

Economy at the crossroads (again)

Poland

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Executive Summary (macro)

While at the beginning of this year the balance of uncertainty factors for economic growth seemed to shift gradually in the right direction (already in January we have raised the GDP forecast for 2023 and in February we saw a further improvement in the external environment), recent weeks have shifted the risks in the opposite direction. The problems of banks in the US and Europe have triggered a justified increase in concerns about the global economic outlook and have again reduced the predictability of economic scenarios. On [page 7](#) we summarise four possible scenarios for the consequences of banking turmoil abroad. At this point, our base case is a scenario where the global economic outlook does not suffer a lot and yet the major central banks limit their monetary tightening out of concern for financial stability. This would unfortunately be not very good news for the NBP: **less support from abroad to curb domestic inflation.**

Meanwhile, domestic data show that, although the annual inflation rate has already peaked (18.4% in February), its retreat in March to 16.2% y/y was mainly driven by statistical effects, while **price momentum remains very high and increasingly concentrated in the core component of inflation** ([p.25](#)). Admittedly, we do not have a very good explanation as to how this can be reconciled with the clearly visible cooling of consumer demand at the turn of the year, which has so far failed to lower the inertia in prices. The surprising persistence of core inflation can also be seen in other countries, even where the headline CPI/HICP measures have already started to retreat markedly. In March, the Polish CPI rose by 1.1% m/m and core CPI by 1.2% m/m. In Q1 alone, prices have already risen by almost 5%, and by June cumulative price growth will probably exceed 7%, which would mean that NBP President Glapinski's scenario of inflation falling to 6-7% by the end of the year will become very unrealistic. **We expect inflation of around 10% y/y in December.**

Disinflation could arguably accelerate in a scenario of a deeper and more sustained recession in domestic demand. For the time being, however, we do not see sufficient arguments for a significant downgrade of economic growth forecasts and we continue to expect that the economy will enter a gradual recovery before inflation is tamed for good. **We maintain our forecast for this year's GDP growth at 0.7%**, with the first quarter clearly below zero and a gradual rebound in subsequent quarters ([p.9](#)). The main drivers of the recovery, in our view, will be consumption and net exports. The former was hit hard at the turn of the year ([p.14](#)), but in our view this was more the result of 'precautionary austerity' at a time of exceptional accumulation of consumer fears (how high interest rates will go, whether there will be enough fuel for the winter, what about the escalation of the war) rather than of an income shock. Now the situation will gradually reverse - real incomes will be under pressure for some time, but the lowering of fears and improvement in consumer sentiment should trigger the typical process of consumption smoothing at the expense of lower savings. At the same time, the liquidity situation of households remains decent. The improvement in the foreign trade balance ([p.11](#)) is largely the result of better terms of trade (falling prices of imported commodities), but also, in the perspective of the coming quarters, of potential support for domestic exports and industry from rebounding foreign demand.

The situation on the labour market is stable - demand for labour is weaker ([p.22](#)), but this is not translating into a rise in unemployment, but rather a deceleration in wage growth, which is, however, somewhat slower than we expected. Perhaps it is the greater wage inertia, pushing up corporate costs, plus companies' efforts to protect margins that is largely behind the persistence of prices in core categories. In the quarters ahead, the real value of labour income will begin to recover as the rate of inflation goes down.

In these circumstances, we remain of the view that **there will be no preconditions that will allow the MPC to start cutting interest rates this year** ([p.27](#)). As mentioned above, in our view, neither the expectations of President Glapiński will materialise that inflation will fall faster than the NBP projection (which, in our view, is in fact overly optimistic), nor the MPC's hope (seen in their recent statements) that a strong monetary tightening by the Fed and the ECB will do further work in combating inflationary pressures.

On the fiscal policy front, no major changes - **the general government deficit was 3.4% of GDP in 2022 and we expect it to widen to around 5% of GDP this year**, implying a moderate expansion. For the time being, the government's readiness to make costly pre-election promises seems to be severely limited, but of course the busiest period of the election campaign is yet to come.



Executive Summary (markets)

FX

Polish zloty has shown great resilience to the recent turmoil in global financial markets. Despite pronounced discounts in the region, the EUR/PLN exchange rate managed to stay close to 4.70. In our view, the rate will continue to remain close to the aforementioned level through the 2Q. Factors working in its favour, such as a stable budget situation, a favourable liquidity situation in the local currency market, improving investment sentiment in Europe and signs of at least a limited economic recovery in China, will be offset by less favourable issues. Among these key will be persistent market expectations for NBP rate cuts before the end of this year despite high inflation and an anticipated slow disinflationary path in Poland, as well as uncertainty about the CJEU ruling on the issue of settlement of CHF mortgages deemed invalid by local courts. We expect that until these issues are resolved, any attempts to strengthen the zloty more significantly will be quickly countered by the market ([p.33](#)).

FI

The recent turmoil in global financial markets has repriced markets' expectations for the path of further interest rate hikes, pushing inflationary issues into the background somewhat. Although we expect the markets to continue to calm down, we believe that both rate expectations and bond yields will not return to the levels seen in early March ([p.30](#)). Under the new circumstances, the major central banks will aim for an imminent end to the cycle of rate hikes and the new remedy for the slowness of the disinflationary process will be to keep interest rates at elevated levels for a little longer. For the domestic debt market, this will mean first an increase in pressure on the flattening of the curve and then on its gradual inversion. The fiscal situation remains under control and budget financing, among other things, with greater exposure to foreign markets, should not have a strongly negative impact on valuations of domestic debt financing risk ([p. 32](#)).



2023 Forecasts – what has changed

Indicator	Our view in December 2022	Our view in April 2023
GDP	In our view, 1Q2023 will be the trough of the mini-recession, and then the economy will gradually rebound. A weak starting point (opposite to the 2022 situation) will weigh on the average annual growth rate, which we forecast to be close to zero.	Scenario still valid to large extent, although the balance of risks is quickly changing. We had already raised the GDP forecast slightly in January, and in February we saw the positives continue to prevail, but March's banking turmoil abroad increased the risk of a 'hard landing' of the major economies (although this is still not our baseline scenario).
GDP breakdown	Consumption will be the most resilient component of demand, but will also slow markedly. Investment will fall, as will exports and imports, affected by the global recession, but the contribution of net exports to GDP will be positive, as in 2022. The contribution of inventories to GDP will be clearly negative.	At the turn of the year, consumption showed surprising weakness and investment surprising resilience; however, we expect a reversal of these trends in subsequent quarters. We continue to expect a positive contribution from net exports and a negative contribution from inventories to GDP growth.
Labour market	The economic downturn and the worsening corporate performance will translate into a decline in demand for employees. However, the scale of redundancies and the increase in unemployment should be moderate. Wage dynamics will be similar on to 2022 average. A stronger deceleration will be prevented by an jump in the minimum wage by c20% in total.	Forecast unchanged.
Inflation	After peaking in February (slightly above 20% y/y), inflation should slide later in the year, but we do not expect a drop below 10% until 2024. Core inflation to remain in a similar disinflationary trend and to decline to around 6% by the end of 2023.	Inflation peaked in February below 20%, but we still see year-end CPI growth near 10% y/y. The persistence of core inflation is proving to be stronger than we anticipated.
Monetary policy	The MPC accepts a postponed return of inflation to target and no longer intends to raise interest rates. However, our scenario implies that there are no conditions to start rate cuts, at least until the end of 2023.	Forecast unchanged.
Fiscal policy	The draft budget assumes an increase in the fiscal deficit to 4.5% of GDP but we estimated the actual one will be slightly higher (over 5%) due to new spending related to the energy crisis.	Forecast unchanged.
Fixed income market	We expect the downward trend in domestic bond yields to continue, supported by disinflationary processes in Poland and abroad - even if this process was to be much slower domestically. A temporary increase in yields is possible in the first months of next year.	Scenario unchanged, but yield forecasts lower, due to a likely more dovish stance by major central banks and lower market interest rate expectations in the aftermath of banking turmoil.
FX market	The first months of 2023 may be difficult for the zloty (the recession trough), but we assume that in the later part of the year the domestic market liquidity situation and the gradual improvement in global investment sentiment will have a dominant impact on the zloty, leading to its gradual appreciation.	We expect the zloty to stabilise against the euro in the coming quarters. Positive factors for the zloty will be offset by less favourable ones, which include expectations of rate cuts and uncertainty as to the final resolution by the CJEU of the issue of settlement of CHF loans.

Economic growth

1



Another crisis looming?

March turbulence in banking sectors abroad has raised legitimate questions about the implications of these events for macroeconomic scenarios. In our view, it is too early to give a definitive answer, but we see four possible scenarios, which we outline below. In the weeks ahead, an indication of which way the balance of probabilities shifts will be provided by, among other things, data from the banking sectors (loan and deposit changes, credit surveys, central bank liquidity support).

1. The banking crisis abroad is spilling over, inflation is no longer the number one concern, major central banks are focusing on saving financial stability, a strong global recession and destabilisation is looming.

We consider this option to be the least likely and its effects the most difficult to forecast. A large increase in risk aversion, an selloff of financial assets, a slump in corporate earnings and a recession would be likely outcomes. Interest rate cuts in Poland would be difficult in the first stage due to a likely currency weakness, but would probably be inevitable once markets stabilise.

2. Crisis is not spilling over, but strong credit tightening by commercial banks pushes major economies into recession, inflation decelerates faster, justifying rate cuts by major central banks.

This is still not our baseline scenario, but it cannot be underestimated. The effect would be a 'hard landing' of the global economy, eventually dragging down GDP growth in Poland, cooling the labour market and extinguishing inflationary pressures. In this scenario, the quickest we could count on interest rate cuts by the MPC.

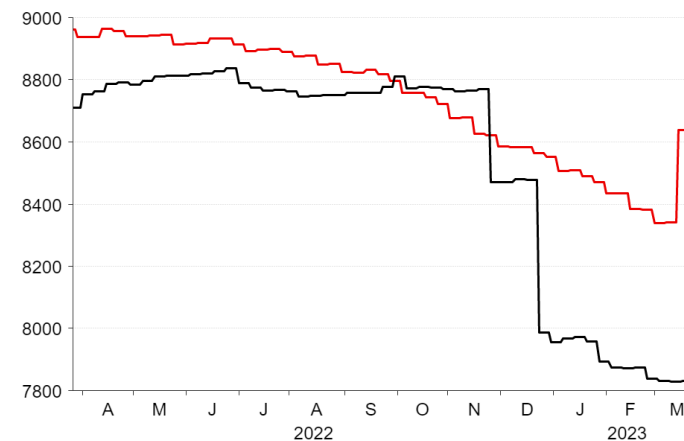
3. The crisis is not spilling over and economies are returning to soft landing scenarios, but major central banks are holding off on rate hikes amid worry about financial stability; as a result, problems with stubborn inflation remain for longer.

At the moment, it seems the most likely option, in our view. Concerns about bank stability are holding back global monetary tightening, so that inflation remains more persistent (with a possible risk of recurrence, analogous to the situation in the 1970s), the economic recovery is unthreatened. From the MPC's point of view, the least support from abroad in combating domestic inflation.

4. The crisis is not spilling over and economies are back on soft landing paths, but central banks are not softening, the fight against inflation is back as a top priority and with it expectations of significant rate rises from the Fed, ECB.

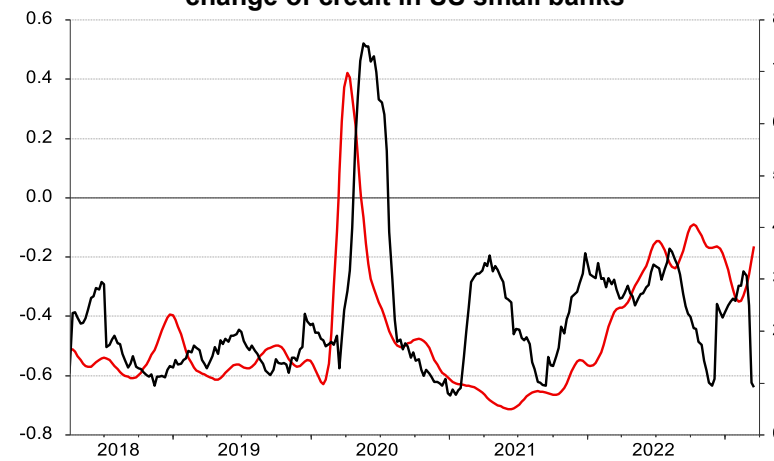
Probability comparable to scenario 2, perhaps a little lower. In the short term, economic recovery expected, in the longer term, aggressive central bank policies will cool the global economy. This is the option that the NBP has been counting on until recently, assuming that the rest of the work in the fight against inflation will be done for us by central banks abroad.

Balance sheets of main central banks – total assets, in local currencies



Source: Refinitiv Datastream

National financial conditions index by Chicago Fed, change of credit in US small banks



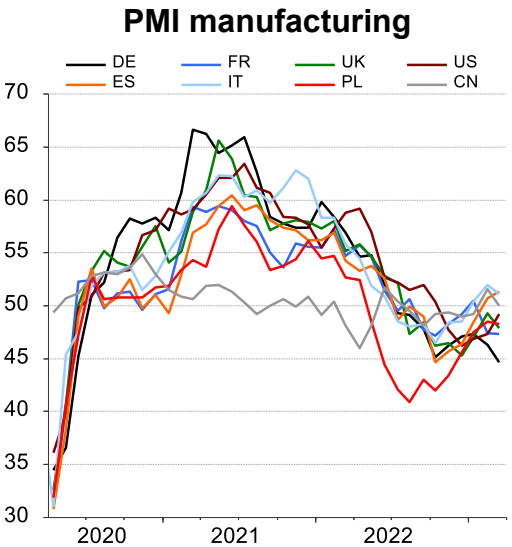
Source: Refinitiv Datastream, Santander



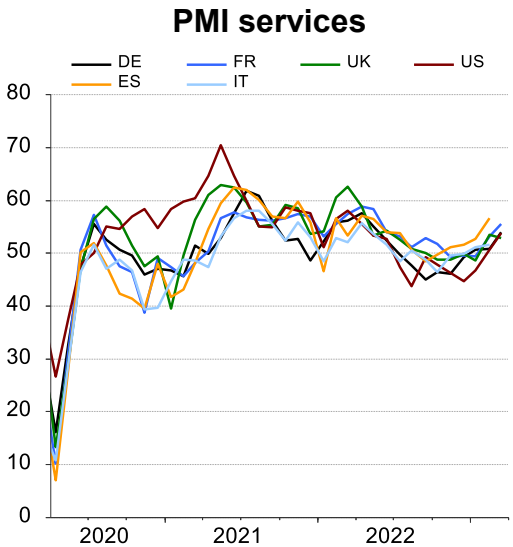
Business climate abroad (was) improving

We had already signalled in our December report that some of the business climate indicators abroad seemed to have bottomed out, and indeed since the beginning of this year most surveys have signalled a marked improvement in business and consumer sentiment. March brought a correction of optimism in manufacturing in most countries, with positive trends maintained in the service sectors. It is quite possible that the March indicators were still unable to fully capture the possible spillover effects of the turmoil in the banking sectors that began during the month, and only subsequent publications will reveal the possible impact of the tightening of credit conditions. It is therefore still too early to be definitively confident that the problems in the banking sectors in the USA and Europe will not shake the trend of the global recovery. For the time being, however, we remain moderately optimistic.

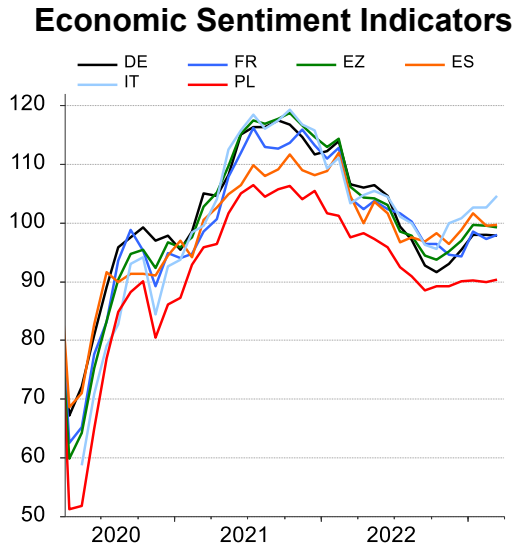
In most economies, the situation in services is clearly better than in manufacturing. The positive aspect of this situation is that consumer spending on services is much less (if at all) dependent on bank financing, so any reduction in credit supply should not derail this area of economic activity so strongly and directly.



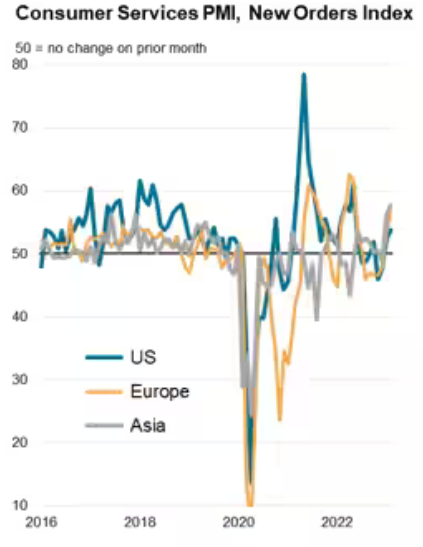
Source: Refinitiv Datastream, Santander



Source: Refinitiv Datastream, Santander



Source: Refinitiv Datastream, Santander



Source: S&P Global, JPMorgan, © S&P Global 2023.



Source: S&P Global, JPMorgan, © S&P Global 2023.





