

MACROscope Lite

Chasing inflation

■ Rising inflation has become the topic number one around the world, as it turns out that price increases are accelerating faster and may prove more persistent than many central banks have anticipated. This is largely due to the fact that – despite all the problems with the supply chains disruptions, energy price spikes, and the pandemic – the global economic recovery remains robust and resilient.

■ **The outlook for Poland also remains rock-solid and we keep our GDP growth forecast at 5.0% for both 2021 and 2022**, as the diversified economy is likely to continue benefitting from the international trade expansion (only temporarily disrupted by the supply bottlenecks), and from further revival of private consumption and investments, as the tendency to normalise social and economic lives will not go away, while balance sheets of firms and consumers remain strong. That being said, we think that market expectations for 3Q21 GDP growth (flash release due on November 12th) are a bit overdone, as the high-frequency data suggested that real activity in manufacturing and construction has stalled, even though retail trade kept expanding. Also, the trade balance has deteriorated sharply in 3Q and so the net exports' impact on GDP is going to be significantly negative, in our view. **Our estimate for 3Q GDP growth is 3.8% y/y, which corresponds to 1.2% q/q s.a.** – still a decent result, albeit weaker than in the previous two quarters. Market consensus is c.1pp higher.

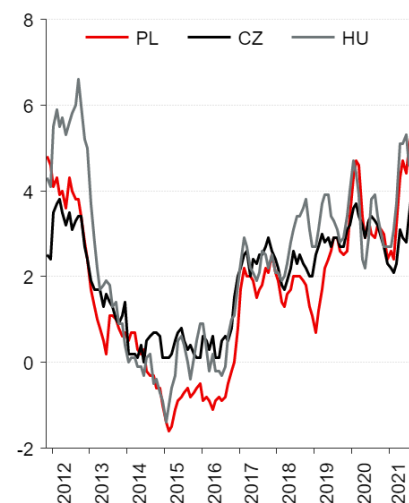
■ Polish CPI inflation continues surprising to the upside – it has reached 6.8% y/y in October and according to our forecast is very likely to climb above 8% y/y in February. The size and broadness of price spikes tells us that it is not only due to “external shocks”, as the importance of underlying internal factors is clearly rising. **Core inflation excluding food and energy most likely rose to 4.6% y/y in October, and is on its way to hit 6% in mid-2022, according to our forecast.** Healthy domestic demand, tight labour market and reviving credit growth created favourable environment for the proper inflationary pressure to build.

■ In such an environment the decisive central bank policy response was the right thing to do. The Monetary Policy Council decided to hike interest rates by 75bp in November (the main reference rate to 1.25%), delivering the second strong move in a row, after 40bp hike in October. The decision seemed to be triggered by the CPI data surprises and by the results of the new NBP projection, showing big upward revision of inflation forecast, amid still solid GDP outlook. Apparently, the central bank's assessment of inflationary risks has changed considerably, and so did its reaction function. We think that further policy adjustment is down the road and the next decisions will be data-driven. As the CPI will go higher in the coming months, rate hikes will likely follow. NBP president said the central bank expects inflation to peak in January 2022 at “7-percent-and-something”. Meanwhile, we think CPI will breach 7% already in November and by February it will exceed 8% y/y. So, the next hike in December cannot be ruled out (the size of the move will depend on the size of the CPI surprise). **The NBP reference rate may peak at 3% in this cycle, according to current market pricing, which we think is a viable scenario**, unless the economic outlook deteriorates significantly due to some unexpected shock.

