

# MACROscope Lite

## Gasocalypse now

■ Since the publication of our [previous report](#) in mid-July, a number of news have emerged that make us increasingly cautious about the economic outlook. GDP data for the second quarter surprised with a strong decline of 2.1% q/q and, although this was mainly the result of inventory correction, the outlook for consumption and investment is looking less and less rosy. The biggest risk is the situation on the energy markets in Europe, which face a real threat of a gas shortage during the winter season due to a reduction in supplies from Russia. There is growing evidence that sharp increase in market prices for gas and electricity is already urging some companies to reduce their operations. If supplies had to be rationed in the winter, the scale of the problem would be incomparably greater. There are also growing concerns about the liquidity of the energy sector in Europe (before energy companies benefit from high selling prices, they may need to accumulate more cash as a collateral for hedging transactions). Governments in Europe are likely to intervene to limit the impact of the crisis on the corporate and consumer sectors. However, the scale of the problem is such that absorbing the growing debt supply could be quite a challenge for markets, especially in an environment of monetary tightening by major central banks. Record high inflation means that throwing a lifeline in the form of next rounds of QE will be a last resort.

■ **We have revised down our GDP growth forecasts: to 3.5% this year and 0.5% in 2023** (previously: 4.7% and 1.4%). It should be remembered that this year's rate is heavily inflated by the effect of a strong start to the year and **such a scenario means a de facto recession in Poland this year and a gradual recovery from the bottom since mid-2023**. It is far too early to rule out further downward revisions if the gas crisis intensifies.

■ **We remain cautiously optimistic about the labour market, anticipating only a slight increase in unemployment at the expense of fading wage growth**. However, the greater the scale of the energy shortage and the resulting problems for companies turns out to be, the more the scale of layoffs may pick up.

■ In the baseline scenario, **we forecast inflation to peak at 18-19% y/y in early 2023** (after stabilising in Q4 2022) and then gradually decline to around 8% by the end of 2023. However, the uncertainty surrounding energy prices and the government's sheltering measures means that the margin of error for these forecasts is huge (in the theoretical scenario when government blocks any increase in energy tariffs in 2023, CPI could drop below 5%).

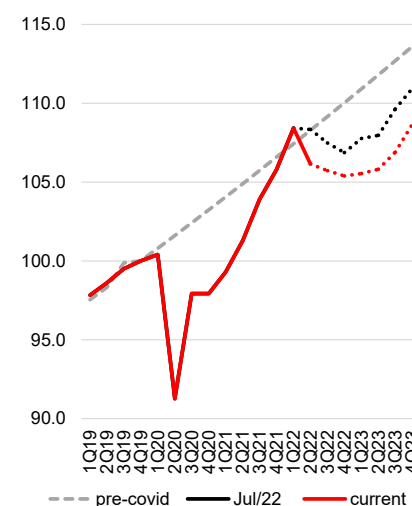
■ Polish government, like others in Europe, is likely to take further measures to protect citizens from drastic increases in energy costs, but these measures may take different forms and size, difficult to guess at present. **We see the government's draft budget for 2023 with a fiscal deficit of 4.4% of GDP as difficult to implement**, as we already see unrealistic assumptions for VAT revenues and a lack of resources for the 14th pensions, carbon subsidies and further shielding measures at this stage. The greater the scale of the fiscal expansion, the greater the risk of perpetuating elevated inflation for longer.

■ **The Monetary Policy Council will raise interest rates by 25bps in September and again on a similar scale in October or November**, in our view. Then, it will probably adopt a wait-and-see approach, without announcing a definitive end to the cycle. What happens next will be determined by the next data and economic developments - if the scenario is close to our expectations (demand destruction, wage deceleration, gradual inflation decline), the reference rate need not rise above 7.0%. The international context will be also important - it will be harder to stop tightening in a scenario of aggressive rate hikes by the Fed and ECB (due to the currency market pressure, among others).

■ On the financial markets the most likely scenario is the persistence of high volatility. An environment of global recession, high inflation, fiscal expansion and monetary tightening abroad is unsupportive for risk appetite. Unless major central banks radically change course, we assume a further increase in global bond yields as a result of rising debt supply and fading global liquidity. Under these conditions, **the room for bond strengthening in the local market will be limited, at least as long as investors are not convinced that the monetary tightening cycle is over**.

