

MACROscope Lite

Second thoughts on disinflation

■ In the last month we have learned more about the prospects for the Polish economy from trends abroad than from domestic data. The US and Eurozone economies are weathering the slowdown surprisingly well – to the degree that instead of considering whether there is a hard or soft landing globally, one can ask if the global economy is preparing for landing at all. In China, there are the first signs of a rebound after the removal of Covid restrictions. From this perspective, the external environment for Polish economic growth seems increasingly favourable. **Local issues, however, dictate that we are reluctant to revise our GDP forecasts higher:** the unblocking of EU funding for Polish national recovery plan has, in our view, clearly got delayed with the President's decision to send the bill required by the EC to the Constitutional Tribunal. What is more, in 2H23, the refinancing of the projects launched under the EU Cohesion Policy may become a problem due to rule-of-law issues, and, in the event of a negative verdict for the banking sector by the CJEU (mid-year), access to domestic financing may also become more difficult.

■ What the data from abroad also have shown was **inflation persistence** - in many cases the market expecting a smooth course of disinflation has recently been surprised by a rebound or at least a slower fall in measures of price growth. There is a trace of this phenomenon in the Polish data as well: it is true that the CPI surprised downwards in January, rising from 16.6% y/y to 17.2% instead of 17.6%, but apparently, at the same time, core inflation picked up - from 11.5% in December to 11.8% y/y (according to our estimate), although we had previously expected it to already start falling. We still think that after a rapid descent of CPI inflation by mid-year on base effects and a descent of global energy commodity prices, we will move into a phase of slower disinflation and **it may be difficult to have CPI much lower than 10% y/y at the end of the year.**

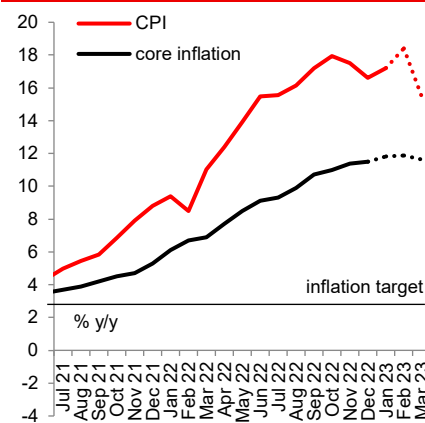
■ **Detailed GDP data for 4Q confirmed our estimate that private consumption was behind the further loss of economic momentum.** Consumption's strong post-pandemic growth is all gone (6.4% y/y in 2Q, 0.9% in 3Q, -1.5% in 4Q). But in our view, there are reasons to believe that the accumulation of factors that translated into exceptional consumer weakness in late 2022 will gradually subside, prompting us to search for signs of a consumption rebound on the horizon. They are not yet visible in hard data (unexpected y/y decline in January real retail sales), but in consumer sentiment surveys we have already had several months of steady recovery, including a significant improvement in the index of future personal financial situation despite the continued observed decline in the purchasing power of wages. Key in this regard may be the upcoming extra inflows: pension revaluations and PIT refunds (injecting more money than usual into household budgets due to tax changes during last year), and survey-based evidence that consumers are gaining confidence that inflation will drop.

■ We think that interest rates in Poland will not rise again in this cycle. The MPC is rather closer to formally announcing the end of tightening than to considering the need for further rate hikes. However, this does not mean that the first rate cuts will come sooner. As we predicted, markets started backing off from pricing in rate cuts still in 2023. **In our view, the slower decline in Polish core inflation will effectively keep the MPC from signalling rate cuts later this year.**

■ Improving business cycle indicators and a slower pace of disinflation in core markets translated into higher target rate expectations in the Eurozone and the USA. The domestic debt market has also started to price in that NBP policy rate will remain unchanged throughout 2023, which has translated into the increase in yields we had been expecting. **Later in the year, we expect domestic debt to strengthen, albeit at a slower pace than we had previously anticipated.**

■ **After the złoty's weakening in the first months of this year, we still expect it to strengthen by the end of 2023,** albeit by less than we anticipated a month ago. PLN will be supported by the prospect of the first NBP rate cuts moving farther into the future and positive investment sentiment in global markets related to the declining risk of a 'hard landing' (this will favour emerging currencies in general). However, faster appreciation may be hindered by the delay in disbursement of Recovery Funds and the CJEU ruling expected in June. The Advocate General's opinion on this issue was unfavourable to the Polish banking system.

