

MACROscope Lite

Inflation is not letting go

■ Latest economic activity data were more less in line with our expectations and confirmed our forecast that **in 2Q21 the economy would be on the way back to normality**, while the annualized GDP growth was probably double digit. In the whole 2021 the economy will probably grow by c.5%. We were surprised by the high CPI print, however: **in July inflation jumped to as much as 5.0% y/y** and was the highest in 20 years. We do not know the details yet but it seems that it resulted from more factors than the non-core ones and (again) the price increases proved to be more persistent than expected, pushing higher the CPI forecasts for the next quarters.

■ MPC was continuing its rhetoric change towards less dovish stance, however the Polish monetary policy still remains the most dovish one in the CEE region: MNB hiked interest rates by more than expected, CNB are announcing a plan to hike rates at every meeting. The NBP governor Adam Glapiński spoke of 3 conditions which, when met, would allow considering the normalization of monetary policy in Poland: 1) Covid-19 pandemic no longer threatens the growth outlook, 2) inflation is demand driven, 3) forecasts point to CPI remaining above 3.5%. At the same time the MPC members were suggesting that interest rate increases in Poland before November (NBP staff forecasts publication) are not very likely. Three of the MPC members have voted in favour of an interest rate hike already in June. In our opinion, the conditions would be met **in November and this is when the first interest rate increase might take place**.

■ The data from the main global economies were slightly worse than expected which resulted in worse market sentiment. **The market started to price in the scenario of slower GDP growth but elevated inflation** which resulted in a significant fall of the core market yields. The ECB has changed its inflation target and the forward guidance towards a more dovish one. The Fed on the other hand is withdrawing from the dovish monetary policy but slowly enough that the markets do not seem to bother.

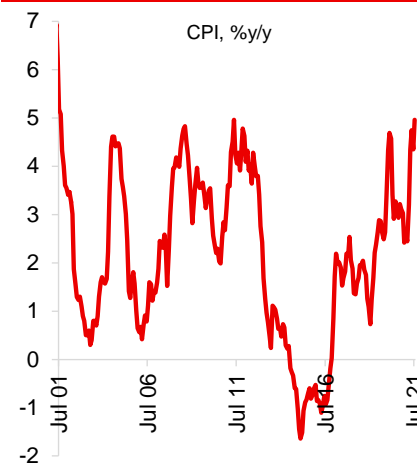
■ The government has published first legal acts coming from the so called Polish Deal: regarding the changes to the PIT tax (yearly cost for the public finances of PLN8.5bn) and additional subsidies for the families with children (cost of PLN3.0bn in 2022). Both projects are in line with previous announcements. We estimate they would beef up private consumption growth by around 1pp in 2022.

■ In line with our expectations, July was not positive for the zloty, EURPLN jumped to 4.60. **Zloty's headwinds included: worse data from the global economy, the dovish MPC and the rule of law conflict with the EU**. Zloty gained a bit only towards the end of the month when Jerome Powell managed to assure markets that no excessive tightening of monetary policy would take place, while thanks to the high Polish CPI print market expectations of interest rates in Poland increased. In Poland, the conflict with the EU is not yet as serious as the Hungarian one and currently focuses on the execution of ECJ ruling regarding the Supreme Court's Disciplinary Chamber. Polish government has time till 16 August to refer to the case. In theory, ignoring of the ECJ rulings might lead to escalation of the rule of law procedures and eventually blocking, at least part of, the EU funds for Poland. This risk might seem remote at the moment, however it is worth highlighting that the European Commission has still not approved of the country's recovery plan and this delay is probably related to the abovementioned conflict. This results in the delay to the start of the program. At the moment the delay is not significant enough to influence the Polish growth outlook (NBP estimates that the recovery plan will add 0.4pp to GDP growth both in 2022 and 2023).

■ If we assume that the negative factors will lose strength and the Polish economy will continue to grow robustly, **the zloty should gain slightly until the year-end**. Positive macro data are supportive for the zloty; maybe with an exemption of current account data, which showed declining surplus as imports were growing stronger. The zloty could also potentially be undermined by uncertainty connected to possible solutions of the FX loans issue.