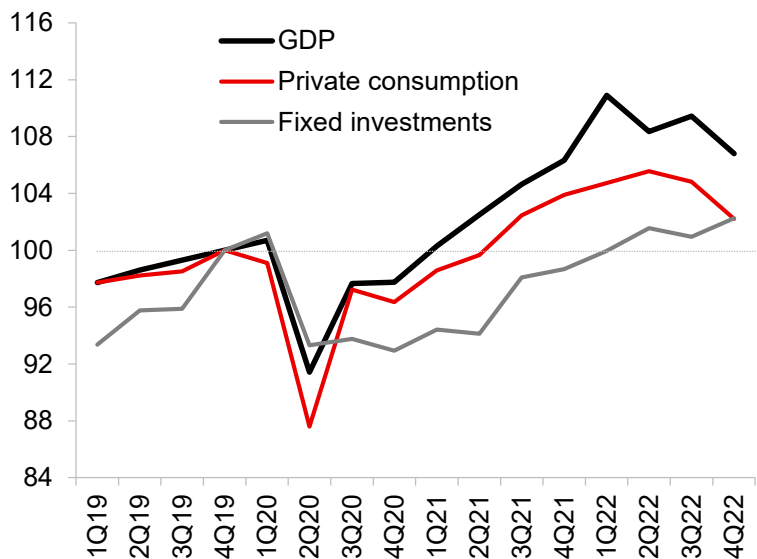
GDP growth: bottoming out

In 2022, the Polish economy was clearly slowing down: between Q1 and Q4, GDP declined: by 3.7% in seasonally adjusted terms, largely driven by a collapse in consumer demand. Data from the first months of 2023 indicate that activity continues to decelerate, confirming our forecast that annual GDP growth in Q1 will fall clearly below zero. **However, we continue to assume a gradual recovery later in the year, driven primarily by a rebound in consumption and an improvement in net exports.**

While the first two months of the year seemed to shift the balance of risks for the macro scenario towards faster growth, recent weeks have moved the risks in the other direction - even if (as we believe) there is no escalation of the banking crisis abroad, the more cautious lending policies of banks in major economies may not support an accelerated recovery.

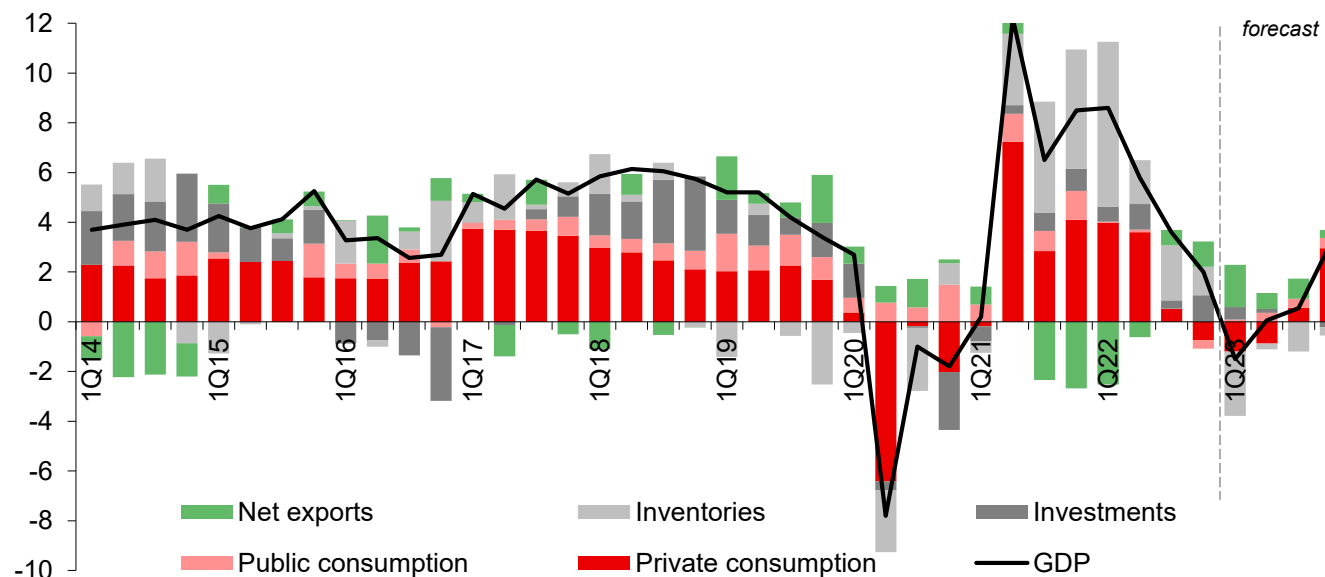
An additional negative factor for the GDP outlook compared to the December forecasts is the still unresolved rule of law issue, which may result in the withholding of payments from the recovery and resilience facility and from the new EU budget until the end of this year. The impact of this factor is partly expected to be mitigated by the provision of domestic pre-financing from the Polish Development Fund (PFR).

GDP and components, 4Q19=100 s.a.



Source: GUS, Santander

GDP growth and its breakdown, % y/y



Source: GUS, Santander



Global trade: waiting for the hidden dragon

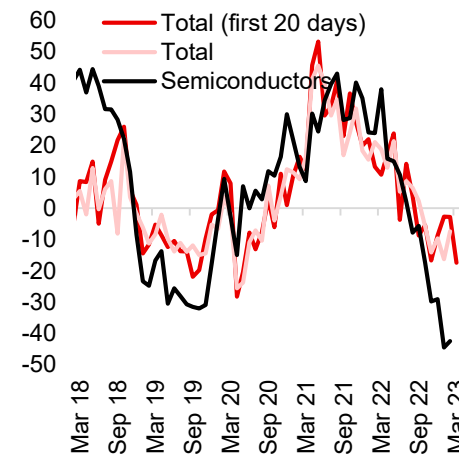
China's post-covid opening has so far failed to produce a breakthrough in the global economy, at least in hard data. South Korea's exports, considered a barometer of global trade, according to preliminary data in March still could not get out of negative y/y growth. The world trade index (according to the World Trade Monitor) also remained negative y/y in January, but January's m/m decline was already only minimal, i.e. much smaller than in previous months, and China's imports returned to positive y/y growth.

However, a big rebound appeared in February in China's PMIs, especially those compiled by the government's logistics agency (NFLP). The "government" index for manufacturing unexpectedly rebounded in February, reaching its highest in about 11 years in a powerful recovery above the neutral 50-point level. For this index, such a large two-month increase as in January-February last time happened in 2009. After that the index gently retreated in March. On the other hand, the services PMI by the logistics agency, after three strong increases, arrived in March at its highest level in 12 years. In the Caixin PMI indicators, however, there is less of this optimism - the industrial index retreated to 50 points in March.

Although the Chinese authorities have set a relatively low target for GDP growth for 2023 (5%), they clearly do not intend to be passive: the central bank cut the reserve requirement rate in March, and there was a clear rebound in the aggregate financing of the economy.

We found remarks about revived demand from China in the March PMI report for Japan and in industry reports (on steel, copper, aluminium, electronics). The latter identified the Chinese opening as an upward impulse and a reason for the revival of activity.

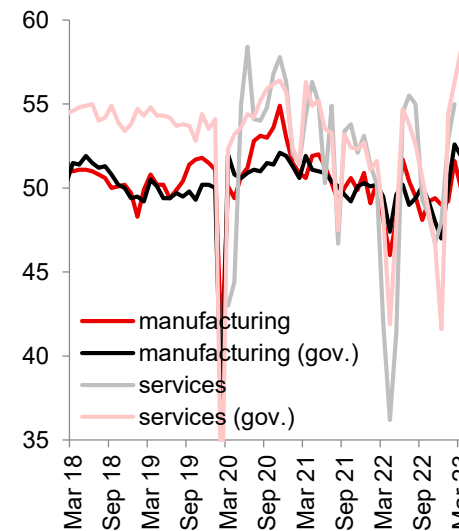
South Korea exports, %/y



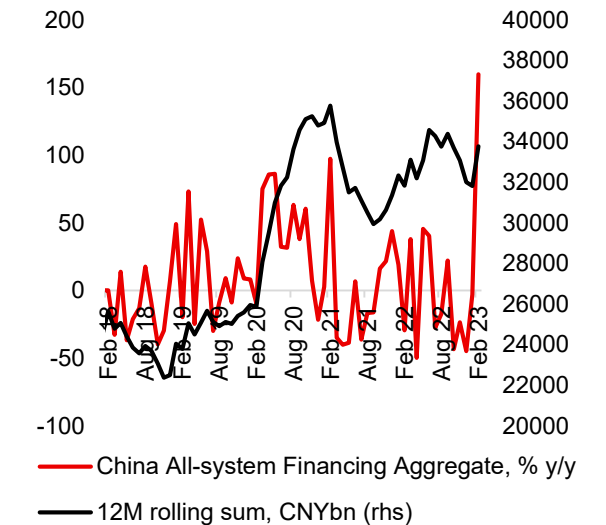
Global and Chinese trade



Chinese PMI indexes



Loans in China



Source: Bloomberg, CPB, S&P Global, Santander

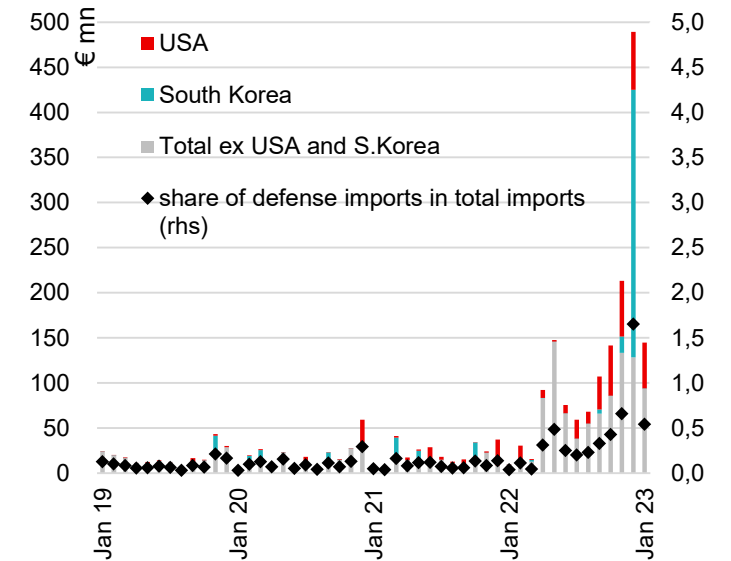


Balance of payments: a bit better

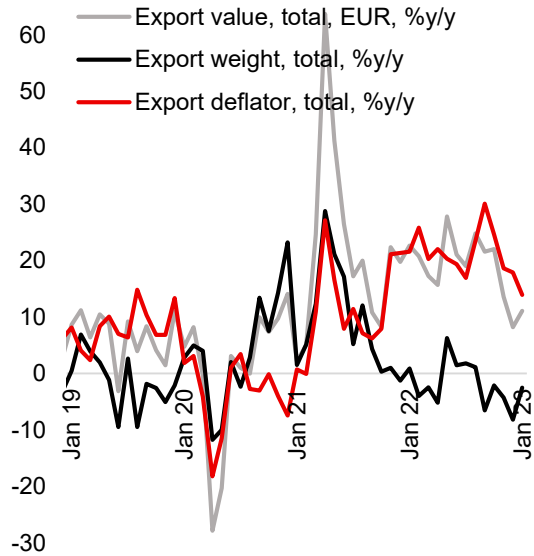
The merchandise trade deficit narrowed surprisingly easily (but this is mainly due to decelerating import prices), but there is improvement in the services balance as well - and it could prove crucial to an improvement in the current account balance this year. On top of that, a recovery in global trade is coming and, with consumers and companies keeping a closer eye on budgets, Polish goods and services have a chance to expand (the supply-substitution effect of Polish trade has been observed many times before).

On one hand, positive developments in C/A are fostered by improving terms of trade, on the other hand the observed real appreciation of the zloty may be a hindrance. In imports, an important role will be played by arms purchases abroad, which have already risen to about 0.25% of GDP from 0.05% before the war, and may hamper the reduction of the merchandise trade deficit (for the whole of 2023, we estimate their impact at about 1% of GDP). In the revenue balance, we assume stabilization due to the likely reduction in corporate profits as a result of further margin reduction.

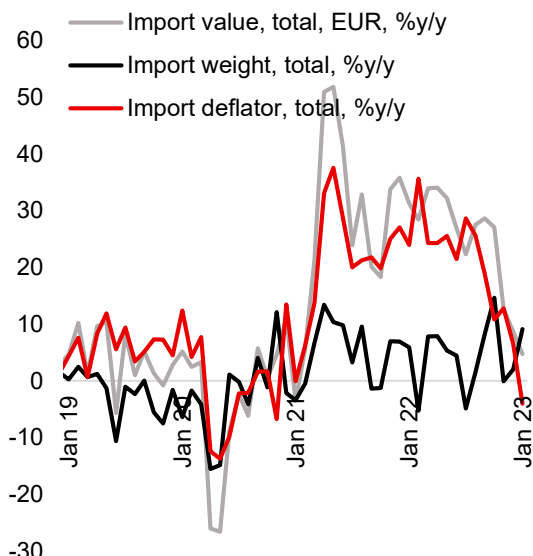
Imports of armaments (ex aircrafts)



Poland exports by value and weight

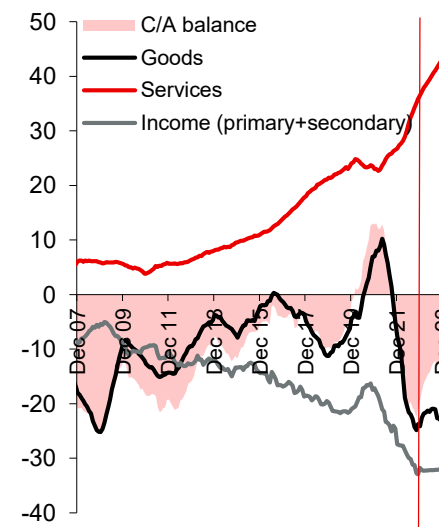


Poland imports by value and weight



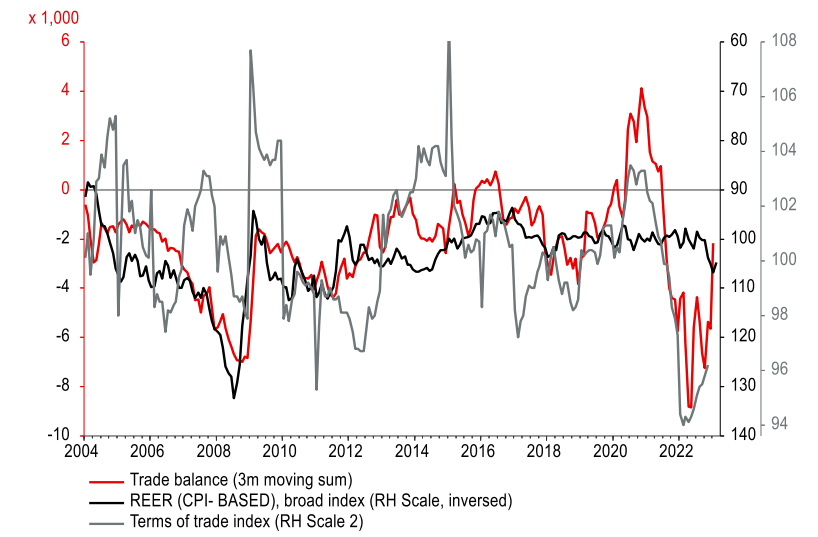
Source: GUS, NBP, Santander

C/A and main components 12M sum, € bn



Source: GUS, NBP, Santander

Merchandise trade balance (3M sum), terms of trade and real PLN exch. rate



Source: Refinitiv Datastream, Santander

Changes in Polish exports

The Russian aggression against Ukraine triggered significant changes in Polish exports. Sales of domestic goods to Russia have halved, and almost doubled to Ukraine. At the same time, Poland began to sell more products to former USSR countries and we do not rule out that at least a part of these products is then re-exported to the Russian market.

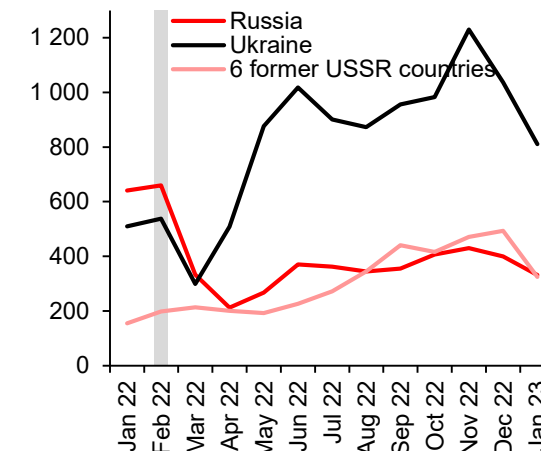
In 4Q22, the Polish economy exported 44% fewer goods to Russia than in 4Q21. In nominal terms, this is a decrease of almost €1bn. After the Russian aggression against Ukraine, sanctions were imposed on many export products, the Russian economy slid into recession, reducing the demand for foreign goods, and many Polish companies have withdrawn from the Russian market. The strongest downward trends were seen in exports of machinery and transport equipment, industrial goods classified by material, miscellaneous industrial goods and chemicals.

Exports of goods to Ukraine increased by 74.6% y/y (€1.4bn) in 4Q22, and the total volume was more than 2.5 times that of sales to Russia in this period. It must be admitted that such a strong increase in exports to a country experiencing a deep economic slump is unusual. In our opinion, it is due to two factors - the serious problems of Ukrainian manufacturing in the face of the war and hence the need to replace domestic production, sales of arms and munitions, the severance of Ukraine-Russia trade links (e.g. fuel delivery).

Out of the 10 fastest-growing markets for Polish products, as many as six are former USSR countries: Kyrgyzstan, Armenia, Kazakhstan, Uzbekistan, Georgia and Belarus (see table on the right-hand side). The growth rates of Polish exports to these destinations are simply staggering: exports to Kyrgyzstan have increased almost 12-fold, to Armenia more than 8-fold and to Kazakhstan 2.5-fold. In 4Q22, domestic exports to these six countries were almost €660mn higher than a year earlier (up 90% y/y). More than 90% of this growth was generated in the very categories that saw the strongest decline in exports to Russia (€613mn). It therefore appears that Polish companies have redirected some of their sales, which originally were intended to go Russia, to surrounding countries.

As a result of the war, the Ukrainian economy has lost the ability to expand into foreign markets. However, a clear increase in Poland's imports from Ukraine is evident for three types of commodities: cereals and cereal preparations, oilseeds and oleaginous fruits, vegetable oils and fats. Polish exports of cereals (especially wheat) and vegetable oils and fats began to accelerated markedly in March 2022, and we think this may have been partially caused by re-export of Ukrainian products. We wrote more about changes in Polish exports in our [Comment](#).