■ Macroeconomic fundamentals will not be supportive for the zloty in the coming months, so we expect EURPLN to flirt with the 4.80 level until the end of the year.

Poland's GDP according to the current scenario and previous forecasts (4Q19=100, s.a.)



Source: GUS, Santander

### Recently released Economic Comments:

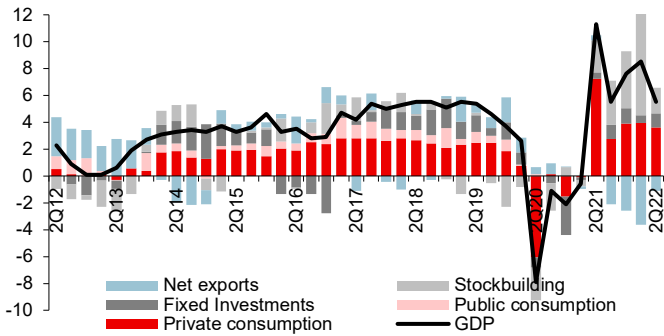
- [Economy slowing, while inflation growing](#)
- [Consumer durables in dire straits](#)
- [Everything slows down](#)
- [Shrinking economy with expanding labour market](#)
- [Winter is coming](#)
- [CPI increased a bit in July](#)
- [Another delivery of weak June numbers](#)
- [June data suggesting incoming slowdown](#)

### Economic Analysis Department:

aI. Jana Pawła II 17, 00-854 Warszawa  
 email: [ekonomia@santander.pl](mailto:ekonomia@santander.pl)  
 website: [santander.pl/en/economic-analysis](https://santander.pl/en/economic-analysis)  
**Piotr Bielski** +48 691 393 119  
**Jarostaw Kosaty** +48 887 842 480  
**Marcin Luziński** +48 510 027 662  
**Grzegorz Ogonek** +48 609 224 857

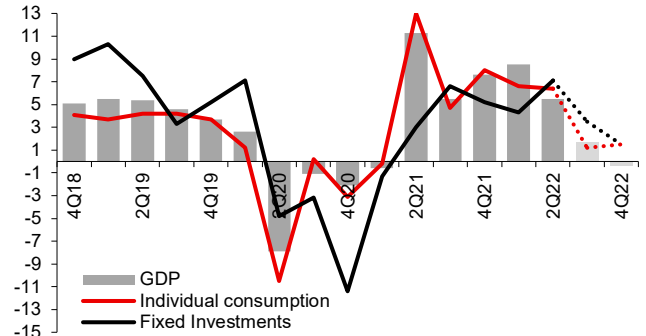
Economy in charts

Economic growth collapse came earlier than expected, although mostly via inventories



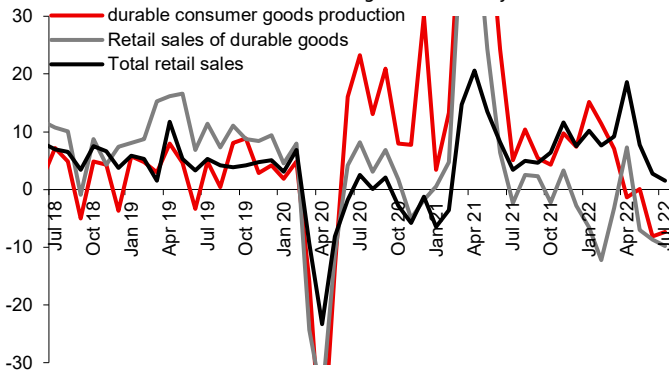
Source: GUS, Santander

Soon the collapse will also be seen in consumption and investments



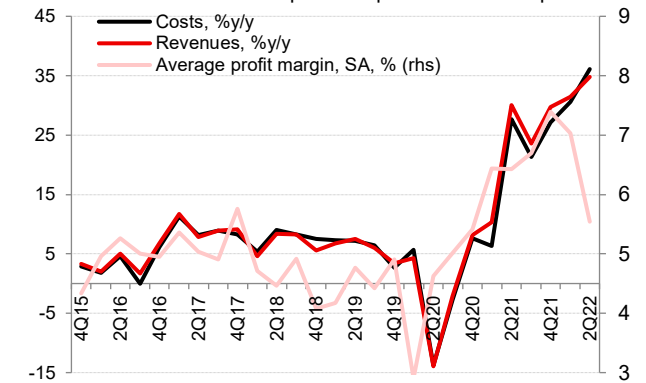
Source: GUS, Santander

Demand for durable consumer goods is already down...