■ The shorter end of the yield curve remained under impact of NBP rates hikes expectations, and these have recently strengthened following higher inflation in July. As we are expecting positive economic data, **yields should be gradually moving higher on the longer end** (to 1.95% at the end of 2021, 2.15% in mid-2022).

Consumer inflation in Poland



Source: GUS, Santander

Recently released Economic Comments:

- [Sales recovering, construction disappointing](#)
- [Output still strong, prices in industry up](#)
- [A slight correction in prices](#)

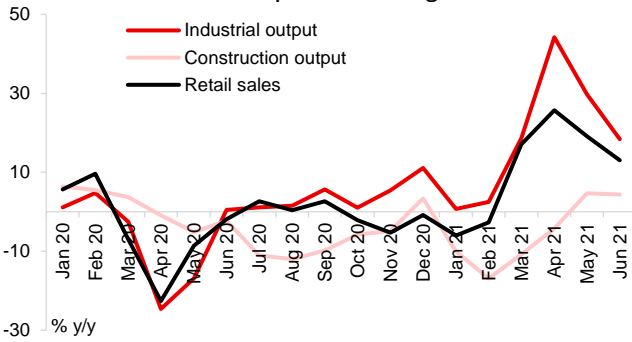
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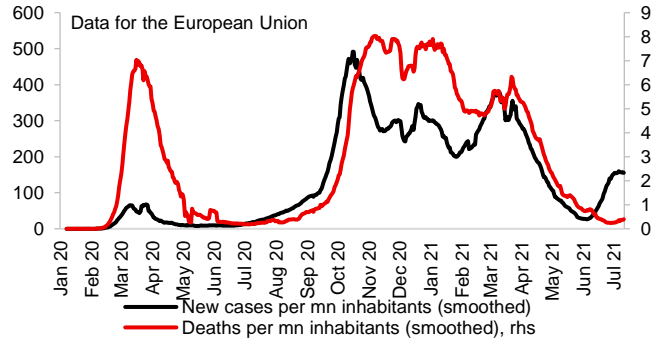
Economy in charts

Monthly data are coming in line with a scenario of recovery from the pandemic trough



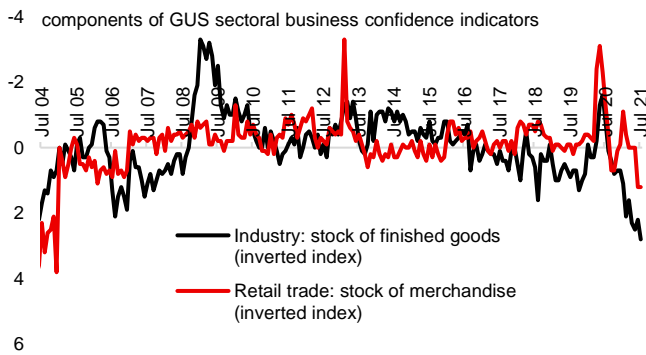
Source: GUS, Santander

The Covid wave looks more benign than the previous ones for the vaccinated Europe



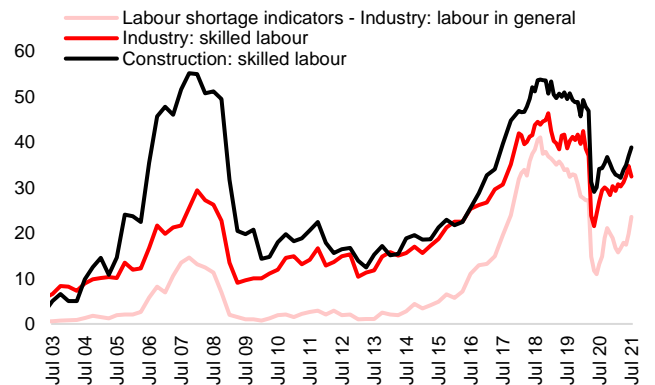
Source: ourworldindata.org, Santander

The clash of strong business environment and supply chain issues in Poland have led to extremely low stock levels



