

8 November 2022

Eyeopener

Government mulling how to reduce fiscal burden

Government trying to reduce budget borrowing needs in 2023

Lending policy of Polish banks tightened in 3Q2

Polish bond yields lower, zloty stronger against dollar and euro

Today, the government meeting, after which we may learn about the proposal to freeze gas prices for households. Abroad, we will see Hungarian industrial production and German retail sales data, but the most important will be the US mid-term elections.

A quarterly NBP survey has shown that banks tightened their lending policies in 3Q, especially in long-term financing for large companies and consumer loans, and expect further tightening in 4Q, concentrated in the same market segments. The most frequently cited reason for the policy tightening was the risk associated with the economic outlook. Only in the case of consumer loans banks signalled for the fourth quarter in a row that the MPC decisions were of primary importance in shaping their policy. Banks again felt a clear weakening of credit demand from companies, with the exception of the strongly growing need for short-term financing reported by large companies. The indicator of mortgage demand fell for the third consecutive quarter and reached its lowest level in the survey's history, and a clear negative turn took place in consumer credit demand (a significant weakening after a rebound in 2Q). Firms showed a reluctance to seek investment financing (for the second consecutive quarter), but at the same time a strong need to raise financing of working capital. The credit survey results suggest a marked slowdown in domestic demand in 2H this year.

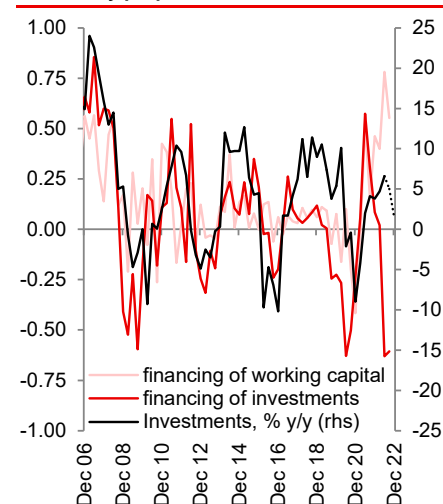
PM Mateusz Morawiecki said yesterday that the government is planning to withdraw from the temporary indirect tax cuts on energy at the end of the year, as the European Commission will not allow the current measures to continue. VAT and excise rates on energy and fuels could therefore return to base levels at the start of 2023. At the same time, zero VAT on food is to be retained for "as long as possible". To avoid rising inflation, the government wants to force energy companies to keep their prices unchanged by cutting margins and profits. The PM said that the net profit of energy companies in 2023 should be reduced to "zero plus". If the government's plan is 100% successful, it could be neutral for the CPI trajectory (vs. a scenario in which the anti-inflation shield is extended in its current form until the end of 2023), while being potentially positive for the budget (higher VAT and excise on energy and fuels means c.PLN20bn more tax revenues in 2023). Zero profits for the energy sector cannot be sustained forever, so it is likely that prices would have to rebound soon after the election - with an effect on CPI analogous to ending the current anti-inflation shield. All in all, we do not change our forecasted path of inflation for the time being: we continue to anticipate a peak in CPI in February in the vicinity of 20% and then a gradual decline in CPI to 9-10% y/y by the end of 2023. The market reacted positively to the government's announcement, seeing it as the implementation of the PM's earlier claims of an effort to reduce borrowing needs in 2023, i.e. a turn towards a more responsible fiscal management. In the evening, the government spokesperson announced a **package of possible investment cuts** to be presented in the next two weeks (which will not include social and military spending). This is yet another sign that the government has realised the seriousness of the challenges facing the budget. Yesterday, the Ministry of Finance also announced the planned issuance of 5- and 10-year USD bonds at a date "dependent on market conditions".

EURUSD returned above parity yesterday, but the move was not persistent and this morning it is again just below 1.0. The market speculates that the Fed's rate hike potential will no longer grow, as financial conditions in the US are much tighter than the current rate level indicates.

EURPLN fell to 4.67 from around 4.68. The zloty was helped by improving sentiment in global markets, gains in the Polish stock market and media speculation about the government's willingness to reach an agreement with the EC on unblocking the recovery fund. EURHUF oscillated around the psychological level of 400. The Hungarian government intends to introduce additional price caps on energy in the coming days. According to the development minister, October inflation could rise to 21% and by the end of the year inflation could exceed 25%, from which level it should start to go down. EURCZK fell to 24.25 from around 24.38. The strengthening of the koruna is a result of the CNB governor's announcement, who ruled out the possibility of imminent rate cuts due to strong cost pressures from abroad.