Polish export to particular countries, €mn



Non-EU countries recording the highest growth of import from Poland in 4Q22 (more than €30bn y/y)

	Change in 4Q22	
	% y/y	€mn
Kyrgyzstan	1088.1	58.7
Angola	937.8	42.0
Armenia	716.7	79.3
Kazakhstan	143.2	198.1
Panama	176.1	42.5
Uzbekistan	82.1	46.2
Taiwan	79.1	30.3
Ukraine	74.6	1387.8
Georgia	73.2	33.3
Saudi Arabia	54.1	81.5
Belarus	51.7	241.2

Source: GUS, Eurostat, Santander

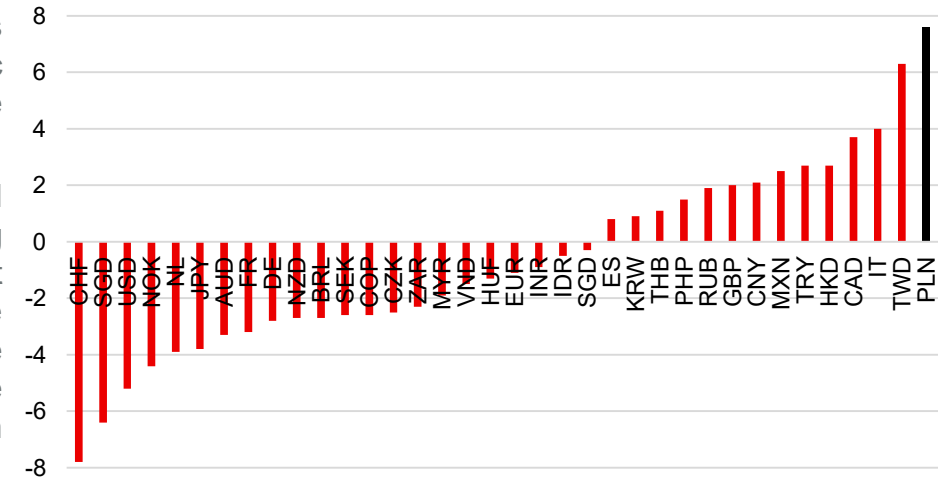


Industry: higher optimism despite worsening results

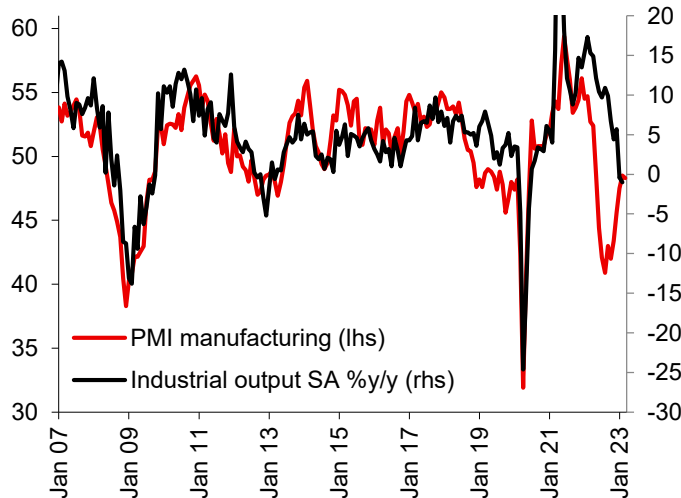
Despite the systematic improvement in industrial sentiment indicators observed since last summer, in recent months production has decelerated faster than expected. We interpret this divergence between soft and hard data as, on the one hand, a correction of overly pessimistic sentiment (exaggerated fears about the impact of the war and the energy crisis) and, on the other hand, a deterioration in external demand amid the weakening of the EU economy.

The performance of industrial production, particularly manufacturing, has been pretty solid until recently and only the beginning of this year brought a surprisingly strong correction, affecting mainly automotive sector, metals, paper, clothing. Business indices have been improving, but they are still in the contraction zone, so the outlook for the coming months is not rosy. In the longer run, however, we see a gradual recovery - expectations for future production continue to improve and in March were the highest in a year. Materialisation of such scenario should be supported by a reversal of negative trends in international trade, which we wrote about on [page 10](#).

Manufacturing PMI, 6M change (Aug'22- Feb'23)

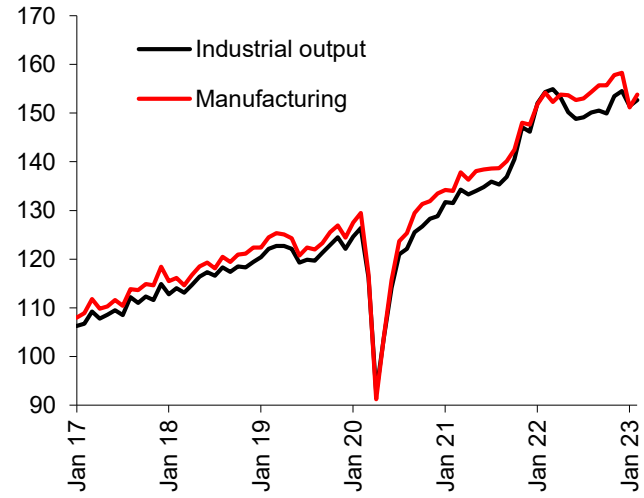


Industrial output (% y/y) and PMI



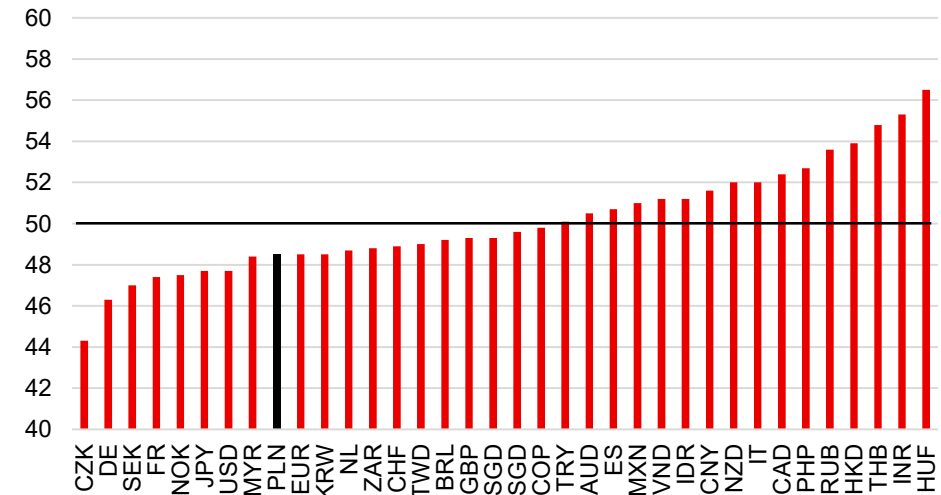
Source: GUS, S&P Global, Santander

Industrial output, 2015=100, seas. adjusted



Source: GUS, Santander

Manufacturing PMI, level (Feb'23)



Source: S&P Global, Santander





Consumption under water, but we hope for a rebound

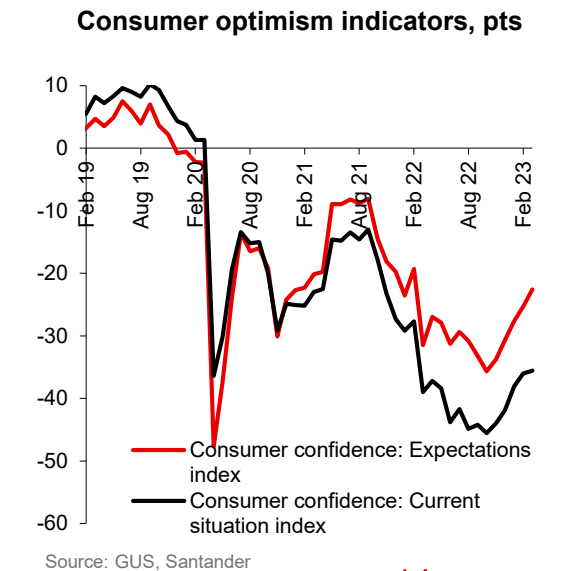
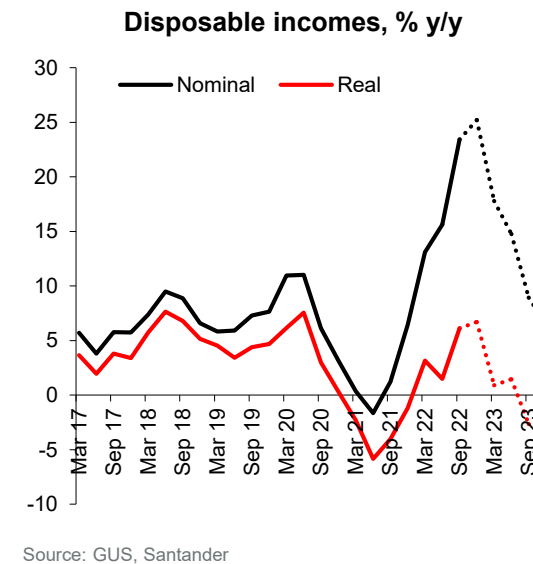
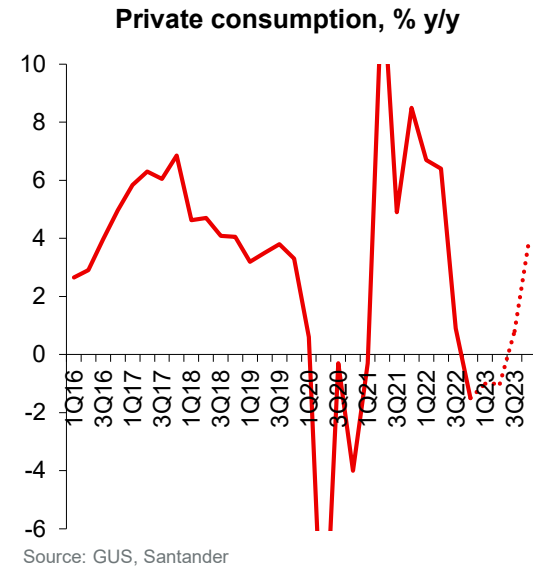
Consumption has been weak in recent quarters, but in our view, after a trough in 1Q23, a rebound will occur in 2Q or 3Q. However, the strength of this rebound will not be particularly high.

The end of last year was very difficult for consumption. In 4Q22, consumption fell by as much as 2.5% q/q and this was the weakest reading in the history of these data, i.e. since 1996 (if we exclude the pandemic period). January and February retail sales also disappointed (+0.1% and -5% y/y), suggesting that 1Q was unlikely to show any improvement.

Interestingly, the collapse in consumption came at a time when real disposable income was still growing strongly (although real wages, for example, were declining). This means that the main factor behind the reduction in consumption was the precautionary austerity (the illusion of money, uncertainty about war escalation, fears of energy crisis, overpayment of loans), which were reflected in the strong fall of the consumer sentiment indicators.

Therefore, although we expect a decline in disposable income in real terms in 2023, we believe that the recent improvement in consumer optimism will translate into a rebound in consumption in the following quarters. The first signs of recovery have appeared in credit demand ([p.18](#)). However, the hard budget constraint is in place, so the strength of the rebound will be limited by the space for reduction in saving rate. In other words - the rebound will not be particularly strong.

We wrote more on the outlook for consumption in our [Economic Comment](#).





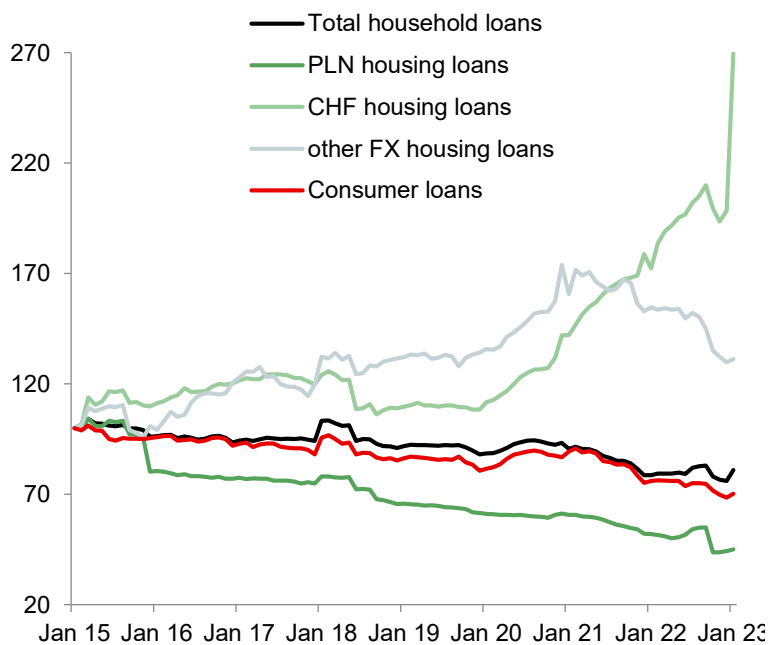
Did interest rates harm households' budgets?

The introduction of the credit moratoria in July 2022 has almost completely erased the impact of interest rate hikes on households' net interest costs (the difference between the cost of servicing debt in PLN and interest income from bank deposits).

The NBP data show that households have no problem with servicing PLN-denominated loans - not only mortgage loans but also consumer loans. The increase in NPLs basically only relates to the FX loans portfolio. In the case of CHF loans, the increase is partly the result of a rapidly declining denominator - the book value of CHF-denominated debt reported by banks has decreased by 1/3 in last year.

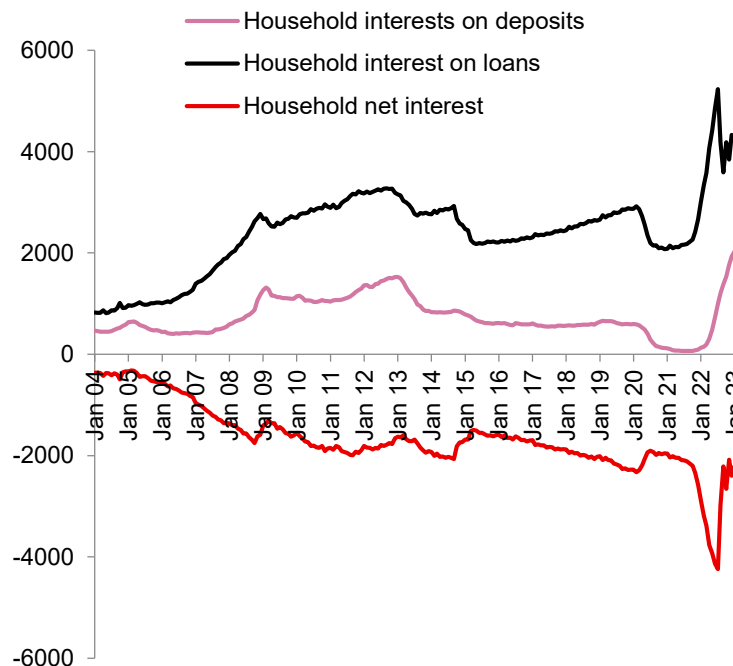
Households still have a significant surplus of financial assets as compared to the pre-pandemic trend, with liquid funds (cash+deposits) constituting a large part.

NPL rates by loan type (index, January 2015=100)



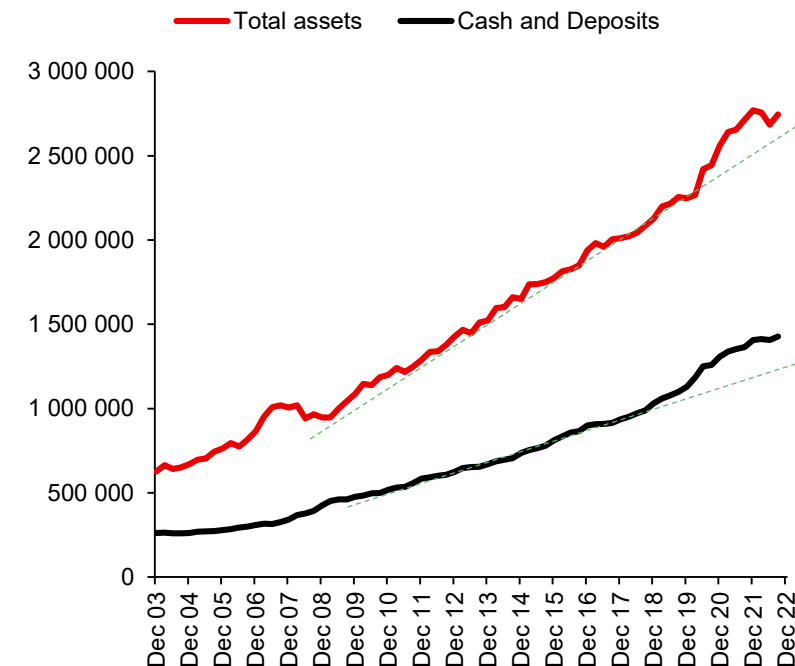
Source: NBP, Santander

Monthly interest payments of households, PLNmn



Source: NBP, Santander

Financial assets of households, PLNmn



Source: GUS, NBP, Santander



Weak investment outlook in firms and municipalities

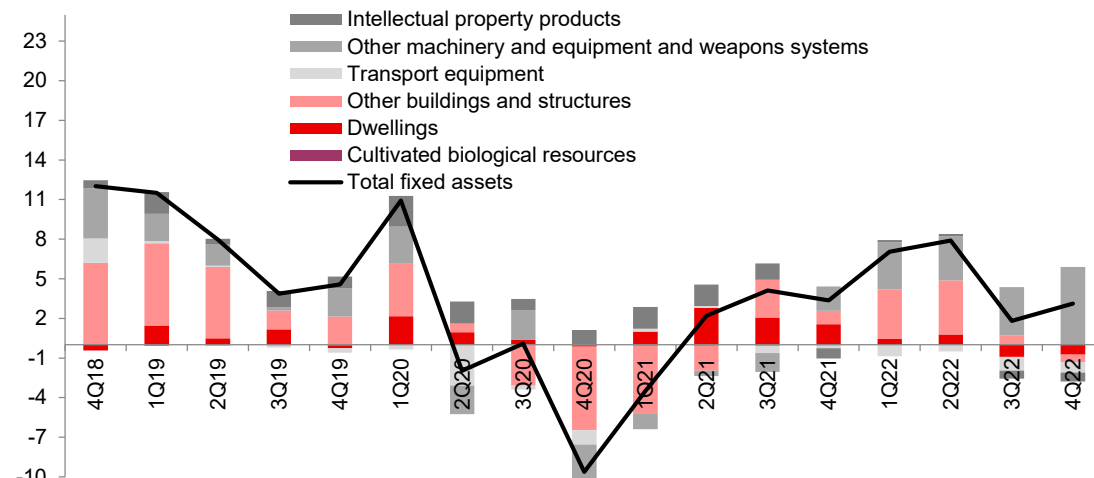
Investment outlays by local governments and, to a lesser extent, companies were the wheels of fixed investment in 2022. However, we expect a markedly weaker performance in these two sectors in 2023. We also do not believe that military spending was an important driver of total investment in 4Q22.