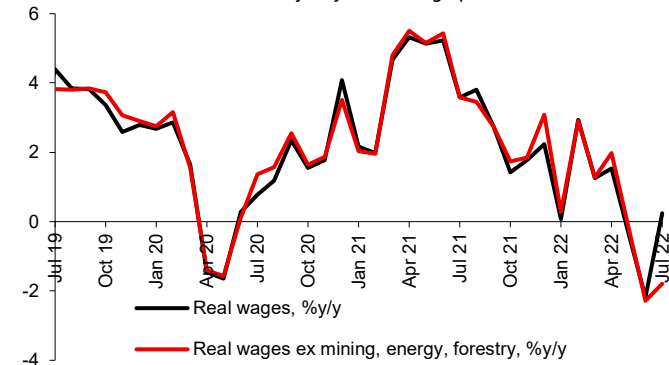
Source: GUS, Santander

...and it is harder for companies to pass costs to own prices



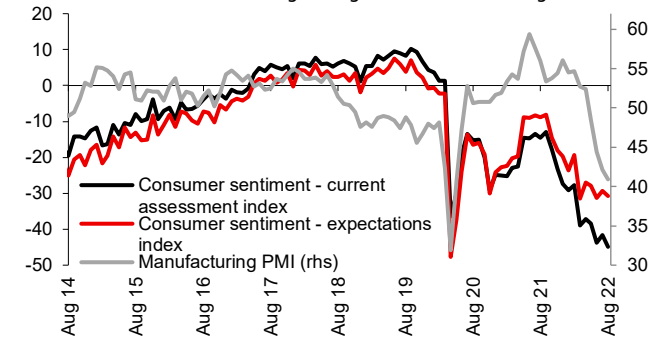
Source: GUS, Santander

...and are less likely to yield to wage pressure



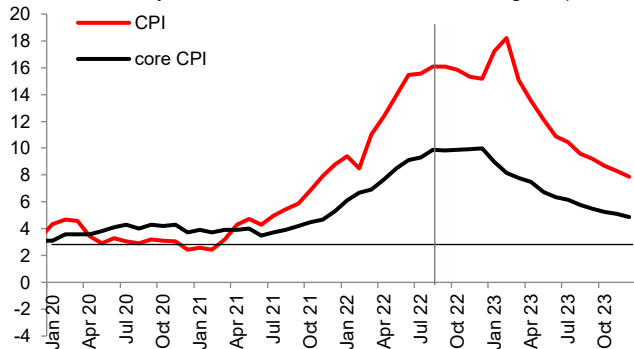
Source: GUS, Santander

Sentiment indicators are also signalling that we are entering a recession



Source: GUS, Markit, Santander

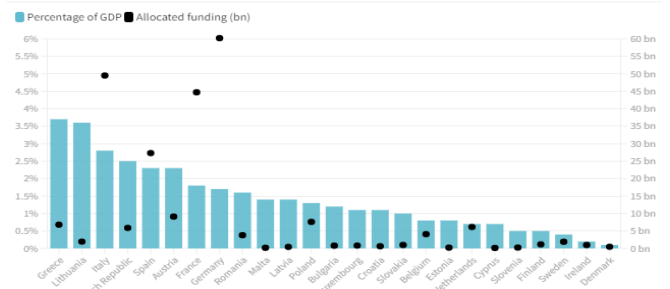
Unfortunately, this does not mean that inflation will give up soon



Source: GUS, NBP, Santander

Governments offered help in the face of the energy crisis:

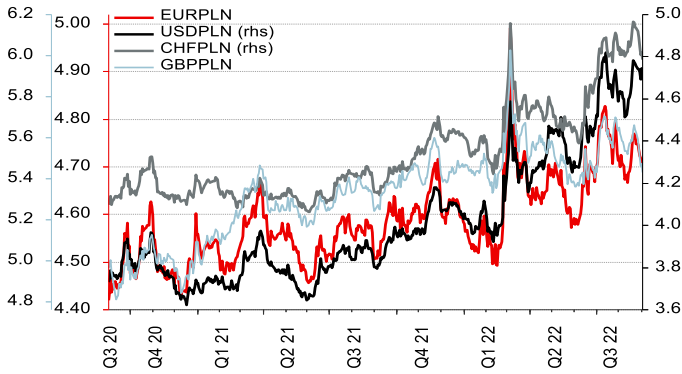
Governments allocated funding (Sep 2021 - Jul 2022) to shield households and businesses from the energy crisis (updated 10.08.2022)



