

12 October 2021

MACROscope Lite

Quick update

■ Just after we have released our [MACROscope](#) report, two important events took place, which – in our view – deserve a quick update of our predicted market scenario.

■ **First of all, the Monetary Policy Council decided to raise the main reference rate by 40bp**, from 0.1% to 0.5%, lifted the lombard rate from 0.5% to 1.0% and kept deposit rate at 0.0%. Also, the reserve requirement rate was raised from 0.5% to 2.0%. The decision came earlier and was bolder than anticipated. As explained by the NBP president, it was triggered by the acknowledgement that inflation rise will be stronger and more persistent than expected, which required the quick removal of policy accommodation to avoid the second-round effects. Glapiński flagged that it was the MPC's intention to surprise markets with a strong move, to create some potential waiting room before next hikes. But he also said the MPC deliberately neither signalled likely continuation of rate hikes nor ruled it out in the post-meeting statement, as the next decisions will be data-driven.

■ How does it change our opinion about interest rate outlook? First, let's remind that we did anticipate policy normalisation, just with a slightly later and milder start (+15bp rate hike in November). **The faster and stronger kick-off means that we may reach the pre-pandemic reference rate level 1.5% sooner – already in 2022**, rather than 2023 that we expected earlier. As regards the nearest months, **we think that in November rates may go up again, by 25bp**, for three reasons: (1) October flash CPI will most likely jump above 6% y/y, making the breach of 7% threshold in just few months even more likely, (2) the new NBP projection will show much higher CPI path with still optimistic GDP outlook, (3) zloty might be under growing selloff pressure in the aftermath of the Constitutional Tribunal ruling (see below). At the same time, we think the ruling implies a growing risk of a delay in EU funds payments and thus a worsening of GDP outlook, which – ceteris paribus – could imply lower need for rate hikes in future.

■ **Second, The Polish Constitutional Tribunal ruled that part of EU law is incompatible with the Polish Constitution**, which has immediately triggered the [European Commission's warning](#) that it will not hesitate to take actions in order to defend the uniform application of integrity of the EU law. What happens next seems to be largely up to the Poland's government and its stance in talks with the EC. We see a growing risk of further delay in disbursements from the Recover Fund, and – should the conflict escalate – also from the Cohesion Fund, which would then undermine economic outlook and cause a pressure on the Polish assets. However, **we still think the baseline scenario is that some form of agreement will be reached sooner or later, allowing the EU money flow to continue, so we keep GDP growth forecast at 5.0% in both 2021 and 2022.**

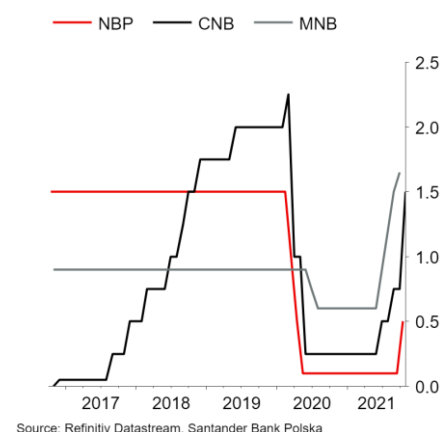
■ Polish zloty strengthened in reaction to the surprising MPC decision, but reversed all gains as the Constitutional Tribunal (CT) has announced its ruling. As a result, the EURPLN is back near 4.60, the same level it was flirting with before the MPC decision.

We think that in the coming weeks the zloty is more likely to weaken than to gain.

The interest rate market is aggressively pricing-in the front-loaded monetary tightening (NBP main rate up to c.2% in nine months), so from this angle the impulse for further currency appreciation could come only in case of 50bp rate hike in November, it seems. The global sentiment remains unsupportive for EM currencies, which we think is unlikely to change soon due to the looming Fed's QE tapering in November. Meanwhile, PLN no longer seems to be the low-beta EM currency due to the local risk factors (especially now, after CT ruling), so if the current sentiment persists, it may continue weakening. Finally, investors will closely eye the relations between Warsaw and Brussels, assessing the probability of EU funds freeze and/or other financial sanctions and reacting to new decisions. ECJ may soon impose the penalty for not implementing the interim measures i.e. the suspension of the Disciplinary Chamber (the EC submitted a motion on September 7).

■ As regards the interest rate market, it has already priced-in a further rapid policy tightening, so unless the MPC delivers 50bp rate hike in November, **we think curves may retreat slightly from their recent peak levels and steepen** (anticipating slower pace of hikes, but probably with higher terminal rate). At the same time, the room for correction will be limited by the upward trend in core markets as the Fed tapering nears.

