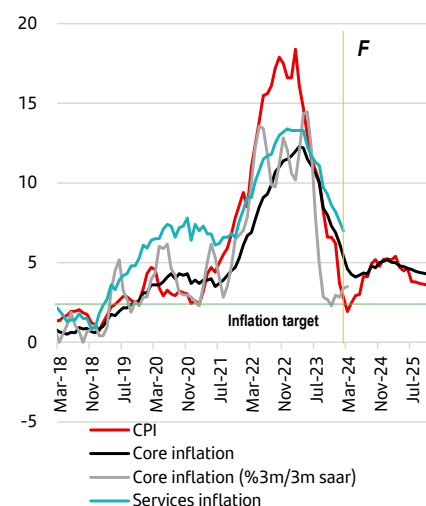


MACROscope Lite

Permanent CPI drop to target still far away

- The decline in inflation in the major economies has slowed, services inflation remains elevated, and recent inflation and labour market data in the US have surprised on the upside, which has translated into a further reduction in expectations for rate cuts in the US (the market is currently pricing in less than 3 rate cuts this year starting in September). At the same time, the market expects faster rate cuts from the ECB with a stronger recovery in activity expected in 2H24 at the earliest. Despite some pinch of optimism in the latest output data, the German economy remains the weakest link in the EU. **In our view, weakness in German economy will not hinder economic growth acceleration in Poland**, especially since domestic exports are somewhat less dependent on German economic cycle than in the Czech Republic or Hungary. In the longer term, Poland may also still benefit from relocating production from Germany and other higher-cost countries.
- In Poland, **inflation once again surprised downward and fell to 1.9% y/y reaching below-target level** for the first time since May 2019. The **next few months are likely to bring higher inflation readings**, in view of higher VAT to food, rising oil or food prices in international markets, while the CPI path in 2H24 will depend on the government's decision on energy prices. In the baseline scenario, we assume inflation near 5% at year-end. At the same time, **core inflation is likely to remain elevated in the 4-5% y/y range until the end of 2025**. As in leading economies, this is mainly due to high services inflation, which remains persistent under the influence of high wage growth.
- Real wage growth accelerated to 9.8% y/y in February (the highest since 1999), and on average could exceed 8% this year versus 0.4% in 2023. The unemployment rate rose at the beginning of the year in line with the seasonal pattern, but remains below the neutral level, according to the NBP projection. The number of employed people in the economy according to the LFS has been revised upward, and the number of job openings has begun to gradually increase. **In view of the expected economic recovery amid already tight labour market will result in double-digit nominal wage growth this year. This will translate into a recovery in consumption and the high unit labour cost dynamics.**
- Activity data for February showed positive surprises. Retail sales accelerated to 6.1% y/y (2.9% m/m after seasonal adjustment) from 3%. This is the second consecutive positive surprise, indicating that the consumer has started the current year strongly. Data for the first months of the year signal that the weakness in consumption in 4Q23 was only temporary, and support our view that private consumption will be the main engine of growth this year. At the same time industrial production accelerated to 3.3% y/y from an upwardly revised 2.5% in January. **In principle, the data for February support our view of GDP growth accelerating to 2.1% y/y in 1Q from 1% in 4Q23 and to 3% in 2024.**
- **We think the MPC is likely to keep interest rates unchanged until mid-2025.** The NBP governor did not react to the decline in inflation to the target, emphasizing the uncertainty about the inflation trends in the context of administrative decisions on energy prices, and also pointing to high real wage dynamics and loose fiscal policy.
- **The government deficit rose to 5.1% of GDP in 2023 from 3.8%, roughly in line with our call. We expect a further increase to 5.5% this year.** We hold the view that realization of VAT revenues will be key fiscal challenge this year, especially with lower than expected inflation.
- **We see room for a further gradual appreciation of the zloty towards 4.20 per euro**, supported by the inflow of EU funds, the not so dovish tone from the MPC and much later rate cuts than in the euro area. A large part of market participants may already be firmly positioned for a stronger zloty, and the downside constraint for EURPLN is the threshold rate for export profitability around 4.10.
- **The considerable steepening of the swap curve in recent weeks may be followed by its flattening**, and a longer trend of steepening of the swap curve will begin next year as the actual timing of the rate cut approaches. Although asset swap credit spreads have already fallen sharply, with negative net issuance of Treasury bonds in 2Q, we do not rule out further narrowing. **In our view, the room for further increase in swap rates and bond yields is limited and we expect rather their gradual decline in the coming months.**

