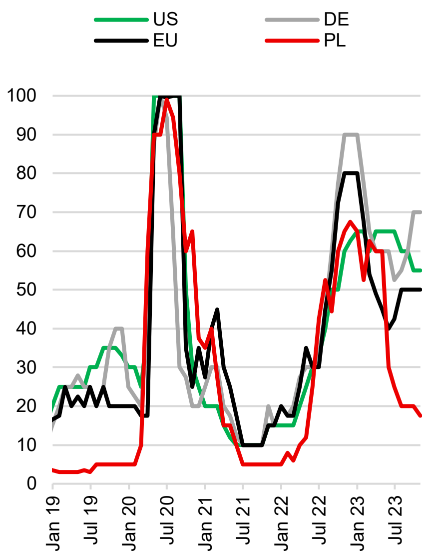
10 November 2023

MACROscope Lite

New Hope or Phantom Menace?

- Signals coming from the domestic and global economies and financial markets remain a mixed bag. In domestic data we see more and more evidence that economic activity - in line with our expectations - started re-accelerating in the third quarter. The recovery is evident in, among other things, data on retail sales, construction production, but also industrial output - which seems less obvious in the context of continued weakness in the euro area. It appears that in the face of weak external demand, it is resurgent domestic sales that are saving the day for Polish manufacturers. This trend should continue, supported by a strong labour market and a marked increase in real household income. **We expect domestic GDP growth to have already turned slightly positive in Q3 (preliminary data will be released on Tuesday), and to accelerate further in the following quarters towards 3% y/y in 2024, driven mainly by a rebound in private consumption.** At the same time, information from abroad is not encouraging: GDP in Germany and euro area contracted slightly in Q3 (-0.1% q/q), and higher-frequency data and business surveys still do not suggest a change in trend. Recent declines in commodity prices seem to reflect a renewed pessimism about the outlook for the global economy. The US economy continues to surprise with its resilience, but even here the cracks are showing in the data and a slowdown is widely expected for next year. In the background, uncertainty persists about further development of conflicts in Ukraine and in the Middle East. **The situation abroad is a significant risk factor for our scenario of domestic economic recovery.**
- A domestic factor raising uncertainty is the possible impact of the looming government change after the elections on economic policies. The coalition agreement between the Civic Coalition, the Third Way and the New Left has just been signed, but we still do not know exactly what will be the shape and timetable of the future government's decisions in key areas, e.g. with regard to the possible extension of anti-inflation shields, the implementation of pre-election promises, the reconciliation of possible costly measures with the draft budget for 2024. In this situation, the point estimates for macroeconomic variables are subject to high uncertainty. **However, the risks stemming from this uncertainty seem asymmetric: compared to the current scenario, one should expect measures that will be supportive for the domestic demand revival (e.g. higher wage growth in the public sphere, unblocking of EU funds) and negative for the medium-term inflation outlook (although they may shift our CPI forecast downwards in the short term).**
- Increased uncertainty, mainly over fiscal and regulatory policy, has been pointed out by the Monetary Policy Council as an important reason for the discontinuation of interest rate cuts, despite a further strong decline in the observed inflation rate to 6.5% y/y in October. The new NBP projection did not bring the prospect of inflation returning to the target any closer and in the next edition (in March) it may be raised to an extent that depends, among other things, on whether and in what form the new government extends the anti-inflation shields (which are assumed to continue in the current projection) and decides to implement its pre-election promises. The MPC has also reportedly unanimously approved a 'strongly critical' opinion on the draft budget for 2024, which has been known since the end of August and in the previous two months did not prevent the NBP governor from being very optimistic about the disinflation outlook. All in all, our assessment is that the central bank's reaction function has clearly changed since the previous month and the MPC will now be much more focused on bringing inflation down to target than on smoothing the path of economic growth. **In our view, further monetary easing is unlikely, and we assume that the NBP reference rate may remain unchanged at 5.75% until Q4 2024.**
- The interest rate market has started to unwind the priced-in scale of rate cuts, but further adjustment is probably ahead as the MPC's hawkish rhetoric is maintained in the coming months. The effect should be a flattening of curves. The bond market will be influenced by global trends, but also by signals from the new coalition on fiscal plans. Any potential commitments suggesting an increase in the fiscal deficit may translate into widening of ASW spreads.
- The zloty strengthened in first reaction to the election result and added more gains recently under the influence of a more hawkish message from the central bank. In our view, EURPLN may still fall in the near term, influenced in part by the correction of market expectations for rate cuts and strengthening of market belief in the unblocking of EU funds. Next year, we assume a stabilisation of the exchange rate at a stronger levels amid higher EURUSD rate - further appreciation will be counteracted by, inter alia, the deterioration of the current account balance and the risk of loss of competitiveness by domestic industry on still high inflation and wage growth.

