

MACROscope Lite

Climbing the inflation plateau

■ The global economy is slowing down. Germany and the euro zone are moving rapidly towards recession. Economic activity in Poland is also on a downward trajectory and the bottom of this mini-cycle is probably still ahead of us, to be seen early next year. Its depth will be determined by the magnitude of the energy market disruptions during the heating season. Precise forecasting of GDP growth is very difficult at the moment, firstly because of the great uncertainty about the situation on the energy market (winter weather is just as difficult to predict as Russia's next moves), and secondly because of the revision by the Central Statistical Office (GUS) of GDP data for the last twelve years, which has not yet been followed by the publication of quarterly data. GDP growth in 2021 proved to be 6.8% rather than 5.9% shown previously, and we think that also 1Q-2Q data for 2022 may have been affected. As long as we do not know the revised quarterly data, we are maintaining our previous GDP growth forecasts for 2022-23.

■ It is worth noting, however, that the domestic data published over the past month have mostly been better than expected, which increased somewhat optimism about economic activity in 3Q. This implies a lower risk of a 'technical recession' (two consecutive quarters of quarter-on-quarter GDP contraction), although it does not change the diagnosis that an actual recession will be difficult to avoid - we are still expecting a clear deceleration of the economy at the turn of the year, when annual GDP growth will most likely go below zero.

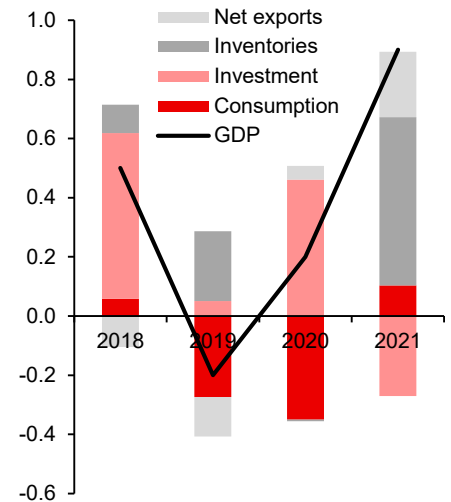
■ The portent of recession also caught the eye of the MPC, which kept interest rates unchanged at its October meeting, despite the strong upward surprise in September inflation (17.2% y/y and 1.6% m/m). The NBP president thus broke with the forward guidance formulated by himself at earlier conferences: "further decisions will be data-dependent", "higher inflation = higher rates", but kept his commitment from the Sopot pier. This is yet another example that the official communication of the Polish central bank should be treated with caution. It now appears from that communication that the tightening cycle is not over, but has stopped, and what happens next will be determined by the November NBP projection. In our view, in November the MPC may hike rates again by 25bp after the new projection shows a slower return of inflation to the target and the preliminary CPI reading for October rises again (18% y/y is within range), after which it will go into 'wait-and-see' mode again, hoping that inflation will finally reach a plateau from which it will start to slide ... eventually.

■ While until recently we were inclined to agree that a rise in rates to around 7% in this cycle might be sufficient to balance the economy, as some of the work in curbing consumption and inflation will be done by the costs of living shock, this conviction has diminished markedly. Firstly, the CPI data indicate that the inflationary inertia is much greater than it seemed, prompting an upward revision of CPI and core inflation forecasts. It is possible that, despite the electricity price freeze, inflation will approach 20% at the turn of the year and may not fall below 10% until the end of 2023. Secondly, higher current and expected inflation mean lower real interest rates, which favours greater propensity to consume (it is worth noting, by the way, that the rate hikes so far have frozen the mortgage market, but did little damage to consumer credit). Thirdly, the government will protect household budgets from a shock by leaving them more room for spending at the expense of higher fiscal deficit. As a result, keeping NBP rates close to current levels could prolong the period of elevated inflation. Nevertheless, the acceptance of this fact and a strong reluctance to tighten policy further for fear of excessive cooling of the economy is quite obviously visible in the MPC's communiqué and in governor Głapiński's statements. Perhaps the issue of rate hikes will be back on the agenda in 2023, but the trigger to resume the cycle (whether coming from inflation or from the exchange rate) would have to be very strong. The scenario of rate cuts starting before the end of 2023 seems very remote at the moment.

