Economic Comment

Record M3, weak budget and lower margins

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M3 money supply rose in April by 14% y/y vs 11.8% previously, once again beating the market consensus and our forecast (at 12.3% and 12.4% respectively). This is the highest M3 pace since mid-2009, The accelerated money creation was caused by government fiscal expansion and purchases by the banking sector of bonds issued the Polish Development Fund (PFR).

The central budget recorded a PLN18.9bn deficit in April year-to-date. In April alone the balance deteriorated by PN9.5bn due to a collapse of tax revenues and epidemic-related expenditures. We expect the deficit to balloon further in the months to come, with a probable increase of general government deficit to over 10% of GDP this year.

In 1Q20 financial results of companies employing 50+ persons worsened, but their investment outlays rose at a similar pace as in 4Q19. We expect the earnings of companies and their investment activity to fall in the coming quarters.

Rapid creation of anti-crisis money

M3 money supply rose in April by 14% y/y vs 11.8% previously, once again beating the market consensus and our forecast (at 12.3% and 12.4% respectively). This is the highest M3 pace since mid-2009, and M1 money grew by 25% y/y – the most in 13 years.

The accelerated money creation was caused by government fiscal expansion and purchases by the banking sector of bonds issued the Polish Development Fund (PFR) to raise funds for anti-crisis support measures. The acceleration of M3 occurred despite a nominal m/m decline of household and corporate credit. These effects translated into a further strong rise of deposits and cash in circulation – the latter jumped by PLN20bn m/m or 29.4% y/y – the highest growth rate since comparable data are available (1998). It seems that Poles were massively withdrawing cash fearing problems with electronic payments.

Household's deposits rose by 10% y/y (9.2% previously) and by PLN10bn m/m, while corporate deposits increased by PLN4.3bn m/m and maintained 18% y/y growth rate. The interest rate cut depressed the attractiveness of term deposits, so they fell by 8.2% y/y (versus -7.8% y/y in March), while current deposits increased by 23.5% y/y (21.0% y/y in March). A significant jump was recorded by nom-monetary financial institutions, including the PFR (+PLN14bn m/m). We are expecting the corporate deposits to advance markedly in May, as lifeline transfers accelerate.

FX-adjusted loan growth decelerated to 4.1% y/y from 4.7% y/y, with households' loans decelerating to 5.4% y/y from 6.1% y/y and corporate loans to 3.1% y/y from 3.7% y/y. Consumer loans rose by 4% y/y (the weakest growth in six years and compared to 8% y/y in February), while PLN-denominated housing loans decelerated only marginally to 12.5% y/y.

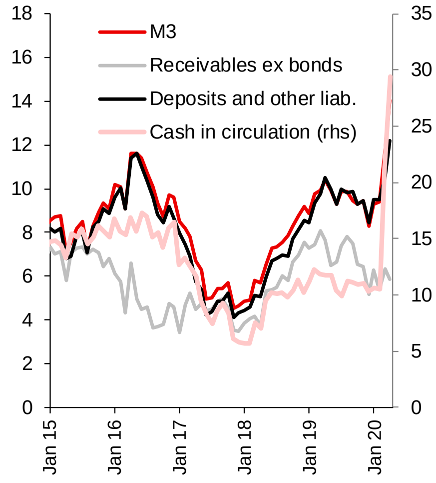
Central government deficit strongly up

The central budget recorded a PLN18.9bn deficit in April year-to-date. In April alone the balance deteriorated by PN9.5bn as compared to 2011-2019 average at –PLN0.7bn.

Covid-19 is an obvious culprit: the government balance was burdened by lower economic activity which resulted in lower tax incomes, shifts in tax payments (e.g. PIT), waver of social contributions in lower companies, payments of lifeline benefits.

