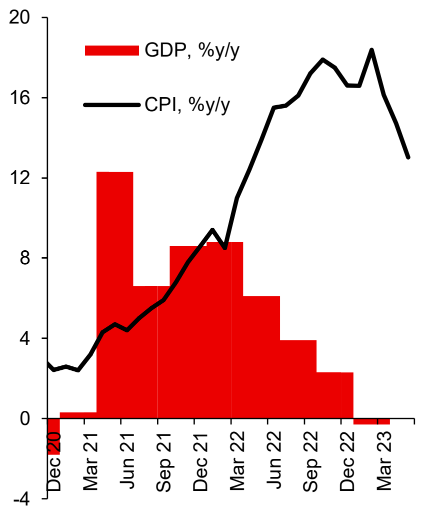
06 June 2023

MACROscope Lite

Economy gathering strength

- The global market had been preoccupied with negotiations on raising the US debt ceiling. These ended positively, which clearly supported the risk appetite. Data from the US, particularly from the labour market, continue to look good, but FOMC members have moved to slightly more dovish positions in response to earlier problems in the banking sector. On the other hand, data from the euro zone looks weaker, with Germany recording its second negative GDP reading in a row in 1Q2023 and industrial business indicators slipping.
- **Recent data from the Polish economy have been rather mixed and roughly confirmed our assumption that it was close to the bottom of the economic cycle early this year.**
- Although GDP declined by only 0.3% in 1Q2023, while the market was expecting a decline of almost 1%, and we were expecting an even deeper decline, much of the upward surprise was generated by a slump in imports, which may have been temporarily lower thanks to the warm winter (lower purchases of energy goods). Domestic demand, on the other hand, looked dire and contracted by as much as 5.2% y/y. This was the second deepest decline in the history of the data, after the pandemic-stricken 2Q2020. We prefer not to draw any deeper conclusions from the seasonally adjusted data (according to which GDP jumped by almost 4% q/q) for the time being, as we have serious doubts about their reliability. **Following the publication of the GDP data, we have shifted our growth forecast for this year only slightly, to 1.0% from 0.7%. We maintain our expectation that the Polish economy will start to accelerate in the next quarters.**
- April retail sales and labour market data also looked slightly better than expected, with business climate indices, including consumer optimism, climbing. On the other hand, data from industry in April looked weak. And in fact, if it were not for them, we would assess that 2Q brought a slight recovery of the economy.
- With the upcoming parliamentary elections, politicians began to unravel **the bag of promises**. PiS announced an increase in the 500+ benefit to PLN800 at the beginning of 2024, an extension of the free medicine programme and the abolition of tolls on state motorways. The cost of these promises is around PLN27-28bn (around 0.7% of expected GDP in 2024). The media suggest that, among other things, a decision to raise wages in the state budget is in the pipeline. PO, on the other hand, proposes to raise the PIT tax-free amount to PLN60k (the cost is about PLN45bn per year) and suggested that the increase of 500+ benefits should be introduced still before the elections. At the level of political declarations, therefore, we can see a drive towards fiscal easing, which would essentially mean a tougher fight against inflation.
- **Inflation continues to decline**, according to the preliminary reading in May to 13.0% y/y from 14.7% y/y. Our estimates show that core inflation also recorded a more pronounced decline, to 11.4% y/y from 12.2% y/y. We expect annual CPI rate to decline further, with 4Q possibly already at single-digit levels but not far from 10%, which in our view will not allow the MPC to cut interest rates this year.
- **We have learned little new about the outlook monetary policy** from the MPC members: the next projections and incoming data will be important, a rapid fall in inflation could open the discussion about rate cuts. Some members expect a single-digit result as early as August. The interest rate hike cycle remains open, although suspended.
- **The zloty clearly benefited** from higher risk appetite and the Fed's dovish message. Positive balance of payments data also helped. EURPLN went below 4.50. However, we believe that the **factors that should weaken the Polish currency should prevail in the nearest months**: higher inflation than in the euro zone, which pushes up the export break-even exchange rate (4.30 after 1Q), the elections and the likely loosening of fiscal policy. The CJEU ruling on 15 June on CHF loans is an additional source of uncertainty. We also think that the recent improvement in current account will partially recede and we can again see deficits in 2H23 – based on the expected rebound of domestic demand (worsening the balance of currency flows on PLN market) and defence purchases (these should most likely have their FX financing secured, so should be neutral for PLN flow-wise).
- **Bond yields have risen over the past month**. Polish bonds have been hurt by trends from core markets and announcements of looser fiscal policy. While a slight increase in yields is possible in the short term, e.g. in the event that the NBP President does not strongly hint at the possibility of NBP rate cuts this year, we believe that in the longer term, **yields are more likely to decline** as inflation falls. For longer terms, **credit spreads may widen** in response to the election fiscal stimulus.

