

## MACROscope Lite

### Forecasts with lower shelf life

■ Macroeconomic forecasts' shelf life have decreased markedly in the post-pandemic reality. This is especially true for inflation, not only due to high volatility on commodity and energy markets, and discretionary actions of governments, like temporary tax cuts, but also because we still do not fully understand how the underlying inflation and indexation processes have changed during the pandemic. For many months the CPI has been consistently surprising to the upside, moving the predicted inflation path higher and higher. **In our current baseline scenario we predict that CPI to reach a local peak at 9.0% y/y in January, then to decline to 7.0% by summer holidays thanks to the government's "anti-inflation shield", then to rebound above 10% in August-September, then to remain at elevated level 7-9% y/y by 3Q23 (average CPI in 2022 is likely to be well above 8% y/y), and finally to decline to 3% at the end of 2023.** This path can obviously change in the upcoming months, given possible prolongation of tax cuts and risks of new disturbances on the commodity markets (e.g. in case of Russia-Ukraine conflict). Core inflation trajectory is less volatile and points north, signalling a growing underlying price pressure. We are expecting the core inflation to reach all-time high at almost 7% y/y in mid-2022 and then to start a gradual decline.

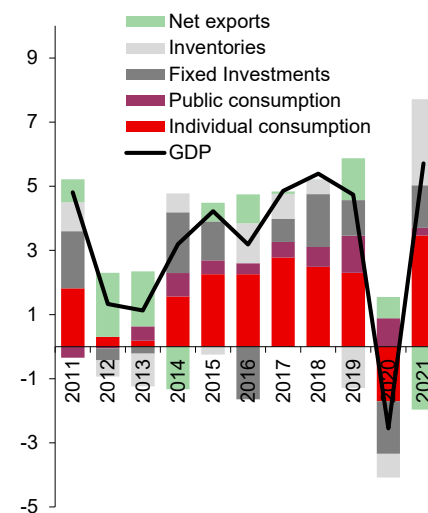
■ Following the change in inflation outlook, also expectations about possible rate hikes are shifting. Financial market instruments are currently pricing-in a rise of interbank rates to c.4.8% in 6-9 months' time. It was supported by recent comments of NBP president Adam Glapiński, who saw "significant room for rate hikes" amid positive economic outlook. The composition of the Monetary Policy Council is currently changing and it is too early to be sure how it will affect the decision process in the Council. Yet, we think it is very likely that the NBP president (who has the President's recommendation for the second term) will hold control over the shape of monetary policy. **As a result, we are expecting the MPC to continue interest rate hikes by 50bp at the subsequent meetings, bringing the reference rate to 4.0% in May.** The drop of CPI inflation in 1H22 will in our view prevent the MPC from more aggressive tightening. At the end of 2022, when inflation jumps again, economic outlook is likely to be significantly worse, which will be argument against resuming rate hikes. Chances for a hike above 4% would rise, if the MPC decided to switch to bigger hikes than 50bp at each meeting, but this is not our baseline scenario. Such scenario would also imply higher probability of quite quick interest rate cuts, which would follow clear weakening of demand in 2023.

■ The central bank while tightening monetary policy is clearly stressing the care for economic growth, and so far Polish economy's results are very good. According to preliminary data GDP grew in 2021 by 5.7% which implies that real GDP growth in 4Q was above 7% y/y (or above 1% q/q after seasonal adjustment) and was 4.5% above the pre-pandemic level. **We still expect 2022 GDP growth to be close to 5%, but it will mainly be achieved by very strong start of the year, while in 2H the effects of demand slowdown (i.a. due to the interest rate hikes) will be more and more visible.** GDP forecasts for 2023 will be much less optimistic.

■ Despite strong economic performance and decisive rate hikes, the Polish currency remains depressed due to several risk factors: possible freeze of EU funds, possible escalation of Russia-Ukraine conflict, the new Covid-19 wave, to name the most important ones. **We think the situation will not change substantially in the nearest weeks, so we do not expect to see a clear PLN appreciation.** Especially that the European Court of Justice ruling scheduled for 16 February on the conditionality mechanism can open the door for the European Commission to block payments to Poland and Hungary.

