

# MACROscope Lite

## Groundhog year

■ Rapidly growing inflation became a number one problem in Poland and abroad and concurrently a huge worry for the central banks, which for a long time downplayed the risk of price growth becoming permanent, stating instead that it had transitory nature. Currently they are aware that inflation rates came too high and the risk of de-anchoring of inflation expectations has become significant. It was not a coincidence that Jerome Powell started his last press conference with an address to the American people, stressing that inflation is way too high and the bank is determined to make it fall. NBP governor Adam Glapiński followed in his footsteps saying during his press conference that **"inflation is a serious evil" and the MPC will keep hiking rates until they feel certain that the growth of prices goes down permanently.**

■ Central banks face a growing dilemma whether to try to "chase" the escaping inflation with aggressive rate increases amid emerging risk of global slowdown on the horizon and for now it seems that the care about inflation prevails over the worries about economic expansion – at least until the latter had not deteriorated substantially. BoE and CNB showed that even the view of stagnation/recession does not have to halt the rate hike cycle.

■ In this context, **to answer where the terminal level of rates is in this cycle, the crucial question is where inflation is headed.** Unfortunately, the frank answer is... that we are not sure. For more than a year inflation data releases have been systematically surprising to the upside, and the process of forecasting the destination level of CPI and NBP interest rates seems to be very similar to the scenario of the movie "Groundhog Day". Every month we begin with moving upwards our path of forecasts, only to finally realise after another data releases that reality once again exceeded our expectations and the forecasts should be revised upwards once again. What we can be sure about is that the inflation peak still lies ahead of us.

■ **Our current forecasts point to CPI inflation reaching local maximum in June/July at the level of 14%, and then it should gradually start to slide.** We are aware, however, that the distribution of the uncertainties concerning our forecast is still skewed to the upside. There are many risk factors: food, energy and fuel prices, the exchange rate, duration of the government anti-inflation shields but also the possible occurrence of the second round effects and the wage-price spiral. In our opinion many of them sneak out from the predictive abilities of our economic models.

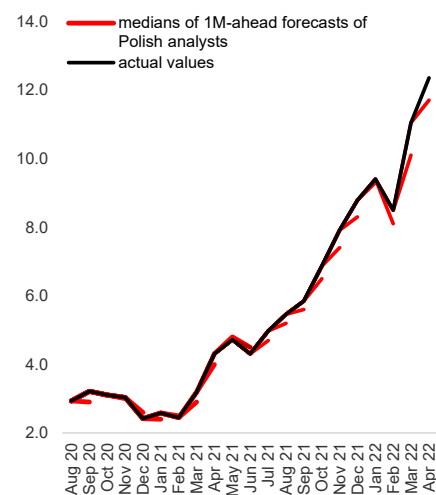
■ The latest domestic activity data were surprisingly good, showing that the economic growth at the start of the year was much higher than we had expected. Stronger starting point prompted us to slightly lift our forecast of annual GDP growth in 2022 to 4.2%. Weakening of economic cycle is on the horizon, however, and should begin to influence the central bank decisions stronger and stronger over time. **GDP growth in Poland will probably slow from c.8% y/y in 1Q to less than 1% y/y in 4Q** (which de facto implies the scenario of a technical recession in Poland in the second half of the year).

■ If our anticipations concerning inflation and economic cycle will withstand the test of time, **we predict that MPC will raise rates twice more: in June by 75bp and in July by 50bp.** There is no decision-making MPC meeting in August, and after holidays the propensity to tighten the monetary policy further should be much smaller as the inflation trend should slow down and weaker domestic activity should be clearly visible. As a result, reference rate increases have a good chance to stop at 6.5%.

■ Even if we are right, until Autumn the market will probably not resign from pricing even more aggressive rate hikes (FRA contracts anticipate WIBOR3M above 7.8% in the next 6 months). Simultaneously, extended selling pressure on core debt markets also will not create favourable environment. As a result, **we expect Polish yields to grow further, and a possible downward correction is possible in 4th quarter, when investors are likely to become more convinced that the NBP rate hike cycle has come to an end.** Debt weakening should also be supported by stronger bond supply, needed to finance the fiscal deficit, which will be close to 5% of GDP this year, in our view.