Inflation measures, % y/y



Source: GUS, Santander

Recently released Economic Comments:

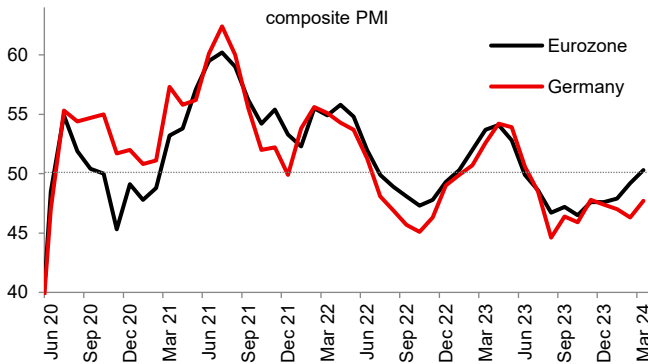
- [4Q: slower investment and decent margins](#)
- [No room for rate cuts](#)
- [Headline CPI at local bottom but MPC looks at core](#)
- [NBP governor's investigation 101](#)
- [Retail sales rebound gained momentum](#)
- [February numbers surprise to the upside](#)

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Economy in charts

We have tentative signs of European rebound...



Source: Bloomberg, Santander

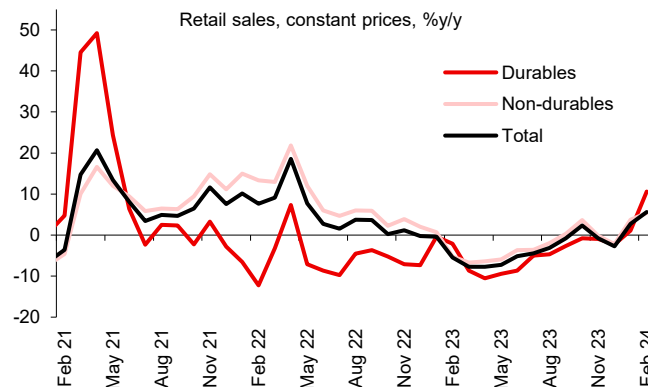
... and some Polish activity data managed to surprise upwards.

Real growth, %y/y	January expected	January outcome	February expected	February outcome
Industrial production	3.1	2.9	2.5	3.3
Construction production	5.5	-6.1	-0.8	-4.9
Retail sales	1.4	3.2	4.9	6.1

'expected' = Bloomberg median forecast
Outcomes: red = negative surprise, black = positive surprise

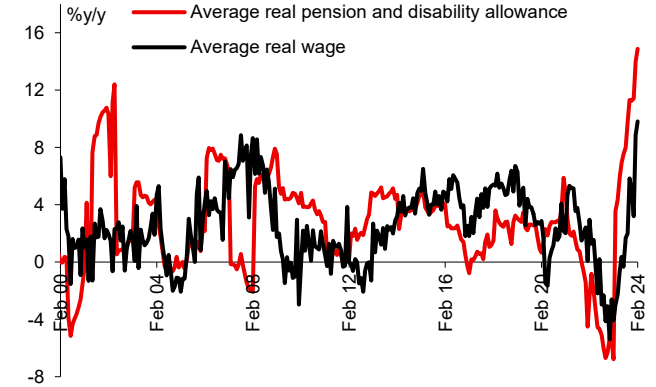
Source: GUS, Santander

We may finally be seeing the awakening of consumers...