"Other machinery and equipment, weapons systems" were the main driver of investment growth in 3Q and 4Q2022. Based on foreign trade data ([p.11](#)) we estimate that military equipment added about 2pp to 4Q22 investment growth, so "other machinery and equipment" was more important with about 4pp contribution.

Indicators of investment optimism, e.g. Optin, calculated by the NBP, have slid severely, so in our view the investment outlook for companies is poor. Outlook will gradually improve with better economic conditions, but in our view, a rebound will come later, especially as long as the situation regarding EU funds remains uncertain - investments in sectors more dependent on EU funds looked weaker than in others.

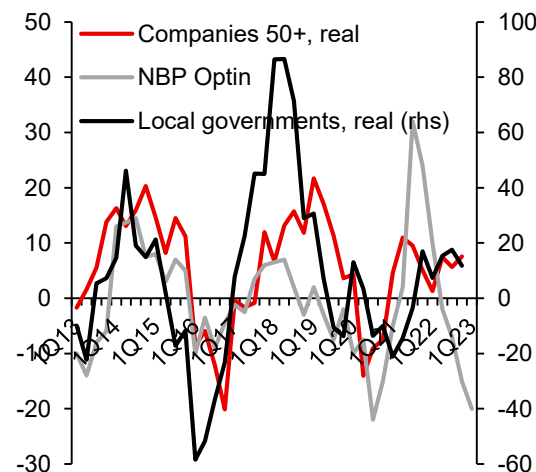
Local governments in 2022 experienced investment boom, growth in real terms amounted to c15%, and volumes hit all-time highs. The investment momentum is high, but the statistical base is also high, so it will be difficult to repeat such a result in 2023, especially as municipal plans for this year imply investment growth of around 10% in nominal terms. In real terms, therefore, close to zero.

Breakdown of investment by asset type, % y/y



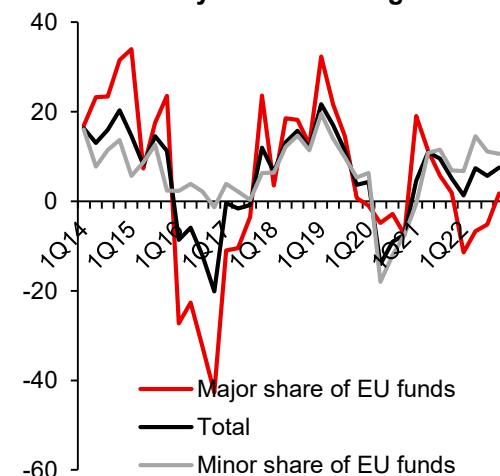
Source: Eurostat, Santander

Investment in companies and local governments OPTIN



Source: GUS, NBP, Santander

Investment in companies employing 50+ by EU funds usage



Source: GUS, Santander



... so investment is likely to stagnate

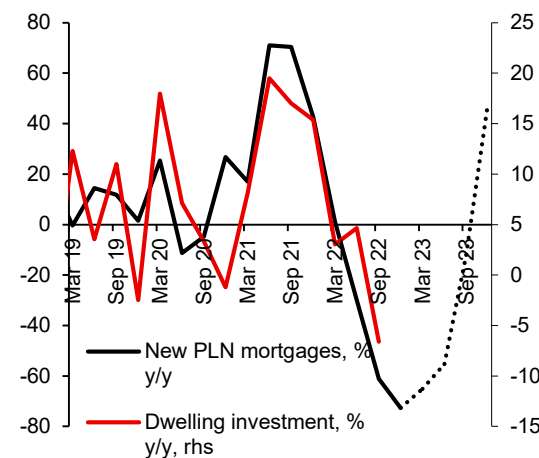
Investments of the central government will look quite good in 2023, in our view. Household investment, on the other hand, will improve, but it will be far from the volumes of 2020-2021. We expect total fixed investments in the national economy to grow by around 1% y/y in real terms.

We think that mortgage lending is already at the trough and we expect a gentle improvement in the coming quarters (see [p.18](#) for details). Towards the end of the year, we even expect a positive annual growth rate, but this is mainly the aftermath of a very low base - in our view, volumes will be markedly lower than in 4Q20 and 4Q21.

This will have a positive impact on residential investment, and consequently on household investment.

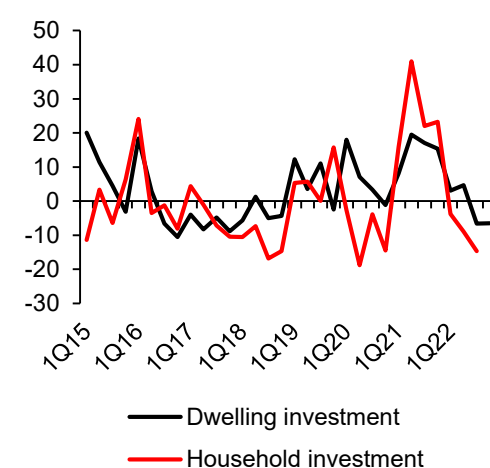
We have relatively biggest faith in government investment. Firstly, spending on military equipment is set to increase. Secondly, spending on engineering, especially roads, have accelerated in 2022 and we believe the strong momentum will continue due to ambitious road construction plans (the General Directorate for National Roads and Motorways – GDDKiA – plans to launch tenders worth PLN 28.6bn this year) and the substitution of EU funding by the Polish Development Fund (PFR).

Dwelling investment vs new mortgages, % y/y



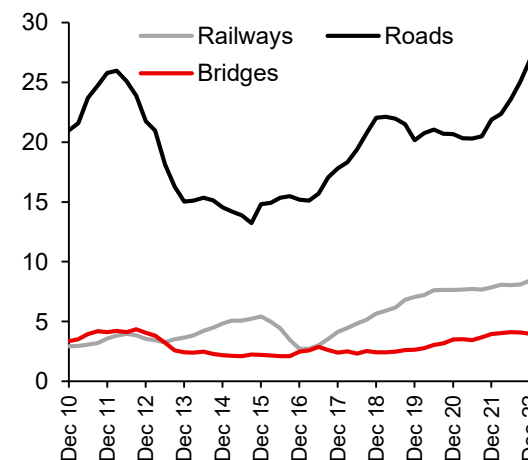
Source: GUS, NBP, Santander

Dwelling investment vs household investment, % y/y



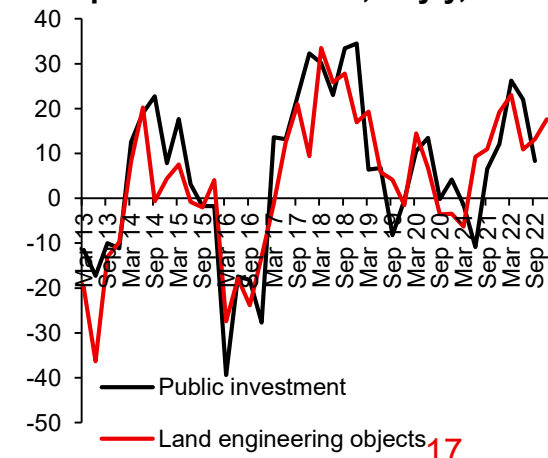
Source: GUS, Santander

Spending on particular engineering items, PLNbn (4Q sum)



Source: GUS, Santander

Land engineering vs public investment, % y/y, nominal



Source: GUS, Eurostat, Santander



Loans at the trough, better demand outlook

Sales of new loans appear to have bottomed out, and given the slight improvement in factors influencing loan demand, we expect a slight improvement in the months ahead.

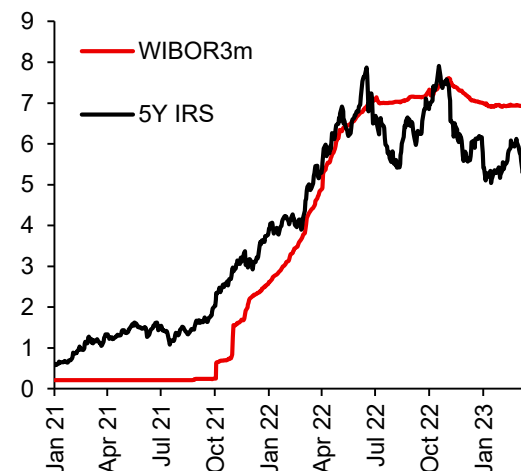
- 1) market interest rates have declined: compared to the October/November peak, WIBOR is around 70 basis points lower and the 5-year IRS is as much as 250 points lower.
- 2) housing prices have stabilised
- 3) wages continue to grow at double-digit rates
- 4) the KNF (financial supervisory authority) has relaxed lending criteria for banks (lowering the buffer added to the interest rate when calculating creditworthiness to 2.5% from 5.0%) for fixed interest rates.
- 5) The government plans to introduce credit with interest rates capped at 2% per annum.

The ratio of the new home loan instalment to the average salary has fallen from its peak at the end of 2022 by around 10% for variable rate loans and by around 20% for fixed rate loans.

Sales of new mortgages have stopped declining and appear to have bottomed out, but growth became apparent in applications for new home loans.

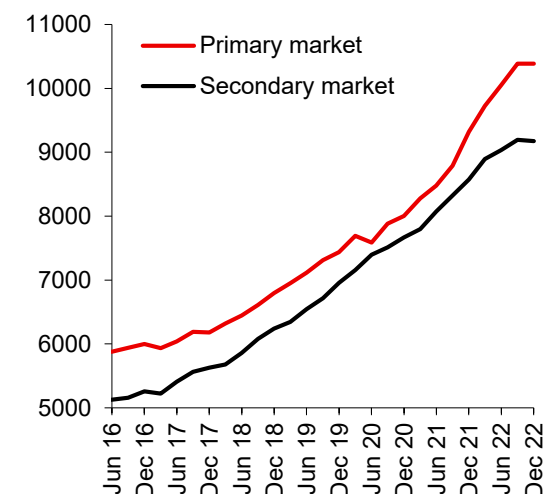
The volume of consumer loans has been declining since August, but the January data showed a marked twitch in new loan sales. In January, loans worth PLN5.7bn were originated, compared to PLN5.0bn a year earlier. However, it should be borne in mind that the law lowering the maximum non-interest cost of loans came into force in December 2022, which will have a negative impact on the availability of credit from lending companies.

Market interest rates, benchmarks for loans, %



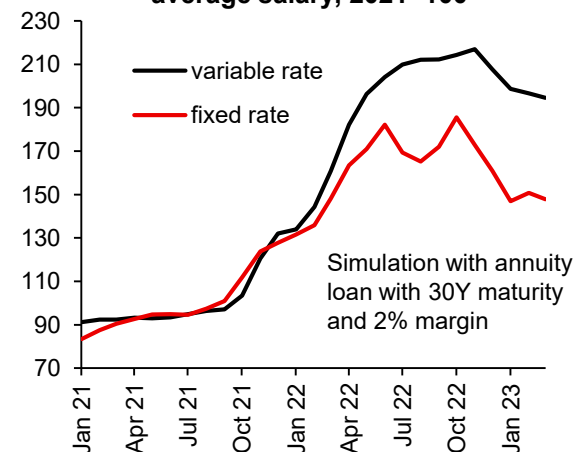
Source: Bloomberg, Santander

Housing prices in 17 biggest cities, PLN



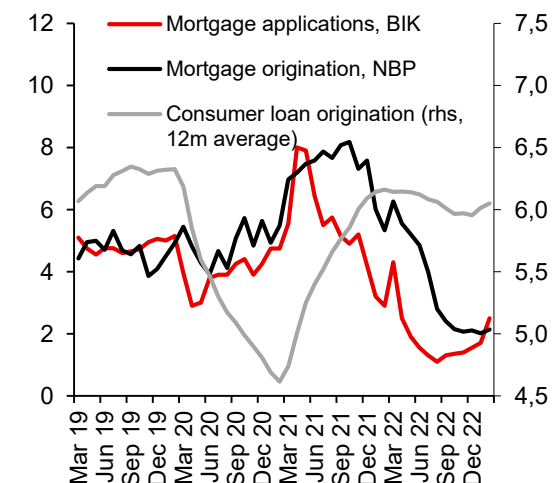
Source: NBP, Santander

New mortgage instalment compared to average salary, 2021=100



Source: GUS, Santander

Loan origination, PLNbn



Source: GUS, Santander



Deposits rising faster than loans

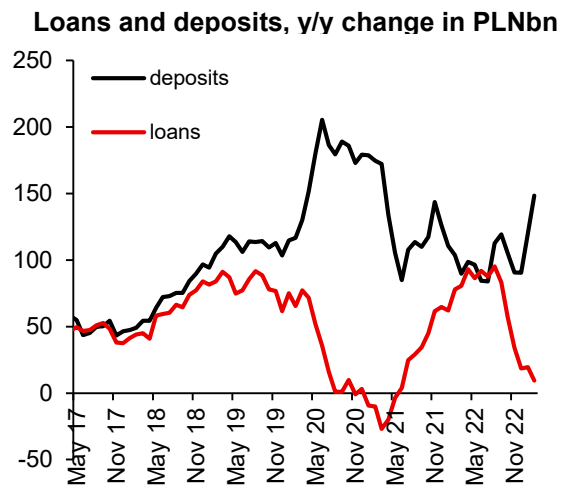
In the deposit and loan market, we again observe a clear divergence in the growth rate of deposits and loans. This was caused by an improvement in the banking system's foreign assets. This phenomenon has a number of causes, but we think that a stronger inflow of direct and portfolio investment into Poland is the main factor.

In recent months, there has been a clear divergence between loan and deposit growth rates. The last time we saw such a phenomenon was during the 2020-2021 pandemic and it was the result of a huge scale of fiscal expansion, which became the main source of money creation. This time, a different category is to blame - the net foreign assets of the banking sector.

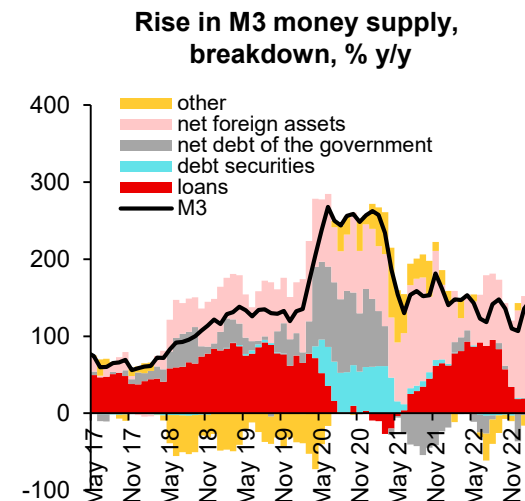
Changes in the banking sector's net foreign assets are a function of current and capital account flows as well as shifts in the composition of foreign assets and liabilities in other sectors of the economy.

The deterioration of the foreign balance in recent quarters has favoured a reduction in the banking sector's net foreign assets. However, this has not happened, firstly due to the weakening of the zloty, which resulted in a positive valuation effect, and secondly due to the increased foreign financing of the other sectors, in particular the increase in net inflows of direct and portfolio investment.

While the first of these processes does not generate new deposits in the banking system, the second does. We think that the inflow of foreign investment to Poland will remain strong in the upcoming quarters, among other factors thanks to tendencies to move economic activity to Poland after the pandemic.

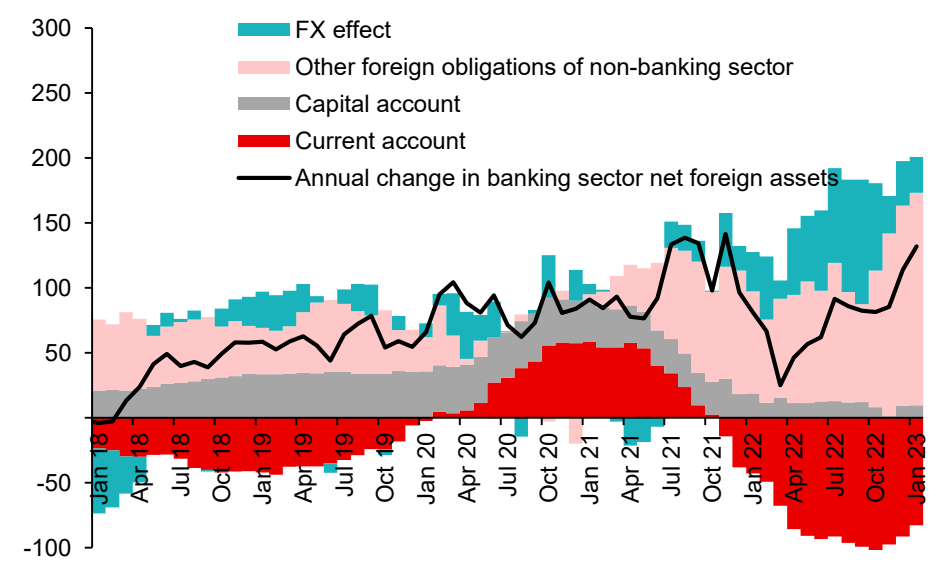


Source: Bloomberg, Santander



Source: NBP, Santander

Rise in net foreign assets of the banking sector, breakdown, y/y change in PLNbn



Source: NBP, Santander

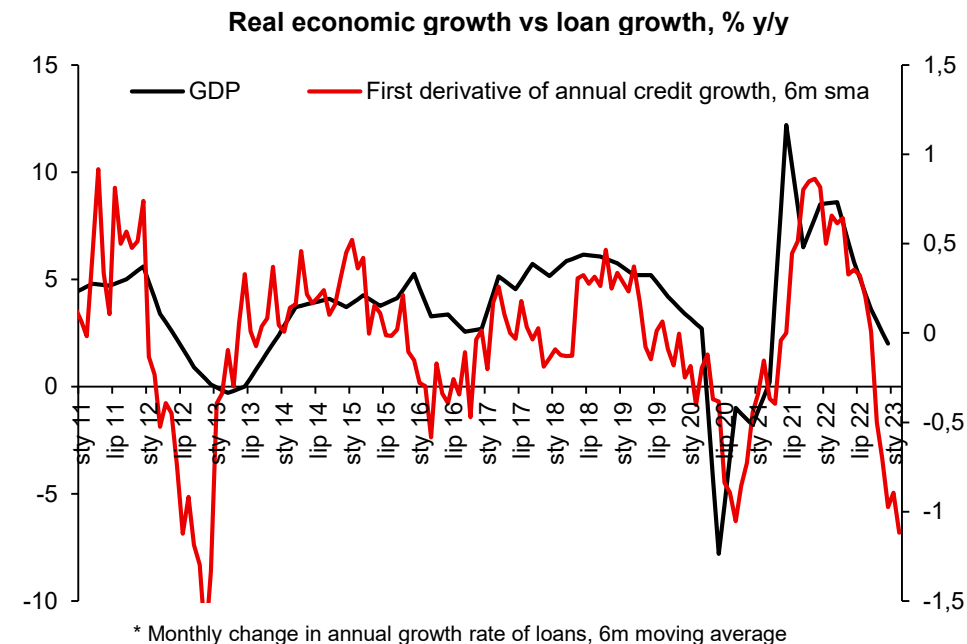


Difficult to rebound without loan growth

Poland went through the *credit crunch* before it was trendy... This statement is of course not entirely true, as the term basically refers to a collapse in the supply of credit, whereas in the Polish case there was a clear reduction in demand. Nevertheless, in previous years, the economic downturn phase was usually accompanied by a sharp slowdown in credit (negative credit impulse) and this has also been the case in recent months.