■ PLN exchange rate will remain under pressure in coming weeks due to weak global moods (strong dollar, stock market sell-off), still locked Recovery Plan, growing imbalances (inflation, balance of payments, fiscal balance). **EURPLN reached again almost the same level where it was in the day of Russian invasion on Ukraine, and in the coming month we see rather higher chances that the exchange rate will go upward than downward.**

### CPI forecasts in Parkiet daily's poll vs actual inflation data, % y/y



Source: GUS, Parkiet, Santander

### Recently released Economic Comments:

- [More inflation = more rate hikes](#)
- [Policy of uneven steps](#)
- [1Q22 GDP closer to 8%?](#)
- [Strong set of March data](#)
- [CPI at 11%](#)

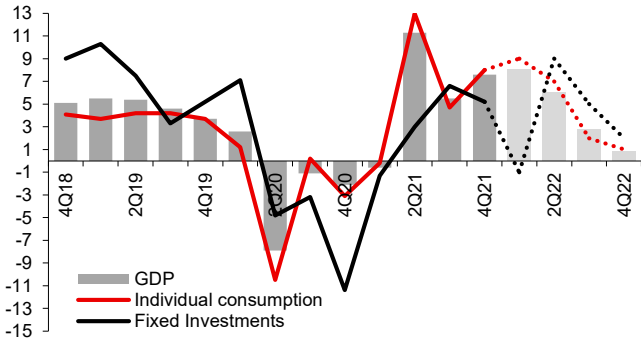
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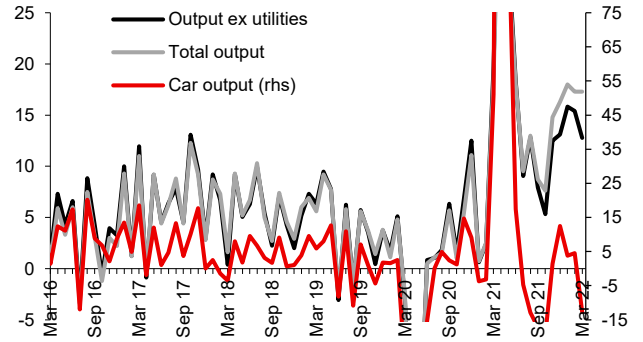
Economy in charts

GDP growth may have exceeded 8% y/y in 1Q22, raising forecasts for the entire year



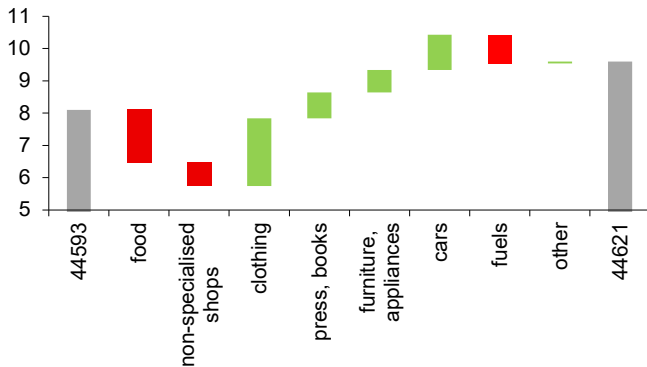
Source: GUS, Santander

Industry remained robust despite war, with car industry suffering and energy sector behaving strangely



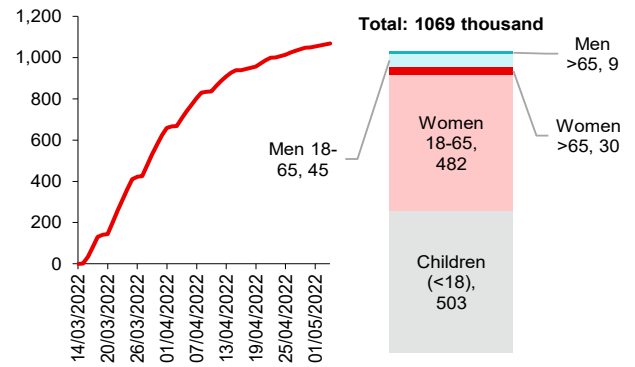
Source: GUS, Santander

Retail sales above expectations, with surprising breakdown as more durables were bought despite war