■ The MPC's strategy favours a steepening of the curve, but much of the movement has already taken place and concerns about the scale of the recession in Europe and in Poland appear to be a barrier to further sharp increases in yields at the long end. Upcoming large debt supply in Europe will limit the room for bond appreciation, on the other hand.

■ Halting the tightening cycle despite inflation still in upward trend, a lengthening list of anti-crisis measures that could widen the fiscal deficit, falling stock indices and a strengthening dollar, geopolitical risks and possible energy shortages in winter - all of these factors are unsupportive the Polish currency. We do not rule out EURPLN testing 5.0 in the horizon until the end of this year.

Revision in annual GDP data - breakdown



Source: GUS, Santander

Recently released Economic Comments:

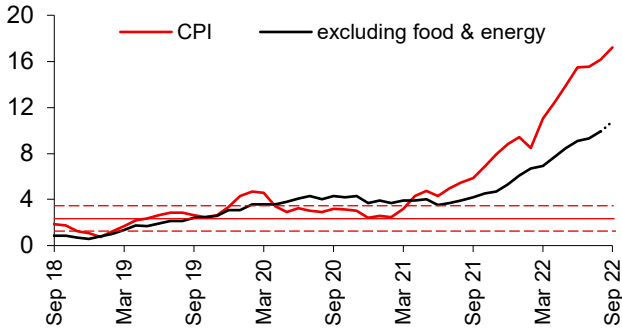
- [MPC thinks inflation cannot rise forever](#)
- [Rates on hold despite higher inflation](#)
- [Retail sales and construction output above forecasts](#)
- [Labour market is weakening, PPI refuses to fall](#)
- [CPI still likely to go higher](#)
- [Hiking cycle formally not over](#)

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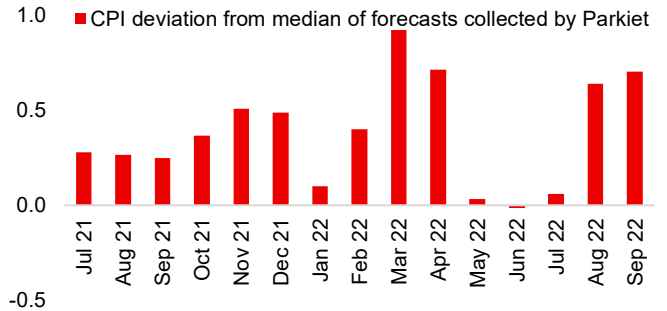
Economy in charts

In September CPI and core inflation gained momentum and have still been seen climbing the plateau



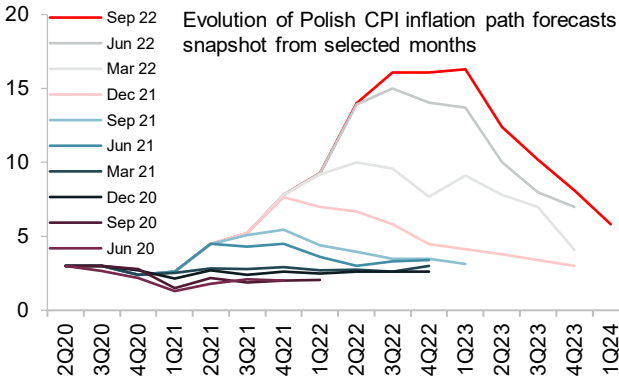
Source: GUS, NBP, Santander

CPI data for May-July gave economists hope that they captured the new mechanics of Polish inflation in their models. After August and September the hope was gone