Probability of recession in 1Y horizon according to Bloomberg survey



Source: Bloomberg, Santander

Recently released Economic Comments:

- *See you in March*
- *MPC surprised again, this time not cutting rates*
- *The last inflation drop like this*
- *Construction goes higher, GDP revision*
- *Strong rise of retail sales*
- *Production is back at the trend*
- *Prices went down in September*
- *Disturbing planned increase in public debt*
- *Interest rates lower by 25 bp*

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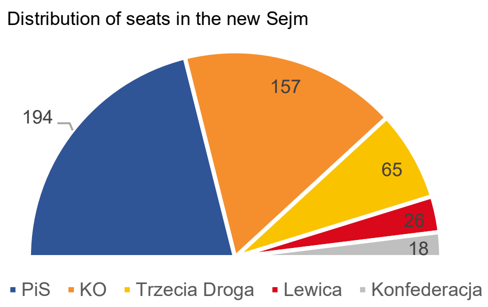
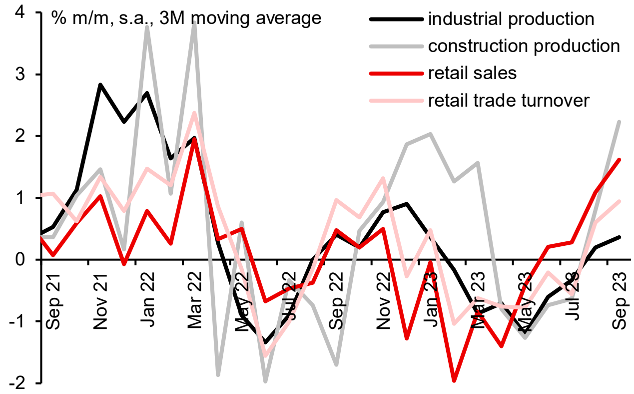
Economy in charts

PiS has lost majority in the new Sejm after the 15 October election. A new government is unlikely to be formed before December

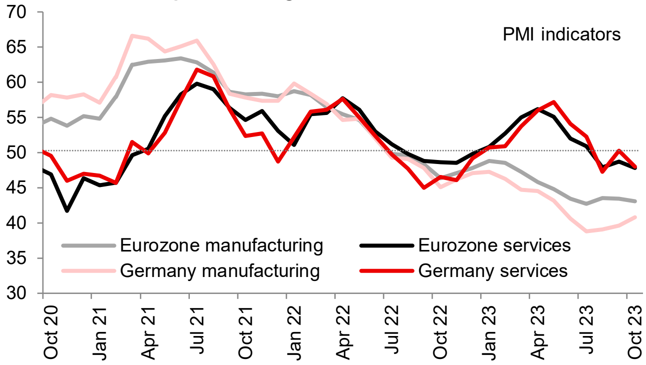


Source: PKW, Santander

Rebound in the Polish economy is clearly visible...