■ The yield curves bear flattened just after the last MPC decision, anticipating NBP rate stabilisation near 3% in the medium horizon. **We think that further rise in yields and swap rates cannot be ruled out, as higher inflation prints will spur speculation about more hikes, but after the CPI peaks in 1Q22 and the tightening cycle ends (possibly before the end of 2Q22) some retracement could take place and the curve may invert.**

■ The surprisingly quick and strong pivot in the NBP monetary policy had surprisingly small effect on the Polish currency. EURPLN declined only for a while and now is back above 4.60, after the Fed's policy tightening and Mr. Glapiński's most recent comment about no need for more rate hikes. **We think the EURPLN may remain range-bound near current levels in the nearest weeks, as investors will be uncertain about the possibility of NBP's interventions around the year-end and the lengthening government's conflict with the EU. But we see the scope for PLN appreciation in 2022 after next rate hikes materialise and EU funds get unfrozen.**

CPI inflation rates in CEE, % y/y



Source: Refinitiv Datastream, Santander

Recently released Economic Comments:

- [Whatever it takes](#)
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- [Construction and sales below expectations](#)
- [High output after summer break, PPI beats 10%](#)

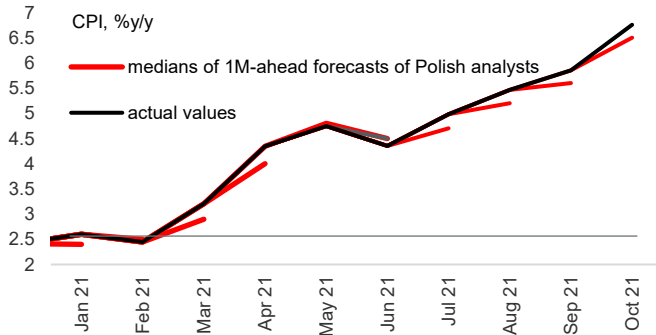
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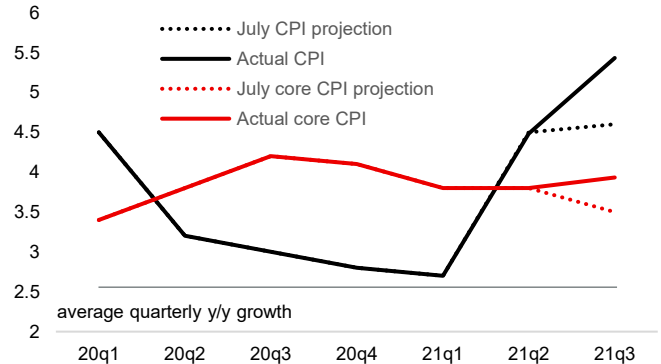
Economy in charts

Inflation kept rising, chased by too conservative market forecasts...



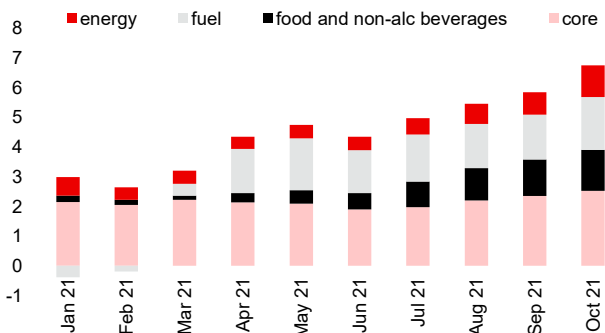
Source: GUS, Parkiet, Santander

...and leaving July NBP projection far behind.