Does it tell us anything about the outlook for the next quarters? Firstly, signals from the credit market are consistent with our scenario of GDP growth dipping below zero in early 2023. Secondly, without a rebound in the credit market, it is difficult to imagine a clear economic recovery. There is no signal of a clear turnaround in the credit data for the time being, but this is not at odds with our scenario of a gradual rebound from the GDP bottom in the later part of 2023. In this context, the first signs of improvement in the number of loan applications (see [p.18](#)) are a good sign that could soon lead to a turnaround in the credit impulse.

It is worth noting that the time lag between a change in the trend in the credit market and a change in the trend in the economy is not large, so this indicator is not very anticipatory in our economy.



Source: GUS, NBP, Santander

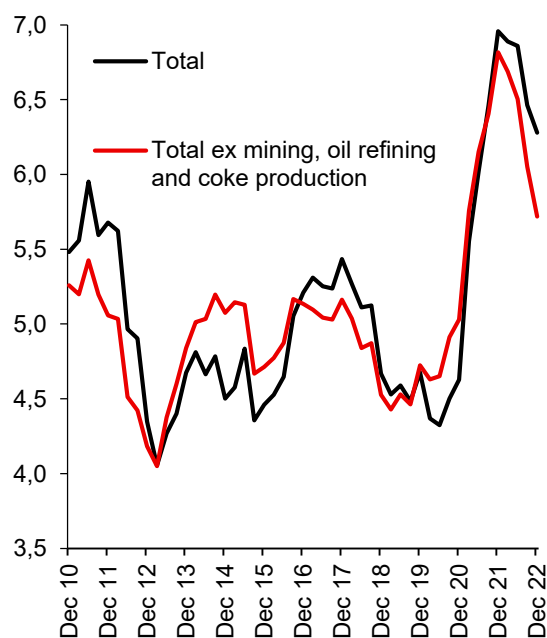


Profit margins still high despite decline

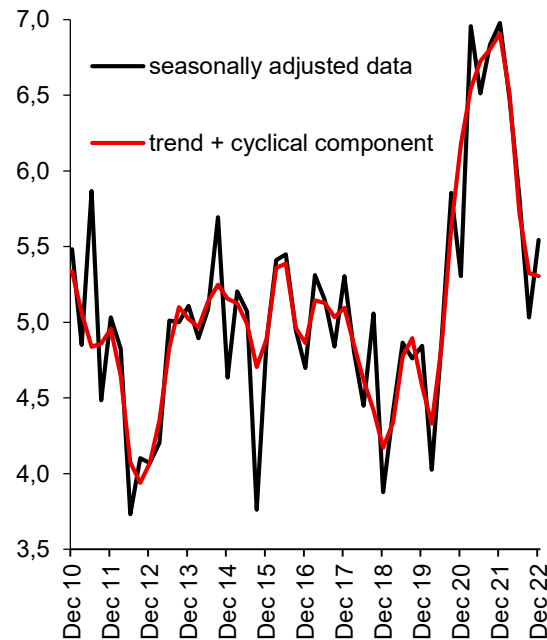
Profit margins at companies employing 50+ people have sagged under the weight of rapidly rising costs and the simultaneous weakening of economic growth in Poland. Their decline, however, is so far not dramatic - in terms of the 4-quarter moving average, they have essentially retreated to the levels of the 2007 economic peak. Also, after filtering out the distorting sectors (mining, oil refining and coke production), the level of average margins deviates upward from the band in which it moved in previous years. Seasonally adjusted margins (excluding the aforementioned sectors) even showed a rebound in 4Q22, and the measure showing their cyclical movement stopped after a series of declines. Moreover, about 70% of the sectors for which the data are reported still have margins higher than before the pandemic.

Such resilience of margins to cost pressures in a slowing economy helps explain the persistence of inflation. Apparently, companies have relatively often opted for a policy of margin protection at the expense of risk of weaker turnover, rather than seeking to maintain turnover by adjusting margins.

Average margin, 4Q average (%)



Average margin ex mining, oil refining and coke production (%)



Average margin level: 4Q22 minus 4Q19



Labour demand is weak...



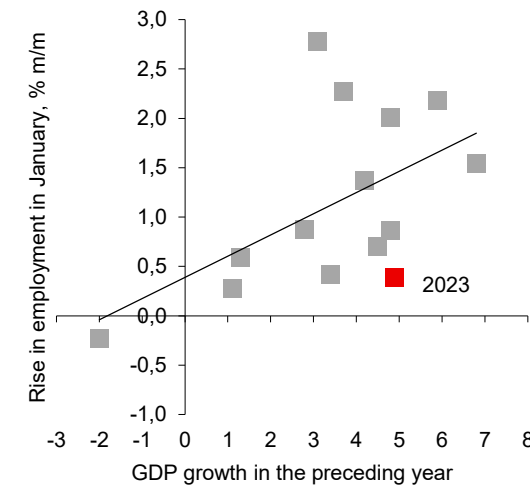
The labour market statistics point equivocally to a deterioration in this part of the economy. As expected, there has been no increase in unemployment and, in our view, labour demand will recover in the second half of the year, although it is likely to be a slow process.

Recent labour market data have confirmed that labour demand is weakening. The January and February employment data for the corporate sector were clearly below expectations - the weakness we had previously seen only in manufacturing has spilled over widely into other sectors as well. The January data are mostly affected by revision of sample of companies surveyed by GUS. Thus, change in January mostly reflects changes in small companies in the preceding year. January 2023 was exceptionally weak compared to quite high GDP growth in 2022, which is clearly visible on the chart on the top left-hand side.

The GUS data on the number of new vacancies also looks worse, with the number of job offers per unemployed person declining, although unemployment itself is not rising for the time being. The NBP's Quick Monitoring shows a falling share of companies with vacancies and a decrease in the number of companies planning to increase employment at the expense of the number of companies planning to reduce it.

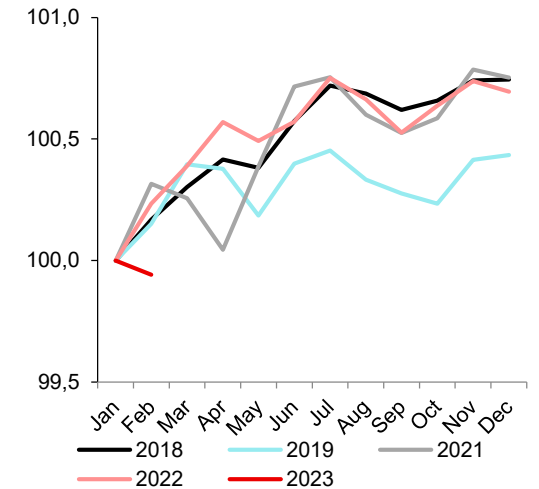
One swallow does not a summer make, but recently there has been a marked improvement in the employment outlook according to the Manpower survey, which is quite well correlated with changes in unemployment. In our view, the outlook for labour demand will gradually improve, although it will be a rather slow process.

GDP growth in the preceding year vs employment change in January



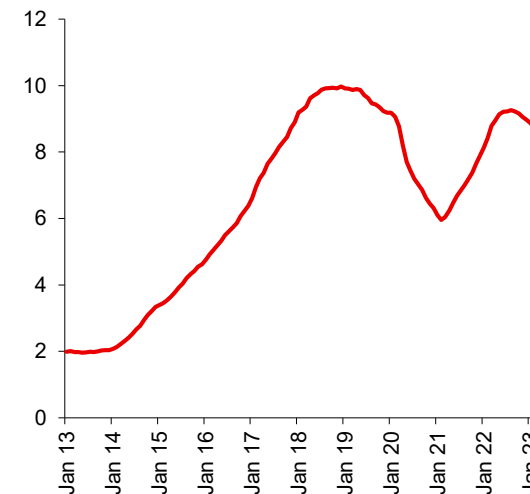
Source: GUS, Santander

Change in employment, January = 100



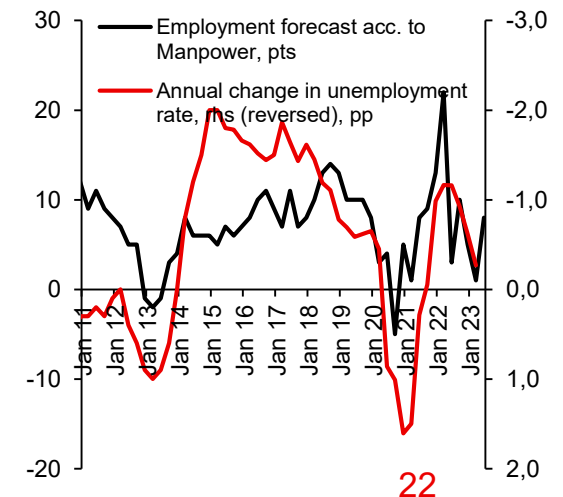
Source: GUS, Santander

Job offers per 100 unemployed, 12 month moving average



Source: GUS, Santander

Manpower index vs change in unemployment



Source: GUS, Manpower, Santander



... adjustment goes through wages

In the face of weaker labour demand, companies have been reducing wage costs through declines in real wages rather than through layoffs. In our view, nominal wage growth will remain at double-digit levels throughout the year and may increase in real terms in the second half of the year.

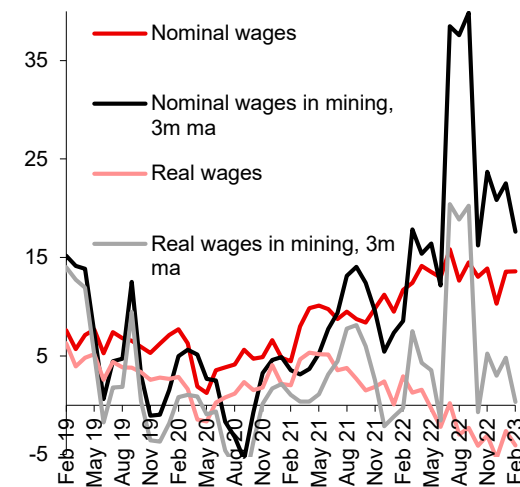
The adjustment in the labour market takes place not through layoffs and increased unemployment, but through a decline in real wages, which - on an annual basis - are already declining towards mid-2022. Only the mining industry is able to record wage increases in real terms, mainly due to the high unionisation in this industry. There is also positive real growth in transport, but this is largely a statistical artefact, due to the introduction of the mobility package in 2022 and the change in the pay calculation system for drivers.

At the beginning of the year, there was a clear increase in the minimum wage, to PLN 3490 from PLN 3010 (+16%). The effects were, in our opinion, most noticeable in administration and support activities and accommodation and catering, where a significant proportion of employees are paid the minimum wage. But already in construction or transport, for example, it is difficult to find such an effect (in transport, the share of employees with minimum wages has probably fallen significantly, due to the aforementioned mobility package).

The NBP's Quick Monitoring indicates a decline in wage pressure, although the share of companies feeling pressure to increase wages is still relatively high. On the other hand, the share of entities forecasting wage hikes has increased slightly and the average scale of planned increases has risen as well.

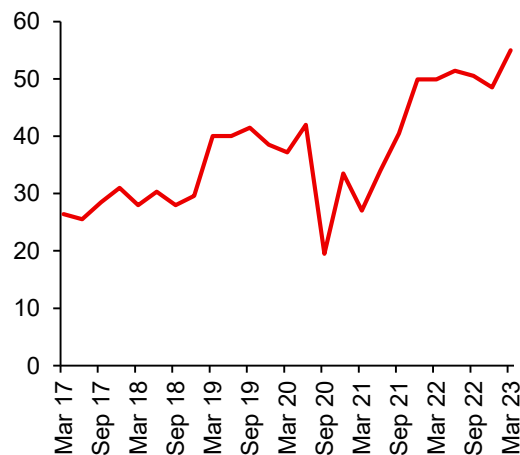
Wage data in January and February surprised upwards, which in our view indicates that double-digit annual growth is firmly anchored. The fall in inflation should therefore allow the annual real wage growth rate to return above zero, which we believe should happen in 3Q or 4Q.

Wages in the corporate sector, % y/y



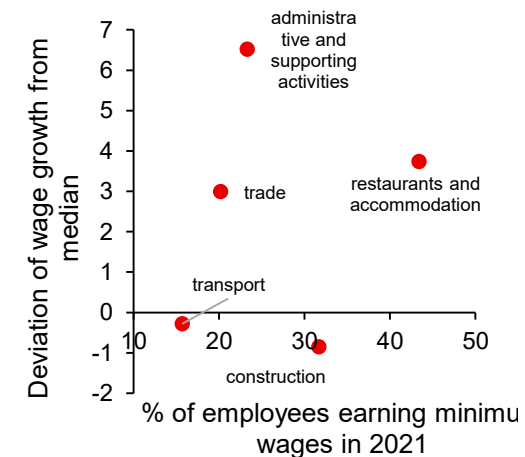
Source: GUS, Santander

Share of companies forecasting wage hikes in the upcoming quarter, %



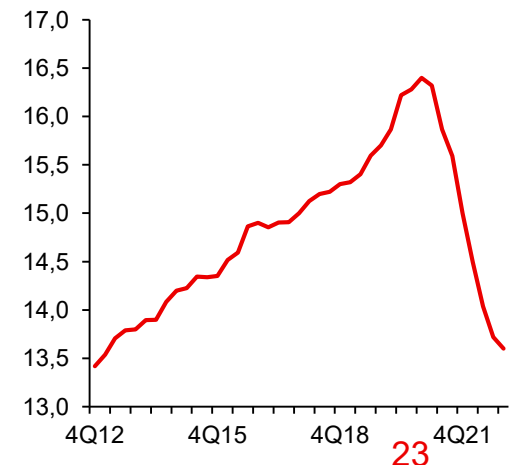
Source: NBP, Santander

Deviation of total wage growth in Jan and Feb from median vs share of employees earning minimum wage



Source: GUS, Santander

Share of labour cost in total costs of 50+ companies, 4Q ma, %



Source: GUS, Santander

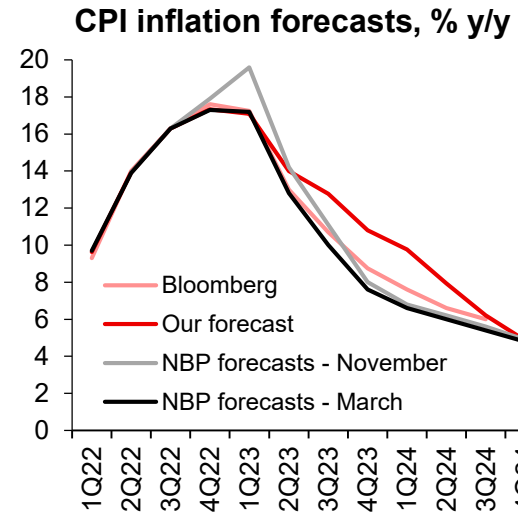
Inflation past the peak

CPI inflation rose to 18.4% y/y in February and fell to 16.2% y/y in March. The widely expected scenario that February marked the inflation peak has come true. In our view, inflation will decline further in the following months of the year, but not as fast as expected by the NBP and the market consensus. By the end of the year, we see CPI in the vicinity of 10% y/y.

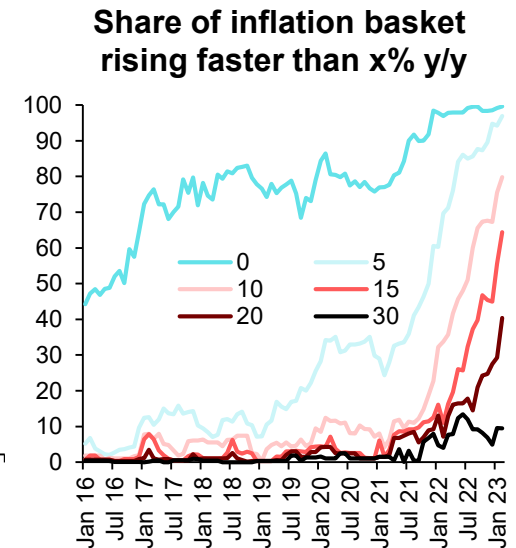
Although February's data were slightly below consensus and January's inflation was revised downwards to 16.6% from 17.2%, in our view, these numbers suggest a higher rather than lower inflation trajectory in the following months. The effect of the change in weights (we write more about the change in weights [here](#)), which subtracted around 0.6 percentage points from the annual statistic, camouflaged the fact that the inflation momentum in the first two months was stronger than expected. The CPI also saw a significant increase in the number of categories registering dynamics higher than 10, 15 and 20% y/y. We write more on this inflation momentum on [page 25](#).

The main measures of core inflation, as well as side measures depicting the inflation trend, have probably not yet peaked. The decline has already been visible for a few months in the part of inflation that is dependent on domestic output gap, but this is mainly because it includes energy and fuels.