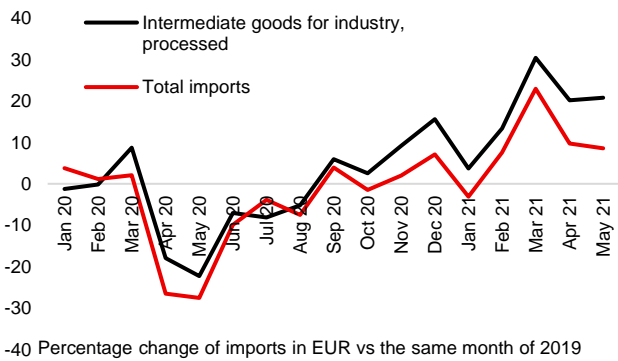
Source: GUS, Santander

...it is also increasingly difficult to find new employees



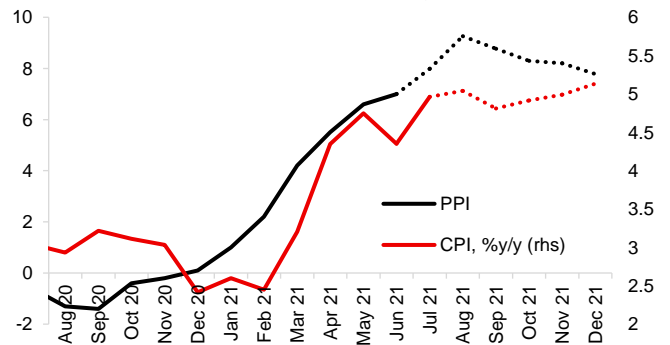
Source: GUS, Santander

This makes companies buy more commodities and materials



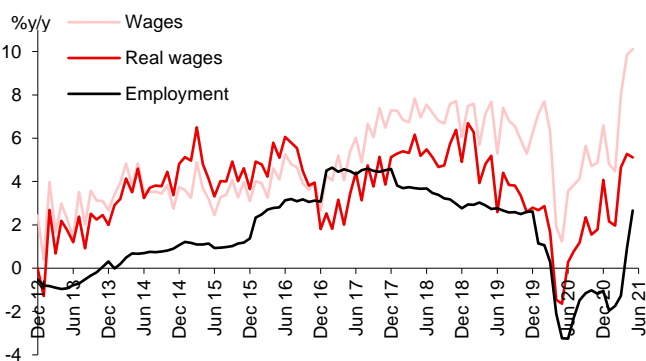
Source: GUS, Santander

CPI inflation reached 5% in July and may stay there for a while, PPI is 7% and rising