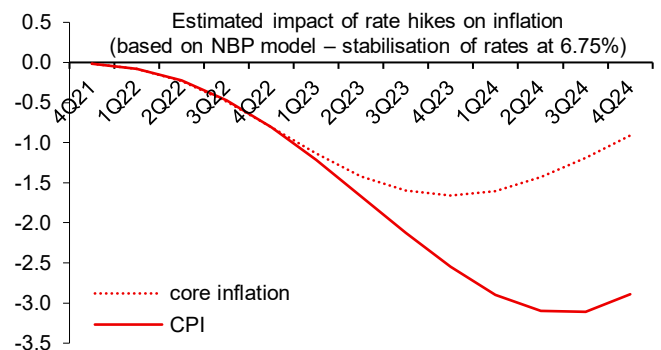
Source: GUS, Parkiet, Santander

So the chase after inflation continues



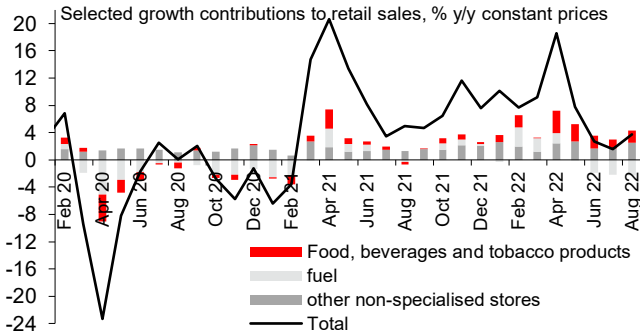
Source: Bloomberg, Santander

Meanwhile the MPC is waiting for the effects on CPI of the already delivered rate hikes; but NBP model hints at a limited impact



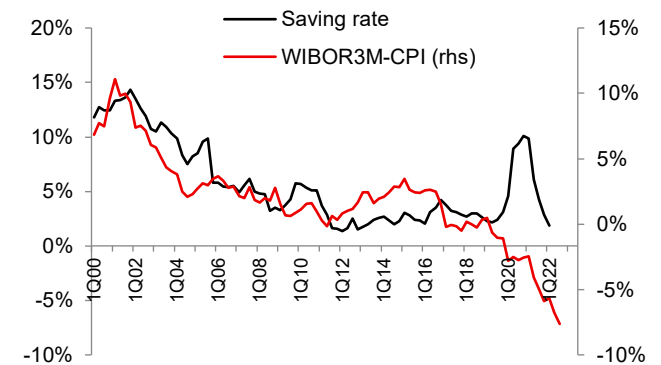
Source: NBP, Santander

Wages are growingly outpaced by CPI, consumer sentiment suggests a collapse of consumption and yet real retail sales are still growing



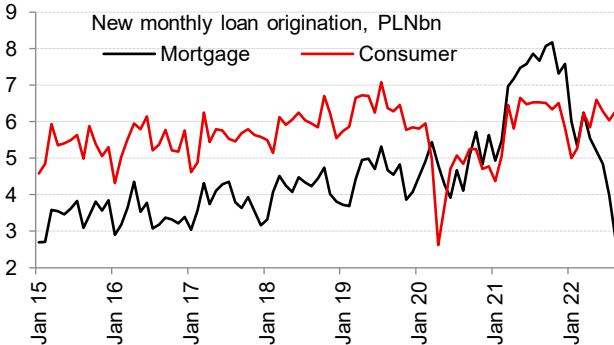
Source: GUS, Santander

Ultra-low real rates encourage the utilisation of savings...



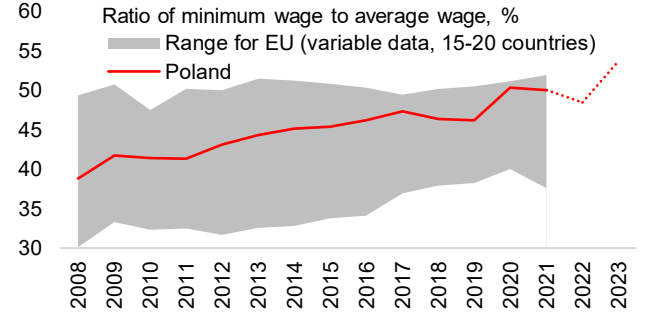
Source: GUS, Santander

... consumer loans are still doing fine ...