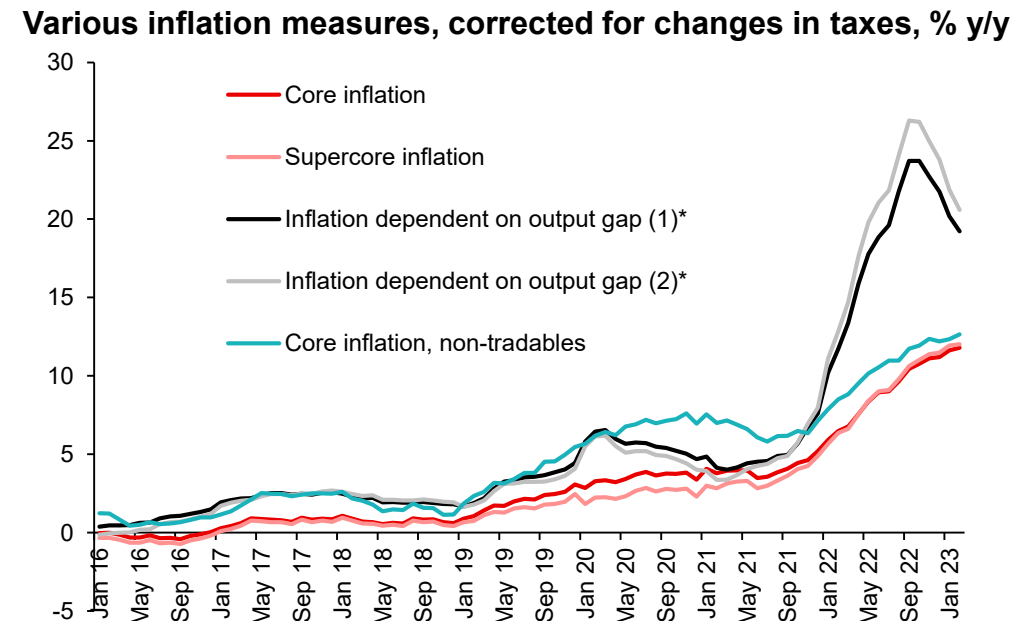
We expect CPI inflation to be close to 10% y/y at the end of the year, with reductions in momentum evident in all major categories. However, the prospect of a return to target will remain remote. We write more on this topic on [page 26](#).



Source: GUS, Bloomberg, NBP, Santander



Source: GUS, Eurostat, Santander



Source: GUS, Eurostat, Santander
 Inflation dependent on output gap based on: Haika A., Kotłowski J., Does domestic output gap matter for inflation in a small open economy? NPB, 2014.



Price momentum refusing to ease

Although CPI in y/y terms will clearly decline in the upcoming months, in our view, monthly price growth is now becoming more meaningful in assessing the persistence of inflation, and it does not signal a weakening of inflation.

Further monitoring of inflation trends, given the strong base effects dragging it down, requires other tools. The unusually rapid price increases in 2022 are now falling out from the annual CPI indicator.

For this reason, in assessing the persistence of inflationary processes, it is currently better to analyse m/m rather than y/y price changes, while being wary of seasonal patterns and using averages (preferably three-month averages, in our view) to reduce the risk that temporary shocks will distort the picture of inflationary trends.

The NBP in its March projection presentation showed consumer price calculations consistent with this concept up to January, referred to as „momentum indicators”, revealing deceleration in total CPI inflation, energy and food price inflation, but not in core inflation.

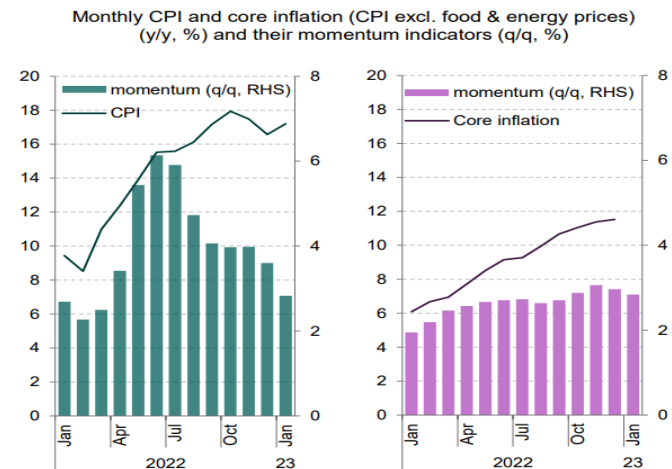
Our approach is based on a slightly different concept, immune to the whims of seasonal adjustment methods. We analyse the deviation of price changes from the multi-year median for a given month. We base our calculations on detailed data cleansed of the impact of tax changes. Price momentum is thus captured by the deviation of the 3-month average m/m dynamics from the multi-year median for the same period.

We carry out disinflation monitoring on inflation aggregates, recalculated according to the CPI basket: core inflation, super core inflation (ex administered prices), the part of core inflation composed of tradable goods and services, and two measures composed of CPI components dependent on output gap (according to the methodology of Hałka and Kotłowski, [p. 24](#)).

In all the measures we have examined, for the time being there is no retreat of the three-month average deviations of the m/m momentum towards their median values.

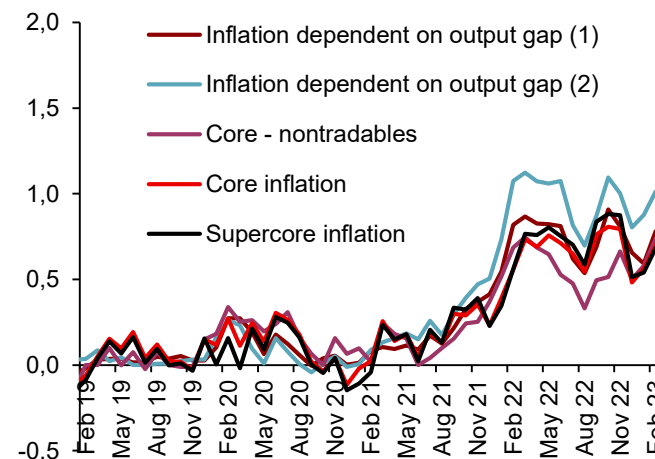
For March, with the data currently available we are only able to calculate our measure for core inflation, although this too is only an estimate. It is likely to have risen from 0.7pp to 0.9pp, which would be the highest level achieved by this measure in the current period of high inflation.

Price momentum indicators according to NBP



Source: NBP

Momentum indicators for inflation



Source: Eurostat, NBP, Santander



How far to the inflation target?

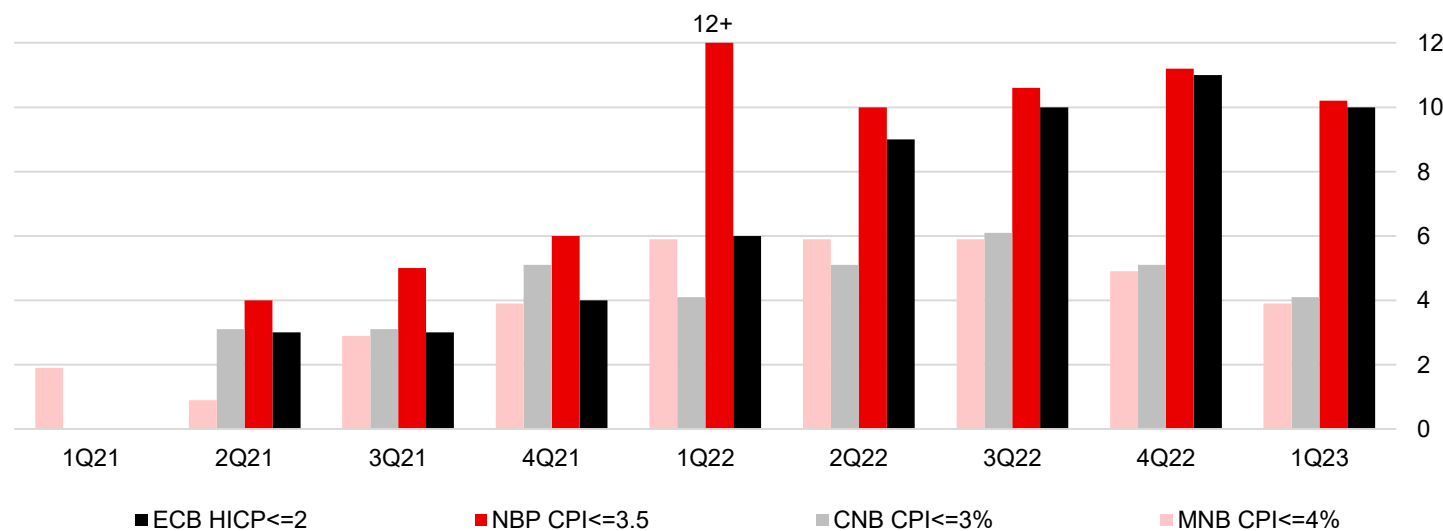
We compared the projections of ECB and the CEE central banks. The central banks in the Czech Republic and Hungary assume that they will bring inflation inside the target band within a year with the help of the rate rises made earlier. For the ECB and the NBP, the outlook is more distant: 2.5 years. For the latter two, the latest projections showed a return slightly faster than their previous versions, but only by the time elapsed between the projections.

The difference in the approach of the NBP and the ECB is that our central bank has come to terms with such a long horizon for reaching the inflation target and assesses the current level of interest rates as adequate, while the ECB continues to signal the need for further monetary tightening.

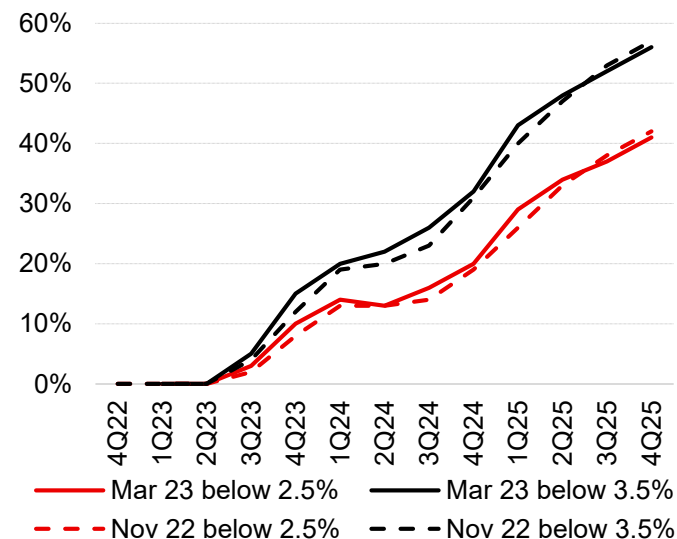
In the case of the NBP, if the next two projections are identical to the March one in terms of the timing of the descent of inflation below 3.5%, then the MPC will be able to argue that the achievement of the inflation target with unchanged monetary policy parameters has returned to the previously accepted horizon of 6-8 quarters. Thus, will the results of the NBP projections begin to suggest the emergence of space for interest rate cuts in 2023? In our view, no, because the current projection is too optimistic in terms of the pace of disinflation, which should be confirmed by data in the upcoming months.

If we take into account the probability of reaching the target derived from the projection, the March projection is no better than the previous one. But it came after a series of projections that showed the target moving away and the chances of reaching it within a decent timeframe diminishing.

Number of quarters necessary to bring inflation to target according to consecutive centra banks' forecasts



Comparison of NBP projections in Mar'23 and Nov'22 – probability that CPI will go down to target





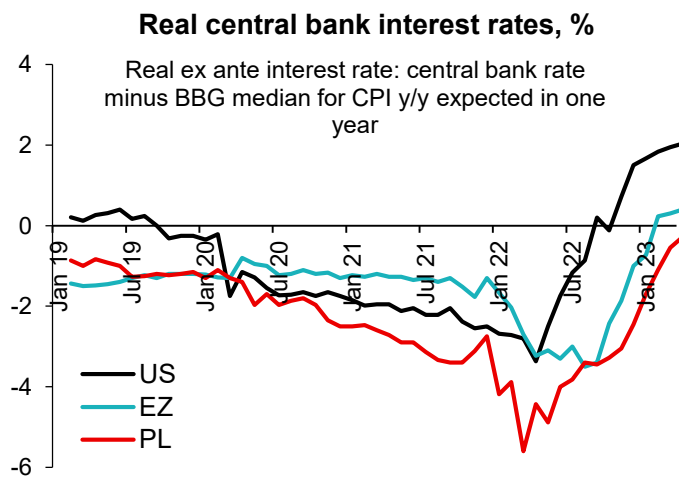
Monetary policy: too early to consider cuts

The Monetary Policy Council has kept interest rates unchanged since September (the reference rate at 6.75%), and assessed it is sufficient to bring inflation down to the target over an extended horizon without risking an excessive downturn.

The tightening cycle has not been formally closed, but the bar for further increases seems to be suspended extremely high. On the other hand, we still believe that the **chances of interest rate cuts this year and for most of next year are much lower than market valuations suggest**. This assessment has been further reinforced following the publication of recent data from the domestic economy, showing greater-than-expected persistence in prices and wages.

It seems that a change is also taking place at the central bank - Ireneusz Dąbrowski, who was still calling for the end of the hike cycle in the autumn and announcing cuts before the end of 2023, has recently changed to a more cautious tone. We see his statements as close to the views of NBP President Adam Glapiński.

The restrictiveness of monetary policy in Poland, as measured by the level of real interest rates, continues to diverge markedly from other countries, despite the earlier start of the hike cycle.



Source: Bloomberg, Santander

Comments of MPC's Ireneusz Dąbrowski:

17/10/2022, TOK FM, Parkiet: [Should the cycle of interest rate rises come to an end?] In my view, yes. We have already responded to the rise in inflation. There is not much more we can do at this point. Further rate rises would only trigger a downturn and would not significantly change the inflation outlook unless they were drastic.

28/11/2022, Bloomberg: The markets are right to assume that we could see the first rate cuts as early as next year.

12/01/2023, RMF FM: In my opinion, there may be room for an interest rate cut at the turn of the year, there is a high probability of this.

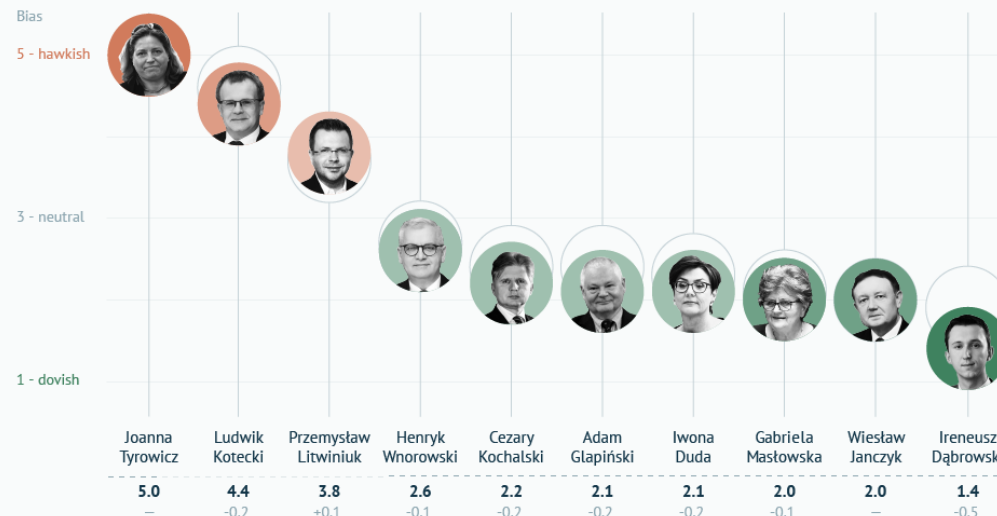
28/03/2023, PAP: There will not be any hasty reduction in interest rates. We will look very closely at the changing economic situation and we cannot afford to cut interest rates too quickly. (...) So it seems that the current level of interest rates is adequate and will stabilise the situation. On the other hand, the current disturbances in the financial markets indicate that it is still far premature to announce a definitive pause in the rate hike cycle.

PAP Consensus Call: polish MPC hawks and doves

Individual Council Member Bias, as ranked in PAP consensus survey of sell-side economists

Consensus call based on a survey of 14 economists, as collected by PAP Business at 1-3rd March 2023.

● March 2023 Call
○ October 2022 Call



Source: PAP Business



Financial markets

A close-up photograph of a desk with financial documents. A silver pen lies diagonally across the papers. The documents feature various charts, including a line graph with a blue line and a bar chart with multi-colored bars. The background is blurred, showing more papers and a computer monitor.

2



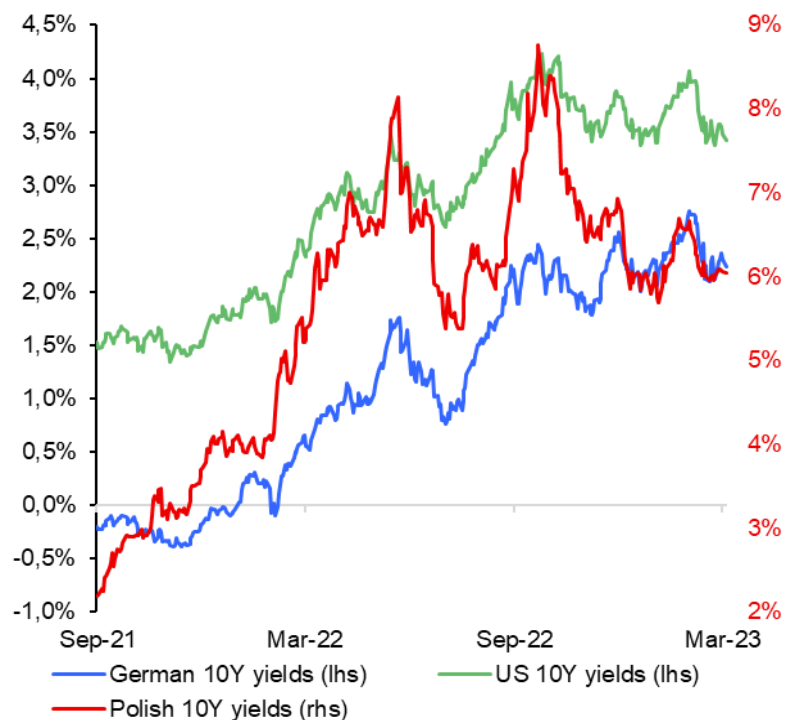
FI: Falling rate expectations vs stubborn inflation

Domestic debt market remains heavily dependent on trends observed in the main markets.