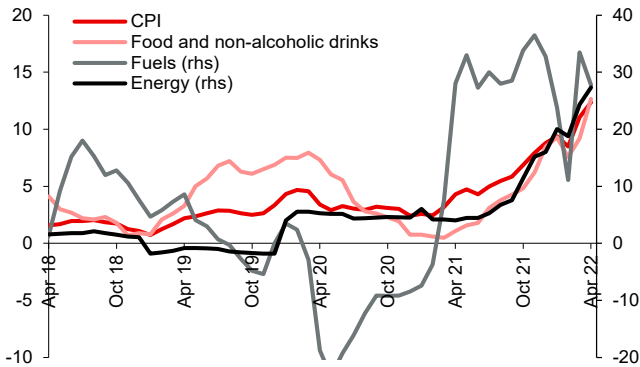
Source: GUS, Santander

Number of refugees registered in PESEL reached 1mn, but momentum is slowing



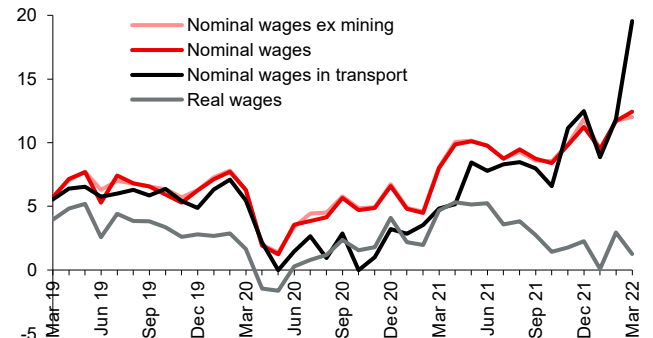
Source: dane.gov.pl, Santander

CPI keeps on surprising, food prices surge



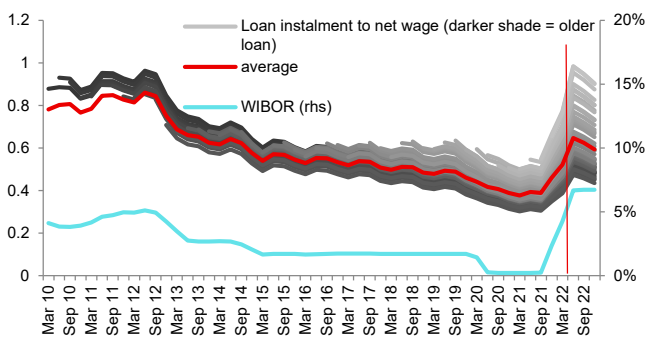
Source: GUS, Santander

Real wages still above zero, yet transport was boosted by mobility package



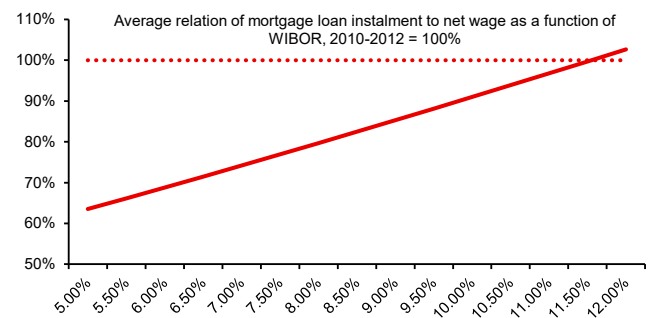
Source: GUS, Santander

Despite rising rates, average instalment-to-net-wage ratio is still far from historic peaks...



