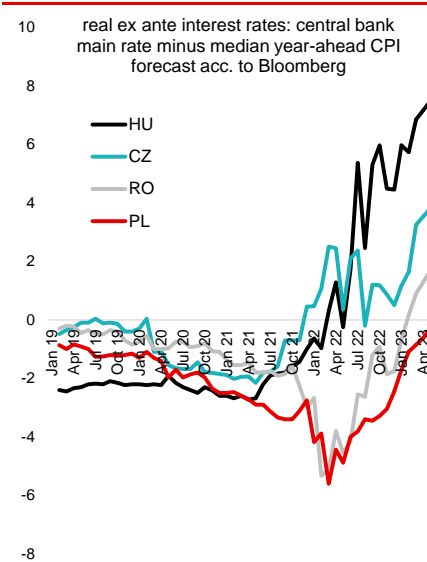


## MACROscope Lite

### No changes to baseline scenario

- It has now been two months since the first news of Silicone Valley Bank's problems, but the problems of US regional banks are not over and the full implications for the economy and the financial system are not yet precisely known. Nevertheless, in our opinion, **the most likely scenario for the US and global economies is still the 'soft landing'**, where the major central banks have either already completed (like the Fed) or are nearing the end of rate hikes (like the ECB, BoE) and inflation declines quite slowly.
- The news coming out of the Polish economy is ambiguous: on the one hand, the latest production and retail sales data were surprisingly weak, on the other hand, the economic surveys showed improvement in corporate and consumer sentiment; there is a recovery in credit demand and a rapid improvement in the foreign trade balance. Meanwhile, GDP growth for recent quarters has been revised upwards. **All in all, we see no reason, for now, to materially change our baseline scenarios for this year** – as earlier expected many indicators suggest that 1Q 2023 was likely the bottom of the slowdown cycle with negative GDP growth. Later in the year, we hope for a gradual recovery in activity, in which consumer demand, supported by an erosion of savings, should play an important role.
- Headline inflation started falling since March as expected. However, this was mainly due to base effects and a pullback in fuel prices, while price momentum (especially once food and energy are excluded) remains worryingly high. Average headline inflation in 1Q was 0.2pp lower, but average core inflation was 0.2pp higher than forecast in the NBP's March projection. Disinflation in the following months should be supported by the recent marked strengthening of the zloty and declines in commodity prices, but **we still believe that the year will end with CPI growth close to 10% y/y**.
- In recent days there have been several statements from MPC members with a common theme: single-digit inflation on the horizon and consideration for rate cuts. This is a U-turn from opinions expressed (rightly in our view) in April, by the same Council members that "it is premature to consider rate cuts". It may be preparing the ground for the MPC's May meeting. Rates will not change in May but the key will be the tone of the NBP President's conference. Let us recall that a month earlier, despite triumphant statements about inflation falling "headlong", Glapiński's comments about the outlook for rates were rather cautious: he emphasised that all options were still open, the tightening cycle was not over, a fall in inflation in line with the NBP's projection was a condition for avoiding further rate hikes, and rates would start falling when the MPC was "absolutely certain that inflation would fall quickly to the target". This approach apparently changed, as in a recent interview with Gazeta Polska, a fall in inflation in line with the projection was a condition for a rate cut before the year-end. Connecting the dots, one may assume that the tone of the President's conference this Thursday will be more dovish than before - apparently the central bank has suddenly become confident about the strength and inevitability of disinflation. In our view, it is far too early for such certainty as long as the momentum of core inflation remains close to 1% m/m, but the NBP's assessment is apparently different and it cannot be ruled out that **we are approaching a decision to officially end the hiking cycle**.
- Dovish messages from the MPC, reinforced by a fall in the domestic PMI and fears of a recession abroad have pushed domestic yields down and reignited expectations for rate cuts before the end of this year (the FRA market is pricing the first cut as early as September). **If the message from the Council on Wednesday-Thursday is dovish, expectations of cuts will probably strengthen further and the curve will steepen**. In our view too early rate cuts would be a rather risky choice - in a country that is likely to be in the global disinflation tail, a decision by the central bank to be in the vanguard of rate cuts (which in real terms are among the lowest anyway) would not, in our view, be indifferent to the exchange rate.
- That said, the zloty has so far remained remarkably resilient to revived expectations of rate cuts, partly due to improvement in the balance of payments, global risk appetite and the flow of EU funds through the market. However, **we still see room for an upward move in EURPLN**, which could be driven by the MPC's dovish message and the strengthening of the dollar against the euro. Another risk factor for the PLN is the upcoming CJEU ruling on CHF loans (15 June).

