

16 April 2019

# Eyeopener

## Cheaper version of the fiscal stimulus

Calm start of the week abroad

Polish bonds gained due to government plans concerning OFE

Zloty gained, EURUSD stable

Today core inflation in Poland, German ZEW

The start of the week on the global markets was calm. Bond yields were stable and stock indices moved around the Friday close. Without any major publications the fx market was also quite stable. Today German ZEW index will be published – the first piece of news from the European economy for 2Q. So far the current assessment component of the index was following the descent of manufacturing PMIs while the expectations component gives hopes for an improvement within several months.

**Polish government proposed changes to the pension system**, to be implemented in January 2020. By default, the money from Open Pension Funds (OFE) will be transferred to individual pension accounts (IKE), i.e. private accounts, with a 15% 'transformation fee'. However these funds will not be charged with income tax once people reach the retirement age. The fee will be collected in two years. The transfer to IKE will be the default option. Alternatively, taxpayers can ask for a transfer of OFE funds to the first pillar, to the Social Security Fund (FUS), without the 15% haircut. The fee, which could amount up to PLN24bn (if everyone chooses IKE, as OFE assets are cPLN160bn), would increase the public sector revenues and will be paid in two equal tranches – in 2020 and in 2021. So this would most likely mean correspondingly lower fiscal deficit and lower bond supply. Another benefit for the public sector is no more flow of contributions to OFE, improving the cashflow of FUS (c.PLN3bn per year). Yesterday the domestic bond market welcomed the government announcement, although gains were mostly seen on the short end. We estimate that OFE cash and assets in the form foreign equities and corporate bonds (cPLN24bn in total) will be liquidated and converted to government bonds (no matter if people choose IKE or FUS). We think that out of this amount, 2/3 could be converted within the next 12 months. In our view, money obtained from the fee will increase the fiscal space provided by the spending rule, which decreases the risk that the financing the fiscal package will require a modification of the rule.

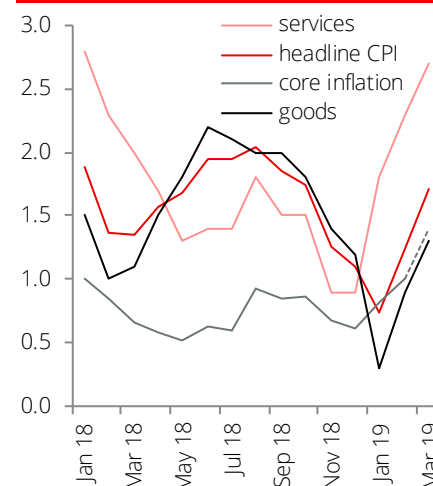
The Ministry of Finance revealed some **details about the "5 PiS" fiscal package** announced in late February. The costs of some proposals are lower than our estimates, but this is due to modifications to the original proposals. The zero PIT rate for the young (under 26) will only cover income up to cPLN43k. Instead of replacing the 18% PIT rate with a 17% rate, the package introduces another PIT bracket, 17% up to PLN42,764, then an 18% rate until reaching PLN85,528 (the current income threshold). As a result, the Ministry's cost estimates for the two measures are significantly below our calculations: zero PIT for the young is expected to cost PLN1.7bn per annum - we had thought the annual cost would be PLN2.5bn; introduction of a 17% PIT rate would cost PLN5.3bn (vs. our estimate of PLN8bn), and a more than twofold rise of PIT tax-deductible costs would cost PLN3.4bn (vs. our estimate of PLN3.5bn) in 2020. In total this means that the tax changes proposed in the fiscal package could cost PLN10.4bn (0.45% of GDP) instead of PLN14bn (0.6% of GDP). This, together with the pension system changes, reduces the risk of the general government deficit breaching the EU's 3%-of-GDP threshold in 2020.

**The final March CPI inflation reading** was in line with the flash estimate, 1.7% y/y, up from 1.2%. Our estimate of core CPI growth moved from 1.3% y/y closer to 1.4% y/y (NBP calculations to be released today at 1400CET), a solid rise from February's 1% y/y. Goods prices inflation accelerated to 1.3% y/y from 0.9% y/y, while services inflation rose to 2.7% y/y from 2.3% - the highest since January 2018. We forecast a further rise in inflation this year, with headline CPI growth approaching the 2.5% NBP target and core CPI possibly reaching slightly above that in December.