Source: Bruegel

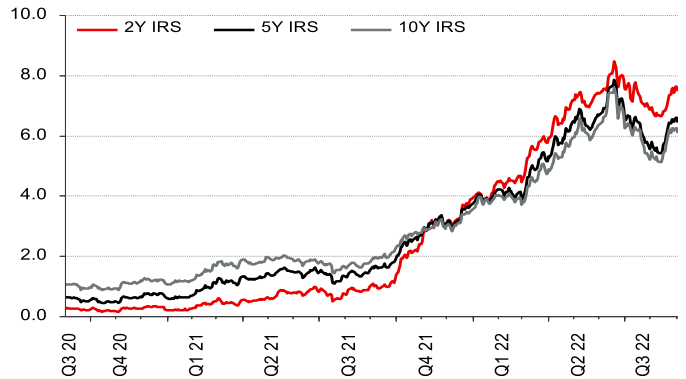
Markets in charts

Zloty exchange rates



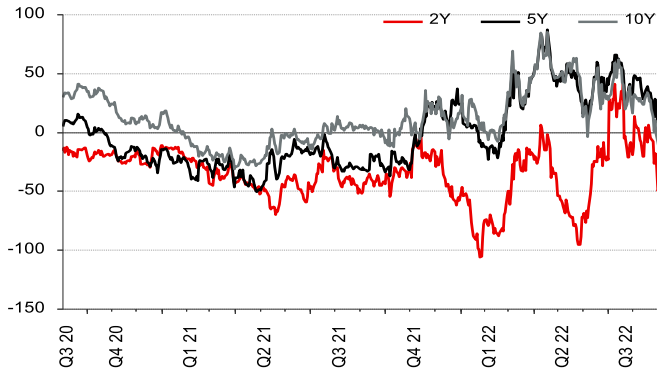
Source: Refinitiv Datastream, Santander

IRS (%)



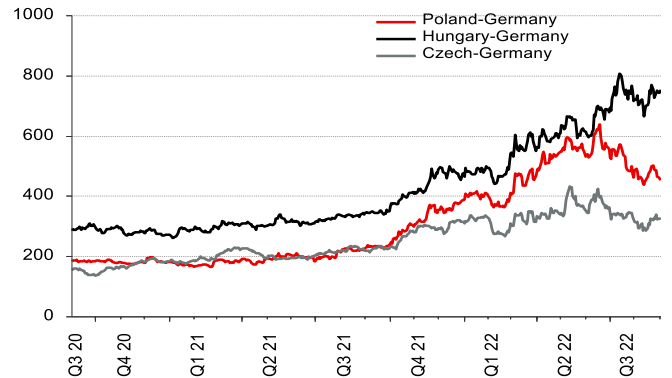
Source: Refinitiv Datastream, Santander

Poland asset swap spreads (bp)