■ Financial market has already priced in a lot in terms of further NBP rate hikes. However **before it gets obvious (as we assume) that the actual rate hikes may stop short of these expectations, the curves may move up even more in the coming weeks on the back of domestic inflation data and growing expectations about monetary policy tightening by the Fed and the ECB.**

#### GDP growth and its breakdown, %



Source: GUS, Santander

#### Recently released Economic Comments:

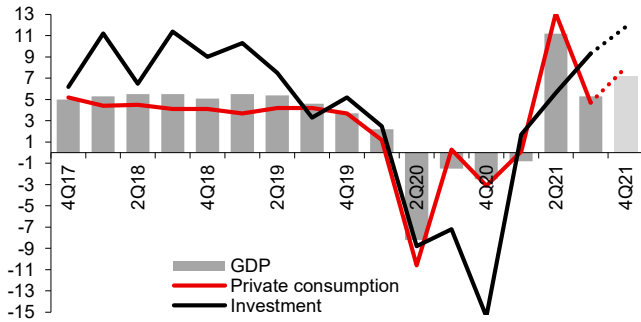
- [Growth rate high, but disappointing breakdown](#)
- [High economic activity at the end of the year](#)
- [Broad-based acceleration of CPI confirmed](#)
- [It ain't over till it's over](#)
- [High activity in trade and construction](#)
- [Remarkable rise of industrial output, high PPI](#)

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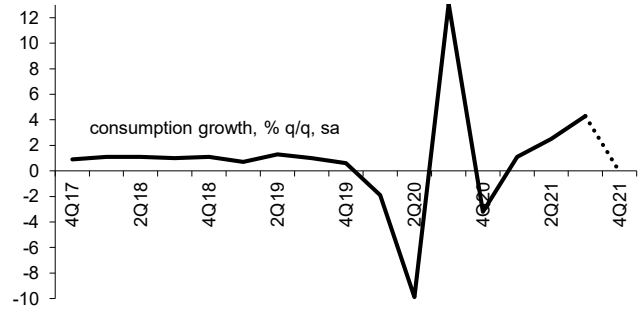
Economy in charts

GDP growth remained solid in 4Q21...



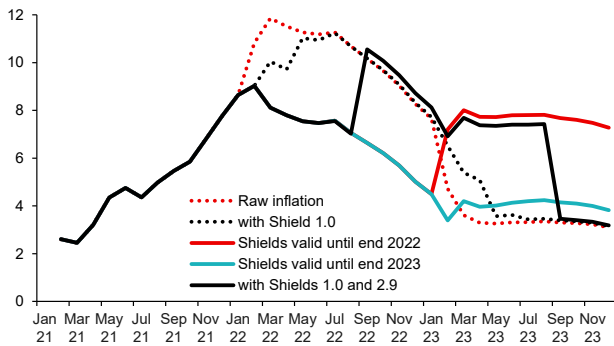
Source: GUS, Parkiet, Santander

... even though private consumption disappointed



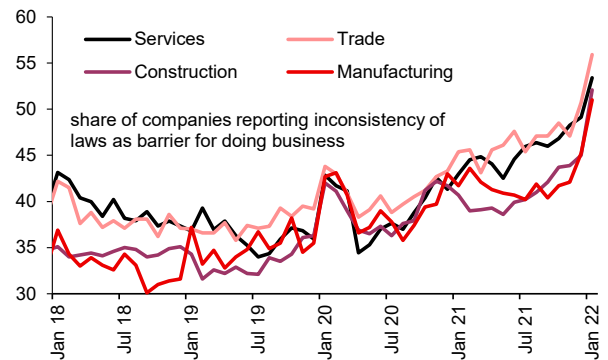
Source: GUS, NBP, Santander

Inflation keeps surprising to the upside, persistence of government's "shields" will affect CPI trajectory