Yesterday **EURUSD** was relatively stable hovering slightly above 1.13, amid lack of important data publications. Today ZEW index will be released. Recently the market was influenced by positive data from China and the euro zone, so if today's number disappoints, then EURUSD is likely to fall. **EURPLN** continued to fall after the Friday downward impulse and reached 4.27, its lowest since February. The zloty gained also vs the dollar – USDPLN was testing 3.775 again. Today, the ZEW release could have a key impact on the EURPLN if it triggers a noticeable EURUSD move. Stronger dollar could weigh on the zloty.

**The domestic curve** steepened after the yields decreases in the 2-5Y segment (stronger in the front end) as a reaction to the information about government plan to shift OFE assets to private investment funds. IRS rates rose by 1-2 bp.

Inflation measures, % y/y



Source: GUS, Santander

### Economic Analysis Department:

al. Jana Pawła II 17, 00-854 Warszawa  
 email: ekonomia@santander.pl  
 website: skarb.santander.pl  
**Piotr Bielski** +48 22 534 18 87  
**Marcin Łuziński** +48 22 534 18 85  
**Grzegorz Ogonek** +48 22 534 19 23  
**Konrad Soszyński** +48 22 534 18 86  
**Marcin Sulewski, CFA** +48 22 534 18 84

## FX market

### Today's opening

EURPLN	4.2750	CZKPLN	0.1667
USDPLN	3.7818	HUFPLN*	1.3360
EURUSD	1.1304	RUBPLN	0.0588
CHFPLN	3.7673	NOKPLN	0.4454
GBPPLN	4.9518	DKKPLN	0.5729
USDCNY	6.7093	SEKPLN	0.4080

\*for 100HUF

### Last session in the FX market 15/04/2019

	min	max	open	close	fixing
EURPLN	4.272	4.284	4.279	4.273	4.277
USDPLN	3.776	3.798	3.787	3.779	3.7789
EURUSD	1.130	1.132	1.131	1.131	-

## Interest rate market

15/04/2019

### T-bonds on the interbank market\*\*

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
PS0421 (2L)	1.60	-5	21 mar 19	OK0521	1.633
PS0424 (5L)	2.20	-2	21 mar 19	PS0424	2.209
DS1029 (10L)	2.88	-2	21 mar 19	DS1029	2.877

### IRS on the interbank market\*\*

Term	PL	US	EZ
	%	%	%
	Change (bps)	Change (bps)	Change (bps)
1L	1.74	0	-0.23
2L	1.82	0	-0.20
3L	1.88	2	-0.13
4L	1.97	1	-0.04
5L	2.05	2	0.06
8L	2.27	3	0.36
10L	2.39	4	0.55

### WIBOR rates

Term	%	Change (bps)
O/N	1.68	13
T/N	1.68	13
SW	1.59	4
2W	1.58	0
1M	1.64	0
3M	1.72	0
6M	1.79	0
9M	1.81	0
1Y	1.87	0

### FRA rates on the interbank market\*\*

Term	%	Change (bps)
1x4	1.72	0
3x6	1.72	0
6x9	1.73	0
9x12	1.73	0
3x9	1.79	0
6x12	1.79	0

### Measures of fiscal risk

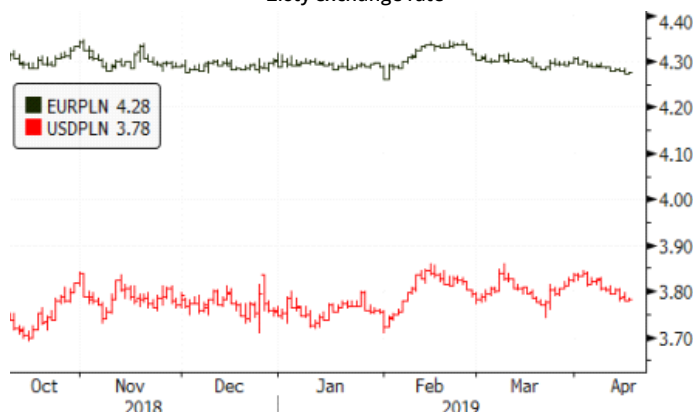
Country	CDS 5Y USD Level	Change (bps)	10Y spread* Level	Change (bps)
Poland			2.82	-2
France	29	-1	0.36	-1
Hungary			3.19	2
Spain	57	1	1.02	0
Italy	187	-1	2.51	-1
Portugal	66	-1	1.13	0
Ireland	28	3	0.53	-1
Germany	11	1	-	-