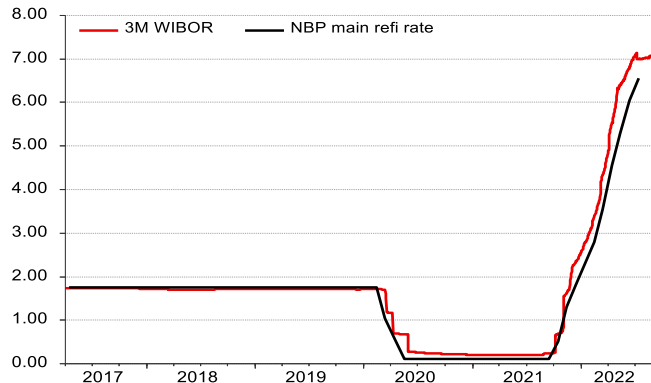
Source: Refinitiv Datastream, Santander

10Y bond yield spreads vs Bund



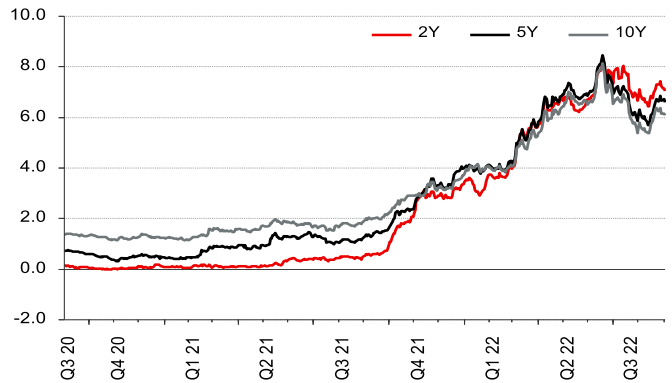
Source: Refinitiv Datastream, Santander

Interest rates



Source: Refinitiv Datastream, Santander

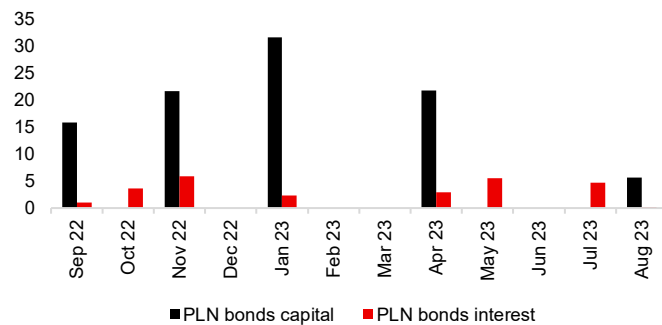
Polish bond yields (%)



Source: Refinitiv Datastream, Santander

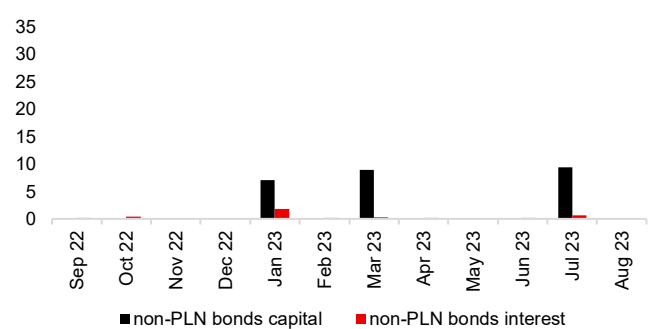
Principal and interest payments

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>1 September</b> PL: Manufacturing PMI (Aug) HU: GDP (2Q) DE: Manufacturing PMI (Aug) EZ: Manufacturing PMI (Aug) EZ: Unemployment rate (Jul) US: ISM Manufacturing (Aug)	2 DE: Export (Jul) US: Nonfarm payrolls (Aug) US: Unemployment rate (Aug) US: Durable goods orders (Jul) US: Factory orders (Jul)
5 CN: Services PMI (Aug) DE: Services PMI (Aug) EZ: Services PMI (Aug) EZ: Retail sales (Jul) US: Labour Day	6 DE: Factory orders (Jul) CZ: Industrial production (Jul) US: Services ISM (Aug)	7 PL: NBP interest rate decision HU: Industrial production (Jul) DE: Industrial production (Jul) EZ: GDP (2Q) US: Trade Balance (Jul)	8 HU: Inflation (Aug) EZ: ECB interest rate decision	9 CN: Inflation (Aug) CN: PPI (Aug)
12 CZ: Inflation (Aug)	13 PL: Current account (Jul) CZ: Current account (Jul) DE: ZEW Index (Sep) US: CPI inflation (Aug)	14 HU: Industrial production (Jul) EZ: Industrial production (Jul) US: PPI (Aug)	15 PL: Inflation (Aug, final) US: Retail sales (Aug) UK: BOE interest rate decision	16 PL: Core CPI (Aug) CN: Industrial production (Aug) CN: Retail sales (Aug) CN: Unemployment rate (Aug) EZ: HICP (Aug) US: Michigan index (Aug)
19 DE: PPI (Aug) EZ: Construction output (Jul)	20 CN: PBoC interest rate decision PL: Wages, employment (Aug) PL: Industrial production (Aug) PL: PPI (Aug) EZ: Current account (Jul)	21 PL: Construction output (Aug) PL: Retail sales (Aug) CZ: CNB interest rate decision US: FED interest rate decision US: Existing home sales (Aug)	22 PL: M3 (Aug) CH: SNB interest rate decision	23 PL: Unemployment rate (Aug) DE: PMI (Sep, flash) EZ: PMI (Sep, flash) US: PMI (Sep, flash)
26 DE: CPI Inflation (Sep) DE: IFO Index (Sep)	27 HU: NBH interest rate decision DE: Consumer confidence (Jul) EZ: M3 (Sep) US: Consumer confidence (Sep) US: Durable goods orders (Sep) US: New home sales (Sep)	28 DE: Consumer confidence (Oct) US: GDP (2Q) US: Pending home sales (Aug)	29 DE: HICP Inflation (Sep, flash) EZ: ESI (Aug)	30 PL: Inflation (Sep, flash) CZ: GDP (2Q) HU: PPI (Aug) DE: Unemployment rate (Sep) DE: Retail sales (Sep) EZ: HICP inflation (Sep, flash) US: PCE inflation (Sep) CN: Composite PMI (Sep)