Debt market: Domestic yield curve and the asset swap curve declined, among other factors, under the influence of signals from the government about increasing fiscal responsibility and the announcement of tax breaks for buyers of BGK, PFR and repo bonds. In the core debt markets, yields rose.

Senior Loan Officers' survey: corporate credit demand by purpose vs. real investments



Source: NBP, GUS, Santander

Economic Analysis Department:

al. Jana Pawła II 17, 00-854 Warszawa

email: ekonomia@santander.pl

website: santander.pl/en/economic-analysis

Piotr Bielski +48 691 393 119

Jarostaw Kosaty +48 887 842 480

Marcin Luzziński +48 510 027 662

Grzegorz Ogonek +48 609 224 857

FX market

Today's opening

EURPLN	4.6800	CZKPLN	0.1924
USDPLN	4.6835	HUFPLN*	1.1642
EURUSD	0.9994	RUBPLN	0.0766
CHFPLN	4.7222	NOKPLN	0.4558
GBPPLN	5.3682	DKKPLN	0.6290
USDCNY	7.2600	SEKPLN	0.4302

*for 100HUF

Last session in the FX market 07/11/2022

	min	max	open	close	fixing
EURPLN	4.6715	4.6921	4.6885	4.6758	4.6858
USDPLN	4.6702	4.7227	4.7166	4.6760	4.6926
EURUSD	0.9922	1.0006	0.9942	0.9996	-

Interest rate market 07/11/2022

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
PS1024 (2Y)	8.07	-19
DS0727 (5Y)	8.21	-22
DS0432 (10Y)	7.98	-24

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	8.09	-7	5.22	2	2.73	3
2L	8.08	-6	5.07	3	3.08	2
3L	7.78	-11	4.78	4	3.08	1
4L	7.53	-14	4.57	3	3.07	1
5L	7.40	-15	4.44	4	3.08	1
8L	7.27	-15	4.28	6	3.11	0
10L	7.24	-15	4.23	4	3.15	0

WIBOR rates

Term	%	Change (bps)
O/N	6.94	2
T/N	6.93	1
SW	7.04	2
2W	7.08	4
1M	7.16	0
3M	7.61	2
6M	7.82	2
1Y	7.90	2

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	7.60	-3
3x6	7.83	-7
6x9	8.01	-9
9x12	7.97	-9
3x9	8.01	-8
6x12	8.16	-11