Source: GUS, Santander

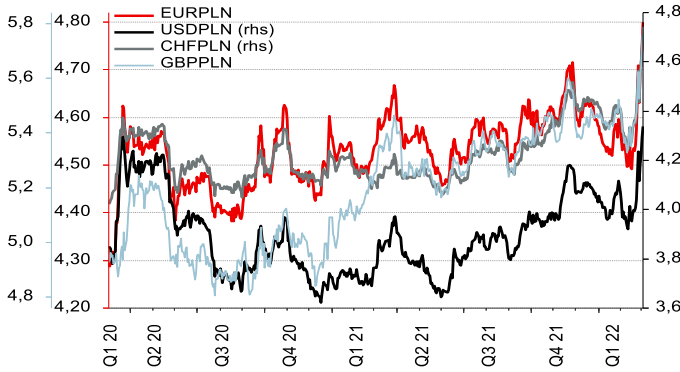
... which would have been reached with WIBOR at 11-12%



Source: GUS, Santander

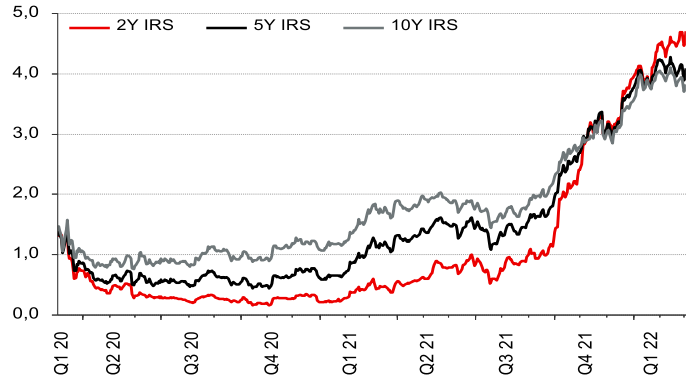
Markets in charts

Zloty exchange rates



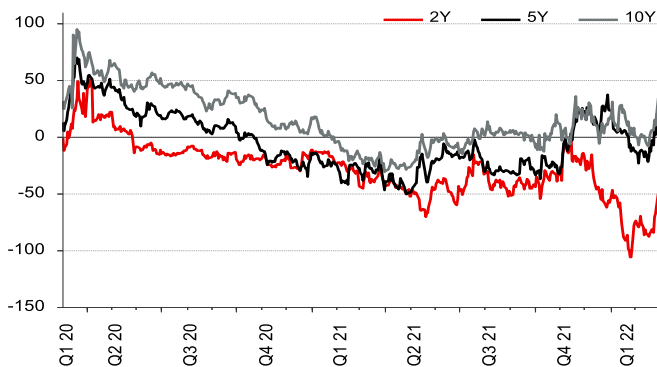
Source: Refinitiv Datastream, Santander

IRS (%)



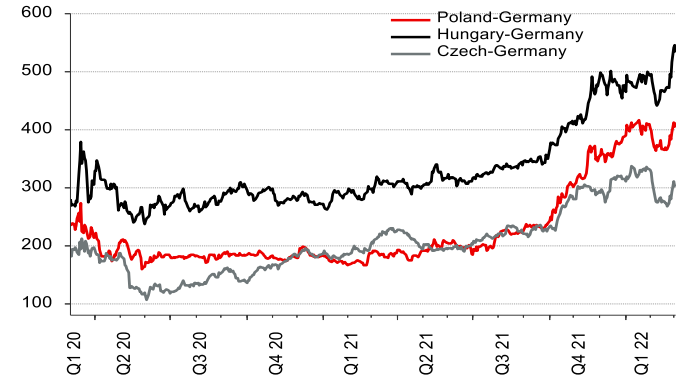
Source: Refinitiv Datastream, Santander

Poland asset swap spreads (bp)