Inflation may fall short of hitting 20, but the constant rise of core CPI is worrying



Source: GUS, NBP, Santander

Recently released Economic Comments:

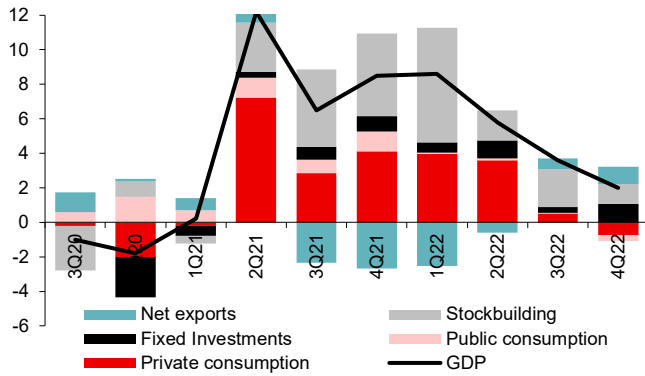
- [Consumption slowed GDP](#)
- [How did the war affect Polish exports?](#)
- [Retail sales growth below zero](#)
- [Weaker production, stronger wages](#)
- [CPI rose less, but core CPI rose more](#)
- [Recession is in the air](#)
- [Too early to talk about rate cuts](#)
- [How much did refugees add to consumption?](#)

Economic Analysis Department:

al. Jana Pawła II 17, 00-854 Warszawa
 email: ekonomia@santander.pl
 website: 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