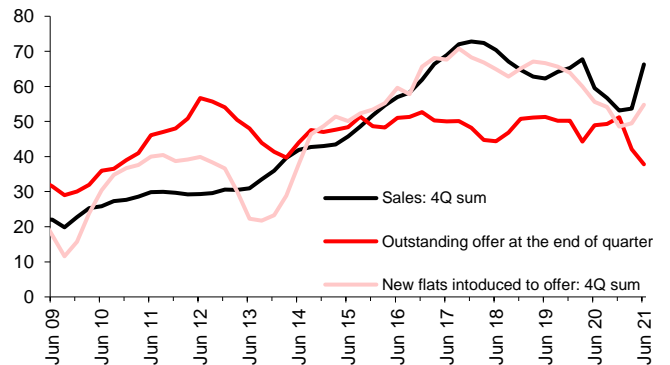
Source: GUS, Santander

Wages are accelerating together with inflation



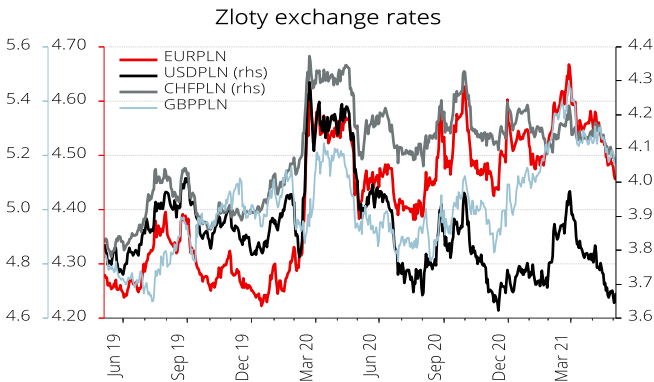
Source: GUS, Santander

Strain is also felt on the housing market

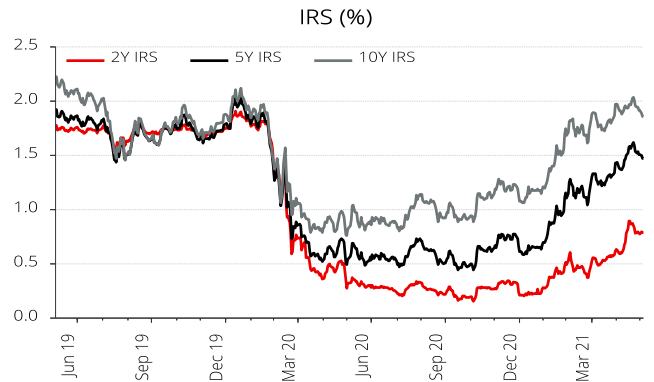


Source: JLL, Santander

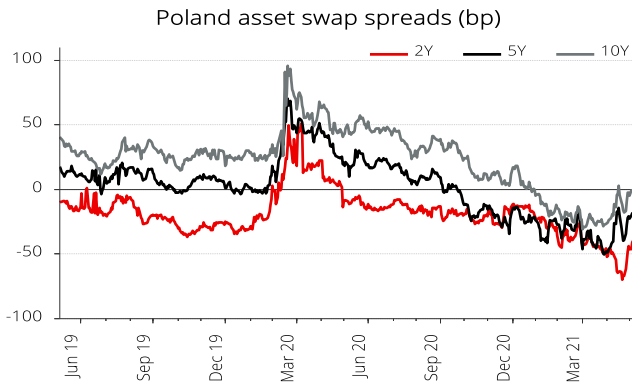
Markets in charts



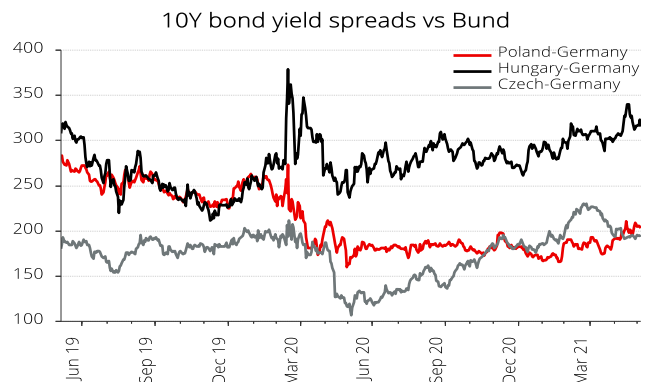
Source: Refinitiv Datastream, Santander Bank Polska



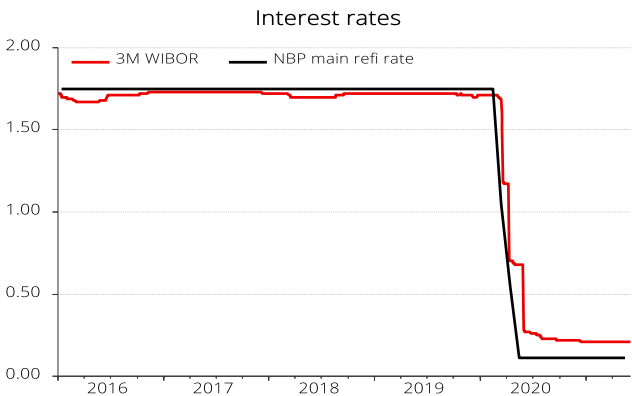
Source: Refinitiv Datastream, Santander Bank Polska