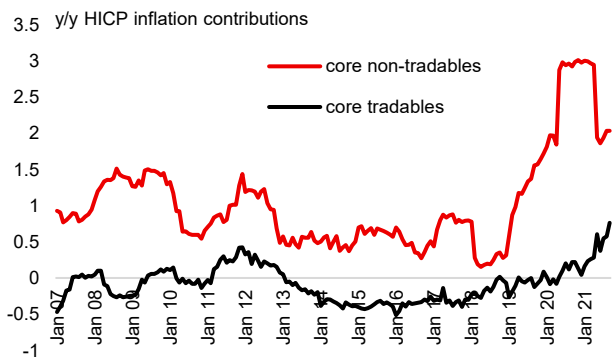
Source: GUS, NBP, Santander

All main CPI components significantly increased their contributions in October



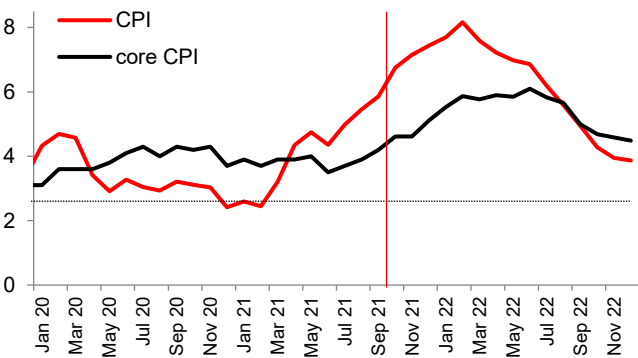
Source: GUS, Santander

...both tradable and non-tradable part of core CPI are historically high



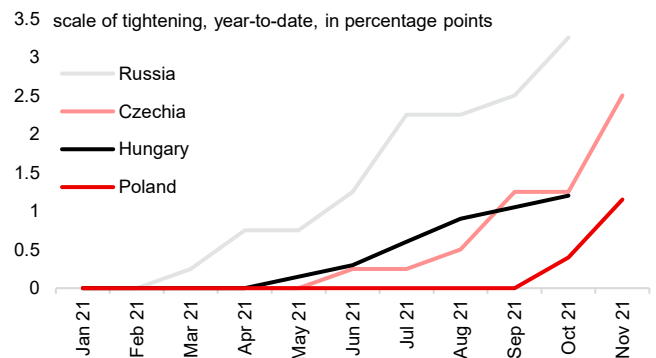
Source: GUS, Santander

According to our forecasts we are still far below the CPI peak



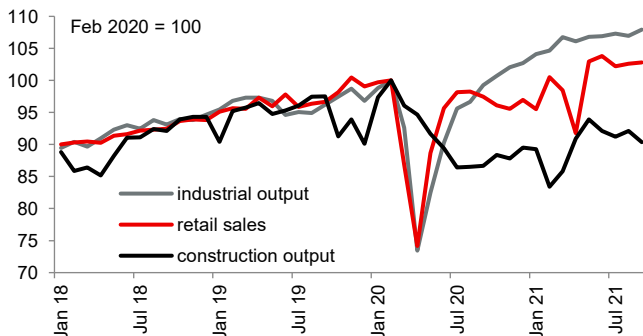
Source: GUS, Santander

MPC responded by quickly catching up with CEE central banks



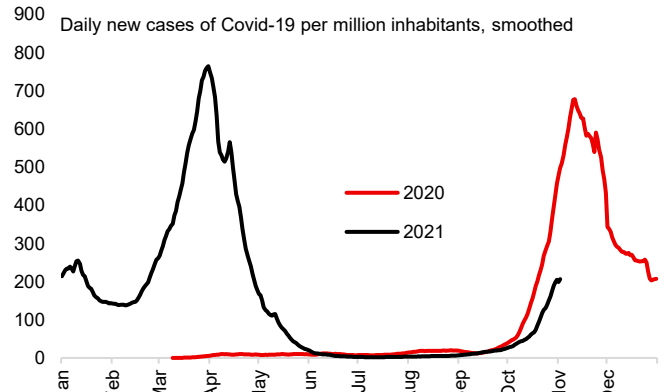
Source: GUS, Santander

Industry returned quicker to pre-Covid trend and now seems more resilient to input shortages than construction, there is still much potential in retail sales normalisation