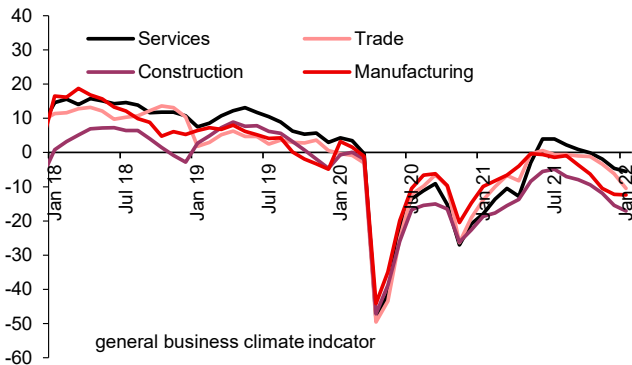
Source: GUS, Santander

Volatile and complex regulations increasingly important as a barrier for doing business



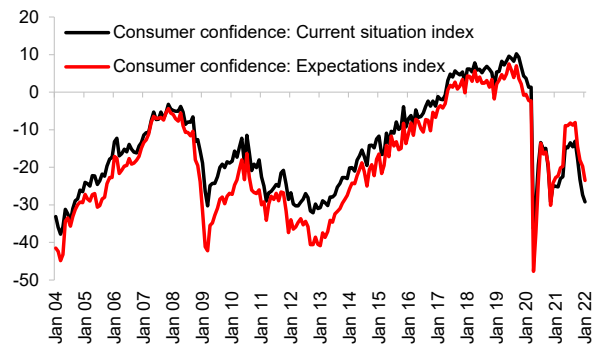
Source: GUS, Santander

Business climate indicator weakened, both in companies



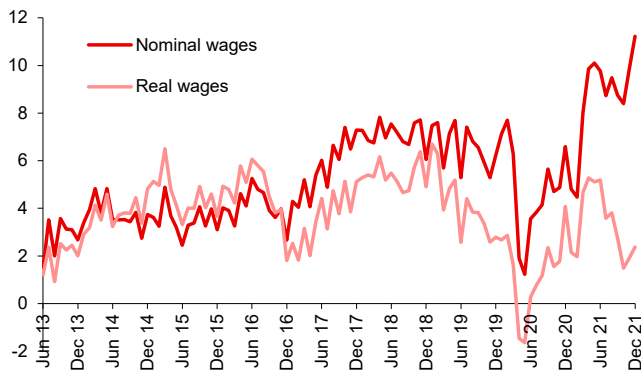
Source: GUS, Santander

... and among consumers



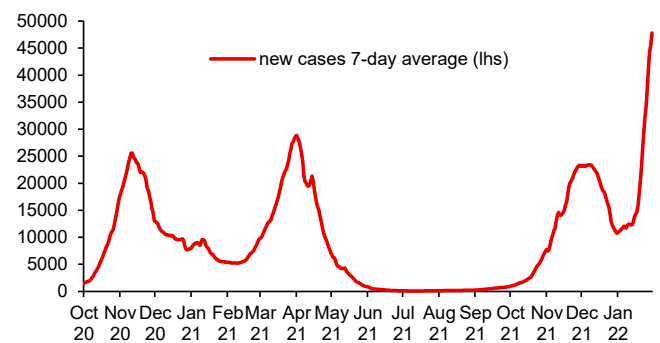
Source: GUS, Santander

Wages still rising faster than inflation



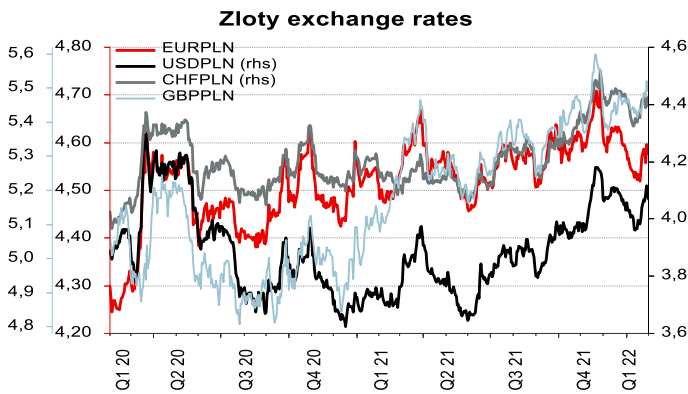
Source: GUS, Santander

New infections at all-time high, but new restrictions are not very likely

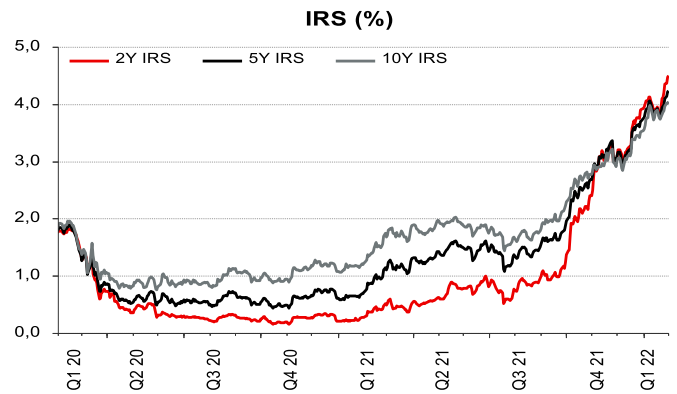


Source: Michał Rogalski, Santander

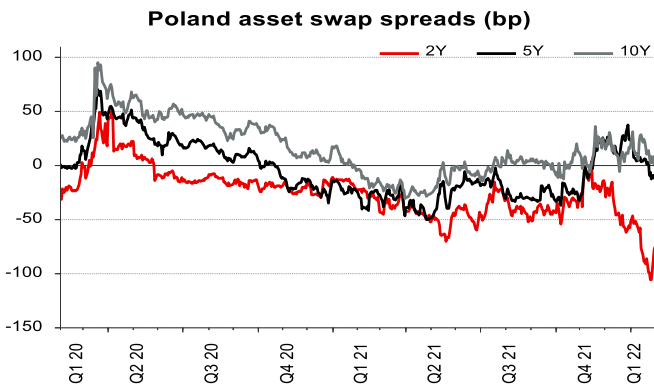
Markets in charts



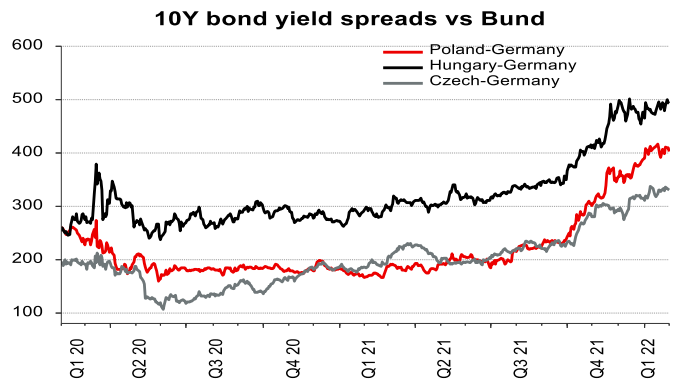
Source: Refinitiv Datastream, Santander



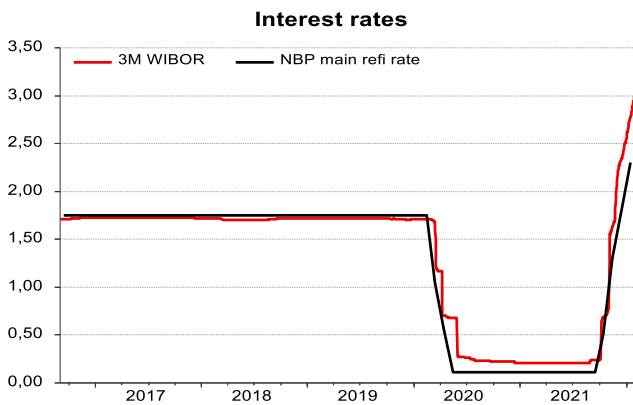
Source: Refinitiv Datastream, Santander



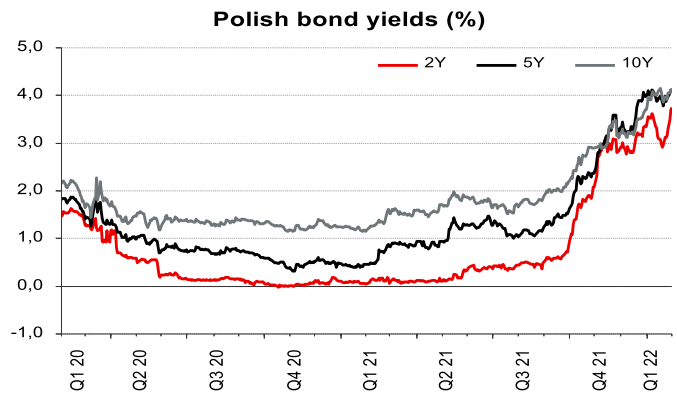
Source: Refinitiv Datastream, Santander



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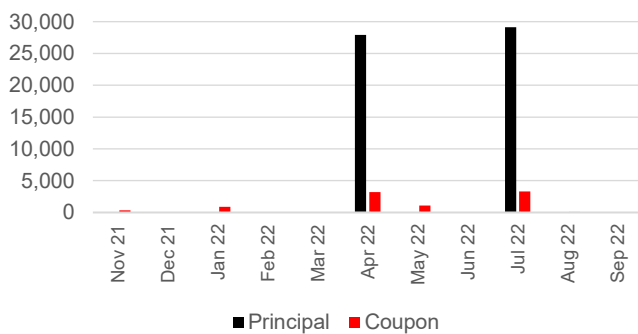
Source: Refinitiv Datastream, Santander