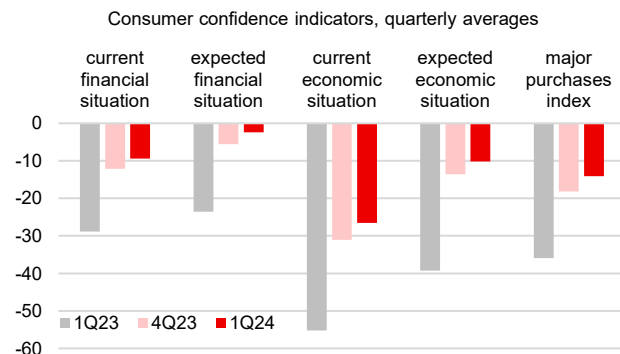
Source: GUS, Santander

...who enjoy the strongest rise of real wages since 1990s



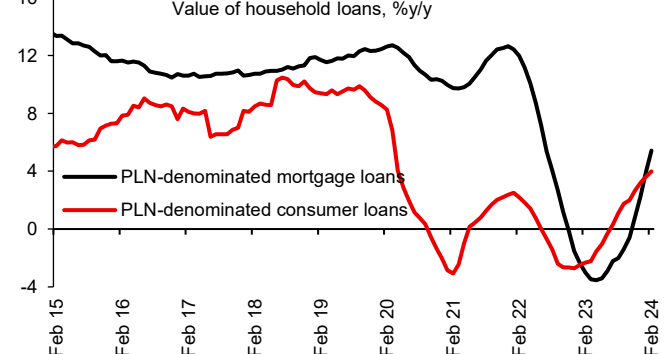
Source: GUS, Santander

...keep growing in optimism



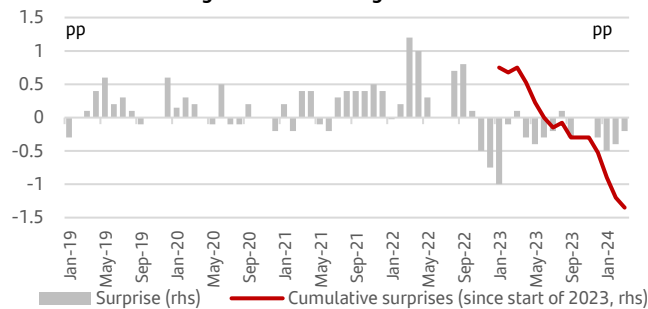
Source: GUS, Santander

...and keep applying for credit



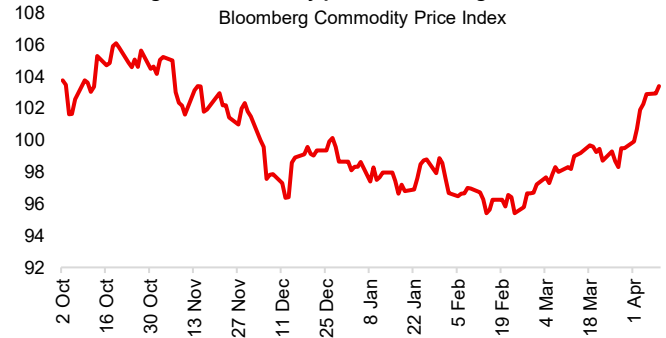
Source: NBP, Santander

Inflation still manages to surprise to the downside, but this may soon change as base effects get exhausted...