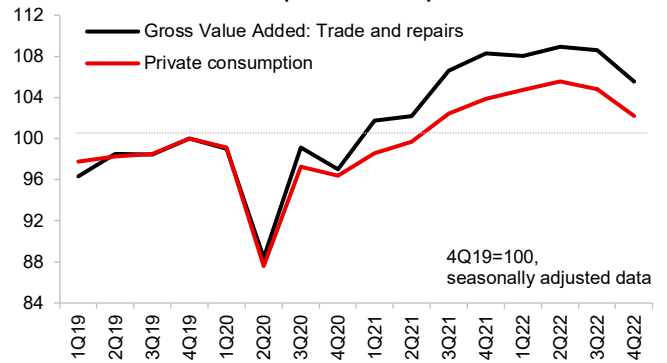
Economy in charts

GUS confirmed the further slowdown in Poland in 4Q



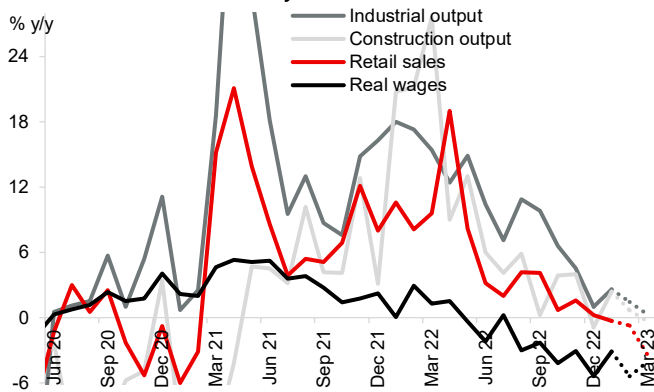
Source: GUS, Santander

Just like we estimated – private consumption was to blame



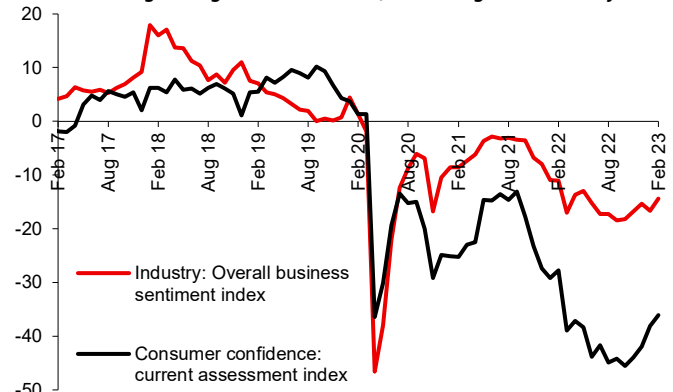
Source: GUS, Santander

1Q may still be so-so



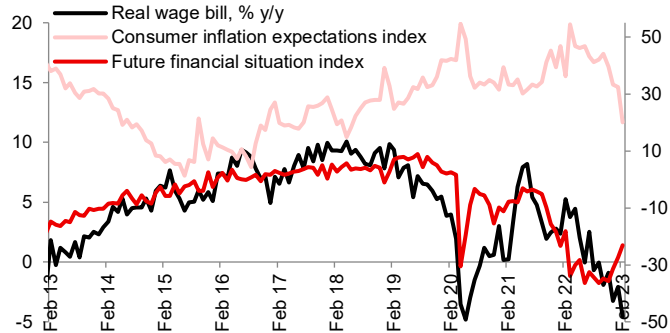
Source: GUS, Santander

...but things will get better later on, so leading indicators say



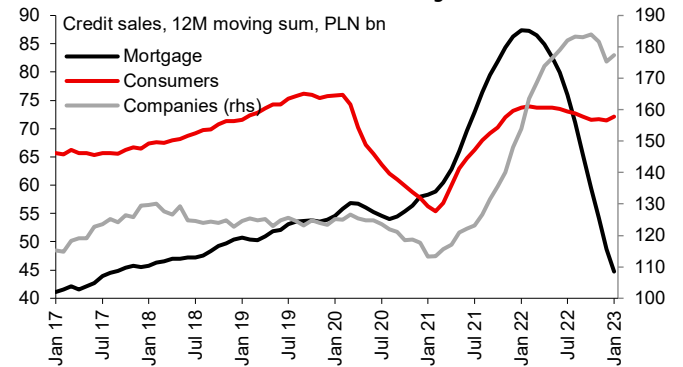
Source: GUS, Santander

We sense incoming consumption rebound – despite falling real labour income, consumers see their financial outlook better, fear inflation less



Source: GUS, Santander

Consumer credit has budged



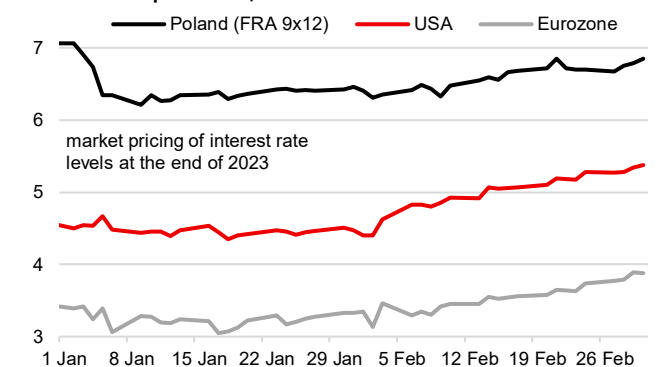
Source: NBP, Santander

As the data on global soft/no landing started coming, questioning the disinflationary optimism...

country	US	US	US	US	DE
data	Non-farm payrolls	Unemployment rate	CPI inflation	PCE inflation	HICP inflation
month, units	Jan, '000	Jan, %	Jan, % y/y	Jan, % y/y	Feb, % y/y
Prior	260	3.5	6.5	5.3	9.2
Expected	189	3.6	6.2	5	9
Actual reading	517	3.4	6.4	5.4	9.3

Source: Bloomberg, Santander

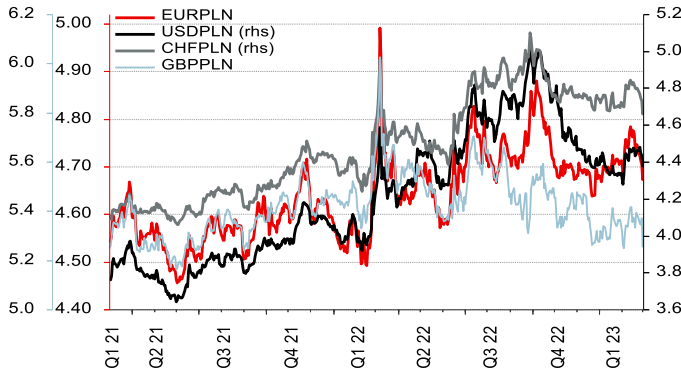
...an upside correction has started in future interest rate expectations, in Poland and on core markets