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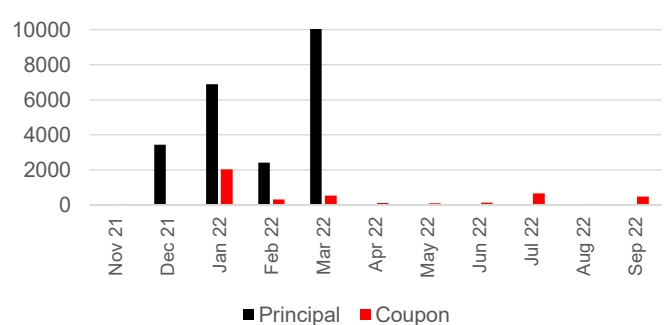
Principal and interest payments

PLN-denominated bond redemptions and interest payments, PLNm



Source: Ministry of Finance, Santander

FX denominated bond redemptions and interest payments, PLNm



Source: Ministry of Finance, Santander

## Economic Calendar

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
	<b>1 February</b> <b>PL: PMI manufacturing (Jan)</b> CZ: PMI manufacturing (Jan) CZ: GDP (4Q21, flash) HU: PMI manufacturing (Jan) DE: PMI manufacturing (Jan) DE: Unemployment rate (Jan) EZ: PMI manufacturing (Jan) EZ: Unemployment rate (Dec) US: ISM manufacturing (Jan)	2 EZ: HICP (Jan, flash) US: ADP employment change (Jan)	3 CZ: CNB interest rate decision HU: Retail; sales (Dec) DE: PMI services (Jan) EZ: ECB interest rate decision EZ: PMI services (Jan) EZ: PPI (Dec) US: ISM services (Jan)	4 HU: industrial output (Dec) DE: factory orders (Dec) EZ: retail sales (Dec) US: non-farm payrolls (Jan) US: unemployment rate (Jan)
7 CZ: industrial output (Dec) DE: industrial output (Dec)	8 <b>PL: NBP interest rate decision</b> CZ: Retail sales (Dec)	9 HU: MNB minutes DE: Trade balance (Dec)	10 <b>PL: MPC minutes</b> US: CPI (Jan)	11 HU: CPI (Jan) DE: HICP (Jan) US: Michigan index (Feb, flash)