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

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

## Economic data and forecasts for Poland

### Monthly economic indicators

		Aug 21	Sep 21	Oct 21	Nov 21	Dec 21	Jan 22	Feb 22	Mar 22	Apr 22	May 22	Jun 22	Jul 22	Aug 22	Sep 22
PMI	pts	56.0	53.4	53.8	54.4	56.1	54.5	54.7	52.7	52.4	48.5	44.4	42.1	40.9	39.9
Industrial production	% y/y	13.0	8.7	7.6	14.8	16.3	18.0	17.3	15.4	12.4	14.9	10.4	7.6	12.9	11.5
Construction production	% y/y	10.2	4.2	4.1	12.8	3.1	20.8	21.2	27.6	9.0	13.0	5.9	4.2	1.0	2.6
Retail sales (current prices)	% y/y	10.7	11.1	14.4	21.2	16.9	20.0	16.5	22.0	33.4	23.6	19.9	18.4	17.3	14.2
Unemployment rate	%	5.8	5.6	5.5	5.4	5.4	5.5	5.5	5.4	5.2	5.1	4.9	4.9	4.8	4.8
Gross wages in corporate sector	% y/y	9.5	8.7	8.4	9.8	11.2	9.5	11.7	12.4	14.1	13.5	13.0	15.8	13.1	13.7
Employment in corporate sector	% y/y	0.9	0.6	0.5	0.7	0.5	2.3	2.2	2.4	2.8	2.4	2.2	2.3	2.5	2.6
Exports (€)	% y/y	23.9	9.4	8.9	7.4	26.6	19.9	11.2	18.7	7.9	27.2	25.8	19.4	23.5	19.0
Imports (€)	% y/y	33.6	22.4	24.2	23.9	35.1	35.0	22.1	38.2	24.5	36.4	31.5	22.5	29.4	23.6
Trade balance	EUR mn	-712	-915	-1,099	-1,153	-938	-1,208	-1,659	-3,537	-2,620	-1,157	-849	-1,330	-2,270	-2,239
Current account balance	EUR mn	-527	-1,817	-1,368	-1,269	-2,685	-1,046	-3,787	-4,010	-3,476	-1,485	-1,468	-1,861	-1,762	-2,864
Current account balance	% GDP	1.5	0.9	0.3	-0.1	-0.7	-1.4	-2.1	-2.7	-3.5	-3.8	-3.9	-4.0	-4.2	-4.3
Budget balance (cumulative)	PLN bn	43.4	47.6	51.9	50.4	-26.3	22.3	11.3	-0.3	9.2	12.1	27.7	34.7	30.9	28.3
Budget balance (cumulative)	% of FY plan	-52.7	-57.8	-63.0	-61.2	32.0	-74.6	-37.7	0.9	-30.8	-40.3	-92.8	-115.9	-103.2	-94.7
CPI	% y/y	5.5	5.8	6.9	7.9	8.8	9.4	8.5	11.0	12.4	13.9	15.5	15.6	16.1	16.1
CPI excluding food and energy	% y/y	3.9	4.2	4.5	4.7	5.3	6.1	6.7	6.9	7.7	8.5	9.1	9.3	9.9	9.8
PPI	% y/y	9.6	10.3	12.0	13.6	14.4	16.1	16.1	21.9	24.1	24.7	25.6	24.9	23.7	23.6
Broad money (M3)	% y/y	9.1	8.6	8.6	10.1	8.9	7.7	8.0	7.9	8.2	7.6	6.5	6.2	6.1	5.6
Deposits	% y/y	7.4	7.0	7.4	9.4	8.8	7.8	7.0	5.9	6.4	6.3	5.5	5.5	5.6	5.0
Loans	% y/y	2.3	2.7	3.5	4.8	5.1	4.9	6.2	6.4	7.4	6.8	7.3	6.8	6.9	5.9
EUR/PLN	PLN	4.57	4.57	4.59	4.65	4.62	4.55	4.55	4.76	4.65	4.65	4.64	4.77	4.72	4.75
USD/PLN	PLN	3.88	3.88	3.96	4.07	4.08	4.02	4.01	4.32	4.29	4.40	4.39	4.69	4.66	4.71
CHF/PLN	PLN	4.25	4.21	4.29	4.42	4.44	4.38	4.35	4.64	4.55	4.49	4.53	4.83	4.87	4.81
Reference rate *	%	0.10	0.10	0.50	1.25	1.75	2.25	2.75	3.50	4.50	5.25	6.00	6.50	6.50	6.75
3M WIBOR	%	0.21	0.23	0.61	1.56	2.35	2.78	3.33	4.27	5.48	6.41	6.85	7.03	7.04	7.24
Yield on 2-year T-bonds	%	0.40	0.54	1.55	2.80	3.04	3.31	3.72	5.19	6.36	6.52	7.47	7.48	6.91	7.32
Yield on 5-year T-bonds	%	0.11	1.40	2.14	3.07	3.53	3.98	4.03	5.21	6.51	6.98	7.54	6.78	6.24	6.85
Yield on 10-year T-bonds	%	1.76	2.02	2.61	3.07	3.34	4.00	3.98	4.90	6.01	6.67	7.22	6.41	5.82	6.38