Source: NBP, Santander

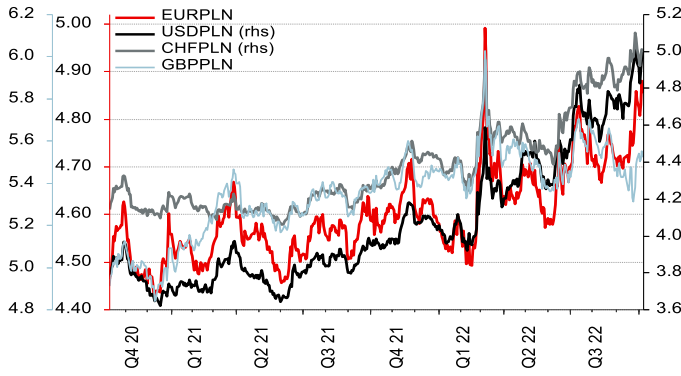
... and the government is trying in various ways to protect household budgets from a shocking collapse



Source: Eurostat, GUS, Santander

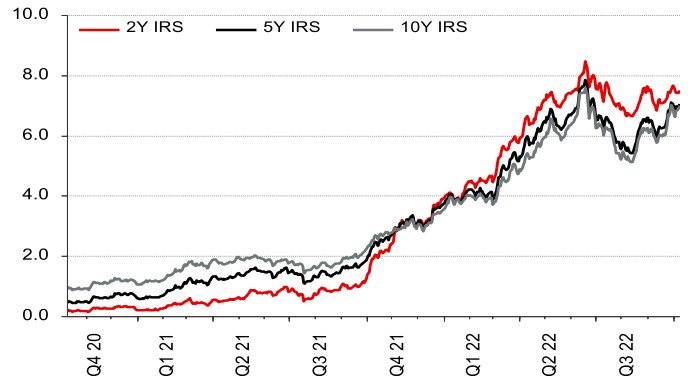
Markets in charts

Zloty exchange rates



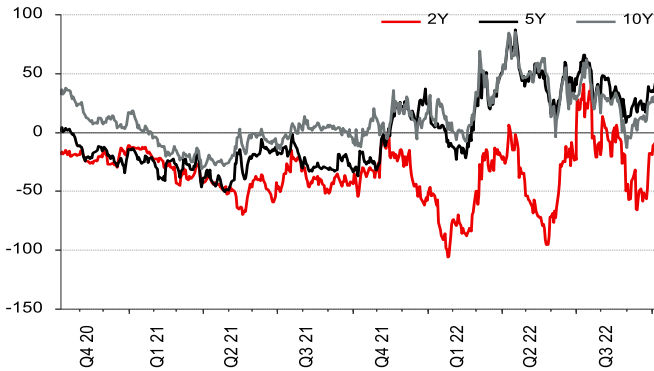
Source: Refinitiv Datastream, Santander

IRS (%)



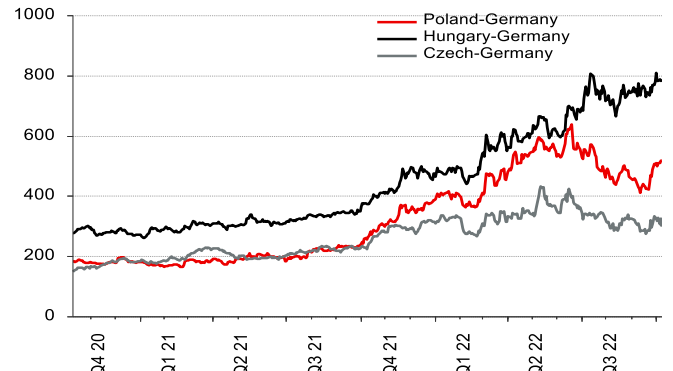
Source: Refinitiv Datastream, Santander

Poland asset swap spreads (bp)