Inflation and economic growth in Poland



Source: GUS, Santander

Recently released Economic Comments:

- *Domestic demand in recession, CPI down quickly*
- *Consumers gain optimism, companies invest*
- *Retail sales growth marks the bottom*
- *Output and price growth in industry sharply down*
- *First decline in core inflation*
- *Too early for questions about rate cuts*

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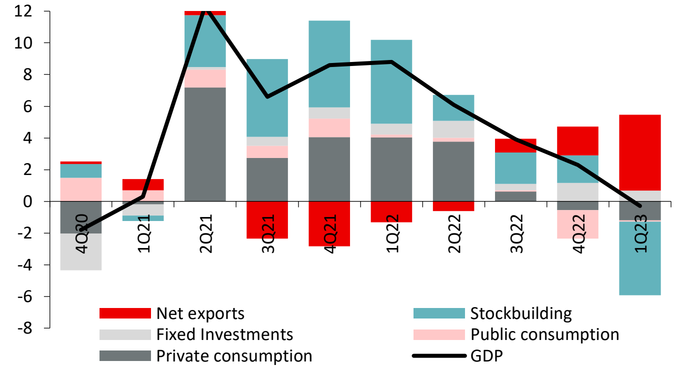
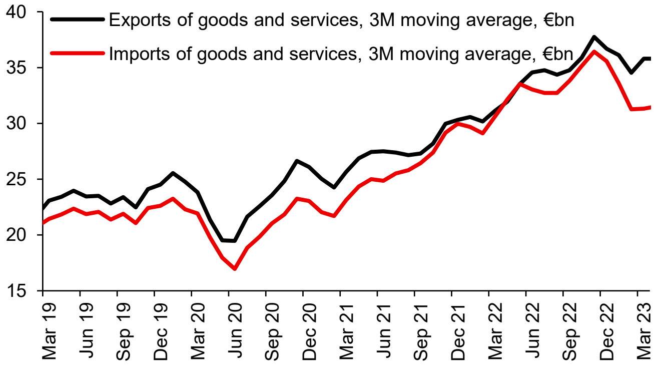
Economy in charts