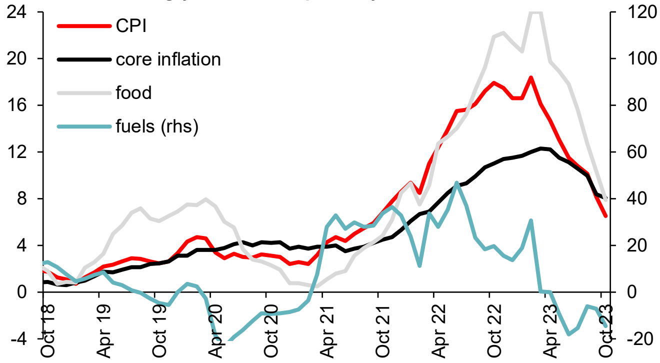


... despite weak signals from the euro zone



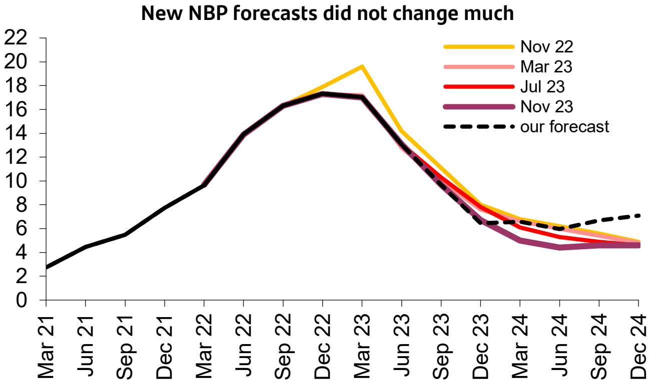
Source: S&P Global, Santander

CPI fell strongly in October, possibly for the last time in 2023



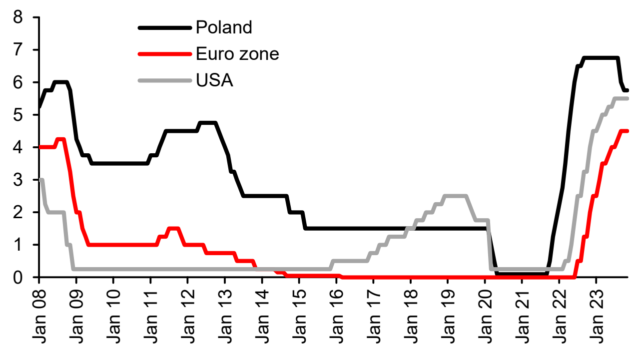
Source: GUS, NBP, Santander

New NBP forecasts did not change much



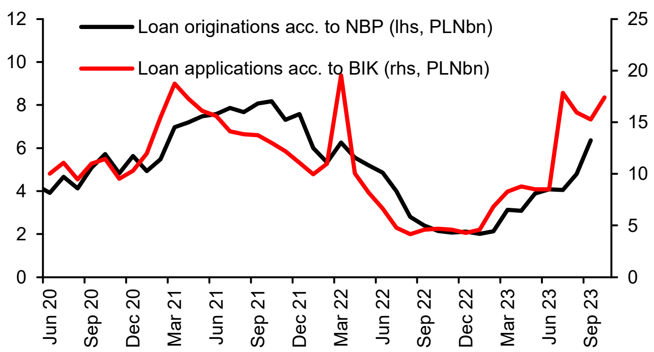
Source: NBP, Santander

Rate cuts were stopped in Poland



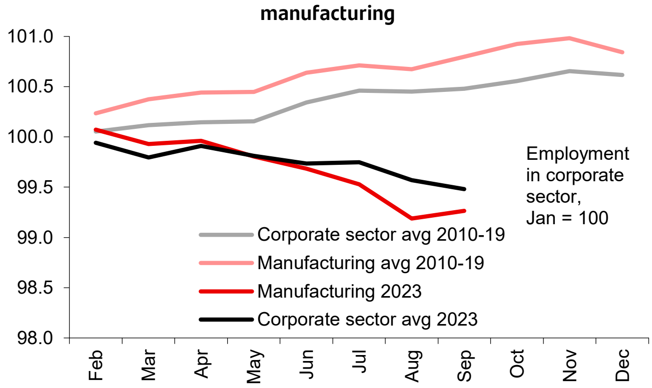
Source: Refinitiv, Santander