Source: Parkiet, Bloomberg, GUS, NBP, Santander

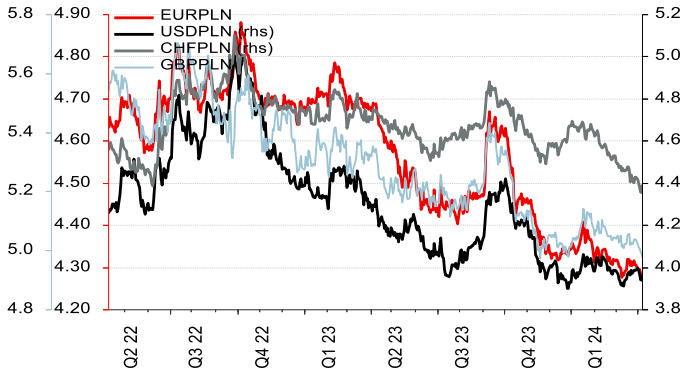
...and global commodity prices have changed course



Source: Bloomberg, Santander

Markets in charts

Zloty exchange rates



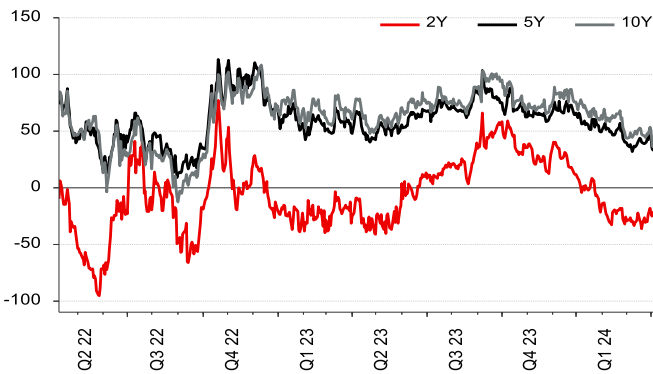
Source: LSEG Datastream, Santander

IRS (%)



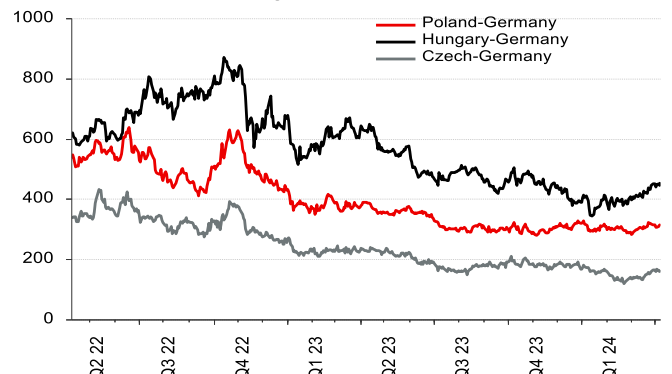
Source: LSEG Datastream, Santander

Poland asset swap spreads (bp)



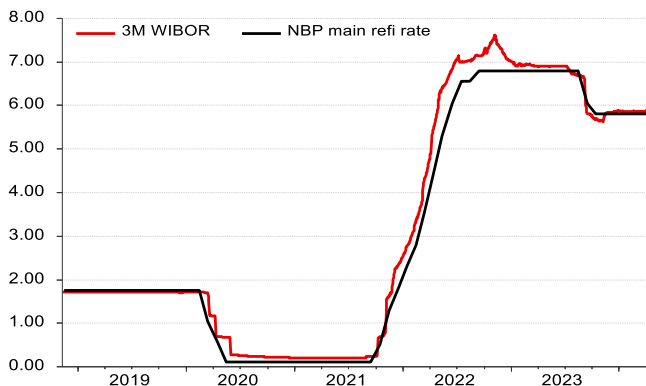
Source: LSEG Datastream, Santander

10Y bond yield spreads vs Bund



Source: LSEG Datastream, Santander

Interest rates



Source: LSEG Datastream, Santander

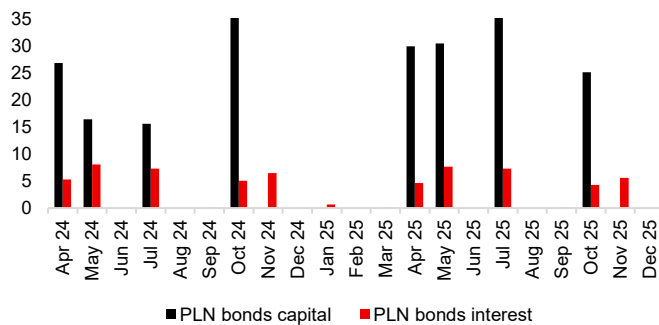
Polish bond yields (%)