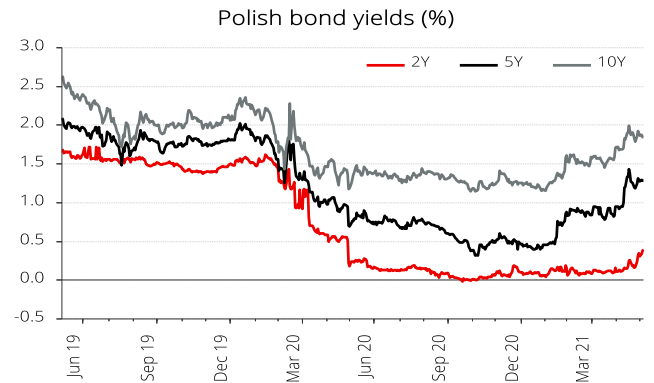
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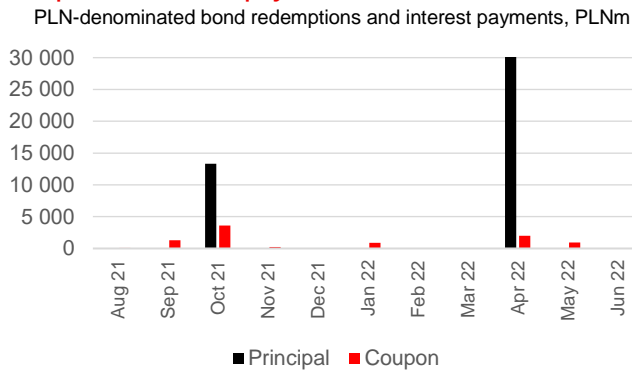


Source: Refinitiv Datastream, Santander Bank Polska

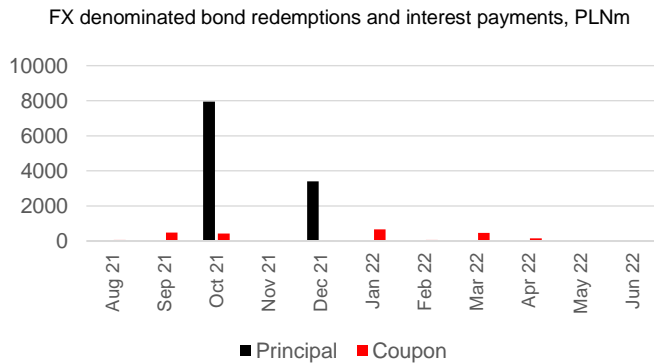


Source: Refinitiv Datastream, Santander Bank Polska

Principal and interest payments



Source: Ministry of Finance, Santander



Source: Ministry of Finance, Santander

Economic Calendar

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
2 August PL: PMI manufacturing (Jul) CZ: PMI manufacturing (Jul) HU: PMI manufacturing (Jul) HU: PPI (Jun) DE: PMI manufacturing (Jul) DE: Retail sales (Jun) EZ: PMI manufacturing (Jul) US: PMI manufacturing (Jul) US: ISM manufacturing (Jul)	3 EZ: PPI (Jun) US: Factory orders (Jun)	4 HU: Retail sales (Jun) DE: PMI services (Jul) EZ: PMI services (Jul) EZ: Retail sales (Jun) US: PMI services (Jul) US: ISM services (Jul)	5 CZ: Retail sales (Jun) CZ: CNB rate decision (0.50%) DE: Factory orders (Jun) US: Trade balance (Jun)	6 CZ: Industrial output (Jun) HU: Industrial output (Jun) DE: Industrial output (Jun) US: Non-farm payrolls (Jul) US: Unemployment rate (Jul) US: Wholesale inventories (Jun)
9 DE: Balance of payments (Jun)	10 CZ: CPI (Jul) HU: CPI (Jul) DE: ZEW (Aug)	11 DE: CPI final (Jul) US: CPI (Jul) US: core CPI (Jul)	12 EZ: Industrial output (Jun) US: PPI (Jul)	13 PL: CPI final (Jul) PL: GDP flash (2Q) PL: Balance of payments (Jun) US: University of Michigan indices flash (Aug)
16 PL: Core CPI (Jul) CZ: PPI (Jul)	17 HU: GDP flash (2Q) EZ: GDP flash (2Q) US: Retail sales (Jul) US: Industrial output (Jul)	18 PL: Wages (Jul) PL: Employment (Jul) EZ: CPI final (Jul) US: Building permits (Jul) US: House starts (Jul)	19 PL: PPI (Jul) PL: Industrial output (Jul)	20 PL: Retail Sales (Jul) DE: PPI (Jul)
23 PL: M3 money supply (Jul) DE: PMI flash (Aug) EZ: PMI flash (Aug) US: PMI flash (Aug) US: Existing home sales (Jul)	24 PL: Unemployment rate (Jul) HU: NBH rate decision (1.20%) DE: GDP final (2Q) US: New home sales (Jul)	25 DE: Ifo index (Aug) US: Durables (Jul)	26 DE: Consumer confidence (Aug) EZ: M3 money supply (Jul) US: GDP 2.estimate (2Q)	27 US: Personal income, spending US: PCE deflator (Jul) US: core PCE deflator (Jul)
30 DE: CPI flash (Aug) EZ: ESI (Jul) US: Pending home sales (Jul)	31 PL: CPI flash (Aug) PL: GDP final (2Q) CZ: GDP final (2Q) HU: Wages (Jun) EZ: CPI flash (Aug)	1 September PL: PMI manufacturing (Aug) CZ: PMI manufacturing (Aug) HU: PMI manufacturing (Aug) HU: GDP final (2Q) DE: PMI manufacturing (Aug) EZ: PMI manufacturing (Aug) DE: Retail sales (Jul) US: PMI manufacturing (Aug) US: ISM manufacturing (Aug)		