Note: \* at the end of the period.

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

Quarterly and annual economic indicators

		2020	2021	2022	2023	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23
GDP	PLN bn	2,339.0	2,622.2	3,004.6	3,384.3	687.0	719.7	751.4	846.5	773.9	825.9	844.1	940.4
GDP	% y/y	-2.2	5.9	3.5	0.5	8.5	5.5	1.7	-0.4	-2.7	-0.3	1.1	3.1
Domestic demand	% y/y	-2.9	7.6	4.0	0.0	13.2	7.2	0.6	-2.3	-5.0	0.0	1.5	2.7
Private consumption	% y/y	-3.0	6.1	3.8	2.6	6.6	6.4	1.2	1.5	2.0	1.5	3.0	4.0
Fixed investments	% y/y	-4.9	3.8	3.7	-1.5	4.3	7.1	3.5	1.5	-2.0	-3.0	-2.0	0.0
Industrial production	% y/y	-1.1	14.5	9.9	-1.7	16.8	12.5	10.7	0.7	-5.5	-4.2	-2.8	5.7
Construction production	% y/y	-3.5	1.6	6.1	-5.1	23.7	9.2	2.9	-2.0	-12.7	-9.0	-2.7	0.7
Retail sales (constant prices)	% y/y	-3.0	7.4	3.5	-1.2	9.7	9.7	0.8	-4.7	-8.3	-4.6	1.0	6.9
Unemployment rate *	%	6.2	5.4	4.9	5.6	5.4	4.9	4.8	4.9	5.3	5.3	5.3	5.6
Gross wages in the national economy	% y/y	5.3	8.9	11.2	7.8	9.7	11.8	12.1	11.0	9.9	8.0	6.7	6.5
Employment in the national economy	% y/y	-1.0	0.4	1.8	0.0	1.9	1.8	1.8	1.9	0.4	-0.1	-0.2	-0.2
Exports (€)	% y/y	1.3	18.7	13.4	-6.5	16.5	19.8	20.6	-1.6	-12.7	-10.5	-8.2	6.2
Imports (€)	% y/y	-3.4	25.6	20.9	-6.7	31.7	30.6	25.2	0.3	-12.8	-12.3	-8.0	7.0
Trade balance	EUR mn	12,472	-470	-21,580	-19,296	-6,463	-4,626	-5,839	-4,652	-5,586	-2,533	-5,588	-5,590
Current account balance	EUR mn	15,287	-4,128	-27,948	-20,877	-8,883	-6,429	-6,487	-6,149	-7,448	-2,165	-4,871	-6,393
Current account balance	% GDP	2.9	-0.7	-4.4	-2.9	-2.7	-3.9	-4.3	-4.4	-4.1	-3.3	-3.0	-2.9
General government balance	% GDP	-6.9	-1.9	-3.6	-4.7	-	-	-	-	-	-	-	-
CPI	% y/y	3.4	5.1	13.7	11.8	9.6	13.9	15.9	15.4	16.8	12.2	9.8	8.3
CPI *	% y/y	2.4	8.8	15.2	8.3	11.0	15.5	16.1	15.2	15.1	10.9	9.2	7.9
CPI excluding food and energy	% y/y	3.9	4.1	8.7	6.5	6.6	8.4	9.7	9.9	8.3	6.8	5.8	5.1
PPI	% y/y	-0.6	7.9	22.0	8.1	18.0	24.8	24.0	21.2	15.4	7.0	5.4	4.6