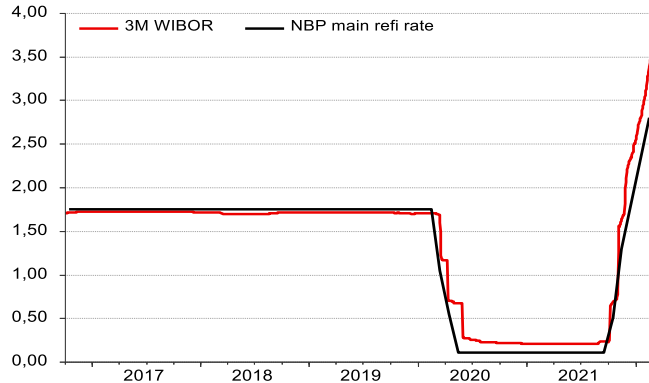
Source: Refinitiv Datastream, Santander

10Y bond yield spreads vs Bund



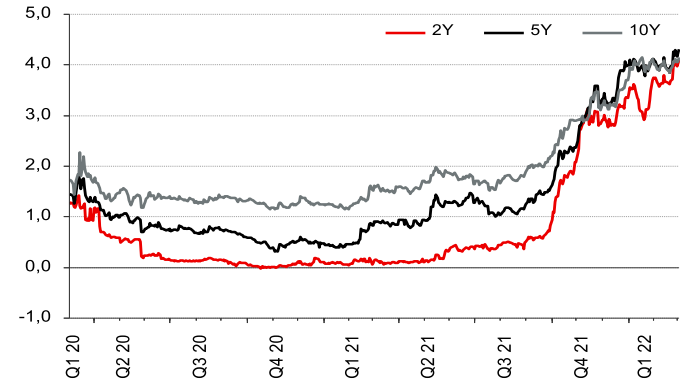
Source: Refinitiv Datastream, Santander

Interest rates



Source: Refinitiv Datastream, Santander

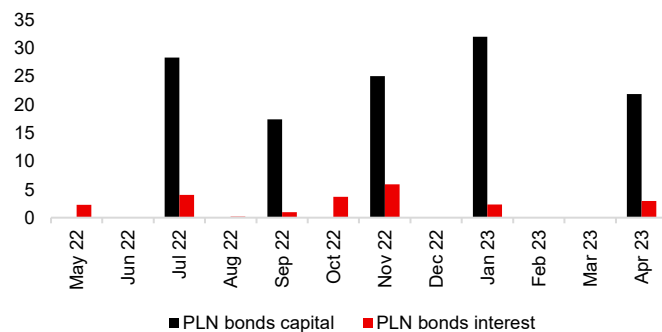
Polish bond yields (%)



