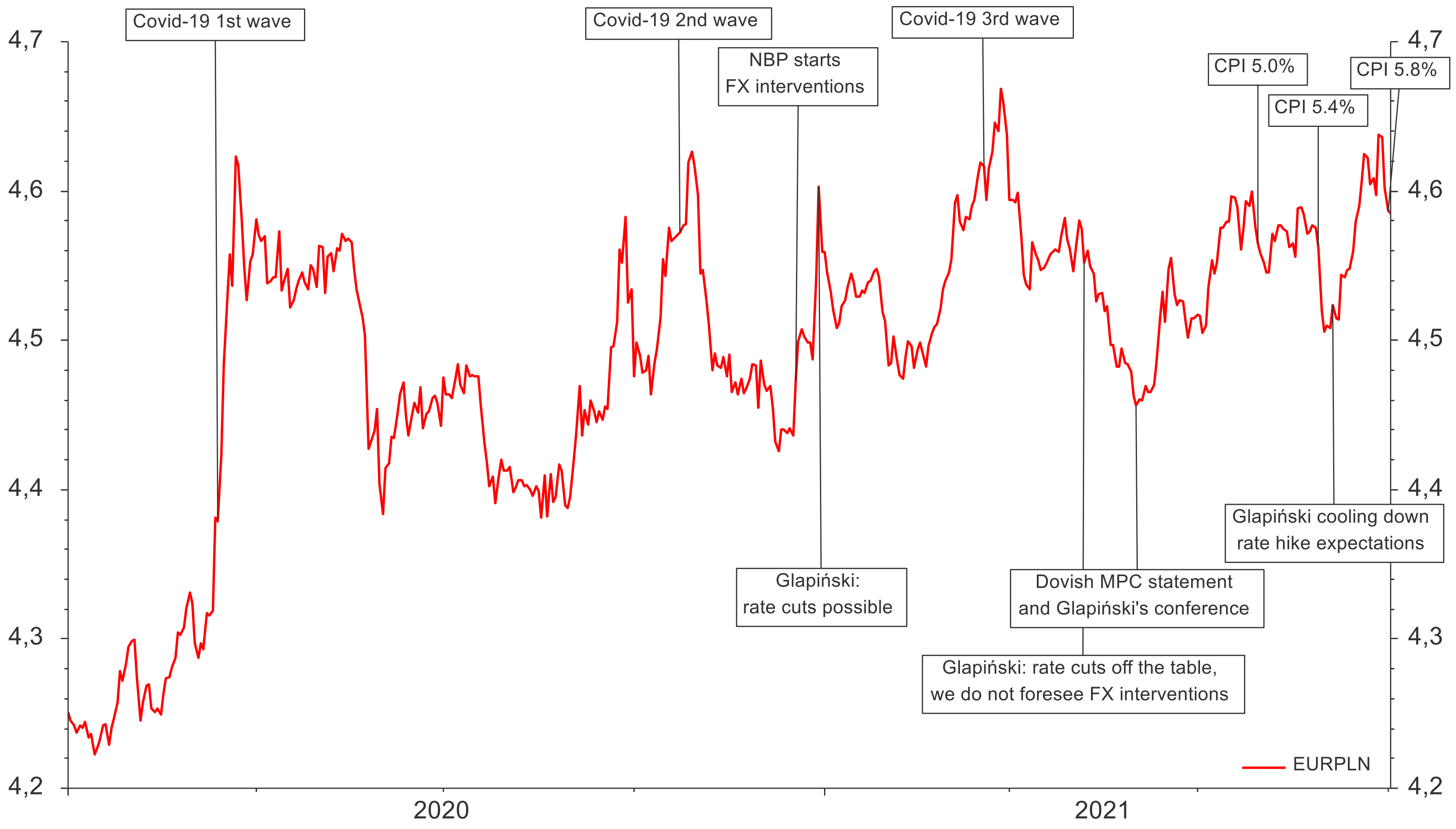
Source: Refinitiv Datastream, BIS, Santander

PLN: central bank favours weaker zloty

The behaviour of Polish currency in the last two years has been very sensitive to the development of Covid-19 pandemic, but also to market expectations regarding monetary policy outlook.

Each time inflation data exceeded market expectations in recent months, zloty started appreciating as market was pricing-in higher chances for interest rate hikes.

Polish central bank apparently favours weaker currency, which may be one of reasons behind its communication, downplaying the need of policy normalisation.