#### Real interest rates in CEE, %



Source: GUS, NBP, Santander

#### Recently released Economic Comments:

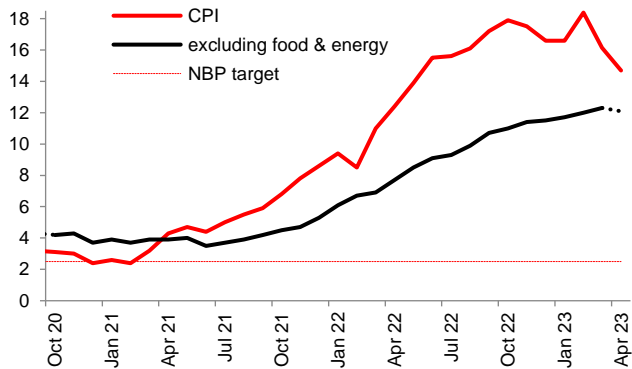
- [CPI lower, but core price momentum still high](#)
- [Labour market is weak, but sentiments improve](#)
- [Inflation's first step down, but the target is far away](#)
- [No conditions for resumption of rate hikes](#)
- [Inflation does not ease](#)
- [When will consumption rebound?](#)

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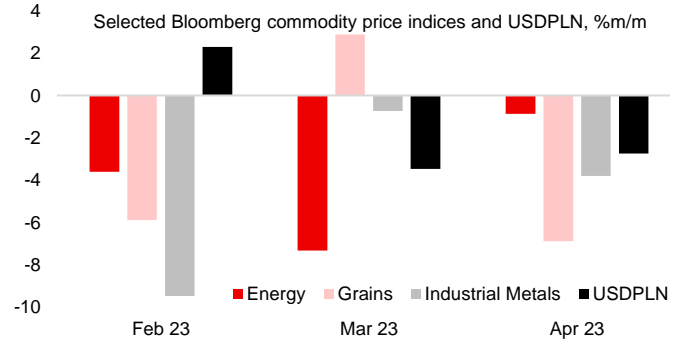
**Economy in charts**