Source: Bloomberg, Santander

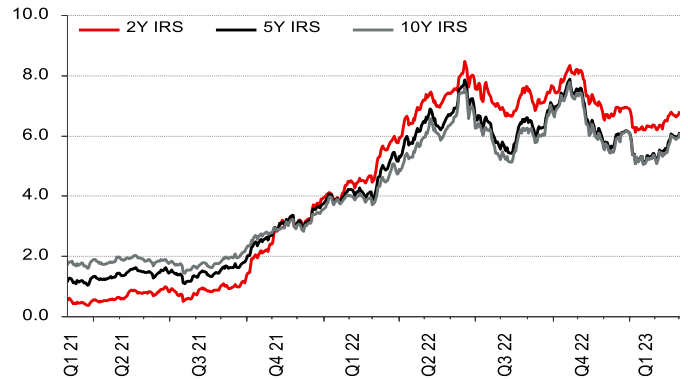
Markets in charts

Zloty exchange rates



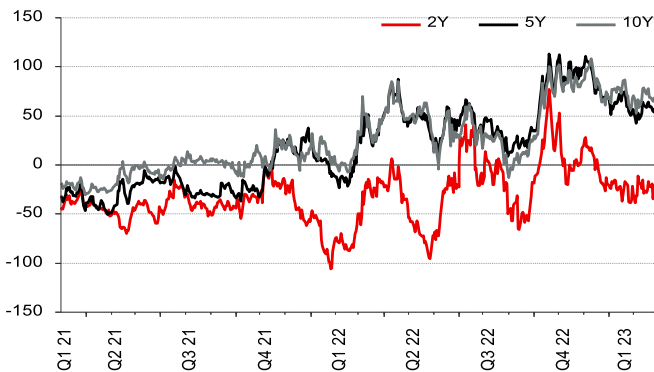
Source: Refinitiv Datastream, Santander

IRS (%)



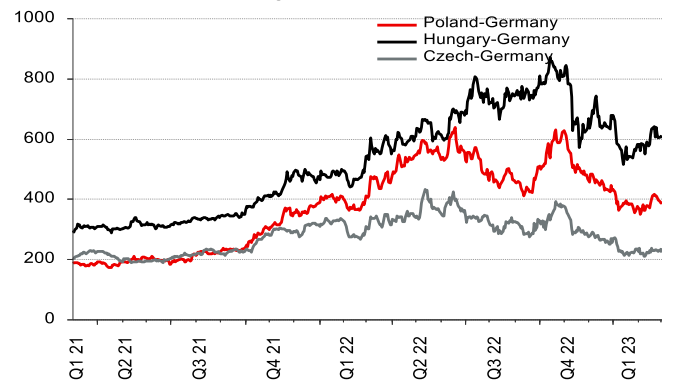
Source: Refinitiv Datastream, Santander

Poland asset swap spreads (bp)