Mortgage loan market witnessing a strong upward momentum



Source: NBP, BIK, Santander

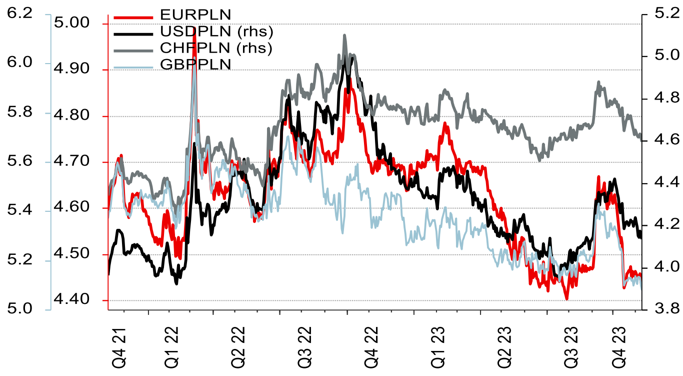
Employment still in downward trend, despite some improvement in manufacturing



Source: GUS, Santander

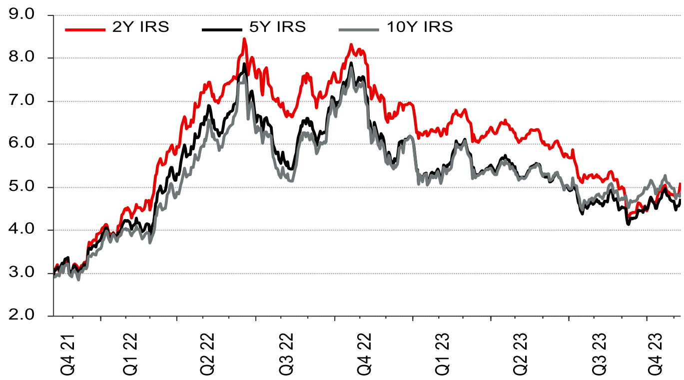
Markets in charts

Zloty exchange rates



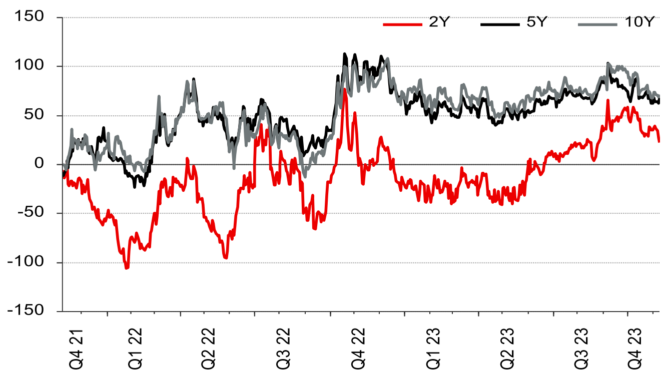
Source: LSEG Datastream, Santander

IRS (%)



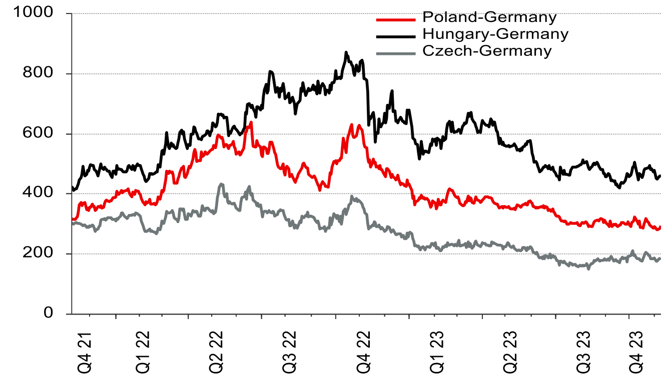
Source: LSEG Datastream, Santander

Poland asset swap spreads (bp)