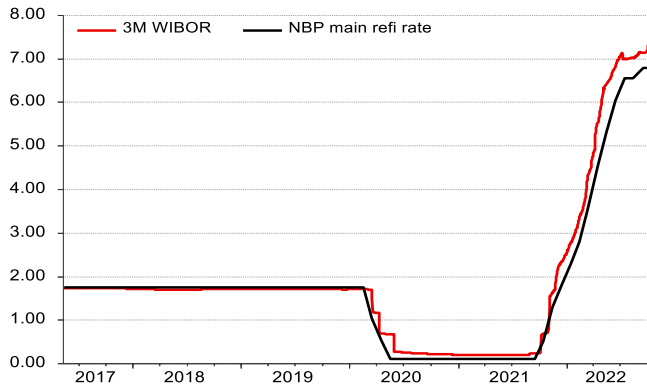
Source: Refinitiv Datastream, Santander

10Y bond yield spreads vs Bund



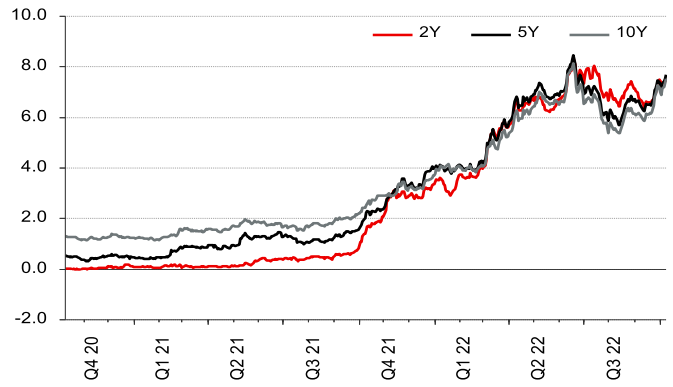
Source: Refinitiv Datastream, Santander

Interest rates



Source: Refinitiv Datastream, Santander

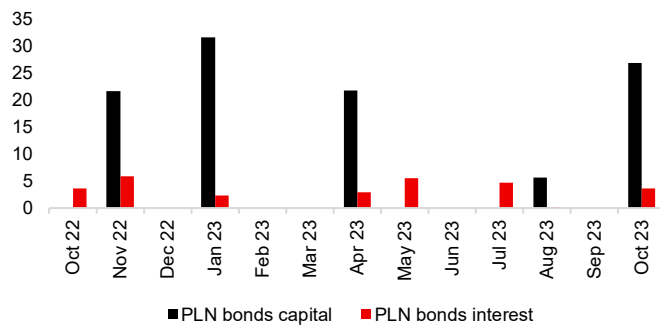
Polish bond yields (%)