Source: LSEG Datastream, Santander

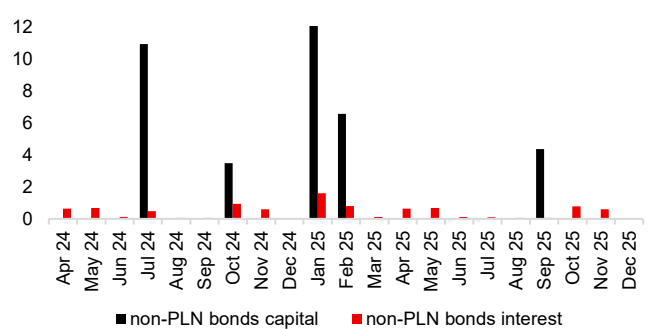
Principal and interest payments

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

Economic Calendar

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
1 April US: ISM manufacturing (Mar)	2 PL: Manufacturing PMI (Mar) DE: Manufacturing PMI (Mar) EZ: Manufacturing PMI (Mar) DE: HICP inflation (Mar) US: Factory orders (Feb) US: Durable goods orders (Feb)	3 CN: Caixin Manufacturing PMI (Mar) EZ: HICP inflation (Mar) EZ: Unemployment (Feb) US: ADP employment report (Mar) US: ISM services (Mar)	4 PL: MPC rate decision DE: Services PMI (Mar) EZ: Services PMI (Mar)	5 DE: Factory orders (Feb) HU: Industrial production (Dec) EZ: Retail sales (Feb) US: Non-farm payrolls (Mar) US: Unemployment (Mar)
8 PL: MPC Minutes DE: Balance of trade (Feb) DE: Industrial production (Feb) CZ: Industrial production (Feb)	9 No releases	10 CN: CPI inflation (Mar) HU: MNB Minutes US: CPI inflation (Mar) US: FOMC Minutes	11 CN: CPI inflation (Mar) CN: PPI inflation (Mar) HU: CPI inflation (Mar) EZ: ECB rate decision	12 PL: Balance of payments (Feb) DE: HICP inflation (Mar) HU: Michigan Index (Apr) CN: Balance of trade (Mar)
15 PL: CPI inflation (Mar) EZ: Industrial production (Feb) US: Retail sales (Mar)	16 PL: Core inflation (Mar) CN: GDP 1Q24 DE: ZEW (Apr) US: Industrial production (Mar) US: Building permits (Mar) US: Housing starts (Mar)	17 EZ: CPI inflation (Mar)	18 PL: Consumer sentiment (Apr) US: Existing home sales (Mar)	19 No releases
22 PL: Wages (Mar) PL: Employment (Mar) PL: PPI inflation (Mar) PL: Sold industrial output (Mar) PL: Construction output (Mar)	23 PL: Retail sales (Mar) PL: M3 money supply (Mar) DE: Manufacturing PMI (Apr) DE: Services PMI (Apr) EZ: Manufacturing PMI (Apr) EZ: Services PMI (Apr)	24 PL: Unemployment (Mar) DE: IFO (Feb) US: Durable goods orders (Mar)	25 US: GDP 1Q24 US: Pending home sales (Mar)	26 US: Personal income (Mar) US: Personal spending (Mar) US: Michigan Index (Apr)
29 EZ: ESI (Apr) EZ: HICP inflation (Apr)	30 PL: CPI inflation (Apr) CN: Caixin Manufacturing PMI (Apr) HU: GDP 1Q24 CZ: GDP 1Q24 DE: GDP 1Q24 EZ: GDP 1Q24 US: Conf. Board (Apr)	1 May US: ADP employment report (Apr) US: ISM manufacturing (Apr) US: FOMC rate decision	2 PL: Manufacturing PMI (Apr) DE: Manufacturing PMI (Apr) EA: Manufacturing PMI (Apr) US: Factory orders (Mar) US: Durable goods orders (Mar)	3 EZ: Unemployment (Mar) US: Non-farm payrolls (Apr) US: Unemployment (Apr) US: ISM services (Apr)