**CPI inflation has started falling, core inflation is almost there**



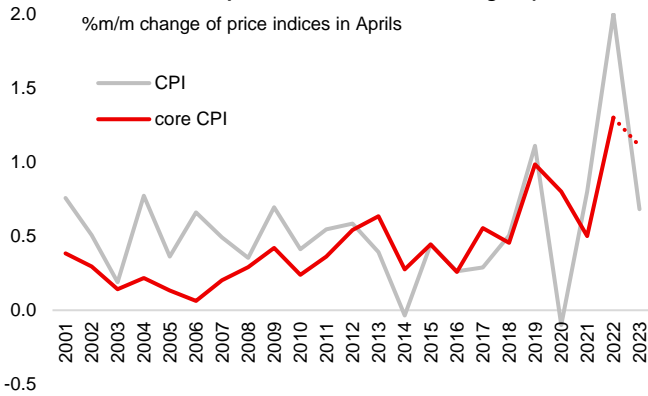
Source: GUS, Santander

**The behaviour of exchange rate and commodity prices is helping disinflation**



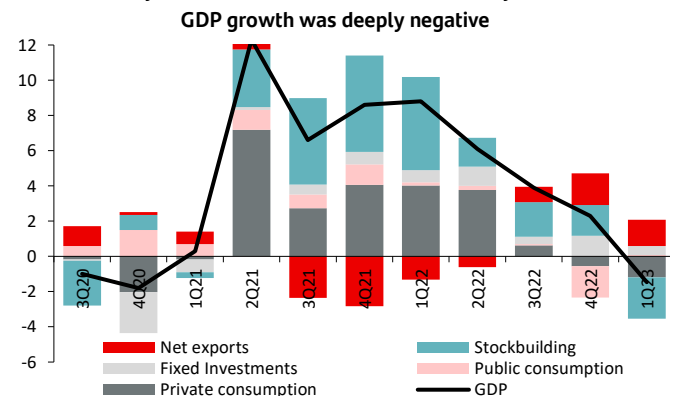
Source: Bloomberg, Santander

**However, the price momentum remains high m/m**



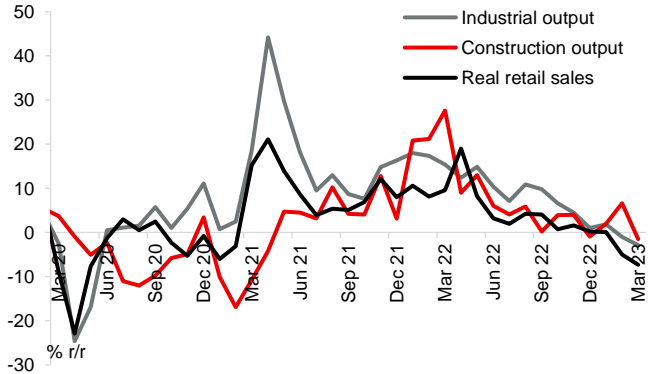
Source: GUS, NBP, Santander

**Attention may shift to the weakness of real economy – we think 1Q**



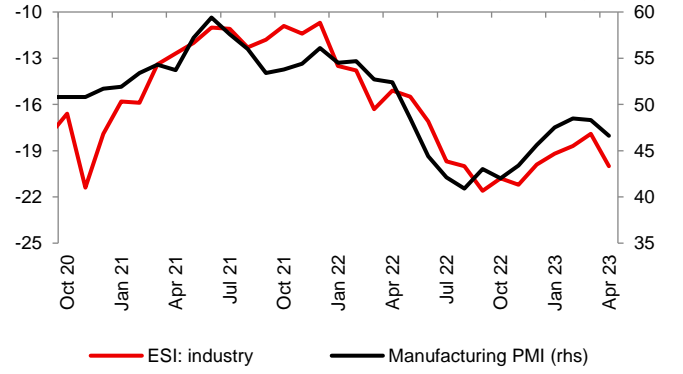
Source: GUS, Santander

**The March set of real data was surprisingly weak**



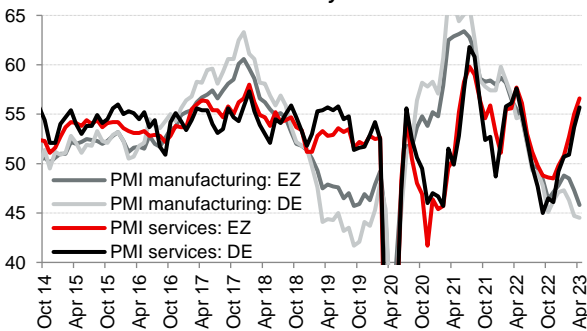
Source: GUS, Santander

**In April industrial confidence indicators fell significantly**



Source: NBP, Santander

**It seems that the economic rebound (globally, not only in Poland) will be rather driven by services**



Source: Bloomberg, Santander

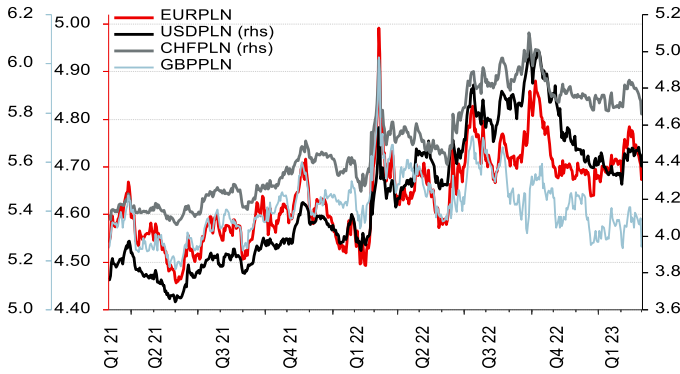
**...and on the demand side – by consumers**