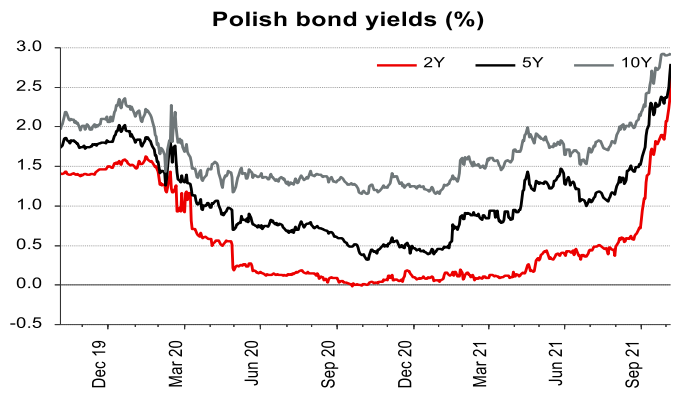
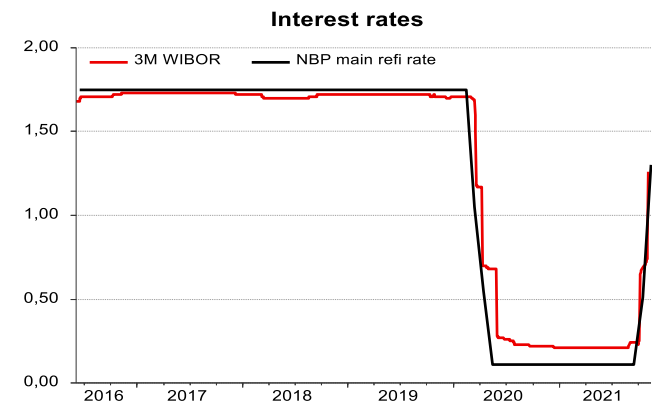
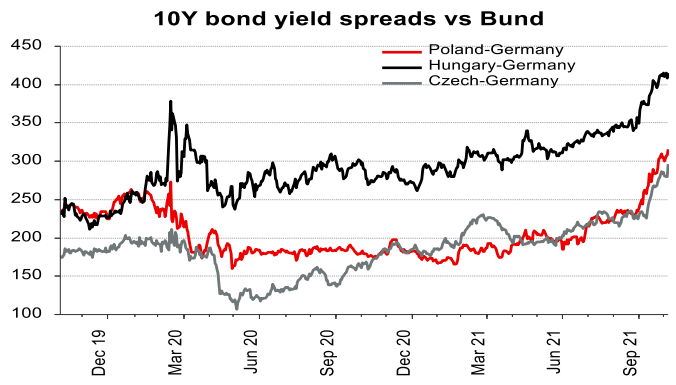