Source: GUS, NBP, Ministry of Finance, Bloomberg

Calendar of MPC meetings and data releases for 2021

	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
ECB decision	21		11	22		10	22		9	28		16
Fed decision	27		17	28		16	28		22		3	15
MPC decision		3	3	7	5	9	8		8	6	3	8
MPC minutes	15	5	5	9	7	11	9	26		8	5	10
Flash GDP*		12			14			13			12	
GDP*		26			31			31			30	
CPI	15	15	15	15	14	15	15	13	15	15	15	15
Core inflation			16	16	17	16	16	16	16	18	16	16
PPI	22	18	18	22	21	21	20	19	20	20	22	20
Industrial output	25	18	18	22	21	21	20	19	20	20	22	20
Retail sales	22	19	19	22	24	22	21	20	21	21	23	21
Gross wages, employment	21	17	17	21	20	18	19	18	17	19	19	17
Foreign trade	about 50 days after reported period											
Balance of payments*			31			30			30			
Balance of payments	13	15	16	13	14	14	14	13	13	14	15	
Money supply	26	22	22	23	25	24	22	23	22	22	24	

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

Economic data and forecasts for Poland

Monthly economic indicators

		Jul 20	Aug 20	Sep 20	Oct 20	Nov 20	Dec 20	Jan 21	Feb 21	Mar 21	Apr 21	May 21	Jun 21	Jul 21	Aug 21
PMI	pts	52.8	50.6	50.8	50.8	50.8	51.7	51.9	53.4	54.3	53.7	57.2	59.4	57.6	56.8
Industrial production	% y/y	1.1	1.5	5.7	1.0	5.4	11.1	0.7	2.5	18.6	44.2	29.7	18.4	8.5	13.9
Construction production	% y/y	-11.0	-12.0	-9.8	-5.8	-4.9	3.4	-10.1	-16.9	-10.8	-4.2	4.7	4.4	6.7	12.6
Retail sales (current prices)	% y/y	2.7	0.4	2.7	-2.1	-5.3	-0.8	-6.0	-2.7	17.1	25.7	19.1	13.0	10.1	13.4
Unemployment rate	%	6.1	6.1	6.1	6.1	6.1	6.2	6.5	6.5	6.4	6.3	6.1	5.9	5.9	5.9
Gross wages in corporate sector	% y/y	3.8	4.1	5.6	4.7	4.9	6.6	4.8	4.5	8.0	9.9	10.1	9.8	8.9	9.5
Employment in corporate sector	% y/y	-2.3	-1.5	-1.2	-1.0	-1.2	-1.0	-2.0	-1.7	-1.3	0.9	2.7	2.8	2.0	1.3
Exports (€)	% y/y	2.2	2.4	6.6	3.6	10.0	14.7	0.8	6.3	28.9	69.2	41.7	25.8	8.2	17.3