Source: GUS, NBP, Ministry of Finance, Bloomberg

Calendar of MPC meetings and data releases for 2024

	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
ECB decision			7	11		6	18		12	17		12
Fed decision	31		20		1	12	31		18		7	18
MPC decision	9	7	6	4	9	5	3	20	4	2	6	4
MPC minutes	11	9	8	8	13	7	5	22		4	8	6
Flash GDP*		14			15			14			14	
GDP*		29				3		29			28	
CPI	15	15	15	15	15	14	15	14	13	15	15	13
Core inflation	16		18	16	16	17	16					
PPI	19	20	20	22	22	20	18	21	19	21	25	19
Industrial output	22	20	20	22	22	20	18	21	19	21	25	19
Retail sales	22	22	21	23	23	24	22	22	23	22	26	20
Gross wages, employment	22	20	20	22	22	20	18	21	19	21	25	19
Foreign trade	17	15	14	15	15	14	15	14	13	14	15	13
Balance of payments*			29			28			30			30
Balance of payments	12	13	15	12	14	13	16					
Money supply	24	22	22	23	24	24	22	23	23	22	26	23

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

Economic data and forecasts for Poland

Monthly economic indicators

		Mar 23	Apr 23	May 22	Jun 23	Jul 23	Aug 23	Sep 23	Oct 23	Nov 23	Dec 23	Jan 24	Feb 24	Mar 24	Apr 24
PMI	pts	48.3	46.6	47.0	45.1	43.5	43.1	43.9	44.5	48.7	47.4	47.1	47.9	48.0	48.2
Industrial production	% y/y	-3.7	-6.4	-3.4	-1.6	-2.7	-2.2	-3.3	2.0	-0.3	-3.5	2.9	3.3	-1.0	8.4
Construction production	% y/y	-1.6	1.1	-0.6	1.6	1.1	3.5	11.5	9.8	3.9	14.0	-6.2	-4.9	-6.9	-1.5
Retail sales (current prices)	% y/y	-7.3	-7.3	-6.8	-4.7	-4.0	-2.7	-0.3	2.8	-0.3	-2.3	3.2	6.1	9.5	4.4
Unemployment rate	%	5.4	5.2	5.1	5.0	5.0	5.0	5.0	5.0	5.0	5.1	5.4	5.4	5.3	5.2
Gross wages in corporate sector	% y/y	12.6	12.1	12.2	11.9	10.4	11.9	10.3	12.8	11.8	9.6	12.8	12.9	11.9	11.6
Employment in corporate sector	% y/y	0.5	0.4	0.4	0.2	0.1	0.0	0.0	-0.1	-0.2	-0.1	-0.2	-0.2	-0.2	-0.5
