

Eyeopener

2022 budget with moderate deficit

Government approved budget draft for 2022 with deficit at PLN30bn
 Equity markets stable before Friday's speech of Fed governor
 Bond yields and IRS higher, following core markets
 Dollar slightly weaker, zloty stronger
 Today German Ifo index, US durable goods orders

On Tuesday main stock indices have not changed significantly, the dollar slightly (0.1%) weakened, core market yields slightly increased (UST +2bp to 1.27%, Bund +1bp to 0.47%). The markets apparently remain in a wait-and-see mode before this Friday's Fed Jerome Powell's talk. The second reading of the 2Q21 German GDP (WDA) got revised higher to 9.4%/y (vs 9.2% in the preliminary one). The details showed some disappointment in private consumption and investment, but a positive surprise in government spending. In the US, the August Richmond Fed index missed expectations, similar to the ones published so far – the Empire and Philly – which suggests that the US manufacturing might be slightly slowing after a very dynamic rebound in the 2Q21. New home sales has increased both vs June and vs expectations. The real estate sector in the US remains in a growth trend while the fundamentals for the demand increase are healthy, the main risks to the housing market stems from the potential increase in the financing costs.

On Tuesday, the **Polish government approved the 2022 budget draft**, with budget revenue at PLN475.6bn, spending at PLN505.6bn and budget deficit PLN30.0bn. The public sector deficit (GG) will stand at 2.8% GDP. The public debt is planned at 55.5% GDP (EU methodology) or 42.6% GDP (Polish methodology). The Finance Ministry estimates that budget deficit this year could be not higher than PLN13bn vs the planned PLN85bn. The macroeconomic assumptions got revised toward more optimistic ones (vs the preliminary forecasts from June 2021), however are still quite conservative, in our view: 2022 GDP growth at 4.6%, inflation at 3.3%. The gross financing needs in 2022 should equal PLN212.2bn while the net ones PLN48.5. According to the FinMin, the budget draft includes the propositions included in the Polish Deal, however does not include the launch of the National Recovery Plan. The revenue includes the payment of NBP profit of PLN845m.

The **number of employees in corporate sector** fell in July by 10k, recording the first monthly drop this year. At the same time, average employment (expressed in full-time job equivalents) increased by 3k, which means that staff reduction was accompanied by lengthening worktime. It was manufacturing that was mainly responsible for the weak result: number of employees in this sector fell by 9k and average employment by 3k. Construction was also cutting staff. Meanwhile, hotels and gastronomy were hiring, as they were restoring capacity after re-opening. Weaker trends in manufacturing and construction could be, in our view, reflecting partly the reduction of "excessive" workers after the cancellation of PFR loans, and partly the problems with supplies and weakening inflow of new orders.

Industrial orders rose in July by 25.7% y/y (34.4% y/y in June), including export orders by 18.9% y/y (31.8% y/y in June). High growth rates mostly stem from low base effect, while total volume of orders is in a declining trend after hitting the peak in March and the monthly growth rate was the weakest since the start of the year. In our view, this is suggesting that the industry's expansion could weaken somewhat in the months to come.

EURUSD was quite stable, it surpassed 1.1750 amid low volatility and ended the day at 1.1755.

EURPLN fell by 0.2% to 4.5750. Until Fed chair Powell's speech on Friday afternoon the pair is likely to stay in 4.55-4.60 range.

In the CEE region, EURHUF declined by 0.5% to 348.2 after MNB hiked rates by 30bp to 1.50%, reaching the highest level in the European Union and limited its weekly asset purchases by 20% to HUF50bn. Even though the statement did not include such a strong guidance on fighting inflation as the previous one, the FRA markets are pricing in 70bp more hikes this year. The positive trend for forint could be stopped if these expectations unwind and the Fed proves more hawkish than expected. EURCZK oscillated around 25.50-25.55. USDRUB fell by 0.5% to 73.7 after Brent climbed by 2% to \$70.3 per barrel (oil price rose by more than 8% in 2 days).

On the **domestic interest rate market** the IRS curve climbed by 3-4bp (5Y to 1.43%, 10Y to 1.74%) and yield curve by 2bp (10Y to 1.75%).