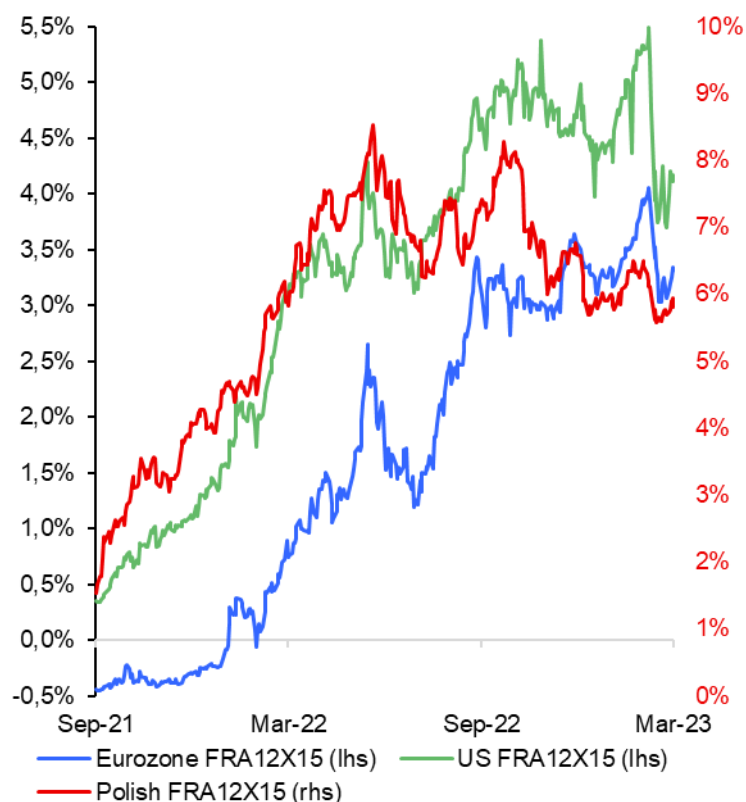
In recent weeks, the issue of disinflation outlook has receded somewhat into the background, due to the turmoil in global financial markets. Their immediate consequence was a repricing of market's interest rate expectations and a more dovish attitude of major central banks.

Despite the higher levels of inflation in Poland and the expected much slower process of its decline, we believe that the domestic debt market will continue to follow the trends in the core markets. After a temporary upward rebound associated with the gradual calming of sentiment in the main markets, we expect domestic yields to return to a slow downward trend in the later part of the second quarter, which will continue in subsequent quarters as well.

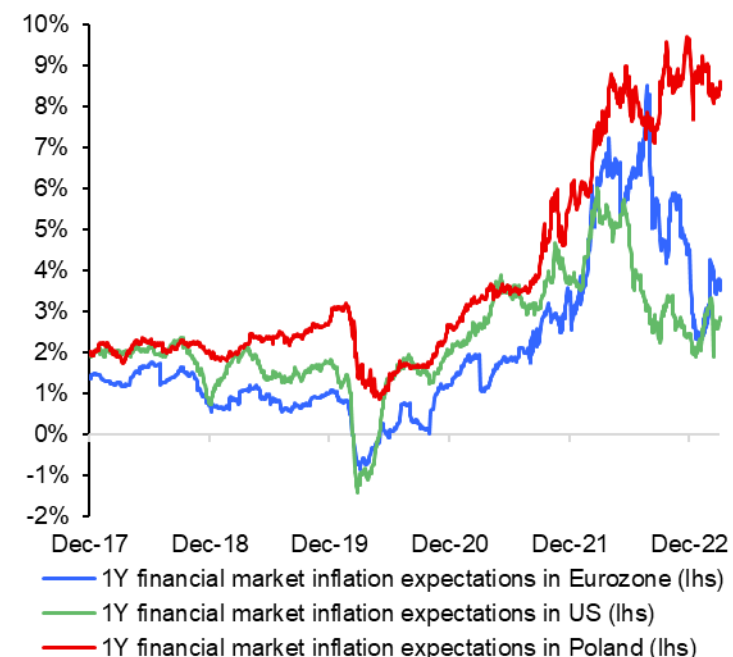
Domestic debt market is following trends in the core markets.



Market interest rate expectations have fallen in both core markets and Poland.



Despite the decline in interest rate expectations in the US, Eurozone and Poland, inflation expectations of the domestic debt market remain markedly higher than those of the core markets.



FI: Market assumes imminent end of rate hike cycle

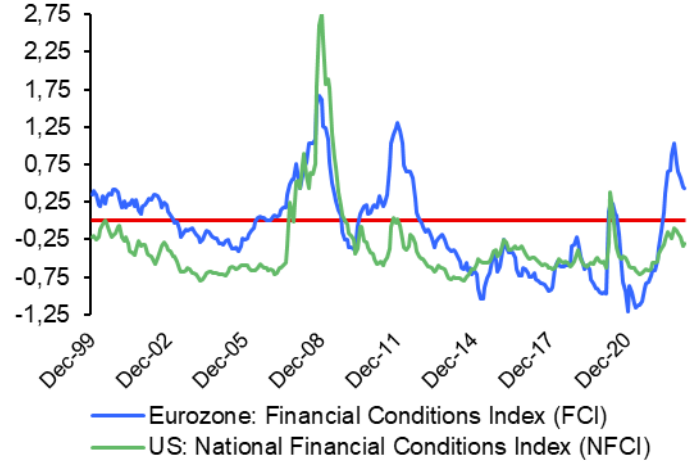


The turmoil in banking sectors has repriced the market's expectations for the future interest rates path both in the core markets and domestically.

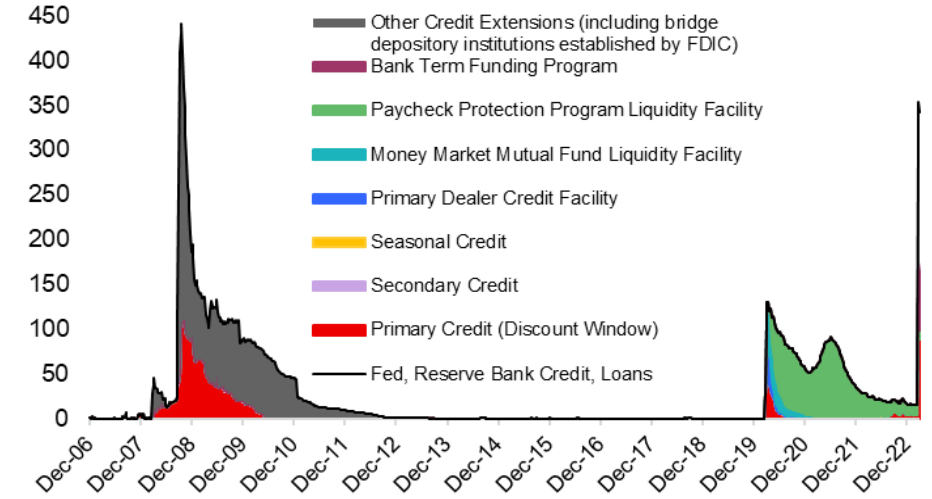
We assume that uncertainty about the developments in the banking sectors and its impact on financing of the real economy will keep market expectations of interest rates at lower levels.

Despite their noticeable upward rebound in recent weeks, in our view rates will not return to the levels of early March this year.

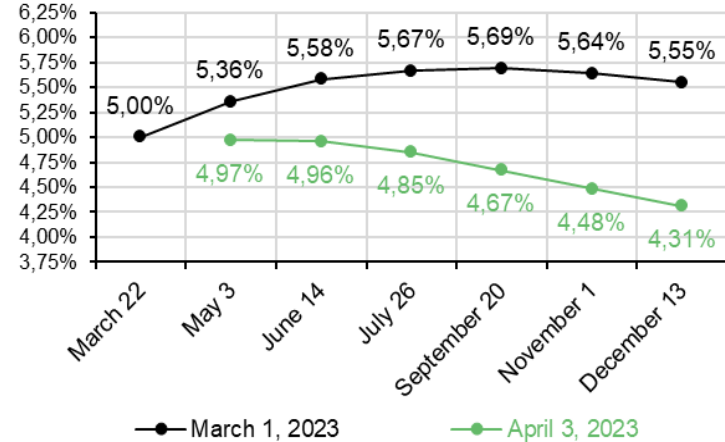
Tightening financial conditions in the US and the Eurozone have exposed problems for some banks on both sides of the Atlantic



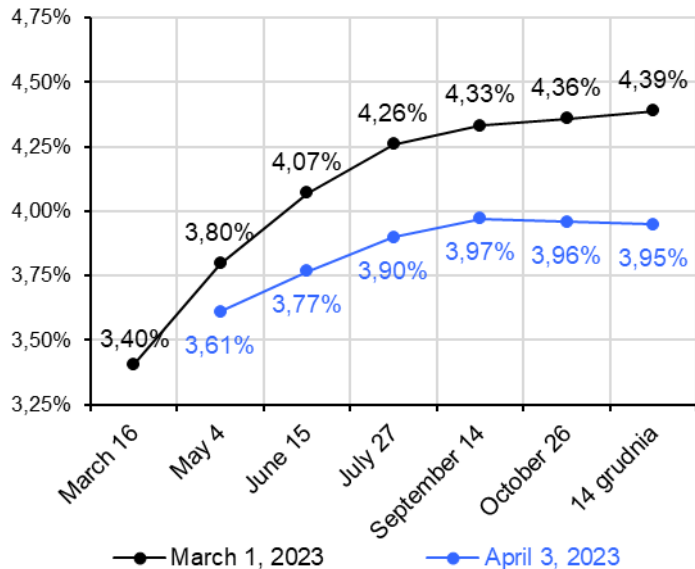
The scale of the Fed's financial support for the US banking sector in recent weeks has taken on long-unseen proportions.



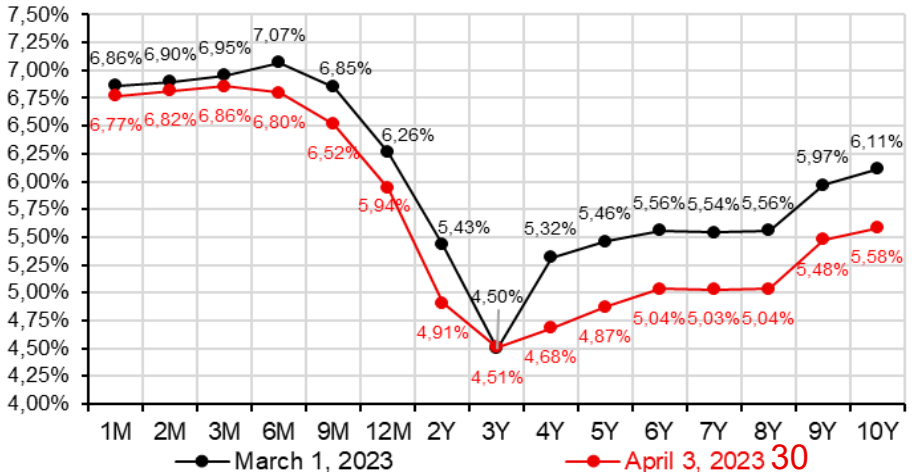
Problems in the US banking sector have revised downward market expectations of the Fed's further interest rate path this year.



The expected path of ECB rates in 2023 has also been lowered.



Domestic financial market also followed the main markets and lowered expectations for the further path of interest rates (1M Forward IRS), although due to high inflation revaluations were more modest in nature.

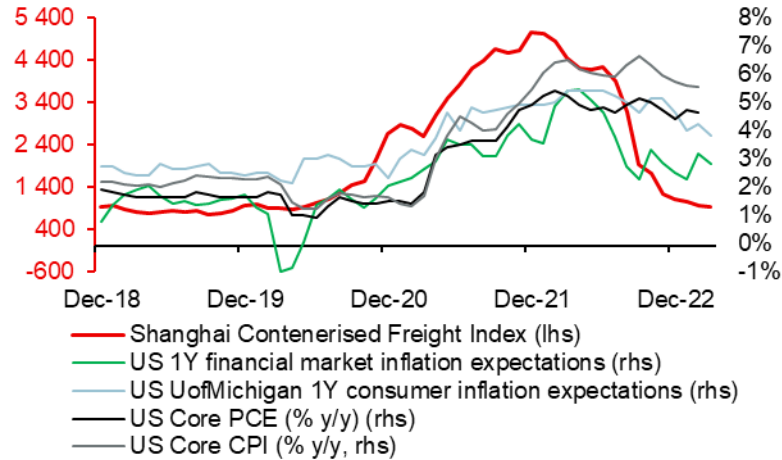


Source: Refinitiv, Santander

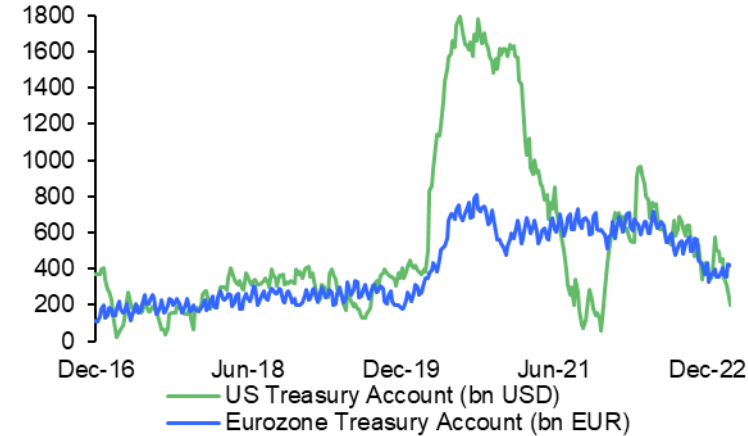


FI: Inflation expectations of debt markets remain low

The easing of tensions in China's supply chains is working to lower inflation in core markets.



The liquidity effects of the fiscal stimulus of the COVID-19 pandemic period have already been absorbed by the core markets and their impact will continue to wane.

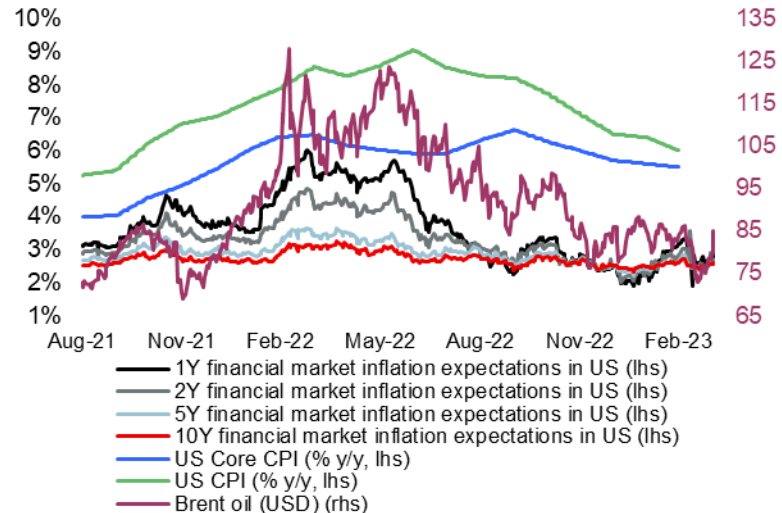


Main financial markets have priced-in long ago an anticipated decline in inflation due to easing disruptions in supply chains from China and the gradual expiration of the liquidity effects of pandemic fiscal easing.

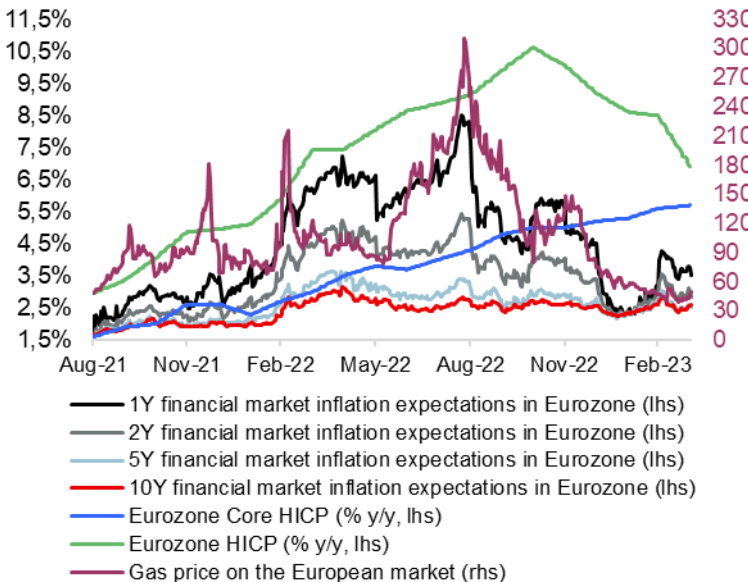
Market inflation expectations in Poland are more strongly influenced by inflation cycles in core markets than by the trajectory of the inflation path at home.

Despite a slight upward rebound in market inflation expectations in recent months, in our view, they are unlikely to rise on a sustained basis.

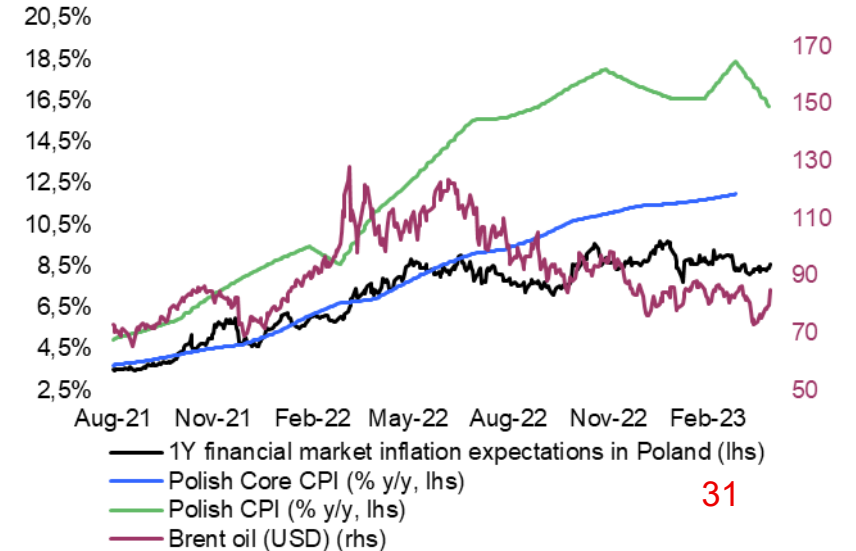
US markets' inflation expectations have fallen much faster than subsequent declines in inflation rates



We faced a similar situation in the Eurozone, but here the main impetus for the declines was a strong discount in European gas markets.



In the Polish debt market, the key to the change in market inflation expectations was not the domestic inflation situation, but trends in the major markets, most notably the situation in global Brent crude oil markets.