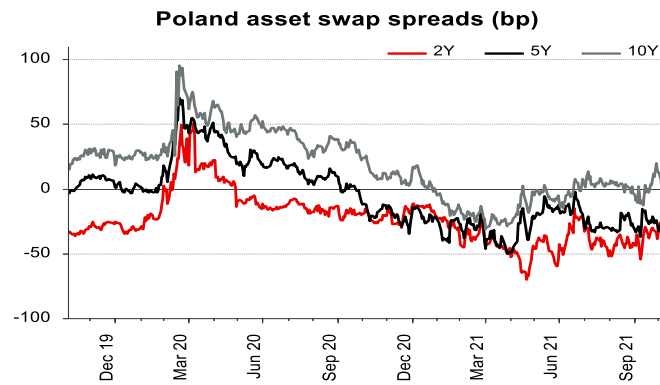
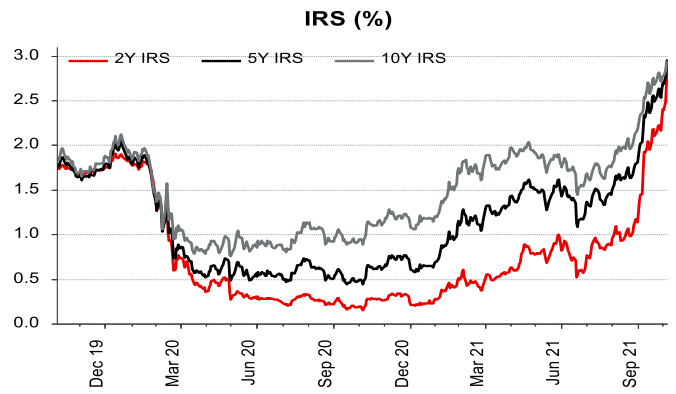
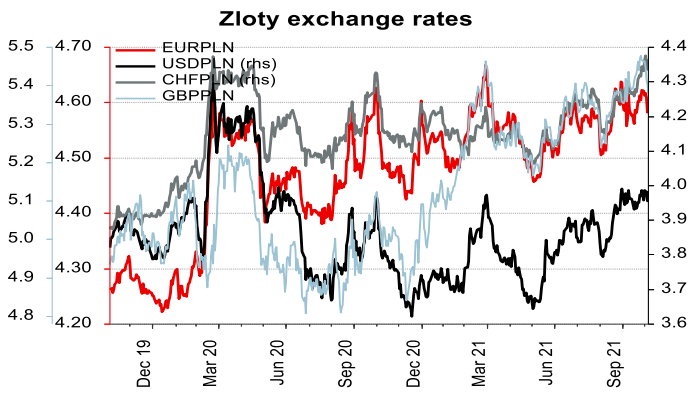
Source: GUS, Santander