14 <b>PL: C/A (Dec)</b> CZ: CPI (Jan) EZ: industrial output (Dec)	15 <b>PL: GDP 4Q21 (flash)</b> <b>PL: CPI (Jan, flash)</b> HU: GDP (3Q21, flash) DE: ZEW (Feb) EZ: GDP (4Q21, flash) US: PPI (Jan)	16 <b>PL: ECJ ruling on conditionality mechanism</b> US: Retail sales (Jan) US: industrial output (Jan) US: FOMC minutes	17 US: House starts (Jan)	18 <b>PL: wages and employment (Jan)</b> <b>PL: industrial output (Jan)</b> <b>PL: PPI (Jan)</b> US: home sales (Jan)
21 <b>PL: construction output (Jan)</b> <b>PL: retail sales (Jan)</b> DE: PPI (Jan) DE: PMI (Feb, flash) EZ: PMI (Feb, flash)	22 <b>PL: M3 (Jan)</b> HU: MNB interest rate decision DE: Ifo (Feb) US: PMI (Feb, flash) US: consumer sentiment (Feb)	23 CZ: PPI (Jan) DE: consumer sentiment (Dec) EZ: HICP (Jan) EZ: core inflation (Jan)	24 US: GDP (4Q21, second estimate)	25 EZ: M3 (Jan) EZ: ESI (Feb) US: personal incomes (Jan) US: PCE inflation (Jan) US: durable goods orders (Jan) US: pending home sales (Jan)
28 <b>PL: GDP (3Q21)</b> US: wholesale inventories (Jan)				