2022 Budget draft: main assumptions

	Budget draft	June's draft	Santander forecast
GDP 2021	4.9	3.8	5.0
GDP 2022	4.6	4.3	5.0
CPI 2021		3.1	4.3
CPI 2022	3.3	2.8	4.3

Budget revenue, PLNbn	475.0
- VAT	231.4
- CIT	51.0
- PIT	66.9
Budget spending, PLNbn	505.6
Budget balance, PLNbn	-30.0
GG balance (% of GDP)	-2.8

Source: Ministry of Finance, Santander

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FX market

Today's opening			
EURPLN	4.5703	CZKPLN	0.1791
USDPLN	3.8936	HUFPLN*	1.3005
EURUSD	1.1743	RUBPLN	0.0527
CHFPLN	4.2586	NOKPLN	0.4402
GBPPLN	5.3395	DKKPLN	0.6122
USDCNY	6.4762	SEKPLN	0.4475

*for 100HUF

Last session in the FX market						24/08/2021
	min	max	open	close	fixing	
EURPLN	4.570	4.588	4.580	4.573	4.585	
USDPLN	3.884	3.911	3.900	3.893	3.909	
EURUSD	1.173	1.176	1.174	1.175	-	

Interest rate market 24/08/2021

T-bonds on the interbank market**		
Benchmark (term)	%	Change (bps)
DS1023 (2Y)	0.48	0
DS0726 (5Y)	1.12	2
DS0432 (10Y)	1.76	1

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	0.52	-1	0.17	1	-0.54	0
2L	0.88	2	0.32	1	-0.50	0
3L	1.13	2	0.55	2	-0.46	0
4L	1.30	3	0.73	3	-0.42	1
5L	1.43	3	0.88	3	-0.37	2
8L	1.64	3	1.17	4	-0.22	1
10L	1.74	4	1.29	4	-0.10	2

WIBOR rates

Term	%	Change (bps)
O/N	0.10	-1
T/N	0.10	0
SW	0.10	0
2W	0.16	0
1M	0.18	0
3M	0.21	0
6M	0.25	0
1Y	0.36	1

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	0.24	0
3x6	0.40	-1
6x9	0.62	0
9x12	0.83	0
3x9	0.48	0
6x12	0.73	0

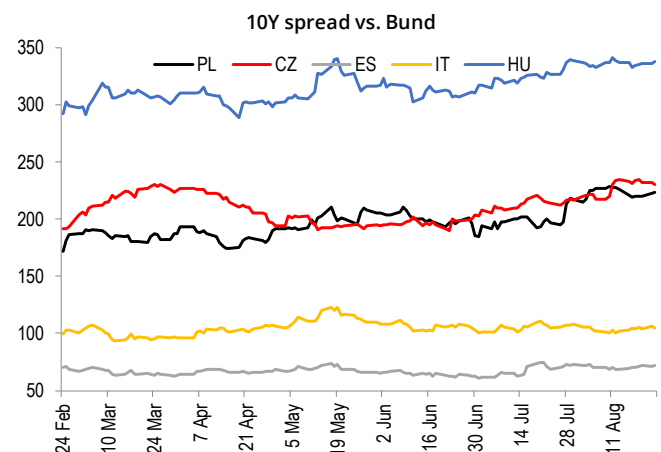
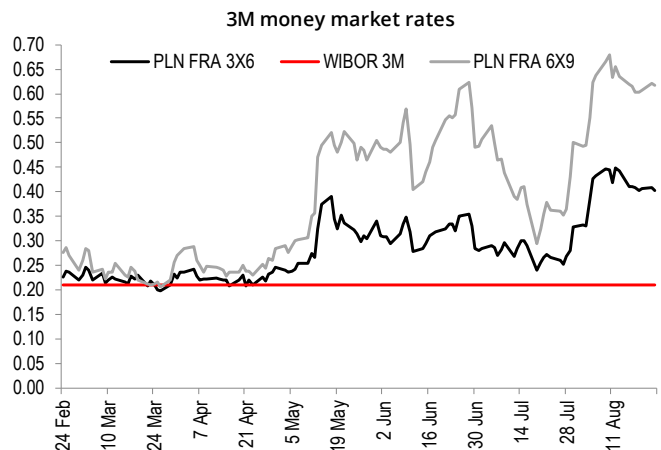
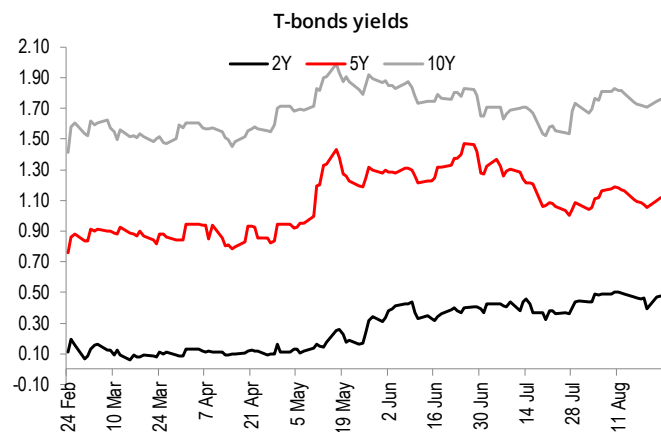
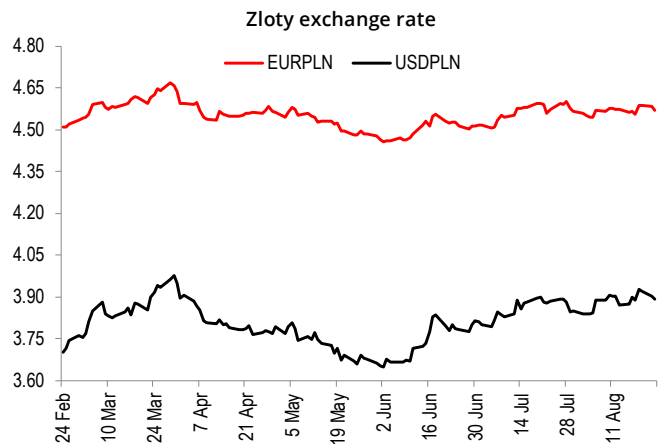
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	46	0	223	1
France	9	0	35	0
Hungary	55	0	338	2
Spain	30	0	72	0
Italy	43	0	105	-1
Portugal	20	0	61	0
Ireland	11	0	39	0
Germany	8	0	-	-