GDP was lower than a year ago in 1Q, but better than forecast



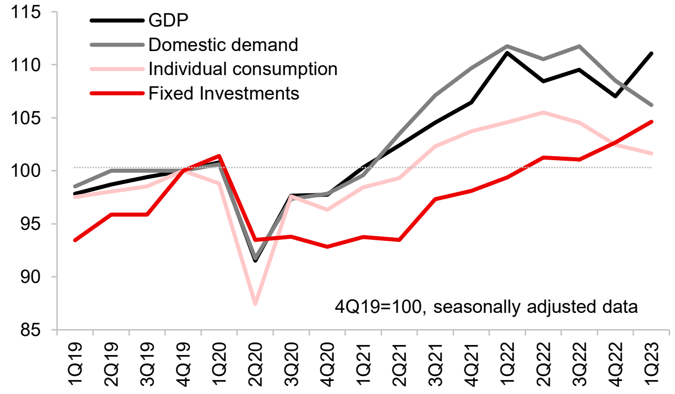
Source: GUS, Santander

GDP was supported by net exports, lower imports were crucial here



Source: Bloomberg, Santander

Investments stood out positively while domestic demand collapsed



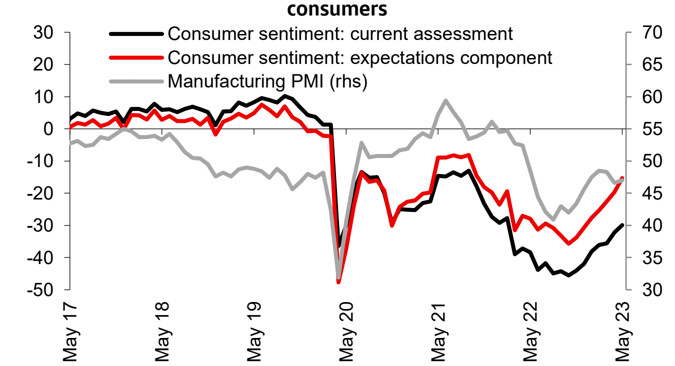
Source: GUS, NBP, Santander

Output disappointed at the start of 2Q, retail sales hit the bottom

% y/y, in constant prices	Jan 23	Feb 23	Mar 23	Apr 23
Industrial output	1.8	-1.0	-3.0	-6.4
Market expectations	4.6	0.8	-2.2	-4.3
Surprise (percentage points)	**-2.8**	**-1.8**	**-0.9**	**-2.1**
Construction output	2.0	6.6	-1.6	1.2
Market expectations	-5.4	1.3	0.5	1.9
Surprise (percentage points)	**7.35**	**5.35**	**-2.1**	**-0.65**
Retail sales	0.1	-5.0	-7.3	-7.3
Market expectations	1.0	-1.5	-6.2	-8.1
Surprise (percentage points)	**-0.9**	**-3.5**	**-1.1**	**0.8**