FI: Budget funding does not threaten ASW valuations

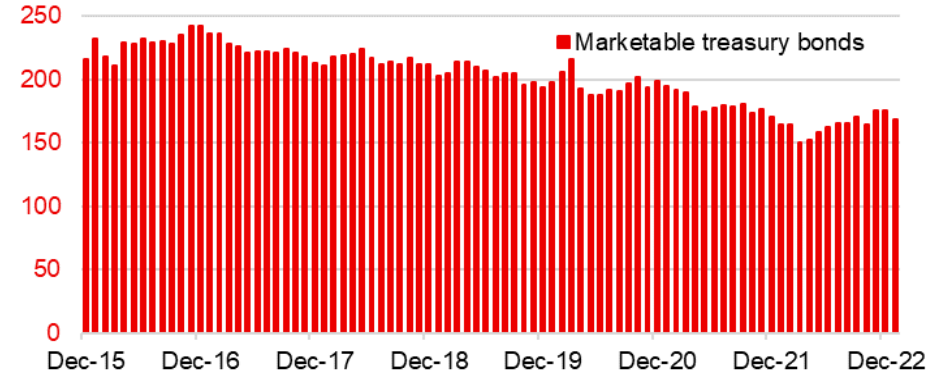
The large degree of financing of the budget's gross borrowing needs (74% at the end of March), and the increase in the Ministry of Finance's issuance activity in foreign markets, is conducive to rapid financing of this year's budget.

Since the end of 2016, the supply of foreign currency bonds has been successively decreasing, which has created a convenient buffer for its renewed growth for budget needs.

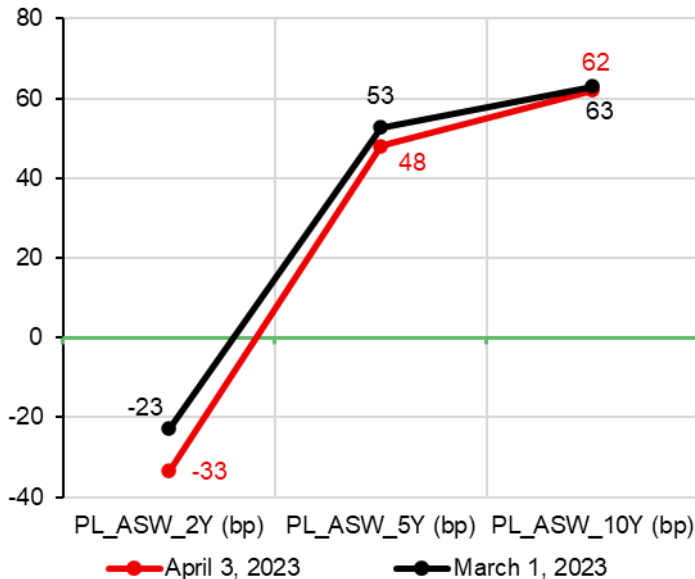
The Ministry of Finance's large "liquidity cushion" also remains an additional safeguard for the budget.

In addition to the budget, the needs of the off-budget funds remain to be financed in 2023 (PLN 84.4 billion), which have been financed at less than 10%.

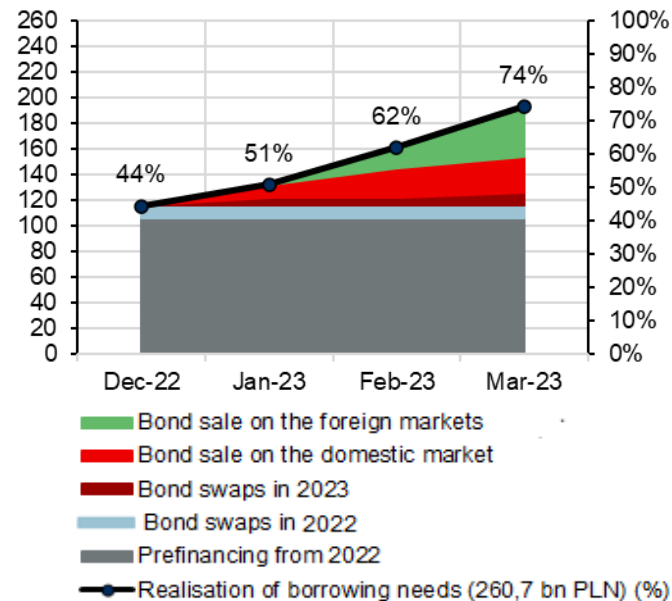
Since the end of 2016, the supply of Polish treasury securities in foreign markets has been steadily decreasing, potentially creating a sizable buffer to finance the 2023 budget's borrowing needs from this direction (PLN bn).



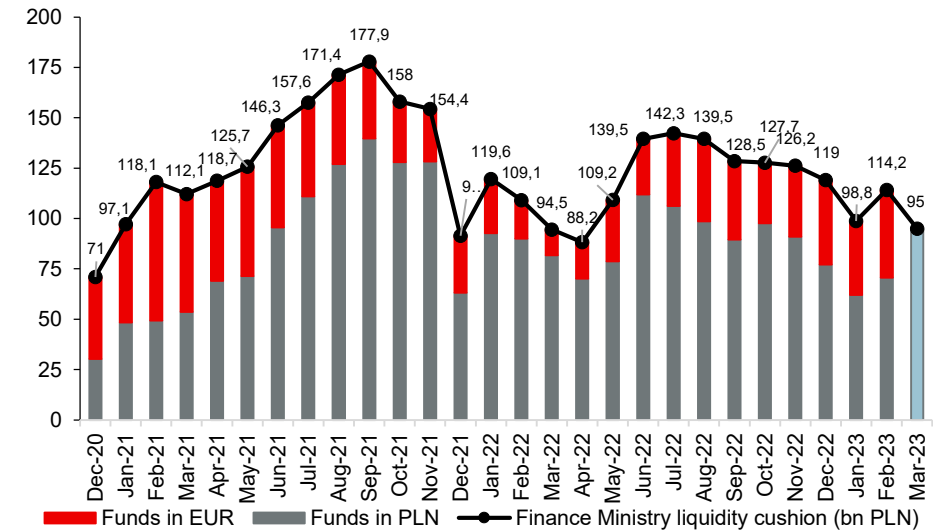
ASW curve has not changed significantly recently despite the turmoil in global markets and changes in the path of interest rate expectations in Poland.



By the end of March, approx. 74% of the budget's borrowing needs (PLN 260.7 billion) had been funded.



Ministry of Finance's liquidity cushion remains an additional "reserve" for financing the 2023 budget.





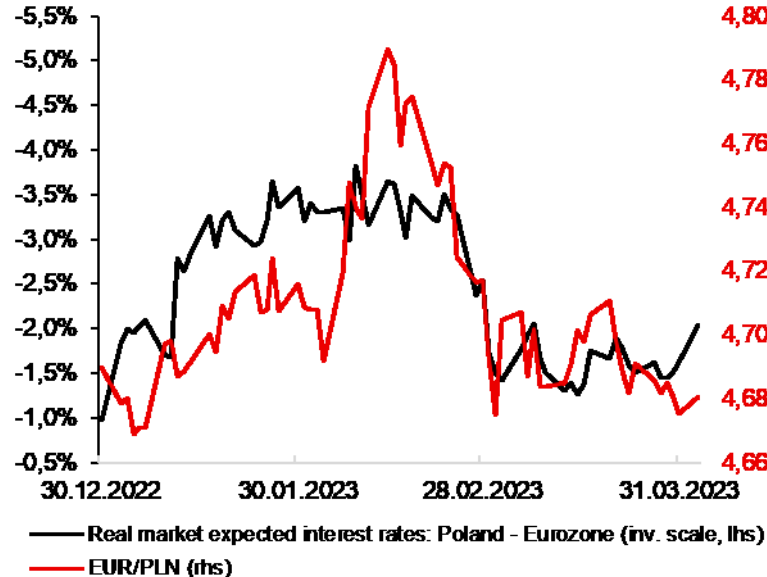
FX: PLN stable despite global market turmoil

Polish zloty has shown great resilience to the recent turbulence in global financial markets.

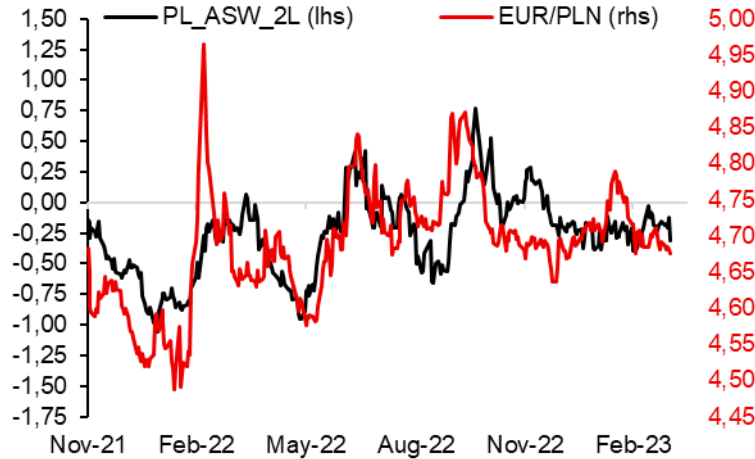
We expect the EUR/PLN exchange rate to remain relatively stable in 2Q 2023 as well. This will be supported by both internal and external conditions.

The factor holding back the zloty from more sustained appreciation remains the uncertainty about the CJEU ruling on the issue of settlement of CHF mortgages.

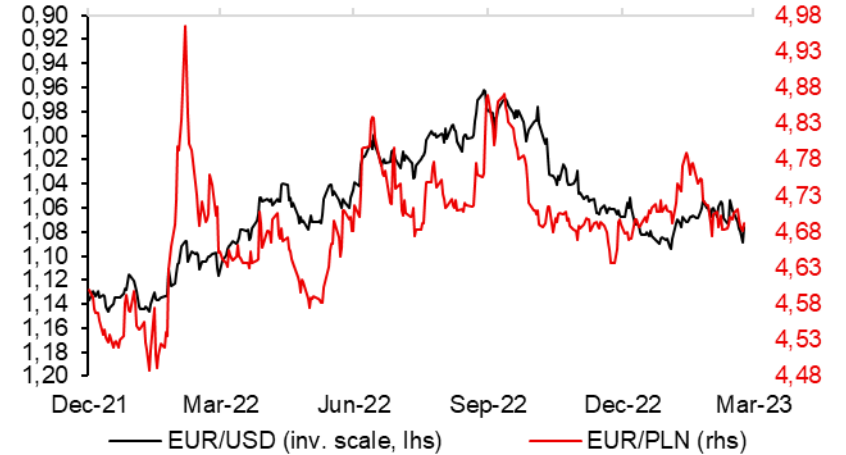
Expected real rates favour stabilising the zloty around 4.70.



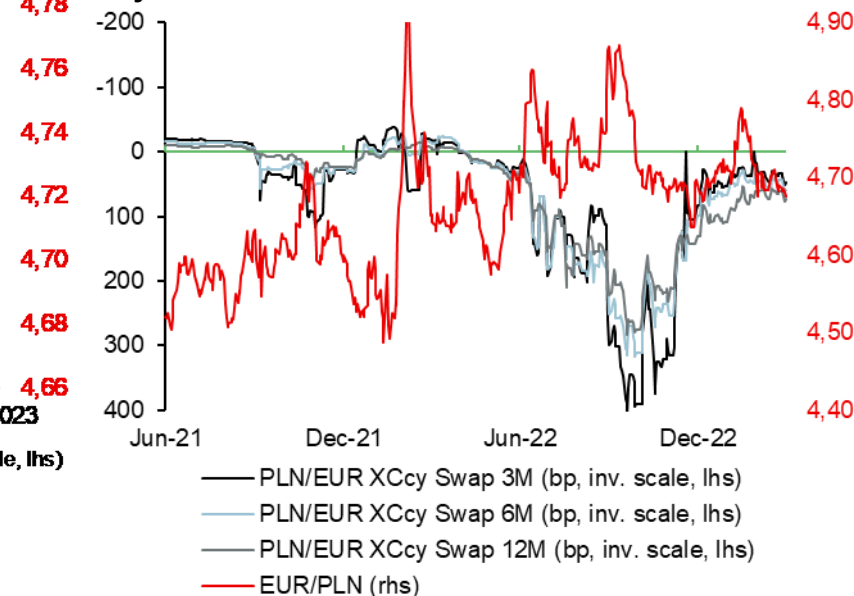
The current valuation of budget financing risk favors the stability of the zloty.



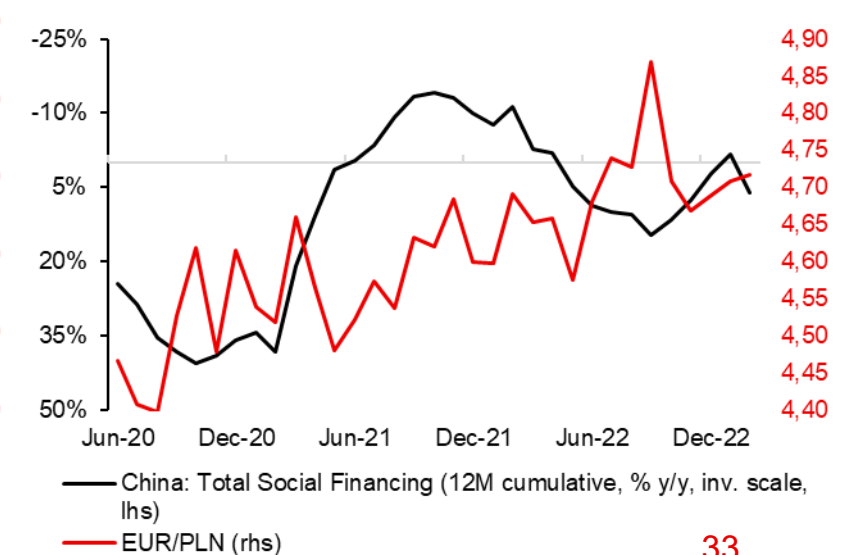
No pressure from global markets for a more significant weakening of the zloty.



The liquidity situation favors lower volatility of the zloty.



The recovery in China, even if limited, is favorable for PLN.



Forecasts

3



Economic Forecasts

		2020	2021	2022	2023E	1Q22	2Q22E	3Q22E	4Q22	1Q23E	2Q23E	3Q23E	4Q23E
GDP	PLNbn	2 337.7	2 623.9	3 067.7	3 493.8	691.5	723.3	779.1	873.9	807.4	825.7	872.7	987.9
GDP	% y/y	-2.0	6.8	4.9	0.7	8.6	5.8	3.6	2.0	-1.5	0.1	0.5	3.1
Domestic demand	% y/y	-2.7	8.4	5.5	-0.1	12.0	6.9	3.1	1.1	-3.2	-0.6	-0.3	2.8
Private consumption	% y/y	-3.6	6.3	3.0	0.9	6.7	6.4	0.9	-1.5	-2.0	-1.5	1.0	6.0
Fixed investment	% y/y	-2.3	2.1	4.6	0.5	4.7	6.6	2.0	4.9	4.0	1.0	0.0	-1.0
Industrial output	% y/y	-1.1	14.5	10.4	1.6	16.8	12.5	9.3	4.0	-0.5	0.4	2.5	3.8
Construction output	% y/y	-3.5	1.6	7.6	0.3	23.7	9.2	3.3	2.1	3.0	-0.4	0.7	-1.0
Retail sales (real terms)	% y/y	-3.0	7.4	5.5	1.2	9.7	9.7	3.3	0.3	-4.8	-2.2	2.3	8.9
Gross wages in national economy	% y/y	5.3	8.9	12.1	11.7	9.7	11.8	14.6	12.3	12.6	11.5	10.9	11.9
Employment in national economy	% y/y	-1.0	0.4	2.0	0.1	1.9	2.0	2.4	1.7	0.5	0.0	-0.1	-0.1
Unemployment rate *	%	6.8	5.8	5.2	5.8	5.8	5.2	5.1	5.2	5.5	5.4	5.5	5.8
Current account balance	EURmn	12 811	-8 261	-19 505	-13 114	-6 113	-4 609	-6 118	-2 665	-2 059	-2 289	-6 109	-2 657
Current account balance	% GDP	2.4	-1.4	-3.0	-1.8	-2.5	-3.3	-3.4	-3.0	-2.3	-1.9	-1.8	-1.8
General government balance (ESA 2010)	% GDP	-6.9	-1.8	-3.4	-5.1	-	-	-	-	-	-	-	-
CPI	% y/y	3.4	5.1	14.3	13.4	9.6	13.9	16.3	17.3	17.1	13.9	12.5	10.3
CPI *	% y/y	2.4	8.6	16.6	10.3	11.0	15.5	17.2	16.6	16.2	13.1	11.6	10.3
CPI excluding food and energy prices	% y/y	3.9	4.1	9.1	10.4	6.6	8.4	10.0	11.3	12.0	11.5	10.2	8.2

* End of period; other variables – average in period
All shaded areas represent Santander's estimates

Source: GUS, NBP, Santander



Market Forecasts

		2020	2021	2022	2023E	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23E	3Q23E	4Q23E
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
WIBOR 3M	%	0.67	0.54	6.02	6.96	3.46	6.25	7.08	7.29	6.93	6.96	6.98	6.98
Yield on 2-year T-bonds	%	0.50	0.79	6.35	6.06	4.07	6.78	7.06	7.48	6.16	6.09	6.05	5.93
Yield on 5-year T-bonds	%	0.96	1.39	6.36	6.02	4.41	7.01	6.57	7.47	6.11	6.04	6.05	5.90
Yield on 10-year T-bonds	%	1.52	1.97	6.10	6.03	4.29	6.63	6.19	7.29	6.16	6.08	6.03	5.85
2-year IRS	%	0.62	1.19	6.62	6.28	4.68	7.21	7.21	7.38	6.39	6.31	6.28	6.17
5-year IRS	%	0.80	1.69	5.92	5.49	4.31	6.53	6.22	6.62	5.53	5.51	5.53	5.41
10-year IRS	%	1.15	2.01	5.68	5.40	4.10	6.16	5.95	6.49	5.47	5.44	5.41	5.26
EUR/PLN	PLN	4.44	4.57	4.69	4.70	4.62	4.65	4.75	4.73	4.71	4.70	4.71	4.69
USD/PLN	PLN	3.89	3.86	4.46	4.37	4.11	4.36	4.71	4.64	4.39	4.35	4.40	4.36
CHF/PLN	PLN	4.15	4.22	4.67	4.70	4.46	4.52	4.88	4.81	4.75	4.72	4.71	4.62
GBP/PLN	PLN	5.00	5.31	5.50	5.36	5.52	5.48	5.55	5.44	5.33	5.33	5.38	5.39

* End of period; other variables – average in period
All shaded areas represent Santander's estimates

Source: NBP, Bloomberg, Santander

This analysis is based on information available until **4.04.2023** has been prepared by:

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