* 10Y treasury bonds over 10Y Bunds

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

Source: Refinitiv, Datastream



Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST		ACTUAL VALUE	LAST VALUE*
					MARKET	SANTANDER		
FRIDAY (20 August)								
10:00	PL	Construction Output	Jul	% y/y	6.8	7.0	3.3	4.4
10:00	PL	Retail Sales Real	Jul	% y/y	4.7	5.5	3.9	8.6
MONDAY (23 August)								
09:30	DE	Germany Manufacturing PMI	Aug	pts	65.0		62.7	65.9
09:30	DE	Markit Germany Services PMI	Aug	pts	61.0		61.5	61.8
10:00	EZ	Eurozone Manufacturing PMI	Aug	pts	62.0		61.5	62.8
10:00	EZ	Eurozone Services PMI	Aug	pts	59.5		59.7	59.8
14:00	PL	Money Supply M3	Jul	% y/y	8.2	8.3	8.8	7.4
16:00	US	Existing Home Sales	Jul	% m/m	-0.5		2.0	1.4
TUESDAY (24 August)								
08:00	DE	GDP WDA	2Q	% y/y	9.2		9.4	9.2
10:00	PL	Unemployment Rate	Jul	%	5.8	5.8	5.8	5.9
14:00	HU	Central Bank Rate Decision	Aug/21	%	1.5		1.5	1.2
16:00	US	New Home Sales	Jul	% m/m	3.1		1.0	-2.6
WEDNESDAY (25 August)								
10:00	DE	IFO Business Climate	Aug	pts	100.5		-	101.2
14:30	US	Durable Goods Orders	Jul	% m/m	-0.3		-	0.9
THURSDAY (26 August)								
14:30	US	GDP Annualized	2Q	% Q/Q	6.6		-	6.5
14:30	US	Initial Jobless Claims		k			-	348.0
FRIDAY (27 August)								
	DE	Retail Sales	Jul	% m/m			-	4.2
14:30	US	Personal Spending	Jul	% m/m	0.4		-	1.0
14:30	US	Personal Income	Jul	% m/m	0.2		-	0.1
14:30	US	PCE Deflator SA	Jul	% m/m	0.4		-	0.5
16:00	US	Michigan index	Aug	pts	70.9		-	70.2

Source: Santander Bank Polska, Bloomberg, Parkiet

* in the case of a revision the data is updated

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