Covid is not giving up amid 53% full vaccination in Poland



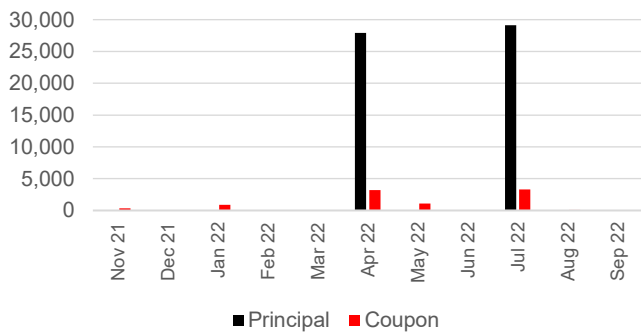
Source: ourworldindata, Santander

Markets in charts

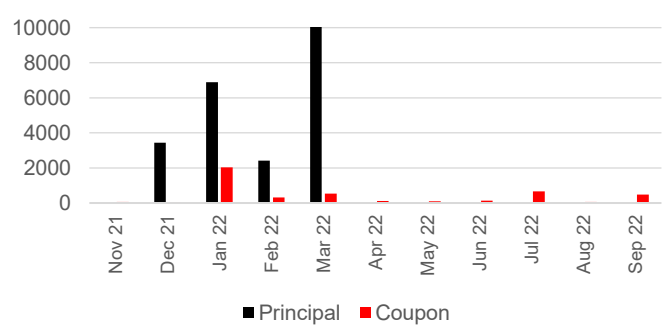


Principal and interest payments

PLN-denominated bond redemptions and interest payments, PLNm



FX denominated bond redemptions and interest payments, PLNm



Economic Calendar

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
1 November DE: Retail sales (Sep) CZ: PMI manufacturing (Oct)	2 PL: PMI manufacturing (Oct) EZ: PMI manufacturing (Oct) DE: PMI manufacturing (Oct) HU: PMI manufacturing (Oct) HU: PPI (Sep)	3 PL: NBP rate decision (1.25%) HU: MNB minutes EZ: Unemployment rate (Sep) US: ADP employment change US: PMI services (Oct) US: ISM services (Oct) US: FOMC	4 EZ: PMI services (Oct, final) EZ: PPI (Sep) DE: Factory orders (Sep) DE: PMI services (Oct) CZ: CNB rate decision	5 EZ: Retail sales (Sep) DE: Industrial production (Sep) HU: Retail sales (Sep) HU: Industrial production (Sep) CZ: Retail sales (Sep) US: Non-farm payrolls (Oct) US: Unemployment rate
8 CZ: Industrial output (Sep)	9 EZ: ZEW (Nov) DE: ZEW (Nov) HU: CPI (Oct) US: PPI (Oct)	10 DE: CPI (Oct) DE: HICP (Oct) CZ: CPI (Oct) US: Core CPI (Oct) US: Wholesale inventories (Sep)	11	12 EZ: Industrial production (Sep) PL: GDP 3Q21 (preliminary) US: Michigan sentiment (Nov)
15 PL: CPI (Oct, final) PL: Current account (Sep)	16 EZ: GDP (3Q21, preliminary) PL: Core CPI (Oct) HU: MNB rate decision HU: GDP (3Q21, preliminary) CZ: PPI (Oct) US: Retail sales (Oct)	17 EZ: CPI (Oct, final) EZ: Core CPI (Oct, final) US: Housing starts (Oct)	18	19 DE: PPI (Oct) PL: Wages (Oct) PL: Employment (Oct)
22 PL: PPI (Oct) PL: Industrial output (Oct) US: Existing home sales (Oct)	23 EZ: PMI manufacturing (Nov) EZ: PMI services (Nov) DE: GDP (3Q21, final) DE: PMI manufacturing (Nov) PL: Retail sales (Oct) US: PMI services (Nov)	24 DE: IFO (Nov) PL: M3 (Oct) US: GDP (3Q21, second) US: PCE (Oct) US: Personal income (Oct) US: FOMC minutes	25 DE: Consumer confidence (Dec) PL: Unemployment (Oct)	26 EZ: M3 (Oct)
29 DE: CPI (Nov) DE: HICP (Nov) EZ: ESI US: Pending home sales (Oct)	30 EZ: HICP (Nov) DE: Unemployment (Nov) PL: CPI (Nov, preliminary) PL: GDP (3Q21, final) CZ: GDP (3Q21, preliminary) US: Consumer confidence (Nov)	1 December EZ: PMI manufacturing (Nov) DE: PMI manufacturing (Nov) PL: PMI manufacturing (Nov) HU: PMI manufacturing (Nov) CZ: PMI manufacturing (Nov) HU: GDP (3Q21, final) HU: PPI (Oct) HU: MNB minutes US: ISM manufacturing (Nov)	2 EZ: PPI (Oct)	