Source: Refinitiv Datastream, Santander

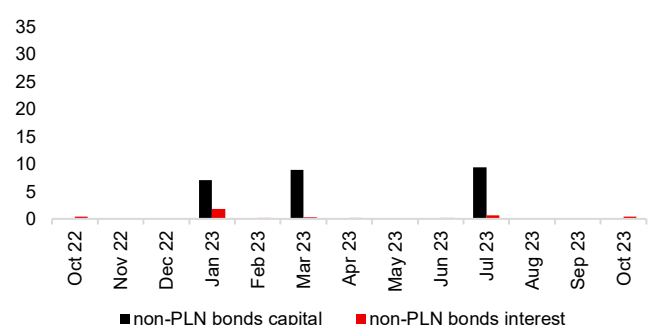
Principal and interest payments

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
3 October PL: PMI manufacturing (Aug) DE: PMI manufacturing (Aug) EZ: PMI manufacturing (Aug) US: ISM manufacturing (Aug)	4 US: Durable goods orders (Aug) US: Factory orders (Aug)	5 PL: NBP decision DE: Export (Aug) CN: PMI services (Aug) DE: PMI services (Aug) EZ: PMI services (Aug)	6 EZ: Retail sales (Aug) DE: Industrial orders (Aug)	7 US: Non-farm payrolls (Aug) US: Unemployment rate (Aug) DE: Industrial output (Aug)
10	11 CZ: CPI inflation (Aug) HU: CPI inflation (Aug)	12 EZ: Industrial output (Aug) US: PPI inflation (Aug) US: FOMC minutes (Aug) HU: Industrial output (Aug)	13 DE: CPI inflation (Aug) US: CPI inflation (Aug)	14 PL: CPI inflation (Aug) PL: Balance of payments (Aug) US: Retail sales (Aug) US: Michigan – flash (Aug)
17 PL: Core inflation (Aug)	18 DE: ZEW index (Oct) US: Industrial output (Aug)	19 PL: Consumer confidence (Oct) EZ: HICP inflation (Aug) US: Building permits (Aug) US: House starts (Aug)	20 PL: PPI inflation (Aug) PL: Industrial output (Aug) PL: Employment (Aug) PL: Wages (Aug) DE: PPI inflation (Aug) CN: PBoc decision	21 PL: Retail sales (Aug) PL: Construction output (Aug) PL: Business climate (Oct)
24 PL: M3 money supply (Aug) DE: PMI manufacturing – flash (Oct) EZ: PMI manufacturing – flash (Oct)	25 PL: Unemployment rate (Aug) DE: Ifo index (Oct) US: S&P home price index (Aug) HU: NBH meeting	26	27 EZ: ECB meeting US: GDP (3Q) US: Durable goods orders (Aug)	28 DE: CPI inflation – flash (Oct) US: Incomes and spending (Aug) US: Michigan (Oct) US: PCE inflation (Aug) US: Pending home sales (Aug)
31 PL: CPI inflation – flash (Oct) EZ: GDP (3Q) CN: PMI - manufacturing (Oct)				

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			29
Balance of payments	13	14	16	13	13	13	14	12	13	14	14	14
Money supply	26	22	22	25	24	23	22	23	22	24	24	22