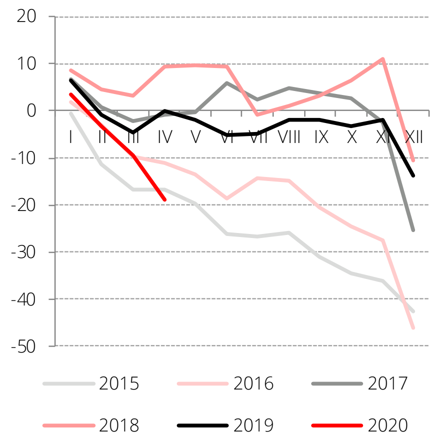
Tax revenues decreased by 31.5% y/y, with CIT down by 58.3% y/y, PIT by 31.8% y/y and VAT by 15% y/y. In our view, the total loss of tax revenues due to the epidemic was more than PLN10bn in April alone. Spending expanded by 21.9% y/y, with subsidy to Social Security Fund jumping by 36.1% y/y. We expect the deficit to balloon further in the months to come, with a probable increase of general government deficit to over 10% of GDP this year.

M3 money supply, % y/y



Source: NBP, Santander

Evolution of central budget balance, PLNbn



Source: Finance Ministry, Santander

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Corporate financial results deteriorate

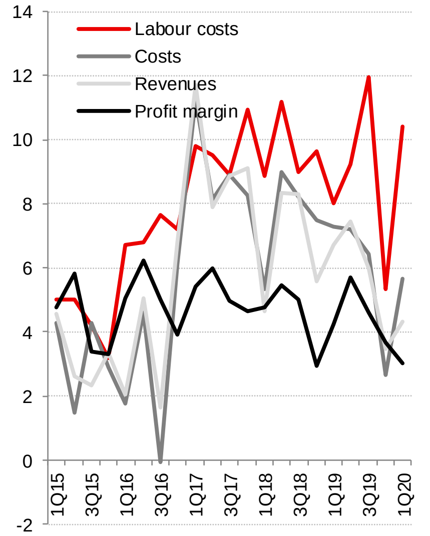
In 1Q20, financial statements of companies employing 50+ people recorded a rise in revenues by 4.3% y/y as compared to 3.5% in 4Q19. Costs accelerated to 5.7% y/y from 2.6% y/y. This translated into decline of gross financial results by more than 25% y/y.

For the second quarter in a row, material costs declined in annual terms. Costs ex materials jumped to 10.4% y/y from 6.6% y/y with labour costs advancing by 10.4% y/y as compared to 8.6% on average in 2019.

Gross revenue margins amounted to 3%, i.e. by 1.3pp lower than in 1Q19. 4Q average margin fell to 4.3% from 4.6% and was the lowest since 2H15. In 1Q20 the net revenues margins were below zero in accommodation and restaurants, other services (like hairdressing and beauty parlours), mining, transport and storage.

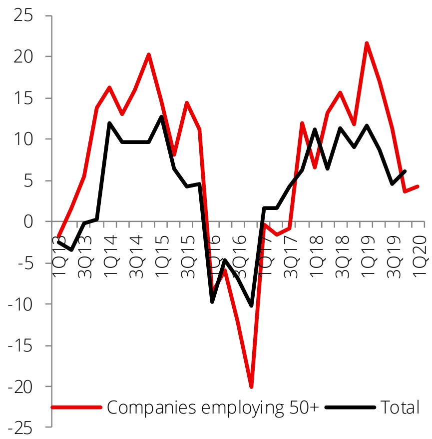
In 1Q20, investments of enterprises employing 50+ rose by 4.3% y/y, so at a similar pace as in 4Q19 (3.6% y/y). Positive growth was seen in investments in buildings and structures (12.8% y/y), while outlays on machinery, equipment and transport fell by 0.3% y/y (in 4Q19 they rose by 0.3% y/y). We expect a significant slowdown in the coming quarters as the pandemic reduced corporate activity and encouraged resignation from investment plans on poor outlook and sentiment. The data support our forecast of a gentle slowdown of investments in the whole economy in 1Q20.

Results of companies, % y/y



Source: GUS, Santander

Investment, % y/y



Source: GUS, Santander