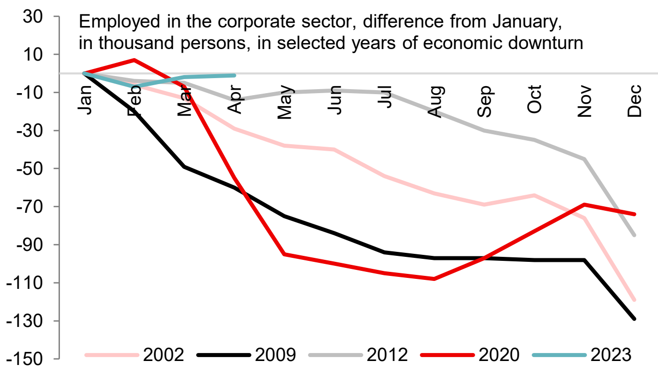
Source: GUS, Santander

But the economy seems to be preparing for a rebound, especially consumers



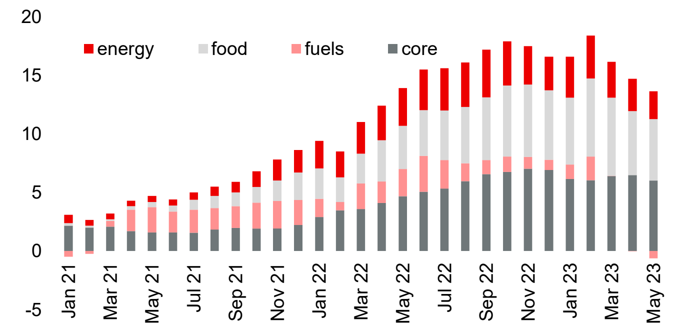
Source: GUS, S&P Global, Santander

Even employment and unemployment managed to surprise positively



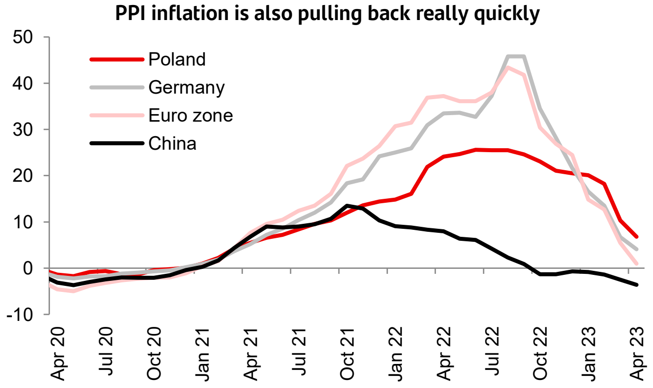
Source: GUS, Santander

Inflation dropped in May more than expected, core CPI also fell sharply



Source: Bloomberg, Santander

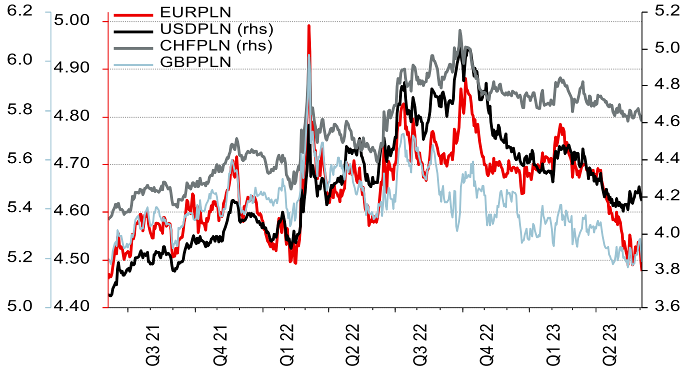
PPI inflation is also pulling back really quickly



Source: GUS, Bloomberg, Santander

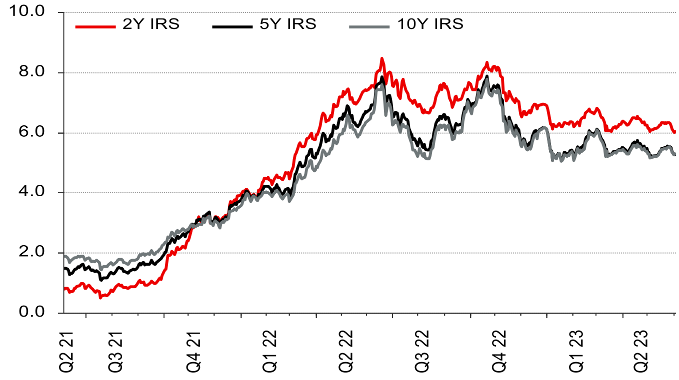
Markets in charts

Zloty exchange rates



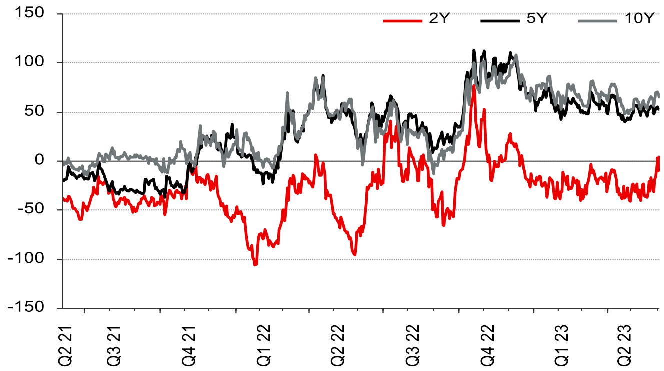
Source: Refinitiv Datastream, Santander

IRS (%)



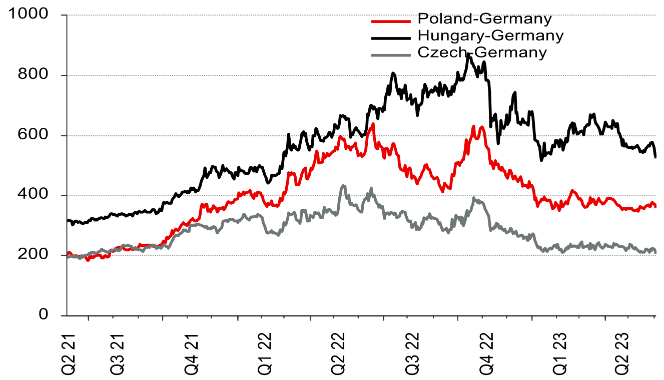
Source: Refinitiv Datastream, Santander

Poland asset swap spreads (bp)