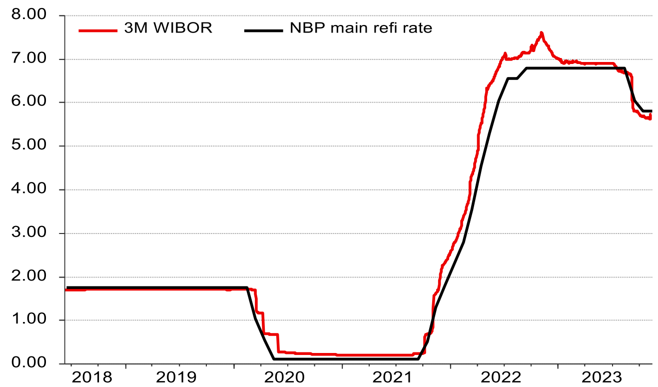
Source: LSEG Datastream, Santander

10Y bond yield spreads vs Bund



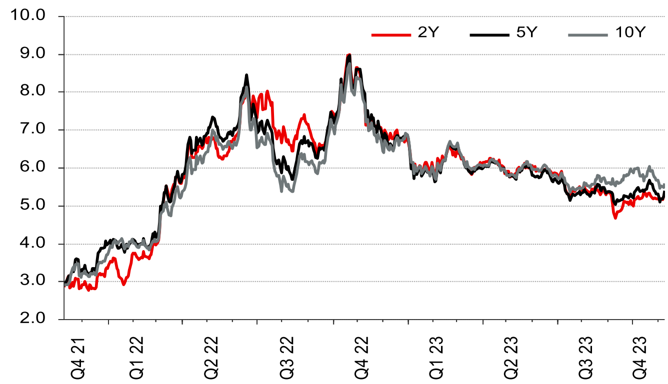
Source: LSEG Datastream, Santander

Interest rates



Source: LSEG Datastream, Santander

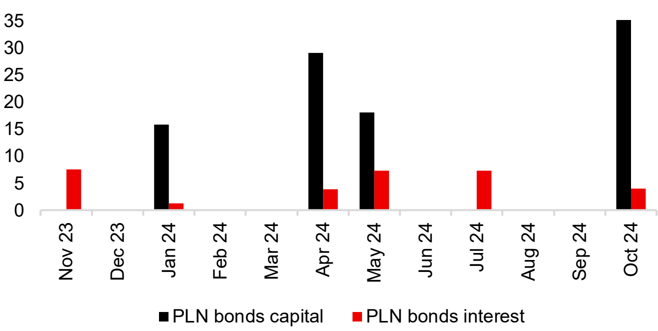
Polish bond yields (%)