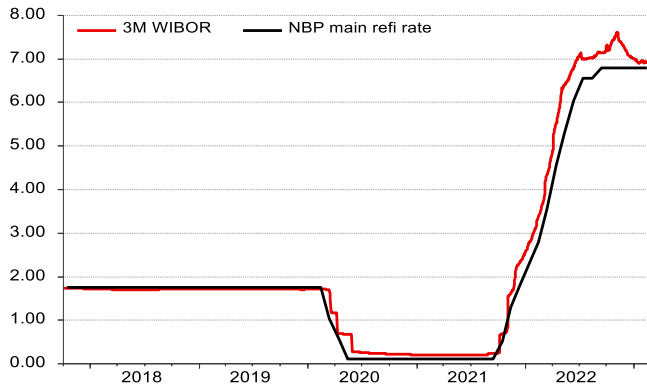
Source: Refinitiv Datastream, Santander

10Y bond yield spreads vs Bund



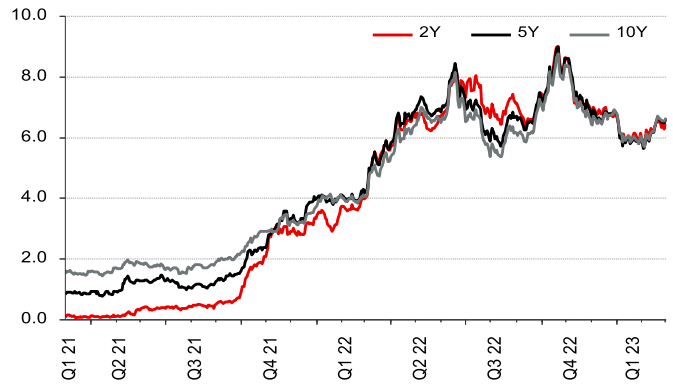
Source: Refinitiv Datastream, Santander

Interest rates



Source: Refinitiv Datastream, Santander

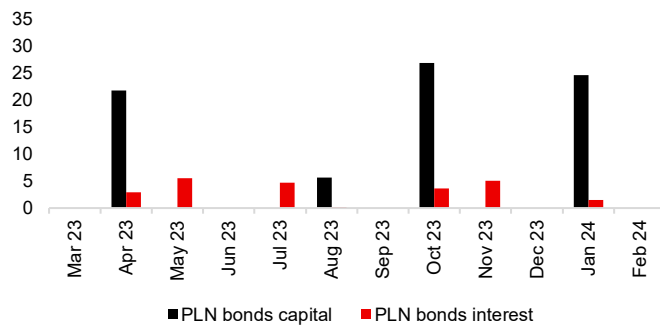
Polish bond yields (%)



Source: Refinitiv Datastream, Santander

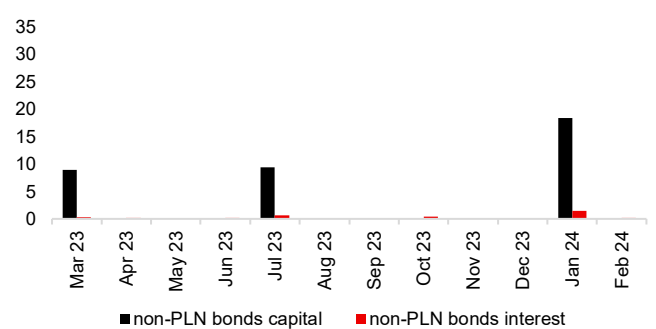
Principal and interest payments

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
		1 March CN: PMI manufacturing (Feb) PL: PMI manufacturing (Feb) DE: PMI manufacturing (Feb) EZ: PMI manufacturing (Feb) DE: CPI - flash (Feb) DE: HICP - Flash (Feb) US: ISM manufacturing (Feb)	2 HU: PKB (4Q) EZ: HICP - flash (Jan) EZ: Unemployment rate (Jan) EZ: EBC Accounts (Jan)	3 CN: PMI services (Jan) DE: Export (Jan) DE: PMI services (Jan) EZ: PMI services (Jan) EZ: PPI (Jan) US: ISM services (Jan)
6 HU: Retail sales (Jan) CZ: Wages (4Q) EZ: Retail sales (Jan) US: Durable goods orders (Jan) US: Industrial orders (Jan)	7 CN: Export (Feb) CN: FX reserves (Feb) HU: Industrial production (Jan) DE: Industrial orders (Jan) CZ: FX reserves (Feb) PL: FX reserves (Feb)	8 DE: Industrial production (Feb) DE: Retail sales (Jan) HU: CPI (Feb) HU: Core CPI (Feb) CZ: Unemployment rate (Feb) PL: NBP decision US: ADP report (Feb)	9 CN: CPI (Feb) CN: PPI (Feb) CZ: Trade balance (Jan)	10 DE: CPI - final (Feb) DE: HICP - final (Feb) CZ: CPI (Feb) PL: MPC minutes (Feb) US: NFP (Feb) US: Wages (Feb) US: Unemployment rate (Feb)