Broad money (M3) *	% y/y	16.4	8.9	2.2	5.4	7.9	6.5	5.6	2.2	1.4	3.0	2.6	5.4
Deposits *	% y/y	12.3	8.8	1.0	5.0	5.9	5.5	5.0	1.0	2.4	3.0	3.1	5.0
Loans *	% y/y	0.2	5.1	3.2	3.7	6.4	7.3	5.7	3.2	1.8	0.9	1.7	3.7
EUR/PLN	PLN	4.44	4.57	4.70	4.76	4.62	4.65	4.75	4.79	4.80	4.78	4.74	4.71
USD/PLN	PLN	3.89	3.86	4.46	4.47	4.11	4.36	4.69	4.67	4.62	4.53	4.43	4.32
CHF/PLN	PLN	4.15	4.22	4.64	4.50	4.46	4.52	4.84	4.74	4.64	4.53	4.45	4.38
Reference rate *	%	0.10	1.75	7.00	6.50	3.50	6.00	6.75	7.00	7.00	7.00	6.75	6.50
3M WIBOR	%	0.67	0.54	6.08	7.06	3.46	6.25	7.10	7.50	7.31	7.20	7.05	6.68
Yield on 2-year T-bonds	%	0.50	0.79	6.36	6.88	4.07	6.78	7.24	7.35	7.15	7.05	6.83	6.48
Yield on 5-year T-bonds	%	0.96	1.39	6.25	6.50	4.41	7.01	6.62	6.95	6.80	6.60	6.40	6.20
Yield on 10-year T-bonds	%	1.52	1.97	5.92	6.21	4.29	6.63	6.21	6.55	6.40	6.25	6.15	6.05

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

This analysis is based on information available until 5.09.2022 has been prepared by:

### ECONOMIC ANALYSIS DEPARTMENT

al. Jana Pawła II 17, 00-854 Warszawa (+48) 22 586 8340

Email: [ekonomia@santander.pl](mailto:ekonomia@santander.pl) Web site: <https://www.santander.pl/en/economic-analysis>

**Maciej Reluga\*** – Chief Economist

tel. (+48) 22 534 1888. Email: [maciej.reluga@santander.pl](mailto:maciej.reluga@santander.pl)

<b>Piotr Bielski*</b>	– Director	+48 691 393 119
<b>Jarostaw Kosaty *</b>	– Economist	+48 887 842 480
<b>Marcin Luziński*</b>	– Economist	+48 510 027 662
<b>Grzegorz Ogonek*</b>	– Economist	+48 609 224 857



## TREASURY SERVICES DEPARTMENT

### Poznań

pl. Gen. W. Andersa 5  
61-894 Poznań  
tel. (+48) 61 856 58 14/30  
fax (+48) 61 856 4456

### Warszawa

al. Jana Pawła II 17  
00-854 Warszawa  
tel. (+48) 22 586 83 20/38  
fax (+48) 22 586 8340

### Wrocław

ul. Robotnicza 11  
53-607 Wrocław  
tel. (+48) 71 369 9400  
fax (+48) 71 370 2622

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