\* 10Y treasury bonds over 10Y Bunds

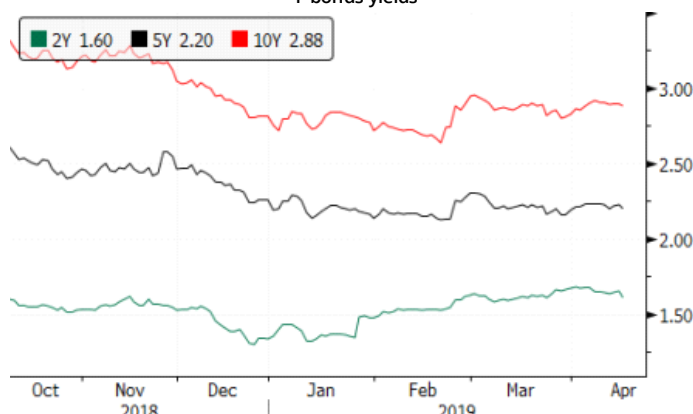
\*\*Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

### Zloty exchange rate



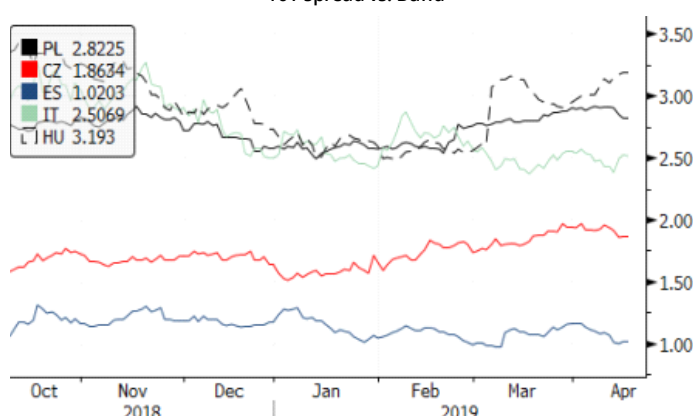
### T-bonds yields



### 3M money market rates



### 10Y spread vs. Bund



## Economic Calendar

Economic Calendar					FORECAST		ACTUAL	LAST
TIME	COUNTRY	INDICATOR	PERIOD		MARKET	SANTANDER	VALUE	VALUE*
CET								
FRIDAY (12 April)								
11:00	EZ	Industrial Production SA	Feb	% m/m	-0.5	-	-0.2	1.9
14:00	PL	Current Account Balance	Feb	€mn	-400	-597	-1 386	1 825
14:00	PL	Trade Balance	Feb	€mn	-262	-506	-1 327	290
14:00	PL	Exports	Feb	€mn	17 963	-	18 324	18 445
14:00	PL	Imports	Feb	€mn	18 133	-	19 651	18 735
16:00	US	Michigan index	Apr	pts	98.2	-	96.9	98.4
MONDAY (15 April)								
10:00	PL	CPI	Mar	% y/y	1.7	1.7	1.7	1.7
TUESDAY (16 April)								
11:00	DE	ZEW Survey Current Situation	Apr	pts	8.5	-		11.1
14:00	PL	CPI Core	Mar	% y/y	1.3	1.4**		1.0
15:15	US	Industrial Production	Mar	% m/m	0.2	-		0.04
WEDNESDAY (17 April)								
10:00	PL	Employment in corporate sector	Mar	% y/y	2.9	2.9		2.9
10:00	PL	Average Gross Wages	Mar	% y/y	7.3	7.4		7.6
11:00	EZ	HICP	Mar	% y/y	1.4	-		1.4
THURSDAY (18 April)								
09:30	DE	Flash Germany Manufacturing PMI	Apr	pts	45.0	-		44.1
09:30	DE	Flash Markit Germany Services PMI	Apr	pts	55.0	-		55.4
10:00	EZ	Flash Eurozone Manufacturing PMI	Apr	pts	47.8	-		47.5
10:00	EZ	Flash Eurozone Services PMI	Apr	pts	53.05	-		53.3
10:00	PL	Sold Industrial Output	Mar	% y/y	4.3	4.1		6.9
10:00	PL	PPI	Mar	% y/y	2.6	2.4		2.9
14:30	US	Initial Jobless Claims	week	k	210.0	-		196.0
14:30	US	Retail Sales Advance	Mar	% m/m	0.8	-		-0.2
14:30	US	Index Philly Fed	Apr	pts	11.0	-		13.7
FRIDAY (19 April)								
14:30	US	Housing Starts	Mar	% m/m	5.85		-	-8.7

Source: Santander Bank Polska, Bloomberg, Parkiet

\* in case of the revision the data is updated

\*\* estimate after inflation data

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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.