13	14 HU: Industrial production (Jan) CZ: Retail sales (Jan) US: CPI (Feb) US: Core CPI (Feb)	15 CN: Industrial production (Feb) CN: Retail sales (Feb) CZ: PPI (Feb) PL: CPI (Feb) EZ: Industrial production (Jan) US: PPI (Feb) US: Retail sales (Feb)	16 CN: Housing prices (Feb) CZ: Current account (Jan) US: Building permits (Feb) US: Housing starts (Feb) PL: Current Account (Jan) EZ: ECB decision	17 EZ: HICP - final (Feb) US: Industrial production (Feb) PL: Core CPI (Feb) US: Michigan - flash (Feb)
20 CN: PBoC decision DE: PPI (Feb) PL: PPI (Feb) PL: Industrial production (Feb) PL: Employment (Feb) PL: Wages (Feb)	21 PL: Retail sales (Feb) PL: Construction output (Feb) DE: ZEW index (Feb) EZ: ZEW index (Feb)	22 EZ: Current account (Jan) PL: M3 money supply (Feb) US: FOMC decision PL: Consumer confidence (Feb) PL: Business climate (Feb)	23 PL: Unemployment rate (Feb) US: Current account (4Q) US: New home sales (Feb)	24 DE: PMI manufacturing - flash (Mar) EZ: PMI manufacturing - flash (Mar) US: Durable goods orders (Feb)
27 DE: Ifo index (Mar) EZ: M3 money supply (Feb) HU: Wages (Jan) HU: Current account (4Q) HU: NBH decision US: Housing prices index S&P (Jan) US: Conference Board (Mar)	28 CZ: PPI (Jan) PL: GDP (4Q) CZ: M3 money supply (Jan)	29 CZ: CNB decision US: Pending home sales (Feb)	30 DE: CPI - flash (Mar) DE: HICP - flash (Mar) US: GDP - final (4Q)	31 CN: PMI manufacturing (Mar) DE: Retail sales (Feb) HU: PPI (Feb) PL: CPI - flash (Mar) EZ: HICP - flash (Mar) US: PCE inflation (Feb) US: Consumer spending (Feb) US: Disposable income (Feb) US: Michigan - final (Mar)