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		3	10	14		9	21		8	27		15
Fed decision	26		16		4	15	27		21		2	14
MPC decision	4	8	8	6	5	8	7		7	5	9	7
MPC minutes	7	10	10	8	6	10	8	25		7	10	9
Flash GDP*		15			17			17			15	
GDP*		28			31			31			30	
CPI	14	15	15	15	13	15	15	12	15	14	15	15
Core inflation			16	16	17	16	16	16	16	18	16	16
PPI	21	18	18	21	20	21	20	19	20	20	22	20
Industrial output	21	18	18	21	20	21	20	19	20	20	22	20
Retail sales	24	21	21	22	23	22	21	22	21	21	23	21
Gross wages, employment	21	18	18	21	20	21	20	19	20	20	22	20
Foreign trade	17	15	15	15	17	15	15	16	15	14	17	15
Balance of payments*			31									
Balance of payments	13	14	16	13								
Money supply	26	22	22	25								

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

## Economic data and forecasts for Poland

### Monthly economic indicators

		Jan 21	Feb 21	Mar 21	Apr 21	May 21	Jun 21	Jul 21	Aug 21	Sep 21	Oct 21	Nov 21	Dec 21	Jan 22	Feb 22
PMI	pts	51.9	53.4	54.3	53.7	57.2	59.4	57.6	56.0	53.4	53.8	54.4	56.1	54.5	53.9
Industrial production	% y/y	0.7	2.5	18.6	44.2	29.7	18.1	9.5	13.0	8.7	7.6	14.8	16.7	13.6	14.4
Construction production	% y/y	-10.1	-16.9	-10.8	-4.2	4.7	4.5	3.2	10.2	4.2	4.1	12.7	3.1	2.9	7.1
Retail sales (current prices)	% y/y	-6.0	-2.7	17.1	25.7	19.1	13.0	8.9	10.7	11.1	14.4	21.2	16.9	22.7	18.0
Unemployment rate	%	6.5	6.5	6.4	6.3	6.1	5.9	5.8	5.8	5.6	5.5	5.4	5.4	5.5	5.5
Gross wages in corporate sector	% y/y	4.8	4.5	8.0	9.9	10.1	9.8	8.7	9.5	8.7	8.4	9.8	11.2	9.7	10.1
Employment in corporate sector	% y/y	-2.0	-1.7	-1.3	0.9	2.7	2.8	1.8	0.9	0.6	0.5	0.7	0.5	2.0	1.9
Exports (€)	% y/y	1.0	5.6	27.7	66.6	41.4	23.4	12.0	18.1	12.7	9.7	14.2	20.7	19.7	21.0
Imports (€)	% y/y	-3.7	6.0	23.6	55.6	52.7	36.6	20.8	30.7	21.8	20.9	29.0	32.6	23.2	24.5