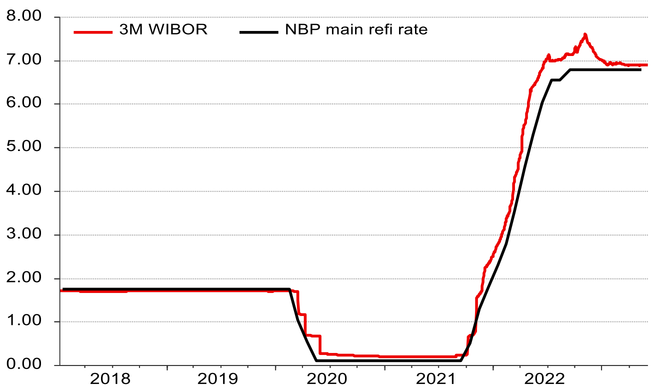
Source: Refinitiv Datastream, Santander

10Y bond yield spreads vs Bund



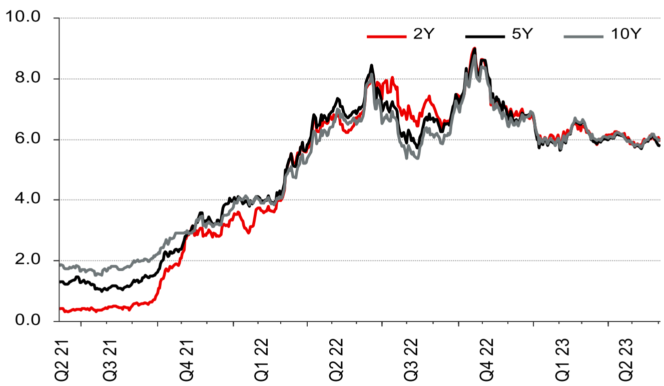
Source: Refinitiv Datastream, Santander

Interest rates



Source: Refinitiv Datastream, Santander

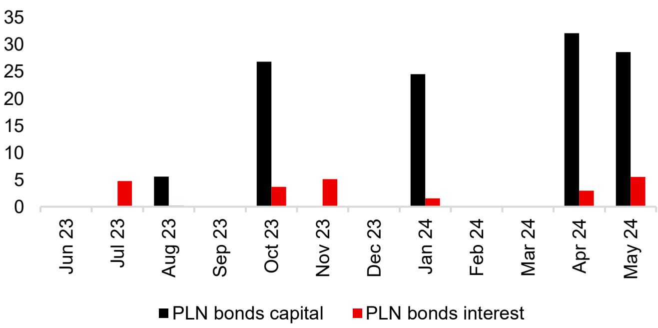
Polish bond yields (%)