Source: GUS, NBP, Ministry of Finance, Bloomberg

Calendar of MPC meetings and data releases for 2023

	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
ECB decision		2	16		4	15	27		14	26		14
Fed decision		1	22		3	14	26		20		1	13
MPC decision	4	8	8	5	10	6	6		6	4	8	6
MPC minutes	5	10	10	7	12	9	7	23		6	10	8
Flash GDP*		14			16			16			14	
GDP*		28			31			31			30	
CPI	13	15	15	14	15	15	14	14	15	13	15	15
Core inflation			16	17	16	16	17	16	18	16	16	18
PPI	23	20	20	24	22	21	20	21	20	19	21	20
Industrial output	23	20	20	24	22	21	20	21	20	19	21	20
Retail sales	23	21	21	24	23	22	21	22	21	20	22	21
Gross wages, employment	20	20	20	21	22	21	20	21	20	19	21	20
Foreign trade	17	15	15	14	16	15	14	17	15	16	17	15
Balance of payments*			31			30						
Balance of payments	13	13	16	13	15	13						
Money supply	24	22	22	25	24	23						

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

Economic data and forecasts for Poland

Monthly economic indicators

		Feb 22	Mar 22	Apr 22	May 22	Jun 22	Jul 22	Aug 22	Sep 22	Oct 22	Nov 22	Dec 22	Jan 23	Feb 23	Mar 23
PMI	pts	54.7	52.7	52.4	48.5	44.4	42.1	40.9	43.0	42.0	43.4	45.6	47.5	48.5	48.8
Industrial production	% y/y	17.3	15.4	12.4	14.9	10.4	7.1	10.9	9.8	6.6	4.5	1.0	2.6	1.4	0.3
Construction production	% y/y	21.2	27.6	9.0	13.0	6.0	4.1	5.9	0.2	3.9	4.0	-0.9	2.4	0.7	-0.3
Retail sales (current prices)	% y/y	16.5	22.0	33.4	23.6	19.9	18.4	21.5	21.9	18.3	18.4	15.5	15.1	15.9	9.9
Unemployment rate	%	5.9	5.8	5.6	5.4	5.2	5.2	5.2	5.1	5.1	5.1	5.2	5.5	5.5	5.5
Gross wages in corporate sector	% y/y	11.7	12.4	14.1	13.5	13.0	15.8	12.7	14.5	13.0	13.9	10.3	13.6	12.0	10.8
Employment in corporate sector	% y/y	2.2	2.4	2.8	2.4	2.2	2.3	2.4	2.3	2.4	2.3	2.2	1.1	0.9	0.5
Exports (€)	% y/y	20.3	11.9	17.6	26.8	21.5	20.3	27.6	26.5	24.4	25.2	11.5	9.4	5.9	-3.8
Imports (€)	% y/y	29.7	31.4	36.0	32.7	27.1	21.8	29.4	30.1	25.3	20.3	12.1	11.9	7.0	-6.5
Trade balance	EUR mn	-1 707	-4 553	-2 743	-1 488	-1 055	-1 852	-2 612	-2 084	-2 284	-978	-2 716	-1 326	-2 086	-3 562
Current account balance	EUR mn	-2 032	-4 206	-2 834	-1 078	-499	-1 206	-2 743	-1 839	-597	313	-2 526	-1 020	-1 979	-2 857
Current account balance	% GDP	-2.0	-2.7	-3.3	-3.4	-3.5	-3.4	-3.5	-3.5	-3.7	-3.4	-3.1	-3.1	-3.1	-2.9
CPI	% y/y	8.5	11.0	12.4	13.9	15.5	15.6	16.1	17.2	17.9	17.5	16.6	17.2	18.4	15.5
CPI excluding food and energy	% y/y	6.7	6.9	7.7	8.5	9.1	9.3	9.9	10.7	11.0	11.4	11.5	11.8	11.9	11.6
PPI	% y/y	16.1	21.9	24.1	24.7	25.6	25.5	25.5	24.6	23.1	21.1	20.5	18.5	17.7	11.0
Broad money (M3)	% y/y	8.0	7.9	8.2	7.6	6.5	6.2	7.4	7.7	7.0	5.6	5.4	6.9	6.4	5.7
Deposits	% y/y	7.0	5.9	6.4	6.3	5.5	5.5	7.0	7.8	7.0	5.7	5.8	7.5	7.4	7.3
Loans	% y/y	6.2	6.4	7.4	6.8	7.3	6.8	7.4	6.4	4.4	2.6	1.4	1.5	0.4	-0.3
EUR/PLN	PLN	4.55	4.76	4.65	4.65	4.64	4.77	4.72	4.74	4.81	4.70	4.68	4.70	4.75	4.72
USD/PLN	PLN	4.01	4.32	4.29	4.40	4.39	4.69	4.66	4.79	4.89	4.61	4.42	4.36	4.42	4.40
CHF/PLN	PLN	4.35	4.64	4.55	4.49	4.53	4.83	4.87	4.92	4.91	4.77	4.75	4.72	4.79	4.76
Reference rate *	%	2.75	3.50	4.50	5.25	6.00	6.50	6.50	6.75	6.75	6.75	6.75	6.75	6.75	6.75
3M WIBOR	%	3.33	4.27	5.48	6.41	6.85	7.03	7.04	7.16	7.34	7.44	7.10	6.95	6.93	6.98
Yield on 2-year T-bonds	%	3.72	5.19	6.36	6.52	7.47	7.48	6.91	6.80	8.13	7.49	6.81	6.10	6.24	6.42
Yield on 5-year T-bonds	%	4.03	5.21	6.51	6.98	7.54	6.78	6.24	6.69	8.09	7.58	6.74	6.00	6.18	6.68
Yield on 10-year T-bonds	%	3.98	4.90	6.01	6.67	7.22	6.41	5.82	6.32	7.88	7.33	6.65	6.06	6.22	6.63