Source: LSEG Datastream, Santander

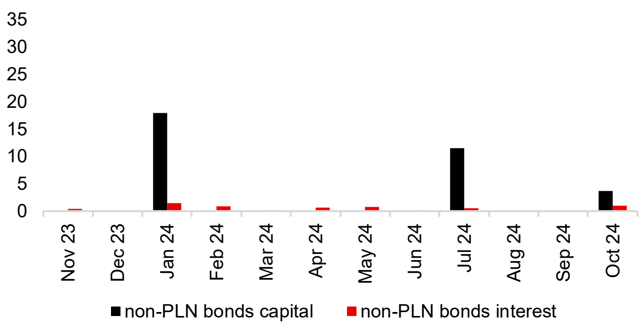
Principal and interest payments

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

Santander

Economic Calendar

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
30 October EZ: Economic sentiment (Oct) DE: CPI inflation (Oct)	31 **PL: CPI inflation (Oct)** CZ: GDP 3Q DE: GDP 3Q EZ: GDP 3Q EZ: CPI inflation (Oct) US: Conference Board (Oct)	1 November CN: Manufacturing PMI (Oct) CZ: Manufacturing PMI (Oct) US: ADP (Oct) US: ISM manufacturing (Oct) US: JOLTS job openings (Sep) US: FOMC rate decision	2 **PL: Manufacturing PMI (Oct)** DE: Manufacturing PMI (Oct) EZ: Manufacturing PMI (Oct) US: Factory orders (Sep) US: Durable goods orders (Sep)	3 CN: Services PMI (Oct) DE: Trade balance (Sep) EZ: Unemployment (Sep) US: Nonfarm payrolls (Sep) US: Unemployment (Oct) US: ISM services (Oct)
6 DE: Factory orders (Sep) CZ: Industrial production (Sep) DE: Services PMI (Oct) EZ: Services PMI (Oct)	7 DE: Industrial production (Sep) HU: Industrial production (Sep) EZ: PPI (Sep) US: Trade balance (Sep) CN: Trade balance (Oct)	8 **PL: MPC rate decision** DE: HICP inflation (Oct) HU: Retail sales (Sep) EZ: Retail sales (Sep) HU: MNB Minutes	9 CN: CPI inflation (Oct) CN: PPI (Oct)	10 **PL: MPC Minutes** HU: CPI inflation (Oct) CZ: CPI inflation (Oct) US: Michigan index (Nov)
13 **PL: Current account (Sep)** CZ: Current account (Sep) DE: Current account (Sep)	14 **PL: GDP 3Q** HU: GDP 3Q EA: GDP 3Q EA: Employment 3Q US: CPI inflation (Oct)	15 **PL: CPI inflation. (Oct)** CN: Industrial production (Oct) CN: Retail sales (Oct) EA: Industrial production (Sep) EA: EC economic forecasts US: Retail sales (Oct)	16 **PL: Core inflation (Oct)** CZ: PPI (Oct) US: Industrial production (Oct)	17 EA: CPI inflation (Oct) EA: Core inflation (Oct) US: Building permits (Oct) US: Housing starts (Oct)
20 DE: PPI (Oct) EA: Construction output (Sep)	21 **PL: PPI (Oct)** **PL: Sold industrial output (Oct)** **PL: Wages (Oct)** **PL: Employment (Oct)** HU: MNB rate decision US: FOMC Minutes	22 **PL: Consumer sentiment (Nov)** **PL: Retail sales (Oct)** US: Durable goods orders (Oct) US: Michigan index (Nov)	23 **PL: M3 money supply (Oct)** DE: Manufacturing PMI (Nov) DE: Services PMI (Nov) EA: Manufacturing PMI (Nov) EA: Services PMI (Nov)	24 **PL: Unemployment (Oct)** DE: GDP 3Q DE: IFO (Nov) US: Manufacturing PMI (Nov) US: Services PMI (Nov)
27 DE: Retail sales (Oct) US: New home sales (Oct)	28 US: Conference Board (Nov)	29 EA: ESI (Nov) DE: HICP inflation (Nov) US: GDP 3Q	30 **PL: CPI inflation (Nov)** **PL: GDP 3Q** EA: CPI inflation (Nov) US: Personal income (Oct) US: Personal spending (Oct)	1 December **PL: Manufacturing PMI (Nov)** DE: Manufacturing PMI (Nov) EA: Manufacturing PMI (Nov) CN: Caixin Manufacturing PMI (Nov) HU: GDP 3Q CZ: GDP 3Q US: ISM manufacturing (Nov)

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			29			29
Balance of payments	13	13	16	13	15	13			13	13	13	14
Money supply	24	22	22	25	24	23			22	23	23	22