Source: Refinitiv Datastream, Santander

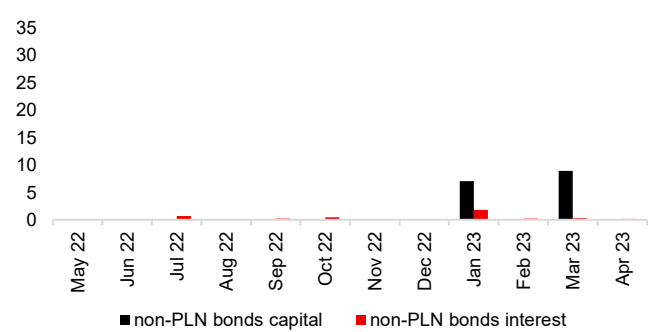
Principal and interest payments

PLN-denominated bond redemptions and interest payments, PLNbn



Source: Ministry of Finance, Santander

FX denominated bond redemptions and interest payments, PLNbn



Source: Ministry of Finance, Santander

## Economic Calendar

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
<b>2 May</b> <b>PL: PMI manufacturing (Apr)</b> CZ: PMI manufacturing (Apr) HU: PMI manufacturing (Apr) HU: PPI (Mar) DE: PMI manufacturing (Apr) DE: Retail sales (Mar) EZ: PMI manufacturing (Apr) EZ: ESI (Apr) US: ISM manufacturing (Apr)	3 US: durable goods orders (Mar)	4 HU: Retail sales (Mar) DE: Trade balance (Mar) DE: PMI services (Mar) EZ: PMI services (Mar) US: ADP employment change (Apr) US: ISM services (Apr) US: FOMC interest rate decision	5 <b>PL: NBP interest rate decision</b> CZ: CNB interest rate decision DE: industrial orders (Mar)	6 <b>PL: MPC minutes</b> DE: industrial output (Mar) HU: Industrial output (Mar) US: Non-farm payrolls (Apr) US: Unemployment rate (Apr)
9 CZ: Industrial output (Mar) US: wholesale inventories (Mar) CN: trade balance (Apr)	10 CZ: CPI (Apr) HU: CPI (Apr) DE: ZEW (May)	11 DE: HICP (Apr) US: CPI (Apr)	12 US: PPI (Apr)	13 <b>PL: CPI (Apr)</b> <b>PL: C/A (Mar)</b> EZ: Industrial output (Mar) US: Indeks Michigan (May, flash)
16 <b>PL: core CPI (Apr)</b> CN: Industrial output (Apr) CN: Retail sales (Apr) CZ: PPI (Apr)	17 <b>PL: GDP (1Q22, flash)</b> HU: GDP (1Q22, flash) EZ: GDP (1Q22, flash) US: Industrial output (Apr) US: Retail sales (Apr)	18 EZ: HICP (Mar) US: housing starts (Apr)	19 US: home sales (Mar)	20 <b>PL: wages, employment (Apr)</b> <b>PL: Industrial output (Apr)</b> <b>PL: PPI (Apr)</b> DE: PPI (Apr)
23 <b>PL: Construction output (Apr)</b> <b>PL: Retail sales (Apr)</b> DE: Ifo (Apr)	24 <b>PL: M3 (Apr)</b> DE: PMI (Maj, flash) EZ: PMI (Maj, flash) US: new home sales (Mar)	25 <b>PL: unemployment rate (Apr)</b> DE: GDP (1Q22) DE: consumer sentiment (May) US: durable goods orders (Apr, flash) US: minutes FOMC	26 US: Pending home sales (Kwi) US: GDP (1Q22, second reading)	27 EZ: M3 (Mar) US: PCE inflation (Apr) US consumer income and spending (Apr) US: trade balance (Apr) US: wholesale inventories (Apr, flash) US: consumer sentiment (May)
30 DE: HICP (May, flash) EZ: ESI (May)	31 <b>PL: GDP (1Q22)</b> <b>PL: CPI (May, flash)</b> EZ: HICP (May, flash) CZ: GDP (1Q22, flash) HU: PPI (Apr) CN: PMI (May)			

Source: GUS, NBP, Ministry of Finance, Bloomberg

## Calendar of MPC meetings and data releases for 2022

	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			30						
Balance of payments	13	14	16	13	13	13	14	12				
Money supply	26	22	22	25	24	23	22	23				