Source: Refinitiv Datastream, Santander

Forecasts

3

Economic Forecasts

		2019	2020	2021E	2022E	1Q21	2Q21	3Q21E	4Q21E	1Q22E	2Q22E	3Q22E	4Q22E
GDP	PLNbn	2,293.2	2,326.7	2,560.2	2,783.4	585.2	618.0	625.0	732.0	645.5	681.2	675.1	781.6
GDP	% y/y	4.7	-2.5	5.0	5.0	-0.9	11.1	3.7	6.1	4.9	5.8	5.1	4.3
Domestic demand	% y/y	3.6	-3.4	6.8	5.7	1.0	12.8	5.6	8.0	5.2	6.6	5.7	5.4
Private consumption	% y/y	4.0	-3.0	5.8	6.7	0.2	13.3	3.0	8.0	8.0	7.0	6.0	6.0
Fixed investment	% y/y	6.1	-9.0	9.1	7.3	1.3	5.0	10.0	15.0	1.0	15.0	7.0	6.0
Industrial output	% y/y	4.2	-1.1	12.6	9.0	7.8	30.2	10.0	6.5	6.5	7.8	10.4	11.2
Construction output	% y/y	3.6	-3.5	1.8	4.3	-12.5	1.8	6.7	6.4	6.7	-0.9	5.4	6.1
Retail sales (real terms)	% y/y	5.1	-3.0	7.6	3.6	1.2	14.4	5.4	9.4	8.7	5.2	0.4	1.1
Gross wages in national economy	% y/y	7.2	5.3	8.4	7.1	6.6	9.6	8.8	8.7	8.1	7.1	6.4	6.8
Employment in national economy	% y/y	2.2	-1.0	0.2	2.3	-1.4	1.1	0.7	0.4	2.1	2.2	2.3	2.4
Unemployment rate *	%	5.2	6.2	5.8	5.6	6.4	5.9	5.6	5.8	6.2	5.7	5.4	5.6
Current account balance	EURmn	2,523	15,287	1,773	-4,360	2,746	372	-2,660	1,315	966	-1,345	-3,948	-32
Current account balance	% GDP	0.5	2.9	0.3	-0.7	2.7	1.7	0.7	0.3	0.0	-0.3	-0.5	-0.7
General government balance (ESA 2010)	% GDP	-0.7	-6.9	-3.7	-2.6	-	-	-	-	-	-	-	-
CPI	% y/y	2.3	3.4	4.8	5.2	2.8	4.5	5.4	6.4	6.6	5.9	4.6	3.7
CPI *	% y/y	3.4	2.4	6.6	3.7	3.2	4.4	5.8	6.6	6.3	5.8	4.0	3.7
CPI excluding food and energy prices	% y/y	2.0	3.9	4.0	4.5	3.8	3.8	3.9	4.3	4.9	4.8	4.4	3.9

* End of period; other variables – average in period
All shaded areas represent Santander's estimates

Source: GUS, NBP, Santander

Santander

Market Forecasts

		2019	2020	2021E	2022E	1Q21	2Q21	3Q21	4Q21E	1Q22E	2Q22E	3Q22E	4Q22E
Reference rate *	%	1.50	0.10	0.25	1.00	0.10	0.10	0.10	0.25	0.50	0.75	1.00	1.00
WIBOR 3M	%	1.72	0.67	0.26	0.93	0.21	0.21	0.22	0.38	0.61	0.83	1.09	1.19
Yield on 2-year T-bonds	%	1.56	0.50	0.37	1.13	0.08	0.20	0.48	0.73	0.90	1.08	1.23	1.30
Yield on 5-year T-bonds	%	1.99	0.96	1.15	1.79	0.65	1.10	1.23	1.61	1.71	1.78	1.83	1.85
Yield on 10-year T-bonds	%	2.41	1.52	1.77	2.29	1.35	1.73	1.81	2.20	2.23	2.28	2.33	2.35
2-year IRS	%	1.74	0.62	0.78	1.46	0.37	0.71	0.88	1.17	1.40	1.45	1.48	1.50
5-year IRS	%	1.85	0.85	1.44	2.11	0.91	1.42	1.48	1.95	2.07	2.10	2.13	2.15
10-year IRS	%	2.05	1.15	1.82	2.38	1.45	1.87	1.80	2.18	2.33	2.35	2.38	2.43
EUR/PLN	PLN	4.30	4.44	4.58	4.50	4.54	4.53	4.57	4.67	4.55	4.50	4.49	4.47
USD/PLN	PLN	3.84	3.89	3.84	3.69	3.77	3.76	3.87	3.97	3.79	3.70	3.66	3.60
CHF/PLN	PLN	3.86	4.15	4.20	4.01	4.17	4.13	4.22	4.28	4.12	4.03	3.97	3.92
GBP/PLN	PLN	4.90	4.99	5.29	4.97	5.20	5.25	5.34	5.37	5.11	4.99	4.93	4.83

* End of period; other variables – average in period
All shaded areas represent Santander's estimates

Source: NBP, Bloomberg, Santander

This analysis is based on information available until **4.10.2021** has been prepared by:

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