Source: Refinitiv Datastream, Santander

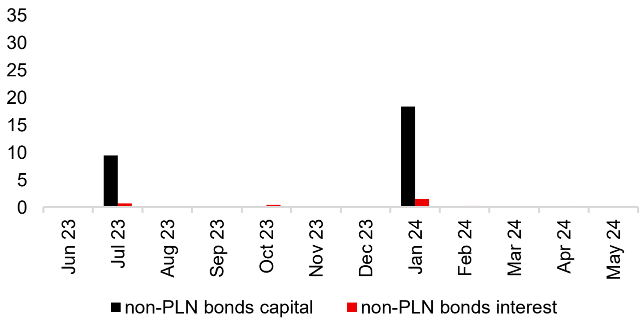
Principal and interest payments

PLN-denominated bond redemptions and interest payments, PLNbn



Source: Ministry of Finance, Santander

FX denominated bond redemptions and interest payments, PLNbn



Source: Ministry of Finance, Santander

Economic Calendar

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
5 June CN: PMI services (May) DE: Export (Apr) DE: PMI services (May) EZ: PMI services (May) US: Durable goods orders (Apr) US: ISM services (May)	6 DE: Factory orders (Apr) CZ: Industrial output (Apr) EZ: Retail sales (Apr) **PL: NBP decision**	7 DE: Industrial output (Apr) HU: Industrial output (Apr)	8 **PL: Corpus Christi** HU: CPI inflation (May) EZ: GDP (1Q)	9 CN: CPI inflation (May) **PL: MPC minutes (May)**
12 CZ: CPI inflation (May) DE: CPI inflation (May)	13 DE: ZEW index (Jun) **PL: Balance of payments (Apr)** CZ: Balance of payments (Apr) US: CPI inflation (Apr) US: core CPI (May)	14 HU: Industrial output (Apr) EZ: Industrial output (Apr) US: PPI inflation (May) US: Fed decision (Jun)	15 CN: Industrial output (May) CN: Retail sales (May) **PL: CPI inflation (May)** EZ: ECB decision (Jun) US: Empire State index (Jun) US: Philly Fed index (Jun) US: Retail sales (May) US: Industrial output (May)	16 **PL: core CPI (Apr)** EZ: HICP, final (May) CZ: PPI (May) US: Michigan, flash (Jun)
19 DE: Inflation PPI (Apr)	20 DE: PPI (May) EZ: Balance of payments (Apr) HU. MNB decision (Jun) US: Building permits (May) US: house starts (May)	21 **PL: PPI inflation (May)** **PL: Industrial output (May)** **PL: Employment (May)** **PL: Wages (May)** CZ: CNB decision (Jun) HU: Wages (Apr)	22 **PL: Retail sales (May)** **PL: Construction output (May)** CH: SNB decision (Jun) UK: BoE decision (Jun) EZ: Consumer sentiment (Jun) US: Home sales (May) US: Leading indicators (May)	23 **PL: Money supply M3 (May)** DE: flash PMI manufacturing (Jun) EZ: flash PMI manufacturing (Jun) DE: flash PMI services (Jun) EZ: flash PMI services (Jun) US: flash PMI manufacturing (Jun)
26 **PL: Unemployment rate (May)** DE: Ifo index (Jun)	27 US: Durable goods orders (May) US: Conference Board index (Jun) US: S&P house price index (May) US: new home sales (May)	28 EZ: Money supply M3 (May)	29 EZ: ESI indices (May) DE: Flash CPI (Jun) US: Final GDP (1Q) US: Pending home sales (May)	30 CN: PMI manufacturing (Jun) CN: PMI services (Jun) **PL: CPI flash (Jun)** EZ: CPI flash (Jun) US: consumer spending (May) US: consumer incomes (May) US: Michigan, final (Jun)
3 July **PL: PMI manufacturing (Jun)** CN: Caixin PMI manufacturing (Jun) HU: PMI manufacturing (May) CZ: PMI manufacturing (May) DE: PMI manufacturing (May) EZ: PMI manufacturing (May) US: ISM manufacturing (May)	4 DE: Export (May)	5 DE: PMI services (Jun) EZ: PMI services (Jun) EZ: PPI (May) US: FOMC minutes (Jun)	6 DE: factory orders (May) HU: Industrial output (May) HU: Retail sales (May) EZ: Retail sales (May) **PL: NBP decision** US: ADP report (Jun)	7 US: Non-farm payrolls (Jun) US: Wages (Jun) US: unemployment rate (Jun)