Imports (€)	% y/y	-3.6	-4.0	2.1	-4.1	4.1	12.4	-4.5	5.8	24.3	59.7	53.7	37.8	10.2	18.8
Trade balance	EUR mn	766	817	1 525	1 856	2 097	534	1 409	940	878	1 300	185	869	457	715
Current account balance	EUR mn	650	1 273	1 330	1 917	1 504	889	2 006	834	116	1 631	60	76	108	462
Current account balance	% GDP	2.4	2.8	2.9	3.2	3.3	3.5	3.4	3.2	3.1	3.2	2.9	2.3	2.2	2.0
Budget balance (cumulative)	PLN bn	-16.3	-13.3	-13.8	-12.1	-13.2	-85.0	6.6	0.9	-3.4	9.2	9.4	28.0	25.3	27.2
Budget balance (cumulative)	% of FY plan	14.9	12.2	12.6	11.0	12.1	77.7	-8.1	-1.1	4.2	-11.1	-11.4	-34.0	-30.7	-33.0
CPI	% y/y	3.0	2.9	3.2	3.1	3.0	2.4	2.6	2.4	3.2	4.3	4.7	4.4	5.0	5.0
CPI excluding food and energy	% y/y	4.3	4.0	4.3	4.2	4.3	3.7	3.9	3.7	3.9	3.9	4.0	3.5	3.6	3.8
PPI	% y/y	-0.6	-1.3	-1.4	-0.4	-0.2	0.1	1.0	2.2	4.2	5.5	6.6	7.0	8.0	9.3
Broad money (M3)	% y/y	16.8	16.2	17.0	17.0	16.1	16.4	16.8	16.3	14.4	11.2	9.0	7.4	7.4	7.3
Deposits	% y/y	14.4	13.9	14.5	13.9	12.8	12.3	12.2	12.0	11.8	9.1	7.0	5.7	6.9	7.2
Loans	% y/y	1.3	0.1	0.1	0.8	-0.1	0.2	-0.7	-0.8	-2.1	-1.6	-0.3	0.2	1.5	1.6
EUR/PLN	PLN	4.45	4.40	4.47	4.52	4.49	4.48	4.54	4.50	4.60	4.56	4.52	4.50	4.57	4.58
USD/PLN	PLN	3.88	3.72	3.79	3.84	3.78	3.68	3.73	3.72	3.86	3.81	3.73	3.74	3.86	3.88
CHF/PLN	PLN	4.15	4.09	4.14	4.21	4.16	4.14	4.20	4.14	4.16	4.14	4.12	4.12	4.20	4.17
Reference rate *	%	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3M WIBOR	%	0.25	0.23	0.23	0.22	0.22	0.21	0.21	0.21	0.21	0.21	0.21	0.21	0.23	0.24
Yield on 2-year T-bonds	%	0.11	0.13	0.09	0.01	0.03	0.08	0.05	0.10	0.07	0.09	0.17	0.35	0.35	0.37
Yield on 5-year T-bonds	%	0.74	0.72	0.67	0.51	0.41	0.47	0.42	0.67	0.86	0.85	1.17	1.30	1.19	1.24
Yield on 10-year T-bonds	%	1.35	1.34	1.35	1.27	1.21	1.29	1.21	1.32	1.54	1.56	1.82	1.79	1.70	1.83

Note: * at the end of the period.

Source: GUS, NBP, Finance Ministry, Santander Bank Polska estimates.