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

Economic data and forecasts for Poland

Monthly economic indicators

		Oct 22	Nov 22	Dec 22	Jan 23	Feb 23	Mar 23	Apr 23	May 22	Jun 23	Jul 23	Aug 23	Sep 23	Oct 23	Nov 23
PMI	pts	42.0	43.4	45.6	47.5	48.5	48.3	46.6	47.0	45.1	43.5	43.1	43.9	44.5	44.9
Industrial production	% y/y	6.6	4.5	1.0	1.8	-1.0	-3.0	-6.0	-2.8	-1.1	-2.3	-1.9	-3.1	0.7	1.9
Construction production	% y/y	3.9	4.0	-0.9	2.0	6.6	-1.6	1.1	-0.6	1.6	1.1	3.5	11.5	12.0	7.1
Retail sales (current prices)	% y/y	0.7	1.6	0.2	0.1	-5.0	-7.3	-7.3	-6.8	-4.7	-4.0	-2.7	-0.3	0.8	-0.4
Unemployment rate	%	5.1	5.1	5.2	5.5	5.5	5.4	5.2	5.1	5.0	5.0	5.0	5.0	5.0	5.0
Gross wages in corporate sector	% y/y	13.0	13.9	10.3	13.6	13.6	12.6	12.1	12.2	11.9	10.4	11.9	10.3	12.0	10.5
Employment in corporate sector	% y/y	2.4	2.3	2.2	1.1	0.8	0.5	0.4	0.4	0.2	0.1	0.0	0.0	0.0	-0.2
Exports (€)	% y/y	27.4	22.0	11.6	19.2	14.8	16.1	1.5	3.8	3.5	0.2	-2.2	-4.0	-4.3	-0.3
Imports (€)	% y/y	21.9	19.4	14.6	10.4	-1.6	3.3	-9.8	-5.3	-6.0	-7.3	-12.3	-13.2	-4.7	-3.9
Trade balance	EUR mn	-1,767	-1,693	-2,208	1,557	643	863	398	998	1,534	319	491	383	-1,554	-551
Current account balance	EUR mn	747	-748	-1,722	2,246	1,467	1,372	-330	491	1,049	-62	-202	-314	587	746
Current account balance	% GDP	-2.7	-2.6	-2.4	-2.0	-1.3	-0.8	-0.5	-0.2	-0.1	0.0	0.3	0.6	0.6	0.8
CPI	% y/y	17.9	17.5	16.6	16.6	18.4	16.1	14.7	13.0	11.5	10.8	10.1	8.2	6.5	6.5
CPI excluding food and energy	% y/y	11.0	11.4	11.5	11.7	12.0	12.3	12.2	11.5	11.1	10.6	10.0	8.4	8.0	7.5
PPI	% y/y	23.1	21.1	20.5	20.1	18.2	10.3	6.2	2.8	0.3	-2.1	-2.9	-2.8	-4.5	-5.2
Broad money (M3)	% y/y	7.0	5.6	5.4	6.9	7.4	6.5	6.7	7.1	7.9	8.0	7.3	8.3	8.8	9.2
Deposits	% y/y	7.0	5.7	5.8	7.5	9.1	8.9	9.4	9.2	9.8	9.9	9.1	9.8	10.2	9.7
Loans	% y/y	4.4	2.6	1.4	1.5	0.7	0.4	-1.0	-0.8	-1.1	-1.8	-3.1	-1.7	-0.6	0.7
EUR/PLN	PLN	4.81	4.70	4.68	4.70	4.74	4.69	4.64	4.54	4.46	4.44	4.46	4.60	4.51	4.45
USD/PLN	PLN	4.89	4.61	4.42	4.36	4.43	4.38	4.23	4.18	4.12	4.02	4.09	4.30	4.27	4.15
CHF/PLN	PLN	4.91	4.77	4.75	4.72	4.79	4.74	4.71	4.65	4.57	4.60	4.65	4.79	4.72	4.58
Reference rate *	%	6.75	6.75	6.75	6.75	6.75	6.75	6.75	6.75	6.75	6.75	6.75	6.00	5.75	5.75
3M WIBOR	%	7.34	7.44	7.10	6.95	6.93	6.92	6.90	6.90	6.90	6.81	6.69	5.99	5.68	5.70
Yield on 2-year T-bonds	%	8.13	7.49	6.81	6.10	6.26	6.12	6.13	5.93	5.93	5.51	5.40	5.03	5.23	5.23
Yield on 5-year T-bonds	%	8.09	7.58	6.74	6.00	6.21	6.11	6.07	5.90	5.79	5.41	5.39	5.23	5.44	5.42
Yield on 10-year T-bonds	%	7.88	7.33	6.65	6.06	6.26	6.17	6.09	5.94	5.94	5.57	5.61	5.70	5.86	5.73

