

12 September 2023

# Eyeopener

## Government found a way to lower energy costs

Today, German ZEW index  
 Retroactive reduction of energy costs for households introduced by government decree  
 EC revised down economic growth forecasts for EU, including Poland  
 Zloty weaker despite EURUSD inching higher  
 Yield curve steepness keeps increasing

**Today**, the September reading of the German ZEW sentiment index will be released. The market expects the index to fall to -76.0 pts from -71.3 pts in August, indicating a further downturn.

**The European Commission has revised downwards its forecast of GDP growth in Poland in 2023 from 0.7% to 0.5%.** The slowdown in growth is expected to be the result of a negative contribution of inventories and falling private consumption, with positive growth in net exports and investment. In 2024, GDP growth is expected to accelerate to 2.7% y/y driven by a rebound in private consumption induced by weakening inflation and expansionary fiscal policy with a smaller contribution from investment. Our forecasts are similar in direction and key assumptions, although slightly higher. The EC sees next year's inflation in Poland averaging 6.1%, assuming the expiry of energy price controls and increased upward pressure on core inflation from fiscal loosening and a large increase in the minimum wage in 2024.

**The Ministry of Climate and Environment has published a decree retroactively reducing electricity costs for households.** Due to the Senate's rejection of the NABE bill, which would have introduced a retroactive reduction in energy prices, the government has used a different route to deliver this support. The applied solution is to reduce future settlements with electricity consumers by an amount calculated by multiplying 12% of the average energy prices of 2022 by the consumption level of 2523 kWh - in this way, the government wants to obtain the equivalent of a 5% reduction in the average electricity bill. Such a relief measure is, however, a de facto lump-sum benefit for energy consumers, not linked to their actual consumption, so it can hardly be described as a price change. In addition, it is to be granted upon fulfilment of a set of conditions (e.g. low energy consumption than the year before, consent to electronic means of communication). As a result, in our view, such an arrangement should not be taken into account by GUS when calculating inflation rate. However, we are not sure how the statistical office will approach this issue. Possible inclusion in the CPI would reduce the headline inflation rate by approximately 0.2pp.

**Minister for Development and Technology Waldemar Buda assessed that the MPC's 75bp rate cut does not rule out an extension of the loan moratoria to early 2024**, as the rate cut will have an impact on loan instalments only after a few months. According to the minister, the government's decision on this subject may be announced in the coming days. It is worth noting, however, that it is now practically impossible to pass the necessary law changes through the Sejm and Senate before the elections, so a possible decision would at most be a promise of change after the elections (unless, in this case too, the government believes that the topic can be regulated by a decree).

**According to Joanna Tyrowicz, all the data available to the NBP indicate that inflation will reach neither the inflation target nor the upper end of the band around the target by the end of 2025.** In her opinion, no argument was made at the September meeting for a decision to cut rates by 75bp, and analytical materials clearly indicated that there were no rationale to cut interest rates.

**State Public Debt increased by PLN32bn, or 2.6% q/q, to PLN1,241.6bn in 2Q23.** The debt-to-GDP ratio stood at 38.0%, the same as in 1Q23. GG debt (i.e. measured according to EU guidelines) rose to 48.4% of GDP (up by PLN49bn) and the spread between public debt and GG debt widened to PLN340bn.

**Further weakening of the zloty.** At the beginning of the week, the EURUSD exchange rate rose slightly to around 1.074, yet the zloty continued to depreciate by around 0.5% to around 4.64 against the euro and was, alongside the Czech koruna and the Argentine peso, the weakest EM currency. This is still the aftermath of a much deeper interest rate cut than widely expected and an increase in market expectations for further rate cuts as well as soft comments by the NBP president at his last week's conference regarding the exchange rate. We think the changes in monetary policy provide an incentive for short-term investors to play against the zloty, if only through the HUFPLN currency pair, where Hungary continues to offer much higher short-term rates. We see room for further weakening of the zloty all the more so if further rate cuts in Poland materialise against a possible rate hike by the ECB.

**Further falls in market rates.** At yesterday's session, short-term FRA rates fell by around 6bp, although there was an upward movement of up to 4bp on longer tenors. As a result, FRA12x15 and 15x18 rates have levelled off around 3.67%, which also suggests that the market believes the NBP rate will stabilise near 3.50% after a rapid decline. The FRA21x24 rate is even slightly higher now. The IRS curve fell by around 2-4bp and bond yields fell by around 6-12bp with a steepening of the curve and a deeper decline at the shorter end, which may imply continued high demand from domestic banks. Movements in the underlying markets were minimal yesterday, with Bund yields rising 1-3bp and US bond yields falling 1-2bp. Today, yields in core markets may be pushed down by the German ZEW. Domestic rates have already seen a very large move and there is probably a little more room for an upward adjustment in rates than for a further decline, but given the surprise from the NBP, it cannot be ruled out that market rates will be even slightly lower for a while until the MPC surprises hawkishly or inflation starts to surprise upwards.