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

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

Economic data and forecasts for Poland

Monthly economic indicators

		Oct 20	Nov 20	Dec 20	Jan 21	Feb 21	Mar 21	Apr 21	May 21	Jun 21	Jul 21	Aug 21	Sep 21	Oct 21	Nov 21
PMI	pts	50.8	50.8	51.7	51.9	53.4	54.3	53.7	57.2	59.4	57.6	56.0	53.4	53.8	54.0
Industrial production	% y/y	1.0	5.4	11.1	0.7	2.5	18.6	44.2	29.7	18.1	9.5	13.0	8.8	5.0	9.3
Construction production	% y/y	-5.8	-4.9	3.4	-10.1	-16.9	-10.8	-4.2	4.7	4.5	3.2	10.2	4.3	3.3	6.8
Retail sales (current prices)	% y/y	-2.1	-5.3	-0.8	-6.0	-2.7	17.1	25.7	19.1	13.0	8.9	10.7	11.1	12.7	14.2
Unemployment rate	%	6.1	6.1	6.2	6.5	6.5	6.4	6.3	6.1	5.9	5.8	5.8	5.6	5.5	5.5
Gross wages in corporate sector	% y/y	4.7	4.9	6.6	4.8	4.5	8.0	9.9	10.1	9.8	8.7	9.5	8.7	8.7	9.5
Employment in corporate sector	% y/y	-1.0	-1.2	-1.0	-2.0	-1.7	-1.3	0.9	2.7	2.8	1.8	0.9	0.6	0.5	0.7
Exports (€)	% y/y	5.8	12.4	17.0	1.0	5.6	27.7	68.6	40.5	22.7	13.1	19.4	14.8	9.4	12.4
Imports (€)	% y/y	-2.4	6.2	14.6	-3.7	6.0	23.6	58.3	52.4	34.7	21.5	32.9	25.3	12.0	16.4
Trade balance	EUR mn	1,993	2,212	587	1,286	736	694	1,362	121	714	-761	-1,413	-321	1,623	1,631
Current account balance	EUR mn	1,550	1,298	751	2,034	652	71	1,269	-531	-378	-1,551	-1,686	-731	1,280	1,328
Current account balance	% GDP	2.8	2.8	2.9	2.8	2.7	2.7	2.8	2.5	1.7	1.4	0.9	0.5	0.4	0.4
Budget balance (cumulative)	PLN bn	-12.1	-13.2	-85.0	6.6	0.9	-3.4	9.2	9.4	28.0	35.3	43.4	47.6	49.7	44.9
Budget balance (cumulative)	% of FY plan	11.0	12.1	77.7	-8.1	-1.1	4.2	-11.1	-11.4	-34.0	-42.8	-52.7	-57.8	-60.4	-54.5
CPI	% y/y	3.1	3.0	2.4	2.6	2.4	3.2	4.3	4.7	4.4	5.0	5.5	5.9	6.8	7.1
CPI excluding food and energy	% y/y	4.2	4.3	3.7	3.9	3.7	3.9	3.9	4.0	3.5	3.7	3.9	4.2	4.6	4.6
PPI	% y/y	-0.4	-0.2	0.1	1.0	2.2	4.2	5.5	6.6	7.2	8.4	9.6	10.2	11.2	11.6
Broad money (M3)	% y/y	17.0	16.1	16.4	16.8	16.3	14.4	11.2	9.0	7.4	8.8	9.1	8.6	7.9	7.1
Deposits	% y/y	13.9	12.8	12.3	12.2	12.0	11.8	9.1	7.0	5.7	7.1	7.4	7.0	7.1	7.7
Loans	% y/y	0.8	-0.1	0.2	-0.8	-0.8	-2.1	-1.6	-0.3	0.2	1.9	2.3	2.7	2.7	4.0
EUR/PLN	PLN	4.52	4.49	4.48	4.54	4.50	4.60	4.56	4.52	4.50	4.56	4.57	4.57	4.59	4.61
USD/PLN	PLN	3.84	3.78	3.68	3.73	3.72	3.86	3.81	3.73	3.74	3.86	3.88	3.88	3.96	3.98
CHF/PLN	PLN	4.21	4.16	4.14	4.20	4.14	4.16	4.14	4.12	4.12	4.21	4.24	4.21	4.29	4.35
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	0.50	1.25
3M WIBOR	%	0.22	0.22	0.21	0.21	0.21	0.21	0.21	0.21	0.21	0.21	0.21	0.23	0.61	1.25
Yield on 2-year T-bonds	%	0.01	0.03	0.08	0.05	0.10	0.07	0.09	0.17	0.35	0.36	0.40	0.54	1.63	2.65
Yield on 5-year T-bonds	%	0.51	0.41	0.47	0.42	0.67	0.86	0.85	1.17	1.30	1.15	0.11	1.40	2.16	2.80
Yield on 10-year T-bonds	%	1.27	1.21	1.29	1.21	1.32	1.54	1.56	1.82	1.79	1.63	1.76	2.02	2.64	2.90

Note: * at the end of the period.

Source: GUS, NBP, Finance Ministry, Santander Bank Polska estimates.