Source: GUS, NBP, Santander

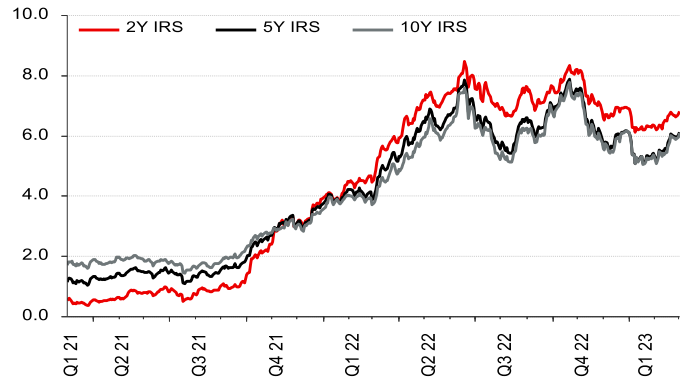
Markets in charts

Zloty exchange rates



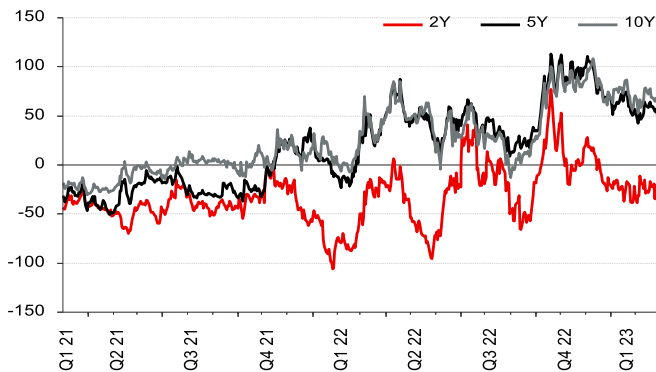
Source: Refinitiv Datastream, Santander

IRS (%)



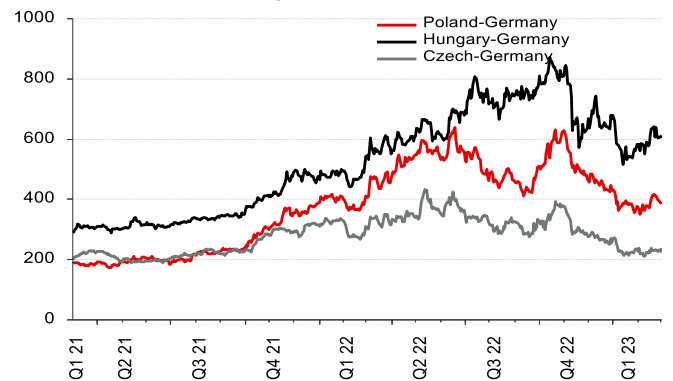
Source: Refinitiv Datastream, Santander

Poland asset swap spreads (bp)