Quarterly and annual economic indicators

		2019	2020	2021	2022	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22
GDP	PLN bn	2 287.7	2 323.9	2 582.8	2 790.2	585.2	625.0	641.7	730.9	640.6	673.7	691.5	784.4
GDP	% y/y	4.7	-2.7	5.0	5.0	-0.9	10.4	4.2	6.3	5.2	5.1	5.1	4.9
Domestic demand	% y/y	3.6	-3.7	6.7	5.0	1.0	12.1	5.8	8.2	5.2	5.2	5.1	4.8
Private consumption	% y/y	4.0	-3.0	5.4	6.7	0.2	13.5	2.0	7.0	8.0	7.0	6.0	6.0
Fixed investments	% y/y	6.1	-9.7	14.5	5.5	1.3	15.0	16.0	20.0	4.0	5.0	6.0	6.0
Industrial production	% y/y	4.2	-1.1	13.0	9.7	7.8	29.8	10.2	7.6	7.5	8.8	11.2	11.2
Construction production	% y/y	3.6	-3.5	3.3	5.1	-12.5	1.8	9.4	8.7	9.0	1.3	5.0	6.1
Retail sales (constant prices)	% y/y	5.1	-3.0	9.4	5.6	1.2	14.1	8.1	13.5	12.8	9.1	1.4	0.9
Unemployment rate *	%	5.2	6.2	6.1	5.8	6.4	5.9	5.9	6.1	6.2	5.7	5.7	5.8
Gross wages in the national economy	% y/y	7.2	5.3	8.5	7.2	6.6	9.6	8.9	8.9	8.3	7.2	6.5	6.8
Employment in the national economy	% y/y	2.2	-1.0	0.5	2.5	-1.4	1.5	1.0	0.8	2.6	2.7	2.4	2.4
Exports (€)	% y/y	7.3	-0.1	17.4	11.7	11.9	43.5	11.9	8.1	6.6	8.7	15.7	15.6
Imports (€)	% y/y	3.8	-4.9	18.4	14.2	8.5	49.8	12.9	9.6	9.1	11.3	18.1	18.1
Trade balance	EUR mn	1 204	12 392	12 441	7 408	3 225	2 354	2 926	3 936	1 887	812	1 834	2 875
Current account balance	EUR mn	2 611	18 105	8 687	187	2 948	1 767	1 694	2 278	275	-526	101	338
Current account balance	% GDP	0.5	3.5	1.5	0.0	3.1	2.3	1.9	1.5	1.0	0.6	0.4	0.0
General government balance	% GDP	-0.7	-7.0	-4.0	-3.5	-	-	-	-	-	-	-	-
CPI	% y/y	2.3	3.4	4.3	4.3	2.8	4.5	4.9	5.0	5.2	4.5	3.7	3.7
CPI *	% y/y	3.4	2.4	5.1	3.8	3.2	4.4	4.8	5.1	4.9	4.4	3.6	3.8
CPI excluding food and energy	% y/y	2.0	3.9	3.7	3.8	3.8	3.8	3.6	3.5	3.9	3.8	3.7	3.9
PPI	% y/y	1.2	-0.6	6.4	3.7	2.5	6.4	8.7	8.1	6.0	3.8	2.2	3.0
Broad money (M3) *	% y/y	8.3	16.4	7.0	7.6	14.4	7.4	7.2	7.0	5.7	5.6	6.7	7.6
Deposits *	% y/y	8.5	12.3	7.4	5.6	11.8	5.7	6.8	7.4	4.9	4.7	4.3	5.6
Loans *	% y/y	5.2	0.2	4.1	9.5	-2.1	0.2	1.7	4.1	7.0	8.5	9.9	9.5
EUR/PLN	PLN	4.30	4.44	4.55	4.49	4.54	4.53	4.58	4.55	4.51	4.50	4.49	4.47
USD/PLN	PLN	3.84	3.89	3.81	3.68	3.77	3.76	3.87	3.84	3.75	3.70	3.66	3.60
CHF/PLN	PLN	3.86	4.15	4.15	3.99	4.17	4.13	4.18	4.11	4.04	4.01	3.97	3.92
Reference rate *	%	1.50	0.10	0.25	1.00	0.10	0.10	0.10	0.25	0.50	0.75	1.00	1.00
3M WIBOR	%	1.72	0.67	0.26	0.93	0.21	0.21	0.24	0.39	0.61	0.83	1.09	1.19
Yield on 2-year T-bonds	%	1.56	0.50	0.22	0.76	0.08	0.20	0.33	0.28	0.44	0.58	0.97	1.06
Yield on 5-year T-bonds	%	1.99	0.96	1.11	1.55	0.65	1.10	1.27	1.40	1.45	1.52	1.60	1.65
Yield on 10-year T-bonds	%	2.41	1.52	1.70	2.15	1.35	1.73	1.80	1.93	2.08	2.13	2.17	2.22

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

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