Exports (€)	% y/y	16.1	2.0	4.6	4.3	0.2	-2.1	-4.0	2.1	-2.0	-6.2	-4.3	-1.5	0.4	7.4
Imports (€)	% y/y	3.0	-8.8	-4.2	-5.0	-6.4	-10.9	-13.8	-7.1	-7.2	-10.6	-5.0	-1.7	4.1	11.4
Trade balance	EUR mn	958	258	895	1,482	79	116	585	1,055	-13	-799	1,286	475	-161	-753
Current account balance	EUR mn	1,607	-2,248	-257	4,087	55	587	1,184	2,151	1,352	199	1,179	574	461	-3,346
Current account balance	% GDP	-0.8	-0.8	-0.7	-0.1	0.1	0.4	0.9	1.1	1.3	1.6	1.5	1.4	1.2	1.1
CPI	% y/y	16.1	14.7	13.0	11.5	10.8	10.1	8.2	6.6	6.6	6.2	3.7	2.8	1.9	2.5
CPI excluding food and energy	% y/y	12.3	12.2	11.5	11.1	10.6	10.0	8.4	8.0	7.3	6.9	6.2	5.4	4.6	4.3
PPI	% y/y	10.3	6.2	2.8	0.3	-2.1	-2.9	-2.7	-4.2	-5.1	-6.9	-10.6	-10.1	-9.5	-8.2
Broad money (M3)	% y/y	6.5	6.7	7.1	7.9	8.0	7.3	8.3	8.2	7.6	8.5	7.7	7.4	7.7	7.9
Deposits	% y/y	8.9	9.4	9.2	9.8	9.9	9.1	9.8	9.8	8.9	9.8	8.7	8.1	9.9	9.6
Loans	% y/y	0.4	-1.0	-0.8	-1.1	-1.8	-3.1	-1.7	-2.1	-1.6	0.0	0.1	-0.2	0.4	1.0
EUR/PLN	PLN	4.69	4.64	4.54	4.46	4.44	4.46	4.60	4.51	4.40	4.33	4.36	4.33	4.31	4.30
USD/PLN	PLN	4.38	4.23	4.18	4.12	4.02	4.09	4.30	4.27	4.07	3.97	4.00	4.01	3.96	3.96
CHF/PLN	PLN	4.74	4.71	4.65	4.57	4.60	4.65	4.79	4.72	4.57	4.59	4.66	4.57	4.46	4.39
Reference rate *	%	6.75	6.75	6.75	6.75	6.75	6.75	6.00	5.75	5.75	5.75	5.75	5.75	5.75	5.75
3M WIBOR	%	6.92	6.90	6.90	6.90	6.81	6.69	5.99	5.68	5.76	5.86	5.87	5.86	5.86	5.86
Yield on 2-year T-bonds	%	6.12	6.13	5.93	5.93	5.51	5.40	5.03	5.23	5.32	5.10	5.00	5.00	5.14	5.14
Yield on 5-year T-bonds	%	6.11	6.07	5.90	5.79	5.41	5.39	5.23	5.44	5.33	5.00	5.07	5.20	5.29	5.32
Yield on 10-year T-bonds	%	6.17	6.09	5.94	5.94	5.57	5.61	5.70	5.86	5.57	5.24	5.28	5.37	5.42	5.45