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

		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 22	Jun 23
PMI	pts	48.5	44.4	42.1	40.9	43.0	42.0	43.4	45.6	47.5	48.5	48.3	46.6	47.0	47.1
Industrial production	% y/y	14.9	10.4	7.1	10.9	9.8	6.6	4.5	1.0	1.8	-1.0	-3.0	-6.4	-3.0	-3.7
Construction production	% y/y	13.0	6.0	4.1	5.9	0.2	3.9	4.0	-0.9	2.0	6.6	-1.6	1.2	2.4	8.7
Retail sales (current prices)	% y/y	23.6	19.9	18.4	21.5	21.9	18.3	18.4	15.5	15.1	10.8	4.8	3.4	2.8	5.8
Unemployment rate	%	5.4	5.2	5.2	5.2	5.1	5.1	5.1	5.2	5.5	5.5	5.4	5.2	5.1	5.1
Gross wages in corporate sector	% y/y	13.5	13.0	15.8	12.7	14.5	13.0	13.9	10.3	13.6	13.6	12.6	12.1	12.5	12.4
Employment in corporate sector	% y/y	2.4	2.2	2.3	2.4	2.3	2.4	2.3	2.2	1.1	0.8	0.5	0.4	0.5	0.4
Exports (€)	% y/y	27.5	22.4	20.9	28.1	26.5	23.2	24.2	10.6	13.1	13.5	15.5	6.8	5.8	2.0
Imports (€)	% y/y	33.8	28.1	21.7	29.6	31.4	24.1	18.3	11.3	5.1	2.3	-3.0	-9.3	-6.4	-8.2
Trade balance	EUR mn	-1 589	-1 091	-1 690	-2 555	-2 411	-2 272	-686	-2 698	1 559	1 102	608	1 487	1 851	1 801
Current account balance	EUR mn	-1 373	-273	-1 070	-2 847	-2 208	-416	262	-2 530	2 133	1 410	1 643	1 545	1 885	1 982
Current account balance	% GDP	-3.2	-3.3	-3.2	-3.3	-3.3	-3.5	-3.2	-3.0	-2.6	-2.1	-1.3	-0.6	-0.1	0.3
CPI	% y/y	13.9	15.5	15.6	16.1	17.2	17.9	17.5	16.6	16.6	18.4	16.1	14.7	13.0	11.9
CPI excluding food and energy	% y/y	8.5	9.1	9.3	9.9	10.7	11.0	11.4	11.5	11.7	12.0	12.3	12.2	11.4	11.2
PPI	% y/y	24.7	25.6	25.5	25.5	24.6	23.1	21.1	20.5	20.1	18.2	10.3	6.8	4.1	3.1
Broad money (M3)	% y/y	7.6	6.5	6.2	7.4	7.7	7.0	5.6	5.4	6.9	7.4	6.5	6.7	7.1	8.4
Deposits	% y/y	6.3	5.5	5.5	7.0	7.8	7.0	5.7	5.8	7.5	9.1	8.9	9.4	8.9	10.3
Loans	% y/y	6.8	7.3	6.8	7.4	6.4	4.4	2.6	1.4	1.5	0.7	0.4	-1.0	-0.9	-1.0
EUR/PLN	PLN	4.65	4.64	4.77	4.72	4.74	4.81	4.70	4.68	4.70	4.74	4.69	4.64	4.54	4.57
USD/PLN	PLN	4.40	4.39	4.69	4.66	4.79	4.89	4.61	4.42	4.36	4.43	4.38	4.23	4.18	4.28
CHF/PLN	PLN	4.49	4.53	4.83	4.87	4.92	4.91	4.77	4.75	4.72	4.79	4.74	4.71	4.65	4.66
Reference rate *	%	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	6.75
3M WIBOR	%	6.41	6.85	7.03	7.04	7.16	7.34	7.44	7.10	6.95	6.93	6.92	6.90	6.90	6.90
Yield on 2-year T-bonds	%	6.52	7.47	7.48	6.91	6.80	8.13	7.49	6.81	6.10	6.26	6.12	6.13	5.93	5.90
Yield on 5-year T-bonds	%	6.98	7.54	6.78	6.24	6.69	8.09	7.58	6.74	6.00	6.21	6.11	6.07	5.90	5.93
Yield on 10-year T-bonds	%	6.67	7.22	6.41	5.82	6.32	7.88	7.33	6.65	6.06	6.26	6.17	6.09	5.94	6.02