### European Commission summer 2023 forecasts

%	Real GDP		Inflation	
	2023	2024	2023	2024
Eurozone	0.8 (-0.2)	1.3 (-0.3)	5.6 (-0.2)	2.9 (+0.1)
Germany	-0.4 (-0.6)	1.1 (-0.3)	6.4 (-0.4)	2.8 (0.1)
Poland	0.5 (-0.2)	2.7 (0.0)	11.4 (-0.3)	6.1 (+0.1)

Changes vs. EC spring 2023 forecasts in parentheses  
 Source: EC, Santander

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**FX market**

Today's opening			
EURPLN	4.6360	CZKPLN	0.1885
USDPLN	4.3192	HUFPLN*	1.1602
EURUSD	1.0736	RUBPLN	0.0459
CHFPLN	4.8455	NOKPLN	0.4046
GBPPLN	5.3993	DKKPLN	0.6215
USDCNY	7.2935	SEKPLN	0.3891

\*for 100HUF

Last session in the FX market						11/09/2023
	min	max	open	close	fixing	
EURPLN	4.6053	4.6503	4.6101	4.6465	4.6209	
USDPLN	4.2919	4.3379	4.2980	4.3255	4.3077	
EURUSD	1.0714	1.0759	1.0734	1.0741	-	

**Interest rate market**

11/09/2023

T-bonds on the interbank market**		
Benchmark (term)	%	Change (bps)
DS0725 (2Y)	4.67	-16
WS0428 (5Y)	5.03	-9
DS1033 (10Y)	5.54	-5

**IRS on the interbank market\*\***

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	4.74	-2	5.68	0	3.93	1
2L	4.31	-2	5.16	-1	3.70	2
3L	4.15	0	4.80	1	3.48	2
4L	4.12	0	4.56	-3	3.34	2
5L	4.14	-2	4.47	1	3.27	2
8L	4.37	-2	4.30	2	3.19	3
10L	4.54	-3	4.27	3	3.19	3

**WIRON rate**

Term	%	Change (bps)
WIRON	5.28	-13

**WIBOR rates**

Term	%	Change (bps)
O/N	5.96	15
T/N	6.07	-8
SW	6.17	5
1M	6.24	-10
3M	5.96	-5
6M	5.77	-18
1Y	5.69	-23

**FRA rates on the interbank market\*\***

Term	%	Change (bps)
1x4	5.43	-4
3x6	4.74	-5
6x9	4.05	-9
9x12	3.76	-1
3x9	4.56	-9
6x12	3.88	-12