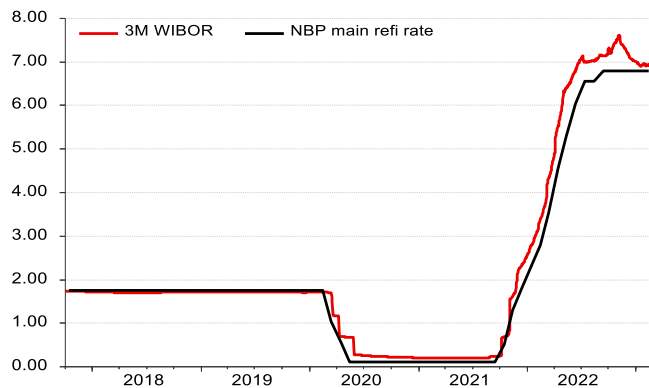
Source: Refinitiv Datastream, Santander

10Y bond yield spreads vs Bund



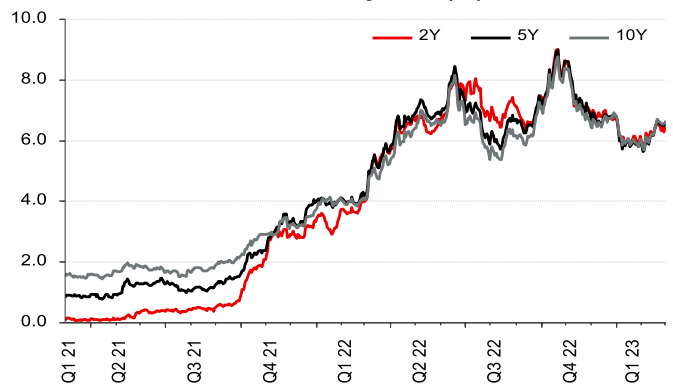
Source: Refinitiv Datastream, Santander

Interest rates



Source: Refinitiv Datastream, Santander

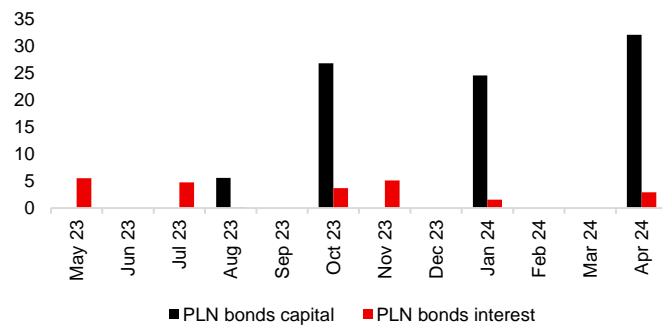
Polish bond yields (%)