Main interest rates in CEE3



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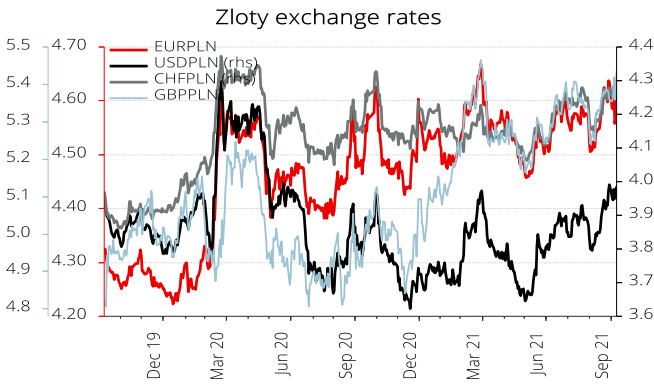
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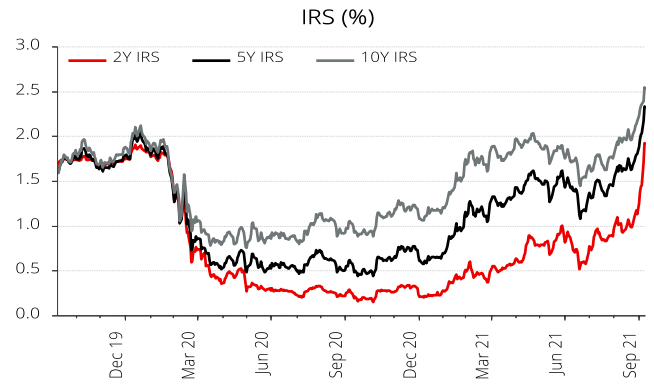
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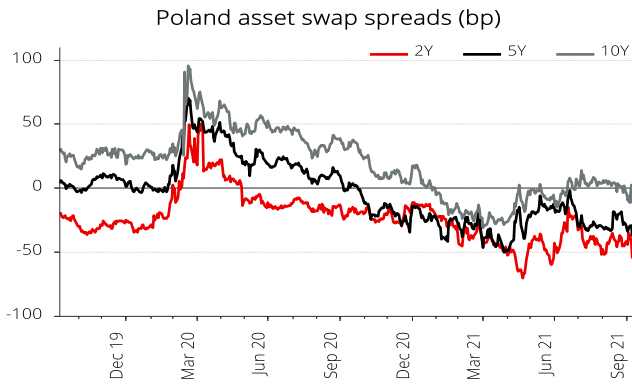
Markets in charts



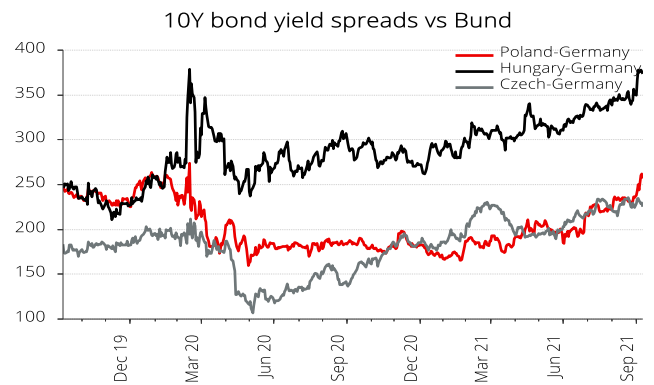
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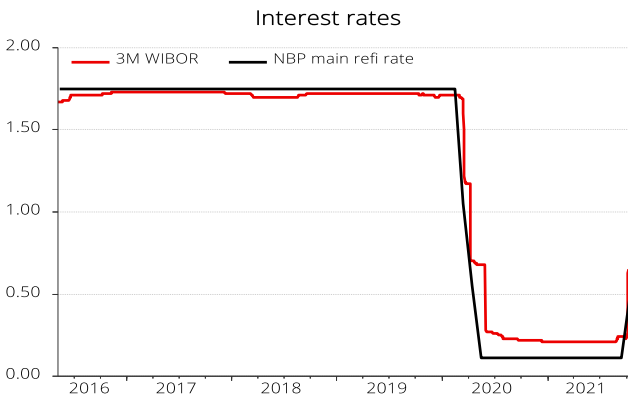
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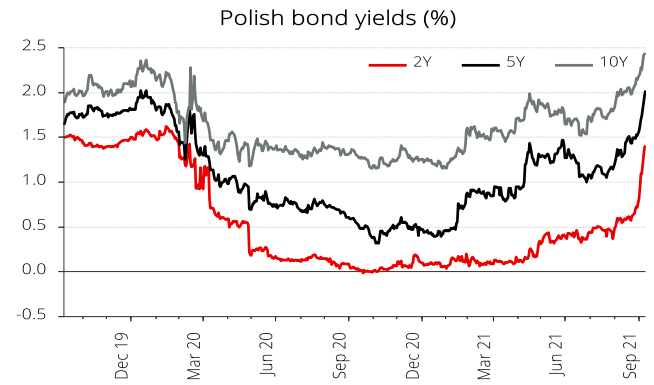
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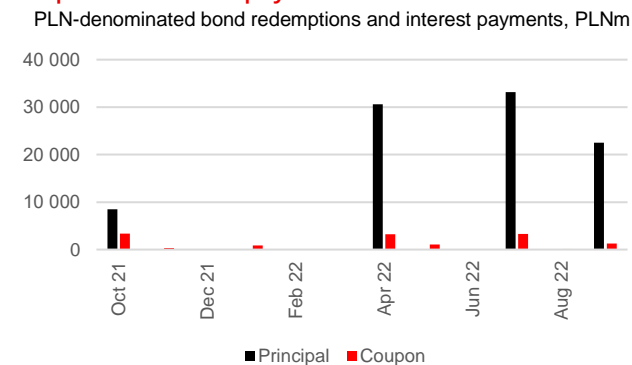