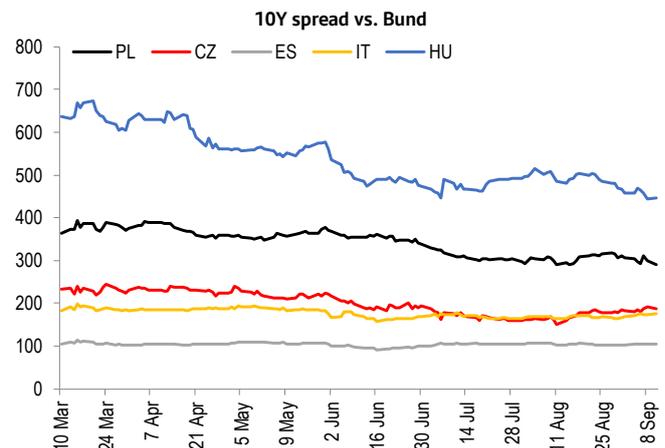
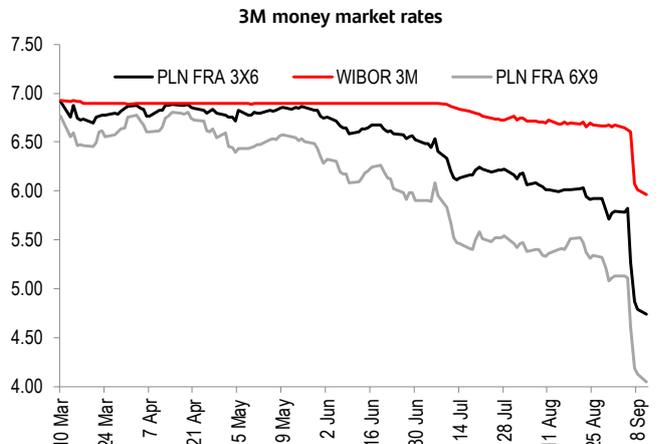
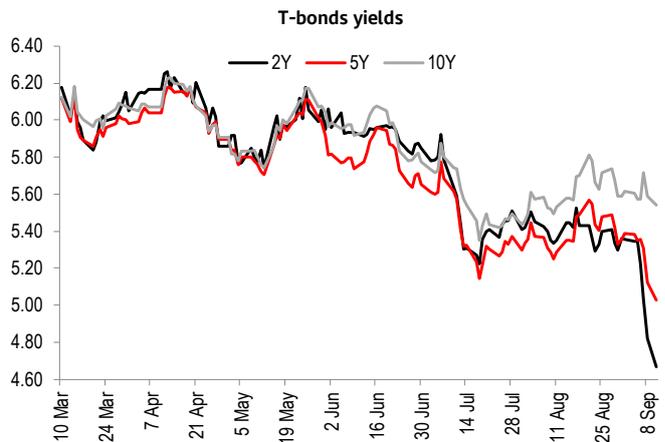
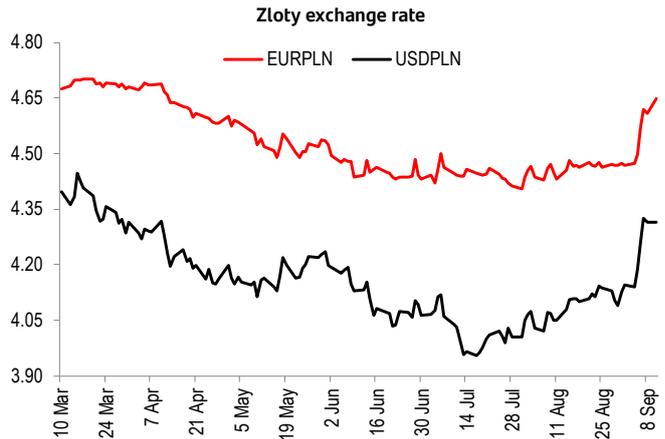
**CDS rates and 10Y yield spread vs. German Bund**

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	65	0	291	-9
France	12	0	54	0
Hungary	146	0	446	2
Spain	48	1	105	1
Italy	35	0	176	2
Portugal	35	0	75	1
Ireland	16	1	40	-1
Germany	12	1	-	-

\* 10Y treasury bonds over 10Y Bunds

\*\*Information shows bid levels on the interbank market at the end of the trading day

Source: Refinitiv, Datastream



## Calendar of events and publications

TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST		ACTUAL VALUE	LAST VALUE*
					MARKET	SANTANDER		
<b>FRIDAY (8 September)</b>								
08:00	DE	HICP	Aug	% m/m	0.3	-	0.3	0.4
08:30	HU	CPI	Aug	% y/y	16.4	-	16.4	17.6
<b>MONDAY (11 September)</b>								
09:00	CZ	CPI	Aug	% y/y	8.5	-	8.5	8.8
<b>TUESDAY (12 September)</b>								
11:00	DE	ZEW	Sep	pts	-	-	-	-71.3
<b>WEDNESDAY (13 September)</b>								
11:00	EZ	Industrial Production SA	Jul	% m/m	-	-	-	0.5
14:00	PL	<b>Current Account Balance</b>	Jul	€mn	<b>1 288</b>	<b>549</b>	-	<b>2 431</b>
14:00	PL	<b>Trade Balance</b>	Jul	€mn	<b>540</b>	<b>540</b>	-	<b>1 029</b>
14:00	PL	<b>Exports</b>	Jul	€mn	<b>25 906</b>	<b>25 500</b>	-	<b>27 886</b>
14:00	PL	<b>Imports</b>	Jul	€mn	<b>25 326</b>	<b>25 326</b>	-	<b>26 857</b>
14:30	US	CPI	Aug	% m/m	0.55	-	-	0.2
<b>THURSDAY (14 September)</b>								
14:15	EZ	ECB Main Refinancing Rate	Sep	%	-	-	-	4.25
14:30	US	Initial Jobless Claims		k	234	-	-	216
14:30	US	Retail Sales Advance	Aug	% m/m	0.2	-	-	0.7
<b>FRIDAY (15 September)</b>								
10:00	PL	CPI	Aug	% y/y	10.1	10.1	-	10.1
15:15	US	Industrial Production	Aug	% m/m	0.2	-	-	1.0
16:00	US	Michigan index	Sep	pts	69.5	-	-	69.5

Source: Santander Bank Polska, Bloomberg, Parkiet

\* in the case of a revision the data is updated

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