Source: Refinitiv Datastream, Santander

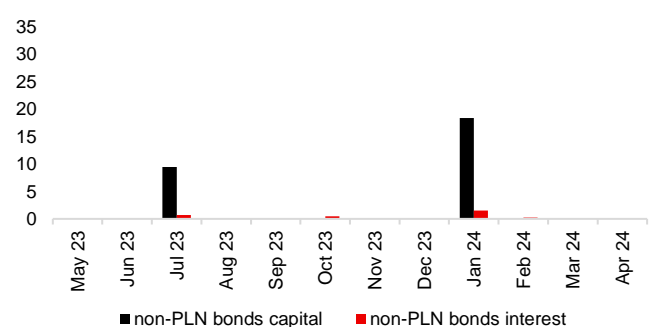
Principal and interest payments

PLN-denominated bond redemptions and interest payments, PLNbn



Source: Ministry of Finance, Santander

FX denominated bond redemptions and interest payments, PLNbn



Source: Ministry of Finance, Santander

## Economic Calendar

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
<b>1 May</b> US: ISM manufacturing (Apr) <b>PL: Labour Day</b>	2 <b>PL: PMI manufacturing (Apr)</b> CZ: GDP (1Q) DE: retail sales (Mar) DE: PMI manufacturing (Apr) EZ: PMI manufacturing (Apr) EZ: HICP - Flash (Apr) US: Factory orders (Mar) US: Durable goods orders(Apr)	3 <b>PL: Constitution Day</b> CZ:CNB decision DE: HICP – flash (Apr) EZ: Unemployment rate (Mar) US: ISM services (Apr) US: ADP report (Apr) US FOMC decision	4 CN: PMI manufacturing (Apr) DE: Export (Mar) DE: PMI services (Mar) EZ: PMI services (Mar) EZ: ECB decision	5 <b>PL: FX reserves (Apr)</b> CZ: Retail sales (Mar) HU: Industrial output (Mar) HU: Retail sales (Mar) CN: PMI services (Apr) EZ: PPI (Mar) EZ: Retail sales (Mar) US: Non-farm payrolls (Apr) US: Wages (Apr) US: Unemployment rate (Apr)
8 DE: Industrial output (Mar)	9 CZ: Industrial output (Mar)	10 <b>PL: NBP decision</b> HU: CPI (Apr) DE: HICP – final (Apr) US: CPI (Apr) US: Core CPI (Apr)	11 CZ: CPI (Apr) CZ: PPI (Apr) CN CPI (Apr) US: PPI (Apr) UK: BoE decision	12 <b>PL: MPC minutes (Apr)</b> US: Michigan index – flash (May)
15 <b>PL: CPI (Apr)</b> <b>PL: Current account (Mar)</b> EZ: Industrial output (Mar) EZ: EC spring forecasts	16 <b>PL: GDP – flash (1Q)</b> <b>PL: Core CPI (Apr)</b> HU: GDP (1Q) CN: Industrial output(Apr) CN: Retail sales (Apr) DE: ZEW index (May) EZ: GDP (1Q)	17 US: Construction output (Apr) US: House starts (Apr) EZ: Final HICP (Apr)	18 CN: House prices (Apr) CZ: Trade balance (Mar) US: Home sales (Apr) US: Leading indicators (Apr)	19 DE: PPI (Apr)
22 DE: PPI (Apr) <b>PL: PPI (Apr)</b> <b>PL: Industrial output (Apr)</b> <b>PL: Employment (Apr)</b> <b>PL: Wages (Apr)</b> <b>PL: Business sentiment (May)</b>	23 <b>PL: Retail sales (Apr)</b> <b>PL: Construction output (Apr)</b> DE: Manufacturing PMI (May) EZ: Manufacturing PMI (May) US: Manufacturing PMI (May) US: New home sales (Apr) HU: MNB rate (May)	24 EZ: Current account (Mar) <b>PL: Money supply (Apr)</b> <b>PL: Consumer confidence (May)</b> US: FOMC minutes (Apr) HU: Wages (Mar) DE: Ifo index (May)	25 <b>PL: Unemployment rate (Apr)</b> US: GDP (1Q) US: Pending home sales (Apr) DE: GDP (1Q)	26 US: Personal spending (Apr) US: Personal income (Apr) US: PCE inflation (Apr) US: Michigan index (May)
29	30 CZ: GDP (1Q) EZ: Economic sentiment (May) US: Conference Board (May) US: S&P house price index (May) EZ: M3 money supply (Apr)	31 CN: Manufacturing PMI (May) CN: Services PMI (May) CZ: CNB rate decision <b>PL: Flash CPI (May)</b> <b>PL: GDP (1Q)</b> CZ: Money supply (Apr) DE: Flash CPI (May)	<b>1 June</b> <b>PL: Manufacturing PMI (May)</b> HU: GDP (1Q) HU: Manufacturing PMI (May) CZ: Manufacturing (May) US: ADP report (May) US: Manufacturing ISM (May) EZ: Flash CPI (May)	2 US: Non-farm payrolls (May) US: Earnings (May) US: Unemployment rate (May)