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	3 473.8	694.2	725.4	784.4	874.3	800.4	819.7	870.9	982.9
GDP	% y/y	-2.0	6.9	5.1	1.0	8.8	6.1	3.9	2.3	-0.3	0.2	0.5	3.2
Domestic demand	% y/y	-2.7	8.5	5.1	-1.8	10.8	7.2	3.1	0.6	-5.2	-5.5	-2.1	4.1
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	0.8	5.4	7.1	2.5	5.4	5.5	1.0	0.0	-1.0
Industrial production	% y/y	-1.1	14.5	10.4	-2.2	16.8	12.5	9.3	4.0	-0.9	-4.4	-3.1	-0.4
Construction production	% y/y	-3.5	1.6	7.6	4.5	23.7	9.2	3.3	2.1	1.9	4.3	6.0	4.9
Retail sales (constant prices)	% y/y	-3.0	7.4	5.5	-2.1	9.7	9.7	3.3	0.3	-5.3	-6.0	-1.8	4.5
Unemployment rate *	%	6.8	5.8	5.2	5.6	5.8	5.2	5.1	5.2	5.4	5.1	5.2	5.4
Gross wages in the national economy	% y/y	5.3	8.9	12.1	12.4	9.7	11.8	14.6	12.3	14.3	11.9	11.2	12.2
Employment in the national economy	% y/y	-1.0	0.4	2.2	0.3	1.9	2.0	2.4	2.6	0.5	0.2	0.2	0.1
Exports (€)	% y/y	0.1	19.5	21.5	5.3	19.5	22.1	25.1	19.4	14.0	4.8	0.7	2.3
Imports (€)	% y/y	-4.9	27.0	27.0	-3.3	32.2	32.6	27.6	17.8	1.0	-7.9	-6.3	0.2
Trade balance	EUR mn	6 975	-7 620	-24 247	3 935	-6 345	-5 588	-6 651	-5 663	3 269	5 138	-621	-3 851
Current account balance	EUR mn	12 811	-8 261	-19 505	7 975	-6 113	-4 609	-6 118	-2 665	5 186	5 411	-1 053	-1 570
Current account balance	% GDP	2.4	-1.4	-3.0	1.1	-2.5	-3.3	-3.4	-3.0	-1.2	0.3	1.0	1.1
General government balance	% GDP	-6.9	-1.8	-3.4	-5.1	-	-	-	-	-	-	-	-
CPI	% y/y	3.4	5.1	14.3	12.8	9.6	13.9	16.3	17.3	17.0	13.2	11.4	9.5
CPI *	% y/y	2.4	8.6	16.6	9.5	11.0	15.5	17.2	16.6	16.1	11.9	10.7	9.6
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	10.1	8.1
PPI	% y/y	-0.6	7.9	22.4	6.8	18.0	24.8	25.2	21.6	16.2	4.7	2.9	3.4
Broad money (M3) *	% y/y	16.4	8.9	5.4	9.5	7.9	6.5	7.7	5.4	6.5	8.4	6.7	9.5
Deposits *	% y/y	12.3	8.8	5.8	9.8	5.9	5.5	7.8	5.8	8.9	10.3	8.1	9.8
Loans *	% y/y	0.2	5.1	1.4	2.2	6.4	7.3	6.4	1.4	0.4	-1.0	-1.1	2.2
EUR/PLN	PLN	4.44	4.57	4.69	4.64	4.62	4.65	4.75	4.73	4.71	4.58	4.63	4.66
USD/PLN	PLN	3.89	3.86	4.46	4.31	4.11	4.36	4.71	4.64	4.39	4.23	4.32	4.31
CHF/PLN	PLN	4.15	4.22	4.67	4.66	4.46	4.52	4.88	4.81	4.75	4.67	4.63	4.59
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	6.91	3.46	6.25	7.08	7.29	6.93	6.90	6.90	6.90
Yield on 2-year T-bonds	%	0.50	0.79	6.35	5.92	4.07	6.78	7.06	7.48	6.16	5.99	5.80	5.73
Yield on 5-year T-bonds	%	0.96	1.39	6.36	5.94	4.41	7.01	6.57	7.47	6.11	5.97	5.90	5.80
Yield on 10-year T-bonds	%	1.52	1.97	6.10	5.98	4.29	6.63	6.19	7.29	6.16	6.02	5.93	5.80

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

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