Trade balance	EUR mn	1,286	736	694	1,463	221	515	-837	-1,272	-77	-218	-632	-1,624	881	166
Current account balance	EUR mn	2,034	652	71	1,582	-38	-494	-1,362	-1,530	-651	-856	-1,112	-2,997	1,361	-57
Current account balance	% GDP	2.8	2.7	2.7	2.9	2.6	1.8	1.5	1.1	0.7	0.3	-0.2	-0.8	-0.9	-1.0
Budget balance (cumulative)	PLN bn	6.6	0.9	-3.4	9.2	9.4	28.0	35.3	43.4	47.6	51.9	50.4	-35.1	-	-
Budget balance (cumulative)	% of FY plan	-8.1	-1.1	4.2	-11.1	-11.4	-34.0	-42.8	-52.7	-57.8	-63.0	-61.2	42.6	-	-
CPI	% y/y	2.6	2.4	3.2	4.3	4.7	4.4	5.0	5.5	5.9	6.8	7.8	8.6	9.0	8.1
CPI excluding food and energy	% y/y	3.9	3.7	3.9	3.9	4.0	3.5	3.7	3.9	4.2	4.5	4.7	5.3	5.7	6.3
PPI	% y/y	1.0	2.2	4.2	5.5	6.6	7.2	8.4	9.6	10.3	12.0	13.6	14.2	14.1	14.6
Broad money (M3)	% y/y	16.8	16.3	14.4	11.2	9.0	7.4	8.8	9.1	8.6	8.6	10.1	8.9	8.7	8.3
Deposits	% y/y	12.2	12.0	11.8	9.1	7.0	5.7	7.1	7.4	7.0	7.4	9.4	8.8	9.9	9.3
Loans	% y/y	-0.8	-0.8	-2.1	-1.6	-0.3	0.2	1.9	2.3	2.7	3.5	4.8	5.1	5.5	6.3
EUR/PLN	PLN	4.54	4.50	4.60	4.56	4.52	4.50	4.56	4.57	4.57	4.59	4.65	4.61	4.55	4.59
USD/PLN	PLN	3.73	3.72	3.86	3.81	3.73	3.74	3.86	3.88	3.88	3.96	4.07	4.08	4.02	4.11
CHF/PLN	PLN	4.20	4.14	4.16	4.14	4.12	4.12	4.21	4.24	4.21	4.29	4.42	4.43	4.38	4.31
Reference rate *	%	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.50	1.25	1.75	2.25	2.75
3M WIBOR	%	0.21	0.21	0.21	0.21	0.21	0.21	0.21	0.21	0.23	0.61	1.56	2.35	2.78	3.18
Yield on 2-year T-bonds	%	0.05	0.10	0.07	0.09	0.17	0.35	0.36	0.40	0.54	1.55	2.80	3.04	3.31	3.63
Yield on 5-year T-bonds	%	0.42	0.67	0.86	0.85	1.17	1.30	1.15	0.11	1.40	2.14	3.07	3.53	3.98	4.05
Yield on 10-year T-bonds	%	1.21	1.32	1.54	1.56	1.82	1.79	1.63	1.76	2.02	2.61	3.07	3.34	4.00	4.10