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

		Apr 22	May 22	Jun 22	Jul 22	Aug 22	Sep 22	Oct 22	Nov 22	Dec 22	Jan 23	Feb 23	Mar 23	Apr 23	May 23
PMI	pts	52.4	48.5	44.4	42.1	40.9	43.0	42.0	43.4	45.6	47.5	48.5	48.3	46.6	46.3
Industrial production	% y/y	12.4	14.9	10.4	7.1	10.9	9.8	6.6	4.5	1.0	1.8	-1.0	-2.9	-4.3	-0.4
Construction production	% y/y	9.0	13.0	6.0	4.1	5.9	0.2	3.9	4.0	-0.9	2.0	6.6	-1.5	1.8	1.6
Retail sales (current prices)	% y/y	33.4	23.6	19.9	18.4	21.5	21.9	18.3	18.4	15.5	15.1	10.8	4.8	0.9	1.1
Unemployment rate	%	5.6	5.4	5.2	5.2	5.2	5.1	5.1	5.1	5.2	5.5	5.5	5.4	5.3	5.2
Gross wages in corporate sector	% y/y	14.1	13.5	13.0	15.8	12.7	14.5	13.0	13.9	10.3	13.6	13.6	12.6	12.2	12.8
Employment in corporate sector	% y/y	2.8	2.4	2.2	2.3	2.4	2.3	2.4	2.3	2.2	1.1	0.8	0.5	0.1	0.1
Exports (€)	% y/y	16.7	27.5	22.4	20.9	28.1	26.5	23.2	24.2	10.6	13.1	10.0	8.0	-6.3	-6.9
Imports (€)	% y/y	35.9	33.8	28.1	21.7	29.6	31.4	24.1	18.3	11.3	5.1	-5.4	-12.1	-9.0	-6.2
Trade balance	EUR mn	-2,908	-1,589	-1,091	-1,690	-2,555	-2,411	-2,272	-686	-2,698	1,559	2,243	1,407	-1,952	-1,679
Current account balance	EUR mn	-2,963	-1,373	-273	-1,070	-2,847	-2,208	-416	262	-2,530	2,133	2,586	3,014	-1,285	-728
Current account balance	% GDP	-3.1	-3.2	-3.3	-3.2	-3.3	-3.3	-3.5	-3.2	-3.0	-2.6	-1.9	-0.9	-0.6	-0.5
CPI	% y/y	12.4	13.9	15.5	15.6	16.1	17.2	17.9	17.5	16.6	16.6	18.4	16.1	14.7	13.4
CPI excluding food and energy	% y/y	7.7	8.5	9.1	9.3	9.9	10.7	11.0	11.4	11.5	11.7	12.0	12.3	12.1	11.4
PPI	% y/y	24.1	24.7	25.6	25.5	25.5	24.6	23.1	21.1	20.5	20.1	18.2	10.1	7.7	6.4
Broad money (M3)	% y/y	8.2	7.6	6.5	6.2	7.4	7.7	7.0	5.6	5.4	6.9	7.4	6.5	6.7	7.5
Deposits	% y/y	6.4	6.3	5.5	5.5	7.0	7.8	7.0	5.7	5.8	7.5	9.1	8.9	8.9	8.7
Loans	% y/y	4.65	4.65	4.64	4.77	4.72	4.74	4.81	4.70	4.68	4.70	4.74	4.69	4.64	4.59
EUR/PLN	PLN	4.65	4.65	4.64	4.77	4.72	4.74	4.81	4.70	4.68	4.70	4.74	4.69	4.64	4.59
USD/PLN	PLN	4.29	4.40	4.39	4.69	4.66	4.79	4.89	4.61	4.42	4.36	4.43	4.38	4.23	4.19
CHF/PLN	PLN	4.55	4.49	4.53	4.83	4.87	4.92	4.91	4.77	4.75	4.72	4.79	4.74	4.71	4.67
Reference rate *	%	4.50	5.25	6.00	6.50	6.50	6.75	6.75	6.75	6.75	6.75	6.75	6.75	6.75	6.75
3M WIBOR	%	5.48	6.41	6.85	7.03	7.04	7.16	7.34	7.44	7.10	6.95	6.93	6.92	6.90	6.92
Yield on 2-year T-bonds	%	6.36	6.52	7.47	7.48	6.91	6.80	8.13	7.49	6.81	6.10	6.26	6.12	6.13	5.85
Yield on 5-year T-bonds	%	6.51	6.98	7.54	6.78	6.24	6.69	8.09	7.58	6.74	6.00	6.21	6.11	6.07	5.88
Yield on 10-year T-bonds	%	6.01	6.67	7.22	6.41	5.82	6.32	7.88	7.33	6.65	6.06	6.26	6.17	6.09	5.90