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	3,067.7	3,435.3	691.5	723.3	779.1	873.9	795.5	816.4	856.9	966.5
GDP	% y/y	-2.0	6.8	4.9	0.7	8.6	5.8	3.6	2.0	-1.0	0.1	0.5	2.7
Domestic demand	% y/y	-2.7	8.4	5.5	0.3	12.0	6.9	3.1	1.1	-1.6	0.0	-0.4	2.8
Private consumption	% y/y	-3.6	6.3	3.0	0.7	6.7	6.4	0.9	-1.5	-1.0	-1.0	0.8	4.0
Fixed investments	% y/y	-2.3	2.1	4.6	0.2	4.7	6.6	2.0	4.9	4.0	-2.0	0.0	0.0
Industrial production	% y/y	-1.1	14.5	10.4	3.7	16.8	12.5	9.3	4.0	1.3	2.7	4.8	6.1
Construction production	% y/y	-3.5	1.6	7.6	5.7	23.7	9.2	3.3	2.1	0.7	3.9	9.1	7.3
Retail sales (constant prices)	% y/y	-3.0	7.4	5.5	-0.7	9.7	9.7	3.3	0.3	-2.1	-2.2	-1.0	2.3
Unemployment rate *	%	6.8	5.8	5.2	5.8	5.8	5.2	5.1	5.2	5.5	5.5	5.5	5.8
Gross wages in the national economy	% y/y	5.3	8.9	12.1	10.4	9.7	11.8	14.6	12.3	11.6	10.1	9.5	10.5
Employment in the national economy	% y/y	-1.0	0.4	2.0	0.1	1.9	2.0	2.4	1.7	0.6	0.0	-0.1	-0.1
Exports (€)	% y/y	0.1	19.5	21.6	7.9	19.4	21.9	24.8	20.4	12.9	4.9	5.7	8.4
Imports (€)	% y/y	-4.9	27.0	27.3	9.5	33.1	31.9	27.1	19.2	12.8	6.0	8.3	11.2
Trade balance	EUR mn	6,975	-7,620	-24,801	-32,404	-6,992	-5,287	-6,544	-5,978	-7,818	-6,440	-9,102	-9,043
Current account balance	EUR mn	12,811	-8,261	-20,405	-22,934	-7,402	-4,416	-5,777	-2,810	-6,700	-4,328	-7,195	-4,710
Current account balance	% GDP	2.4	-1.4	-3.1	-3.1	-2.7	-3.5	-3.5	-3.1	-2.9	-2.8	-3.0	-3.1
General government balance	% GDP	-6.9	-1.8	-2.6	-5.2	-	-	-	-	-	-	-	-
CPI	% y/y	3.4	5.1	14.3	12.9	9.6	13.9	16.3	17.3	17.0	13.3	11.5	9.7
CPI *	% y/y	2.4	8.8	16.6	9.7	11.0	15.5	17.2	16.6	15.5	12.3	10.6	10.1
CPI excluding food and energy	% y/y	3.9	4.1	9.1	10.5	6.6	8.4	10.0	11.3	11.8	11.1	10.2	8.8
PPI	% y/y	-0.6	7.9	22.4	8.7	18.0	24.8	25.2	21.6	15.7	7.9	5.7	5.7
Broad money (M3) *	% y/y	16.4	8.9	5.4	5.3	7.9	6.5	7.7	5.4	5.7	7.3	4.9	5.3
Deposits *	% y/y	12.3	8.8	5.8	5.0	5.9	5.5	7.8	5.8	7.2	7.9	5.3	5.0
Loans *	% y/y	0.2	5.1	1.4	2.4	6.4	7.3	6.4	1.4	-0.3	-1.5	-1.5	2.4
EUR/PLN	PLN	4.44	4.57	4.69	4.70	4.62	4.65	4.75	4.73	4.72	4.72	4.70	4.67
USD/PLN	PLN	3.89	3.86	4.46	4.41	4.11	4.36	4.71	4.64	4.39	4.47	4.43	4.34
CHF/PLN	PLN	4.15	4.22	4.67	4.71	4.46	4.52	4.88	4.81	4.76	4.79	4.70	4.60
Reference rate *	%	0.10	1.75	6.75	6.75	3.50	6.00	6.75	6.75	6.75	6.75	6.75	6.75
3M WIBOR	%	0.67	0.54	6.02	6.97	3.46	6.25	7.08	7.29	6.95	6.98	6.98	6.98
Yield on 2-year T-bonds	%	0.50	0.79	6.35	6.34	4.07	6.78	7.06	7.48	6.25	6.53	6.38	6.20
Yield on 5-year T-bonds	%	0.96	1.39	6.36	6.08	4.41	7.01	6.57	7.47	6.28	6.55	5.85	5.65
Yield on 10-year T-bonds	%	1.52	1.97	6.10	6.33	4.29	6.63	6.19	7.29	6.30	6.58	6.33	6.10

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

This analysis is based on information available until 03.03.2023 has been prepared by:

ECONOMIC ANALYSIS DEPARTMENT

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

Email: ekonomia@santander.pl Web site: <https://www.santander.pl/en/economic-analysis>

Piotr Bielski*	– Director	+48 691 393 119
Jarosław Kosaty *	– Economist	+48 887 842 480
Marcin Luziński*	– Economist	+48 510 027 662
Grzegorz Ogonek*	– 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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