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

## Economic data and forecasts for Poland

### Monthly economic indicators

		Apr 21	May 21	Jun 21	Jul 21	Aug 21	Sep 21	Oct 21	Nov 21	Dec 21	Jan 22	Feb 22	Mar 22	Apr 22	May 22
PMI	pts	53.7	57.2	59.4	57.6	56.0	53.4	53.8	54.4	56.1	54.5	54.7	52.7	52.4	51.9
Industrial production	% y/y	44.2	29.7	18.1	9.5	13.0	8.7	7.6	14.8	16.3	18.0	17.3	17.3	12.3	14.4
Construction production	% y/y	-4.2	4.7	4.5	3.2	10.2	4.2	4.1	12.8	3.1	20.8	21.2	27.6	18.5	16.1
Retail sales (current prices)	% y/y	25.7	19.1	13.0	8.9	10.7	11.1	14.4	21.2	16.9	20.0	16.5	22.0	29.5	19.5
Unemployment rate	%	6.3	6.1	5.9	5.8	5.8	5.6	5.5	5.4	5.4	5.5	5.5	5.4	5.3	5.1
Gross wages in corporate sector	% y/y	9.9	10.1	9.8	8.7	9.5	8.7	8.4	9.8	11.2	9.5	11.7	12.4	12.8	12.3
Employment in corporate sector	% y/y	0.9	2.7	2.8	1.8	0.9	0.6	0.5	0.7	0.5	2.3	2.2	2.4	2.8	2.2
Exports (€)	% y/y	78.9	38.3	15.8	9.2	23.9	9.4	8.9	7.4	26.6	20.0	10.4	16.7	17.4	21.1
Imports (€)	% y/y	69.6	46.4	29.2	16.3	33.6	22.4	24.2	24.3	35.5	37.4	21.6	29.5	30.4	27.9
Trade balance	EUR mn	1,211	653	321	-545	-712	-915	-1,099	-1,217	-1,004	-1,669	-1,741	-2,088	-1,643	-681
Current account balance	EUR mn	1,282	491	-464	-1,017	-527	-1,817	-1,166	-1,077	-2,491	-638	-2,871	-2,478	-1,836	-1,095
Current account balance	% GDP	2.9	2.7	1.9	1.7	1.5	0.9	0.4	-0.1	-0.6	-1.2	-1.7	-2.2	-2.7	-2.9
Budget balance (cumulative)	PLN bn	9.2	9.4	28.0	35.3	43.4	47.6	51.9	50.4	-26.3	22.3	11.3	-0.3	10.3	8.5
Budget balance (cumulative)	% of FY plan	-11.1	-11.4	-34.0	-42.8	-52.7	-57.8	-63.0	-61.2	32.0	-74.6	-37.7	0.9		
CPI	% y/y	4.3	4.7	4.3	5.0	5.5	5.8	6.9	7.9	8.8	9.4	8.5	11.0	12.4	13.2
CPI excluding food and energy	% y/y	3.9	4.0	3.5	3.7	3.9	4.2	4.5	4.7	5.3	6.1	6.7	6.9	7.5	7.5
PPI	% y/y	5.5	6.6	7.2	8.4	9.6	10.3	12.0	13.6	14.4	16.1	16.1	20.0	20.5	20.7
Broad money (M3)	% y/y	11.2	9.0	7.4	8.8	9.1	8.6	8.6	10.1	8.9	7.7	8.0	7.9	8.8	8.6
Deposits	% y/y	9.1	7.0	5.7	7.1	7.4	7.0	7.4	9.4	8.8	7.8	7.0	5.9	7.0	6.7
Loans	% y/y	-1.6	-0.3	0.2	1.9	2.3	2.7	3.5	4.8	5.1	4.9	6.2	6.4	6.7	6.7
EUR/PLN	PLN	4.57	4.53	4.50	4.56	4.57	4.57	4.59	4.65	4.62	4.55	4.55	4.76	4.65	4.67
USD/PLN	PLN	3.82	3.73	3.74	3.86	3.88	3.88	3.96	4.07	4.08	4.02	4.01	4.32	4.29	4.43
CHF/PLN	PLN	4.14	4.13	4.11	4.21	4.25	4.21	4.29	4.42	4.44	4.38	4.35	4.64	4.55	4.55
Reference rate *	%	0.10	0.10	0.10	0.10	0.10	0.10	0.50	1.25	1.75	2.25	2.75	3.50	4.50	5.25
3M WIBOR	%	0.21	0.21	0.21	0.21	0.21	0.23	0.61	1.56	2.35	2.78	3.33	4.27	5.48	6.05
Yield on 2-year T-bonds	%	0.09	0.17	0.35	0.36	0.40	0.54	1.55	2.80	3.04	3.31	3.72	5.19	6.36	6.74
Yield on 5-year T-bonds	%	0.85	1.17	1.30	1.15	0.11	1.40	2.14	3.07	3.53	3.98	4.03	5.21	6.51	7.10
Yield on 10-year T-bonds	%	1.56	1.82	1.79	1.63	1.76	2.02	2.61	3.07	3.34	4.00	3.98	4.90	6.01	6.65