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	2,631.3	3,078.3	3,540.2	694.2	725.4	784.4	874.3	846.9	833.9	876.4	983.0
GDP	% y/y	-2.0	6.9	5.1	0.7	8.8	6.1	3.9	2.3	-1.5	0.1	0.5	3.2
Domestic demand	% y/y	-2.7	8.5	5.1	-0.1	10.8	7.2	3.1	0.6	-3.0	-0.6	-0.3	2.8
Private consumption	% y/y	-3.6	6.2	3.3	0.9	6.8	6.7	1.1	-1.1	-2.0	-1.5	1.0	6.0
Fixed investments	% y/y	-2.3	1.2	5.0	0.5	5.4	7.1	2.5	5.4	4.0	1.0	0.0	-1.0
Industrial production	% y/y	-1.1	14.5	10.4	-0.2	16.8	12.5	9.3	4.0	-0.9	-1.9	-0.5	2.3
Construction production	% y/y	-3.5	1.6	7.6	4.3	23.7	9.2	3.3	2.1	1.9	4.7	5.9	4.1
Retail sales (constant prices)	% y/y	-3.0	7.4	5.5	-4.0	9.7	9.7	3.3	0.3	-5.3	-8.5	-4.3	1.9
Unemployment rate *	%	6.8	5.8	5.2	5.6	5.8	5.2	5.1	5.2	5.4	5.2	5.2	5.5
Gross wages in the national economy	% y/y	5.3	8.9	12.1	12.2	9.7	11.8	14.6	12.3	12.7	12.1	11.5	12.5
Employment in the national economy	% y/y	-1.0	0.4	2.2	0.0	1.9	2.0	2.4	2.6	0.5	0.0	-0.1	-0.2
Exports (€)	% y/y	0.1	19.5	21.5	-0.2	19.5	22.1	25.1	19.4	10.3	-6.1	-4.9	0.7
Imports (€)	% y/y	-4.9	27.0	27.0	-3.3	32.2	32.6	27.6	17.8	-4.9	-7.7	-3.3	2.4
Trade balance	EUR mn	6,975	-7,620	-24,247	-13,486	-6,345	-5,588	-6,651	-5,663	5,209	-3,816	-7,651	-7,229
Current account balance	EUR mn	12,811	-8,261	-19,505	976	-6,113	-4,609	-6,118	-2,665	7,733	-556	-4,761	-1,441
Current account balance	% GDP	2.4	-1.4	-3.0	0.1	-2.5	-3.3	-3.4	-3.0	-0.8	-0.2	0.0	0.1
General government balance	% GDP	-6.9	-1.8	-3.4	-5.1	-	-	-	-	-	-	-	-
CPI	% y/y	3.4	5.1	14.3	13.2	9.6	13.9	16.3	17.3	17.0	13.5	12.0	10.1
CPI *	% y/y	2.4	8.6	16.6	10.1	11.0	15.5	17.2	16.6	16.1	12.5	11.4	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	12.0	11.6	10.2	8.3
PPI	% y/y	-0.6	7.9	22.4	8.0	18.0	24.8	25.2	21.6	16.1	6.4	4.6	5.0
Broad money (M3) *	% y/y	16.4	8.9	5.4	8.5	7.9	6.5	7.7	5.4	6.5	8.7	6.8	8.5
Deposits *	% y/y	12.3	8.8	5.8	8.2	5.9	5.5	7.8	5.8	8.9	9.8	8.0	8.2
Loans *	% y/y	0.2	5.1	1.4	5.3	6.4	7.3	6.4	1.4	0.4	-0.4	0.7	5.3
EUR/PLN	PLN	4.44	4.57	4.69	4.66	4.62	4.65	4.75	4.73	4.71	4.61	4.65	4.69
USD/PLN	PLN	3.89	3.86	4.46	4.32	4.11	4.36	4.71	4.64	4.39	4.23	4.35	4.34
CHF/PLN	PLN	4.15	4.22	4.67	4.67	4.46	4.52	4.88	4.81	4.75	4.68	4.65	4.62
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	6.96	3.46	6.25	7.08	7.29	6.93	6.93	6.98	6.98
Yield on 2-year T-bonds	%	0.50	0.79	6.35	5.92	4.07	6.78	7.06	7.48	6.16	5.94	5.82	5.75
Yield on 5-year T-bonds	%	0.96	1.39	6.36	5.96	4.41	7.01	6.57	7.47	6.11	5.95	5.93	5.85
Yield on 10-year T-bonds	%	1.52	1.97	6.10	5.99	4.29	6.63	6.19	7.29	6.16	5.98	5.98	5.85

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

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