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	2,595.8	2,953.8	587.4	617.0	647.5	744.0	677.1	702.5	733.5	840.6
GDP	% y/y	4.7	-2.5	5.7	4.7	-0.8	11.2	5.3	7.2	6.6	5.8	3.9	3.1
Domestic demand	% y/y	3.6	-3.4	8.2	4.9	0.3	12.4	8.6	11.4	7.3	6.5	3.6	3.0
Private consumption	% y/y	4.0	-3.0	6.2	5.5	0.1	13.1	4.7	8.0	8.9	7.0	3.0	3.5
Fixed investments	% y/y	6.1	-9.0	8.0	7.1	1.7	5.6	9.3	11.8	-2.5	12.0	10.0	7.0
Industrial production	% y/y	4.2	-1.1	14.5	7.9	7.8	30.2	10.5	12.9	11.8	9.4	8.9	2.2
Construction production	% y/y	3.6	-3.5	1.6	2.5	-12.5	1.8	5.8	6.3	4.6	-2.9	4.2	3.9
Retail sales (constant prices)	% y/y	5.1	-3.0	7.5	3.0	1.2	14.4	6.1	9.0	10.2	6.7	-0.7	-2.6
Unemployment rate *	%	5.2	6.2	5.4	4.8	6.4	5.9	5.6	5.4	5.4	4.9	4.8	4.8
Gross wages in the national economy	% y/y	7.2	5.3	8.8	9.2	6.6	9.6	9.4	9.6	9.5	9.4	9.2	8.7
Employment in the national economy	% y/y	2.2	-1.0	0.2	1.5	-1.4	1.1	0.9	0.3	1.4	1.5	1.5	1.7
Exports (€)	% y/y	7.3	1.3	19.3	9.9	11.3	41.6	14.1	14.5	16.6	12.5	11.7	0.4
Imports (€)	% y/y	3.6	-3.4	25.8	13.4	8.7	47.7	24.1	27.3	19.8	16.1	16.2	3.3
Trade balance	EUR mn	1,527	12,472	257	-9,312	2,713	2,204	-2,186	-2,474	1,092	57	-5,637	-4,824
Current account balance	EUR mn	2,523	15,287	-4,694	-9,643	2,746	1,066	-3,541	-4,965	777	-597	-5,103	-4,721
Current account balance	% GDP	0.5	2.9	-0.8	-1.5	2.7	1.8	0.7	-0.8	-1.1	-1.4	-1.6	-1.5
General government balance	% GDP	-0.7	-7.1	-2.0	-2.5	-	-	-	-	-	-	-	-
CPI	% y/y	2.3	3.4	5.1	8.5	2.8	4.5	5.4	7.7	8.3	7.5	9.2	8.8
CPI *	% y/y	3.4	2.4	8.6	8.1	3.2	4.4	5.9	8.6	7.8	7.6	10.1	8.1
CPI excluding food and energy	% y/y	2.0	3.9	4.1	6.3	3.8	3.8	3.9	4.8	6.1	6.6	6.5	5.8
PPI	% y/y	1.2	-0.6	7.9	11.1	2.5	6.4	9.4	13.3	14.1	12.6	10.5	7.1
Broad money (M3) *	% y/y	8.3	16.4	9.1	6.4	14.4	7.4	8.6	8.9	7.5	8.1	7.1	6.4
Deposits *	% y/y	8.5	12.3	8.8	6.4	11.8	5.7	7.0	8.8	8.8	9.9	9.4	6.4
Loans *	% y/y	5.2	0.2	5.1	7.5	-2.1	0.2	2.7	5.1	6.9	8.7	8.6	7.5
EUR/PLN	PLN	4.30	4.44	4.56	4.57	4.54	4.53	4.57	4.62	4.58	4.59	4.56	4.54
USD/PLN	PLN	3.84	3.89	3.86	4.01	3.77	3.76	3.87	4.04	4.10	4.11	3.97	3.86
CHF/PLN	PLN	3.86	4.15	4.22	4.22	4.17	4.13	4.22	4.37	4.30	4.25	4.18	4.14
Reference rate *	%	1.50	0.10	1.75	4.00	0.10	0.10	0.10	1.75	3.25	4.00	4.00	4.00
3M WIBOR	%	1.72	0.67	0.54	3.91	0.21	0.21	0.22	1.50	3.17	4.01	4.23	4.23
Yield on 2-year T-bonds	%	1.56	0.50	0.79	3.80	0.08	0.20	0.43	2.47	3.57	3.80	3.88	3.98
Yield on 5-year T-bonds	%	1.99	0.96	1.39	4.06	0.65	1.10	0.89	2.91	4.03	4.08	4.08	4.05
Yield on 10-year T-bonds	%	2.41	1.52	1.97	4.12	1.35	1.73	1.80	3.01	4.07	4.11	4.14	4.18

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

This analysis is based on information available until 1.01.2022 has been prepared by:

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