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	2,339.0	2,622.2	2,948.6	590.8	621.0	655.5	754.9	673.5	706.0	736.4	832.6
GDP	% y/y	4.7	-2.2	5.9	4.2	-0.6	11.3	5.5	7.6	8.1	6.0	2.8	0.8
Domestic demand	% y/y	3.6	-2.9	7.6	3.7	-0.5	11.8	8.2	10.9	8.5	5.6	1.8	0.2
Private consumption	% y/y	4.0	-3.0	6.1	4.6	-0.2	13.0	4.7	8.0	9.0	7.0	2.0	1.0
Fixed investments	% y/y	6.1	-4.9	3.8	3.7	-1.3	3.0	6.6	5.2	-1.0	9.0	5.0	2.0
Industrial production	% y/y	4.2	-1.1	14.5	7.6	7.8	30.2	10.5	12.8	17.5	10.8	6.1	-2.6
Construction production	% y/y	3.6	-3.5	1.6	12.6	-12.5	1.8	5.8	6.3	23.7	15.9	11.3	5.8
Retail sales (constant prices)	% y/y	5.1	-3.0	7.4	5.0	1.2	14.4	6.1	8.7	9.5	9.6	3.1	-1.2
Unemployment rate *	%	5.2	6.2	5.4	5.1	6.4	5.9	5.6	5.4	5.4	5.0	5.0	5.1
Gross wages in the national economy	% y/y	7.2	5.3	8.9	11.1	6.6	9.6	9.4	9.8	10.8	11.9	11.1	10.5
Employment in the national economy	% y/y	2.2	-1.0	0.2	1.6	-1.4	1.1	0.9	0.3	1.7	1.7	1.5	1.7
Exports (€)	% y/y	7.3	1.3	18.7	11.9	11.0	41.2	13.7	13.7	15.6	16.3	12.8	3.9
Imports (€)	% y/y	3.6	-3.4	25.6	18.9	8.4	47.2	23.7	27.7	29.2	25.2	17.3	6.9
Trade balance	EUR mn	1,527	12,472	-599	-20,429	2,702	2,190	-2,170	-3,321	-5,498	-3,460	-5,628	-5,842
Current account balance	EUR mn	2,523	15,287	-3,537	-25,985	3,233	1,320	-3,360	-4,730	-5,987	-5,099	-7,142	-7,757
Current account balance	% GDP	0.5	2.9	-0.6	-4.1	2.8	1.9	0.9	-0.6	-2.2	-3.2	-3.7	-4.1
General government balance	% GDP	-0.7	-6.9	-1.9	-4.7	-	-	-	-	-	-	-	-
CPI	% y/y	2.3	3.4	5.1	12.2	2.7	4.4	5.4	7.9	9.6	13.2	13.7	12.2
CPI *	% y/y	3.4	2.4	8.8	11.6	3.2	4.3	5.8	8.8	11.0	14.0	13.4	11.6
CPI excluding food and energy	% y/y	2.0	3.9	4.1	7.4	3.8	3.8	3.9	4.8	6.6	7.6	7.8	7.4
PPI	% y/y	1.2	-0.6	7.9	18.3	2.5	6.4	9.4	13.3	17.4	20.6	19.3	15.8
Broad money (M3) *	% y/y	8.3	16.4	9.3	3.5	14.4	7.4	8.6	8.9	7.9	8.7	7.3	3.5
Deposits *	% y/y	8.5	12.3	8.8	2.9	11.8	5.7	7.0	8.8	5.9	7.1	6.1	2.9
Loans *	% y/y	5.2	0.2	5.1	4.2	-2.1	0.2	2.7	5.1	6.4	7.0	5.8	4.2
EUR/PLN	PLN	4.30	4.44	4.57	4.65	4.55	4.53	4.57	4.62	4.62	4.67	4.68	4.65
USD/PLN	PLN	3.84	3.89	3.86	4.23	3.77	3.76	3.87	4.04	4.11	4.39	4.31	4.12
CHF/PLN	PLN	3.86	4.15	4.22	4.43	4.17	4.13	4.22	4.38	4.46	4.54	4.41	4.33
Reference rate *	%	1.50	0.10	1.75	6.50	0.10	0.10	0.10	1.75	3.50	6.00	6.50	6.50
3M WIBOR	%	1.72	0.67	0.54	5.71	0.21	0.21	0.22	1.50	3.46	5.99	6.66	6.73
Yield on 2-year T-bonds	%	1.56	0.50	0.79	6.23	0.08	0.20	0.43	2.47	4.07	6.70	7.15	7.00
Yield on 5-year T-bonds	%	1.99	0.96	1.39	6.54	0.65	1.10	0.89	2.91	4.41	7.03	7.50	7.20
Yield on 10-year T-bonds	%	2.41	1.52	1.97	6.33	1.35	1.73	1.80	3.01	4.29	6.62	7.35	7.05

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

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