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

Economic data and forecasts for Poland

Monthly economic indicators

		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	Oct 22
PMI	pts	53.4	53.8	54.4	56.1	54.5	54.7	52.7	52.4	48.5	44.4	42.1	40.9	43.0	41.2
Industrial production	% y/y	8.7	7.6	14.8	16.3	18.0	17.3	15.4	12.4	14.9	10.4	7.1	10.9	9.2	2.7
Construction production	% y/y	4.2	4.1	12.8	3.1	20.8	21.2	27.6	9.0	13.0	6.0	4.1	6.1	6.5	4.0
Retail sales (current prices)	% y/y	11.1	14.4	21.2	16.9	20.0	16.5	22.0	33.4	23.6	19.9	18.4	21.5	21.5	19.9
Unemployment rate	%	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	4.8
Gross wages in corporate sector	% y/y	8.7	8.4	9.8	11.2	9.5	11.7	12.4	14.1	13.5	13.0	15.8	12.7	13.4	14.2
Employment in corporate sector	% y/y	0.6	0.5	0.7	0.5	2.3	2.2	2.4	2.8	2.4	2.2	2.3	2.4	2.4	2.4
Exports (€)	% y/y	11.0	6.2	13.7	25.0	27.4	20.3	11.9	18.2	26.9	21.3	23.0	21.9	15.2	3.2
Imports (€)	% y/y	22.3	22.0	31.2	39.6	38.7	29.7	31.4	36.4	32.5	26.6	22.6	22.4	19.0	5.3
Trade balance	EUR mn	-991	-1,655	-1,816	-2,277	-636	-1,707	-4,553	-2,693	-1,438	-1,010	-1,452	-2,226	-2,052	-2,224
Current account balance	EUR mn	-1,653	941	-1,482	-3,883	-1,091	-2,032	-4,206	-2,844	-1,340	-541	-1,735	-1,534	-1,719	1,366
Current account balance	% GDP	0.4	0.1	-0.5	-1.4	-1.7	-2.0	-2.7	-3.3	-3.4	-3.5	-3.5	-3.4	-3.4	-3.3
Budget balance (cumulative)	PLN bn	47.6	51.9	50.4	-26.3	22.3	11.3	-0.3	9.2	12.1	27.7	34.7	27.5	25.0	22.0
Budget balance (cumulative)	% of FY plan	-57.8	-63.0	-61.2	32.0	-74.6	-37.7	0.9	-30.8	-40.3	-92.8	-115.9	-92.1	-83.5	-73.5
CPI	% y/y	5.8	6.9	7.9	8.8	9.4	8.5	11.0	12.4	13.9	15.5	15.6	16.1	17.2	17.9
CPI excluding food and energy	% y/y	4.2	4.5	4.7	5.3	6.1	6.7	6.9	7.7	8.5	9.1	9.3	9.9	10.8	11.3
PPI	% y/y	10.3	12.0	13.6	14.4	16.1	16.1	21.9	24.1	24.7	25.6	25.5	25.5	25.6	24.9
Broad money (M3)	% y/y	8.6	8.6	10.1	8.9	7.7	8.0	7.9	8.2	7.6	6.5	6.2	7.4	7.7	6.9
Deposits	% y/y	7.0	7.4	9.4	8.8	7.8	7.0	5.9	6.4	6.3	5.5	5.5	7.0	6.6	5.6
Loans	% y/y	2.7	3.5	4.8	5.1	4.9	6.2	6.4	7.4	6.8	7.3	6.8	7.4	6.9	5.6
EUR/PLN	PLN	4.57	4.59	4.65	4.62	4.55	4.55	4.76	4.65	4.65	4.64	4.77	4.72	4.74	4.88
USD/PLN	PLN	3.88	3.96	4.07	4.08	4.02	4.01	4.32	4.29	4.40	4.39	4.69	4.66	4.79	5.00
CHF/PLN	PLN	4.21	4.29	4.42	4.44	4.38	4.35	4.64	4.55	4.49	4.53	4.83	4.87	4.92	5.09
Reference rate *	%	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	7.00
3M WIBOR	%	0.23	0.61	1.56	2.35	2.78	3.33	4.27	5.48	6.41	6.85	7.03	7.04	7.16	7.26
Yield on 2-year T-bonds	%	0.54	1.55	2.80	3.04	3.31	3.72	5.19	6.36	6.52	7.47	7.48	6.91	6.80	7.60
Yield on 5-year T-bonds	%	1.40	2.14	3.07	3.53	3.98	4.03	5.21	6.51	6.98	7.54	6.78	6.24	6.69	7.66
Yield on 10-year T-bonds	%	2.02	2.61	3.07	3.34	4.00	3.98	4.90	6.01	6.67	7.22	6.41	5.82	6.32	7.43