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

Quarterly and annual economic indicators

		2021	2022	2023	2024	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24
GDP	PLN bn	2,631.3	3,067.5	3,433.4	3,768.3	799.9	816.7	865.2	951.6	863.0	875.3	933.5	1,027.7
GDP	% y/y	6.9	5.3	0.7	3.0	-0.3	-0.6	0.6	2.5	3.0	3.0	2.7	3.2
Domestic demand	% y/y	8.5	5.2	-1.5	4.7	-4.8	-2.9	-3.1	3.9	5.9	4.5	4.2	4.3
Private consumption	% y/y	6.2	5.2	-0.5	4.3	-2.0	-2.8	-0.5	3.2	4.0	5.0	4.2	4.0
Fixed investments	% y/y	1.2	4.9	7.6	1.8	6.8	10.5	8.0	6.0	4.5	2.0	1.0	1.0
Industrial production	% y/y	14.5	10.4	-1.6	5.2	-0.9	-3.3	-2.5	0.4	1.8	6.1	7.1	6.1
Construction production	% y/y	1.6	7.6	4.4	5.6	1.9	0.6	5.4	7.9	-1.4	5.6	9.0	6.6
Retail sales (constant prices)	% y/y	7.4	5.5	-3.2	5.5	-5.3	-6.8	-2.6	1.5	3.9	2.1	2.1	4.2
Unemployment rate *	%	5.8	5.2	5.0	5.3	5.4	5.0	5.0	5.2	5.3	4.9	4.8	5.0
Gross wages in the national economy	% y/y	8.9	12.1	12.6	9.9	14.3	13.8	11.0	11.2	10.0	9.7	9.7	10.1
Employment in the national economy	% y/y	0.6	2.0	0.4	0.4	1.0	0.8	-0.1	-0.2	0.4	0.2	0.5	0.6
Exports (€)	% y/y	19.5	22.2	3.1	7.7	16.6	2.9	-2.1	-3.5	5.9	6.4	9.0	9.7
Imports (€)	% y/y	27.0	27.7	-4.7	11.9	3.7	-7.0	-11.0	-3.7	11.3	11.6	12.8	11.9
Trade balance	EUR mn	-7,682	-24,274	1,896	-11,811	3,060	2,908	1,193	-5,265	-1,324	-1,102	-1,652	-7,733
Current account balance	EUR mn	-7,398	-15,716	4,247	-10,421	5,089	1,181	-578	-1,445	834	-3,137	-3,951	-4,167
Current account balance	% GDP	-1.3	-2.4	0.6	-1.2	-0.7	-0.1	0.6	0.6	0.0	-0.5	-0.9	-1.2
General government balance	% GDP	-1.8	-3.7	-5.3	-4.5	-	-	-	-	-	-	-	-
CPI	% y/y	5.1	14.3	11.6	6.6	17.0	13.1	9.7	6.5	6.6	6.0	6.7	7.1
CPI *	% y/y	8.6	16.6	6.4	6.9	16.1	11.5	8.2	6.4	5.8	6.2	7.2	6.9
CPI excluding food and energy	% y/y	4.1	9.1	10.2	4.7	12.0	11.6	9.7	7.6	5.5	4.3	4.5	4.6
PPI	% y/y	7.9	22.4	2.9	-3.3	16.2	3.1	-2.6	-5.1	-7.5	-4.4	-1.8	0.6
Broad money (M3) *	% y/y	8.9	5.4	9.5	9.5	6.5	7.9	8.3	9.5	8.1	9.0	7.0	9.5
Deposits *	% y/y	8.8	5.8	10.7	6.1	8.9	9.8	9.8	10.7	10.5	11.5	9.4	9.1
Loans *	% y/y	5.1	1.4	1.7	6.5	0.4	-1.1	-1.7	1.7	3.2	5.6	7.6	8.6
EUR/PLN	PLN	4.57	4.69	4.56	4.40	4.71	4.55	4.50	4.47	4.44	4.41	4.39	4.37
USD/PLN	PLN	3.86	4.46	4.22	3.93	4.39	4.18	4.13	4.18	4.04	3.97	3.88	3.82
CHF/PLN	PLN	4.22	4.67	4.66	4.15	4.75	4.65	4.68	4.58	4.29	4.18	4.10	4.03
Reference rate *	%	1.75	6.75	5.75	5.25	6.75	6.75	6.00	5.75	5.75	5.75	5.75	5.25
3M WIBOR	%	0.54	6.02	6.52	5.72	6.93	6.90	6.50	5.74	5.85	5.84	5.75	5.42
Yield on 2-year T-bonds	%	0.79	6.35	5.68	5.28	6.16	6.00	5.31	5.26	5.45	5.42	5.25	5.00
Yield on 5-year T-bonds	%	1.39	6.36	5.71	5.55	6.11	5.92	5.34	5.48	5.71	5.68	5.50	5.30
Yield on 10-year T-bonds	%	1.97	6.10	5.89	5.68	6.16	5.99	5.63	5.80	5.81	5.75	5.65	5.50

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

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