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	3,396.3	3,660.4	799.9	816.7	845.4	934.2	832.6	863.3	931.0	1,002.2
GDP	% y/y	6.9	5.3	0.2	3.0	-0.3	-0.6	0.5	1.0	2.1	3.1	3.3	3.6
Domestic demand	% y/y	8.5	5.2	-3.7	4.2	-4.8	-2.9	-5.2	-2.3	1.5	2.6	5.6	6.5
Private consumption	% y/y	6.2	5.2	-1.0	3.6	-2.0	-2.8	0.8	-0.1	2.8	3.3	3.2	5.1
Fixed investments	% y/y	1.2	4.9	8.4	4.2	6.8	10.5	7.2	8.7	6.0	3.5	4.0	4.0
Industrial production	% y/y	14.5	10.4	-2.1	3.6	-0.9	-3.3	-2.5	-0.7	1.6	4.6	4.3	3.8
Construction production	% y/y	1.6	7.6	4.8	2.8	1.9	0.6	5.4	9.5	-6.0	-1.2	5.6	8.4
Retail sales (constant prices)	% y/y	7.4	5.5	-3.6	5.6	-5.3	-6.8	-2.6	0.1	6.1	5.2	4.5	6.0
Unemployment rate *	%	5.8	5.2	5.1	4.9	5.4	5.0	5.0	5.1	5.3	4.9	4.9	4.9
Gross wages in the national economy	% y/y	8.9	12.1	12.8	12.3	14.3	13.8	11.0	12.0	12.6	12.2	12.1	12.3
Employment in the national economy	% y/y	0.6	2.0	0.5	-0.2	1.0	0.8	0.4	-0.2	-0.2	-0.5	-0.2	0.0
Exports (€)	% y/y	19.5	22.2	3.8	3.8	16.6	3.3	-2.1	-1.8	-1.7	4.0	5.8	7.4
Imports (€)	% y/y	27.0	27.7	-5.3	7.1	3.7	-6.8	-11.4	-8.2	-0.7	8.5	9.9	11.1
Trade balance	EUR mn	-7,682	-24,274	6,199	-4,498	3,060	3,057	1,455	283	1,600	-937	-2,366	-2,796
Current account balance	EUR mn	-7,398	-15,716	11,771	1,381	5,089	1,600	1,902	3,741	2,215	-1,877	-766	1,810
Current account balance	% GDP	-1.3	-2.4	1.6	0.2	-0.7	0.0	1.0	1.6	1.2	0.8	0.4	0.2
General government balance	% GDP	-1.8	-3.8	-5.1	-5.5	-	-	-	-	-	-	-	-
CPI	% y/y	5.1	14.4	11.4	3.7	17.0	13.1	9.7	6.4	2.8	2.8	4.3	5.0
CPI *	% y/y	8.6	16.6	6.2	5.2	16.1	11.5	8.2	6.2	1.9	3.0	4.9	5.2
CPI excluding food and energy	% y/y	4.1	9.1	10.2	4.7	12.0	11.6	9.7	7.4	5.4	4.2	4.5	4.9
PPI	% y/y	7.9	22.4	2.8	-5.8	16.2	3.1	-2.6	-5.2	-10.1	-7.1	-4.7	-1.4
Broad money (M3) *	% y/y	8.9	5.4	8.5	7.9	6.5	7.9	8.3	8.5	7.7	8.3	6.1	7.9
Deposits *	% y/y	8.8	5.8	9.8	8.1	8.9	9.8	9.8	9.8	9.9	9.7	7.3	8.1
Loans *	% y/y	5.1	1.4	0.0	4.9	0.4	-1.1	-1.7	0.0	0.4	1.0	2.3	4.9
EUR/PLN	PLN	4.57	4.69	4.54	4.28	4.71	4.55	4.50	4.42	4.33	4.26	4.23	4.30
USD/PLN	PLN	3.86	4.46	4.20	3.84	4.39	4.18	4.13	4.10	3.99	3.87	3.74	3.75
CHF/PLN	PLN	4.22	4.67	4.68	4.27	4.75	4.65	4.68	4.63	4.57	4.27	4.12	4.13
Reference rate *	%	1.75	6.75	5.75	5.75	6.75	6.75	6.00	5.75	5.75	5.75	5.75	5.75
3M WIBOR	%	0.54	6.02	6.52	5.85	6.93	6.90	6.50	5.77	5.86	5.85	5.85	5.85
Yield on 2-year T-bonds	%	0.79	6.35	5.67	4.92	6.16	6.00	5.31	5.22	5.05	5.06	4.85	4.73
Yield on 5-year T-bonds	%	1.39	6.36	5.66	5.15	6.11	5.92	5.34	5.26	5.19	5.27	5.13	5.01
Yield on 10-year T-bonds	%	1.97	6.10	5.83	5.24	6.16	5.99	5.63	5.56	5.36	5.38	5.14	5.08

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

This analysis is based on information available until 09.04.2024 has been prepared by:

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