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	2,337.7	2,623.9	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	-2.0	6.8	3.5	0.5	8.5	5.5	1.7	-0.4	-2.7	-0.3	1.1	3.1
Domestic demand	% y/y	-2.7	8.4	4.0	0.0	13.2	7.2	0.6	-2.3	-5.0	0.0	1.5	2.7
Private consumption	% y/y	-3.6	6.3	3.8	2.6	6.6	6.4	1.2	1.5	2.0	1.5	3.0	4.0
Fixed investments	% y/y	-2.3	2.1	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	9.2	-2.1	16.8	12.5	9.1	-0.3	-6.4	-5.1	-2.4	5.7
Construction production	% y/y	-3.5	1.6	7.4	-4.6	23.7	9.2	5.6	-0.3	-11.2	-7.4	-3.6	0.7
Retail sales (constant prices)	% y/y	-3.0	7.4	5.6	2.5	9.7	9.7	3.3	0.7	-1.6	1.6	3.5	6.1
Unemployment rate *	%	6.2	5.4	4.9	5.6	5.4	4.9	4.8	4.9	5.3	5.3	5.4	5.6
Gross wages in the national economy	% y/y	5.3	8.9	11.1	9.9	9.7	11.8	11.9	10.8	11.7	9.8	9.1	9.0
Employment in the national economy	% y/y	-1.0	0.4	1.8	-0.1	1.9	2.0	1.7	1.7	0.3	-0.3	-0.3	-0.2
Exports (€)	% y/y	0.1	19.5	14.0	-7.2	19.4	22.1	19.9	-3.4	-14.3	-12.1	-7.5	6.3
Imports (€)	% y/y	-4.9	27.0	19.8	-7.3	33.1	31.8	21.3	-2.1	-14.5	-13.8	-7.0	7.5
Trade balance	EUR mn	6,975	-7,620	-24,356	-22,465	-6,992	-5,143	-5,731	-6,509	-5,838	-3,043	-5,709	-7,881
Current account balance	EUR mn	12,811	-8,261	-21,027	-13,469	-7,402	-4,726	-4,988	-3,035	-4,986	-101	-1,713	-2,688
Current account balance	% GDP	2.4	-1.4	-3.3	-1.8	-2.7	-3.5	-3.4	-3.2	-2.7	-1.9	-1.4	-1.3
General government balance	% GDP	-6.9	-1.9	-3.0	-6.0	-	-	-	-	-	-	-	-
CPI	% y/y	3.4	5.1	14.5	14.1	9.6	13.9	16.3	18.1	18.0	14.5	13.0	10.8
CPI *	% y/y	2.4	8.8	18.2	10.8	11.0	15.5	17.2	18.2	16.6	13.5	12.2	10.4
CPI excluding food and energy	% y/y	3.9	4.1	9.1	9.3	6.6	8.4	10.0	11.5	11.0	10.0	8.8	7.2
PPI	% y/y	-0.6	7.9	23.1	9.5	18.0	24.8	25.5	24.1	18.1	9.3	6.3	4.3
Broad money (M3) *	% y/y	16.4	8.9	3.6	5.3	7.9	6.5	7.7	3.6	2.8	4.4	2.1	5.3
Deposits *	% y/y	12.3	8.8	2.6	4.4	5.9	5.5	6.6	2.6	3.6	4.2	2.5	4.4
Loans *	% y/y	0.2	5.1	4.5	2.9	6.4	7.3	6.9	4.5	2.7	1.6	1.1	2.9
EUR/PLN	PLN	4.44	4.57	4.73	4.76	4.62	4.65	4.75	4.90	4.85	4.78	4.73	4.70
USD/PLN	PLN	3.89	3.86	4.55	4.55	4.11	4.36	4.71	5.00	4.78	4.59	4.46	4.37
CHF/PLN	PLN	4.15	4.22	4.74	4.77	4.46	4.52	4.88	5.10	5.00	4.82	4.68	4.59
Reference rate *	%	0.10	1.75	7.00	7.00	3.50	6.00	6.75	7.00	7.00	7.00	7.00	7.00
3M WIBOR	%	0.67	0.54	6.03	7.20	3.46	6.25	7.08	7.33	7.26	7.23	7.23	7.09
Yield on 2-year T-bonds	%	0.50	0.79	6.40	7.46	4.07	6.78	7.06	7.70	7.68	7.55	7.40	7.20
Yield on 5-year T-bonds	%	0.96	1.39	6.45	7.42	4.41	7.01	6.57	7.83	7.68	7.55	7.35	7.10
Yield on 10-year T-bonds	%	1.52	1.97	6.19	7.30	4.29	6.63	6.19	7.67	7.60	7.40	7.20	7.00

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

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