Quarterly and annual economic indicators

		2019	2020	2021	2022	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22
GDP	PLN bn	2,293.2	2,326.7	2,570.3	2,819.2	587.4	617.0	623.5	738.4	650.7	683.5	675.5	790.1
GDP	% y/y	4.7	-2.5	5.0	5.0	-0.8	11.2	3.8	6.2	5.1	6.0	4.9	4.3
Domestic demand	% y/y	3.6	-3.4	6.8	5.5	0.3	12.4	6.9	8.0	5.5	6.4	5.4	4.8
Private consumption	% y/y	4.0	-3.0	6.0	6.1	0.1	13.1	4.0	8.0	8.0	6.5	5.0	5.2
Fixed investments	% y/y	6.1	-9.0	9.3	6.8	1.7	5.6	10.0	15.0	1.0	14.0	6.5	5.6
Industrial production	% y/y	4.2	-1.1	13.2	10.0	7.8	30.2	10.5	8.0	8.0	9.3	11.5	11.2
Construction production	% y/y	3.6	-3.5	1.0	3.2	-12.5	1.8	5.8	4.3	4.7	-2.7	4.3	6.1
Retail sales (constant prices)	% y/y	5.1	-3.0	6.8	1.1	1.2	14.4	6.1	6.5	5.2	1.8	-2.5	0.6
Unemployment rate *	%	5.2	6.2	5.7	5.5	6.4	5.9	5.6	5.7	6.2	5.7	5.4	5.5
Gross wages in the national economy	% y/y	7.2	5.3	8.4	7.1	6.6	9.6	8.7	8.6	8.1	7.0	6.4	6.8
Employment in the national economy	% y/y	2.2	-1.0	0.2	2.2	-1.4	1.1	0.7	0.4	2.1	2.2	2.2	2.4
Exports (€)	% y/y	7.3	1.3	18.8	13.6	11.3	41.6	15.6	11.5	10.1	12.3	16.1	15.6
Imports (€)	% y/y	3.6	-3.4	23.0	17.5	8.7	47.7	26.3	15.4	13.3	15.9	20.7	19.4
Trade balance	EUR mn	1,527	12,472	5,358	-4,587	2,713	2,202	-2,495	2,938	898	38	-6,158	635
Current account balance	EUR mn	2,523	15,287	1,155	-5,109	2,746	372	-3,968	2,004	1,509	-1,077	-6,275	734
Current account balance	% GDP	0.5	2.9	0.2	-0.8	2.7	1.7	0.5	0.2	0.0	-0.3	-0.6	-0.8
General government balance	% GDP	-0.7	-7.1	-2.8	-2.6	-	-	-	-	-	-	-	-
CPI	% y/y	2.3	3.4	4.9	6.1	2.8	4.5	5.4	7.1	7.8	7.0	5.6	4.0
CPI *	% y/y	3.4	2.4	7.4	3.9	3.2	4.4	5.9	7.4	7.6	6.9	4.9	3.9
CPI excluding food and energy	% y/y	2.0	3.9	4.1	5.4	3.8	3.8	3.9	4.8	5.7	5.9	5.5	4.6
PPI	% y/y	1.2	-0.6	7.4	5.0	2.5	6.4	9.4	11.4	9.2	5.8	3.3	1.8
Broad money (M3) *	% y/y	8.3	16.4	6.4	7.9	14.4	7.4	8.6	6.4	6.7	7.8	8.7	8.5
Deposits *	% y/y	8.5	12.3	6.9	5.6	11.8	5.7	7.0	6.9	4.9	4.7	4.3	5.6
Loans *	% y/y	5.2	0.2	4.4	9.5	-2.1	0.2	2.7	4.4	7.0	8.5	9.9	9.5
EUR/PLN	PLN	4.30	4.44	4.56	4.51	4.54	4.53	4.57	4.60	4.56	4.51	4.49	4.47
USD/PLN	PLN	3.84	3.89	3.84	3.73	3.77	3.76	3.87	3.96	3.88	3.75	3.66	3.60
CHF/PLN	PLN	3.86	4.15	4.20	4.01	4.17	4.13	4.22	4.30	4.13	4.04	3.97	3.92
Reference rate *	%	1.50	0.10	1.75	3.00	0.10	0.10	0.10	1.75	2.75	3.00	3.00	3.00
3M WIBOR	%	1.72	0.67	0.49	3.01	0.21	0.21	0.22	1.31	2.62	3.12	3.23	3.09
Yield on 2-year T-bonds	%	1.56	0.50	0.76	3.03	0.08	0.20	0.43	2.32	2.85	3.05	3.10	3.10
Yield on 5-year T-bonds	%	1.99	0.96	1.32	3.09	0.65	1.10	0.89	2.64	3.05	3.10	3.10	3.10
Yield on 10-year T-bonds	%	2.41	1.52	1.94	3.14	1.35	1.73	1.80	2.86	3.10	3.10	3.15	3.20

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

This analysis is based on information available until 5.11.2021 has been prepared by:

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