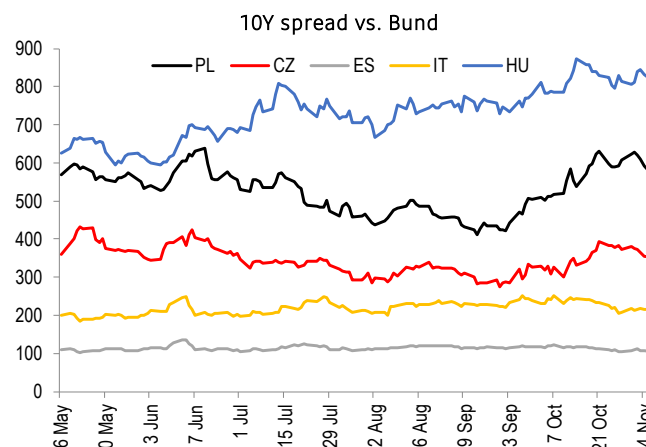
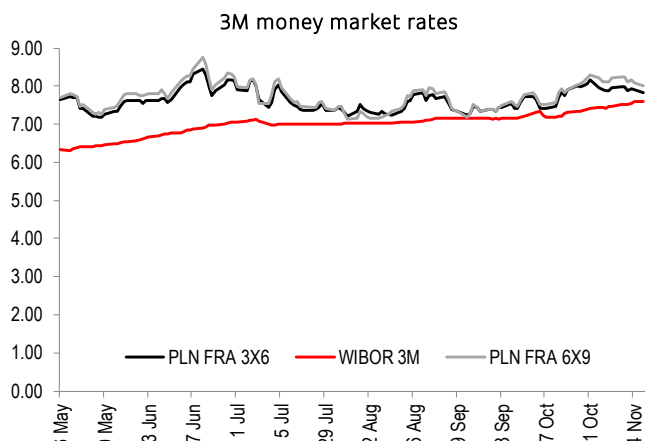
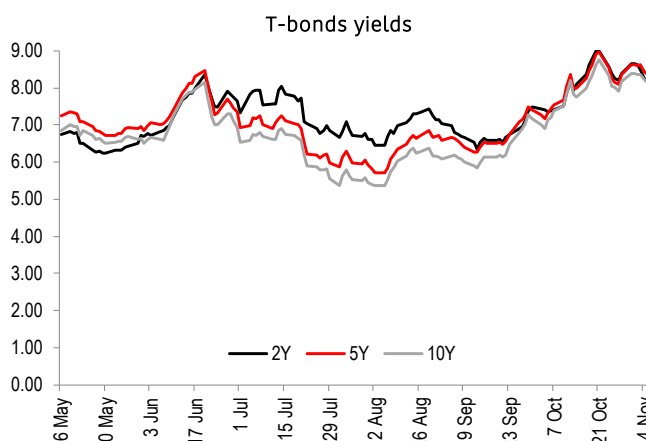
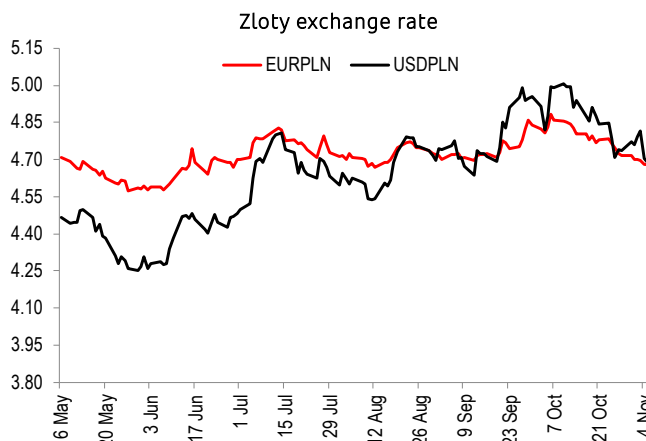
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	148	0	566	-27
France	20	0	53	-1
Hungary	246	-7	814	-17
Spain	62	0	105	-1
Italy	63	0	215	-2
Portugal	46	0	98	-2
Ireland	24	0	52	0
Germany	20	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 (4 November)								
08:00	DE	Factory Orders	Sep	% m/m	-0.5	-	-4.0	-2.0
09:55	DE	Markit Germany Services PMI	Oct	pts	44.9	-	46.5	45.0
10:00	EZ	Eurozone Services PMI	Oct	pts	48.2	-	48.6	48.8
13:30	US	Change in Nonfarm Payrolls	Oct	k	195.0	-	261.0	315.0
13:30	US	Unemployment Rate	Oct	%	3.6	-	3.7	3.5
MONDAY (7 November)								
08:00	DE	Industrial Production SA	Sep	% m/m	0.2	-	0.6	-0.8
09:00	CZ	Industrial Production	Sep	% y/y	7.2	-	8.3	10.3
TUESDAY (8 November)								
09:00	HU	Industrial Production SA	Sep	% y/y	8.5	-	-	9.3
11:00	EZ	Retail Sales	Sep	% m/m	0.4	-	-	-0.3
WEDNESDAY (9 November)								
	PL	MPC decision	Nov	%	7.00	6.75	-	6.75
09:00	HU	CPI	Oct	% y/y	21.0	-	-	20.1
THURSDAY (10 November)								
09:00	CZ	CPI	Oct	% y/y	18.0	-	-	18.0
13:30	US	Initial Jobless Claims		k	220.0	-	-	217.0
14:00	PL	MPC minutes	Oct					
14:30	US	CPI	Oct	% m/m	0.7	-	-	0.4
FRIDAY (11 November)								
08:00	DE	HICP	Oct	% m/m	1.1	-	-	2.2
16:00	US	Michigan index	Nov	pts	59.6	-	-	59.9

Source: Santander Bank Polska. Bloomberg. Parkiet

* in the case of a revision the data is updated

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Additional information is available on request. Please contact Santander Bank Polska S.A., Financial Management Division, Economic Analysis Department. al. Jana Pawła II 17, 00-854 Warsaw, Poland. phone +48 22 534 18 87, email ekonomia@santander.pl, <http://www.santander.pl>.