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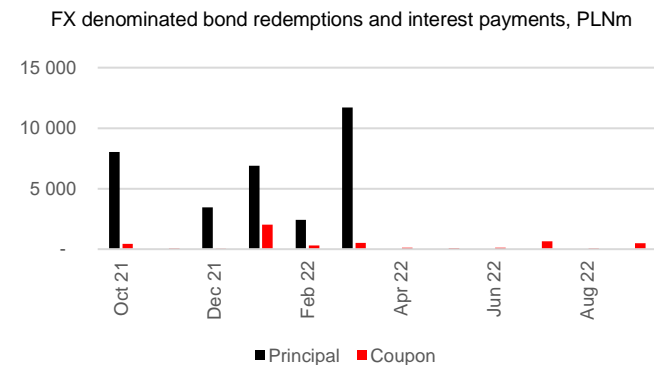


Source: Refinitiv Datastream, Santander Bank Polska

Principal and interest payments



Source: Ministry of Finance, Santander



Source: Ministry of Finance, Santander

Economic data and forecasts for Poland

Quarterly and annual economic indicators

		2019	2020	2021	2022	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22
GDP	PLN bn	2,287.7	2,323.9	2,568.0	2,788.2	585.2	618.0	631.7	733.1	644.9	677.6	681.4	784.3
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 investments	% 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 production	% 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 production	% 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 (constant prices)	% 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
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
Gross wages in the 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 the 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
Exports (€)	% y/y	7.3	1.3	17.6	11.8	11.3	41.6	13.9	9.0	7.5	9.7	14.2	15.6
Imports (€)	% y/y	3.6	-3.4	20.5	14.4	8.7	47.7	20.0	12.2	10.3	12.3	16.5	18.1
Trade balance	EUR mn	1,527	12,472	8,234	2,267	2,713	2,202	102	3,217	1,146	658	-1,510	1,973
Current account balance	EUR mn	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	% GDP	-0.7	-7.0	-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	% 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
PPI	% y/y	1.2	-0.6	7.1	4.1	2.5	6.4	9.3	10.3	7.3	4.7	2.5	1.8
Broad money (M3) *	% y/y	8.3	16.4	7.1	7.7	14.4	7.4	9.1	7.1	6.3	7.0	7.8	7.9
Deposits *	% y/y	8.5	12.3	7.7	5.6	11.8	5.7	7.0	7.7	4.9	4.7	4.3	5.6
Loans *	% y/y	5.2	0.2	4.9	9.5	-2.1	0.2	2.4	4.9	7.0	8.5	9.9	9.5
EUR/PLN	PLN	4.30	4.44	4.57	4.50	4.54	4.53	4.57	4.65	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	3.96	3.79	3.70	3.66	3.60
CHF/PLN	PLN	3.86	4.15	4.19	4.01	4.17	4.13	4.22	4.27	4.12	4.03	3.97	3.92
Reference rate *	%	1.50	0.10	0.75	1.50	0.10	0.10	0.10	0.75	1.25	1.25	1.50	1.50
3M WIBOR	%	1.72	0.67	0.35	1.54	0.21	0.21	0.22	0.77	1.26	1.48	1.67	1.76
Yield on 2-year T-bonds	%	1.56	0.50	0.51	1.49	0.08	0.20	0.43	1.31	1.35	1.45	1.55	1.63
Yield on 5-year T-bonds	%	1.99	0.96	1.16	2.08	0.65	1.10	0.89	1.98	2.00	2.05	2.13	2.15
Yield on 10-year T-bonds	%	2.41	1.52	1.82	2.46	1.35	1.73	1.80	2.41	2.40	2.43	2.48	2.53

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

This analysis is based on information available until 11.10.2021 has been prepared by:

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