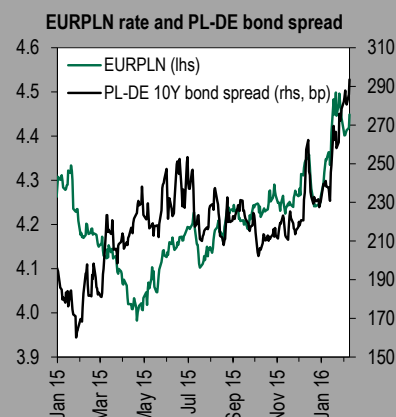
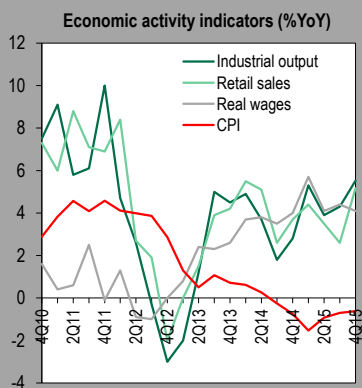


# MACROscope

Polish Economy and Financial Markets

February 2016

## Will Poland's MPC join the easing party?



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■ The global market turmoil that hit at the beginning of the year has continued, fuelled by concern not only about emerging markets and the state of the global economy, but also about the shape of the financial industry. Against this shaky backdrop, central banks have moved centre stage to provide real or potential stability. We have seen a dovish rhetoric from the ECB, monetary policy easing by the Bank of Japan and a significant adjustment in expectations as regards the Federal Reserve's actions (no hike expected in March and only a moderate chance of a move in 2016 as a whole). In this global context, local Polish factors continue to add uncertainty rather than diminish it, although the new government has made only limited progress since our previous report (continuing work on child benefits, still uncertain shape of the planned retail tax).

■ The zloty partly recovered from its poor start to the year, with EUR/PLN falling temporarily to 4.37. This was mostly due to dovish signals from global central banks. However, the respite proved only temporary, as another burst of global risk-off sentiment sent the Polish currency back above 4.40 against the euro and left it underperforming Central and Eastern European peers. This was accompanied by a widening of the yield spread vs. Bunds and of the asset swap spread, suggesting a higher risk premium. With their slightly higher yield, Polish long-term Treasuries drew strong demand from both foreign and national investors at February's auction.

■ Global market uncertainty affecting the zloty, together with some local risks and looser fiscal policy, should be solid arguments for the new Monetary Policy Council (MPC) to keep rates on hold. However, the inflation outlook has recently changed substantially and deflation is now likely to last much longer than previously predicted. This will be reflected in the central bank's inflation projection, due ahead of the next MPC meeting in March. New council members are proving not to be excessively dovish, which points to a continuation of monetary policy. That said, they have acknowledged the importance of the NBP's projection. Interestingly, the date of the March MPC meeting has been changed to after the ECB meeting, not before. A significant signal by the ECB might have impact on the MPC, although we think the Polish rate-setting panel needs to balance arguments a bit differently (especially given local risk factors).

■ One of the concerns affecting Polish assets is the impact on the banking system of suggested ways to fix the problem of CHF-denominated loans. In March the Financial Supervision Authority (FSA) is expected to provide estimates of bank losses if these FX mortgages are converted as proposed by President Duda. The latest **NBP report** showed the proposal's direct cost to the banking sector would be PLN44bn, which could threaten the sector's stability. The FSA will probably confirm these estimates, which would be a strong argument to overhaul the bill significantly.

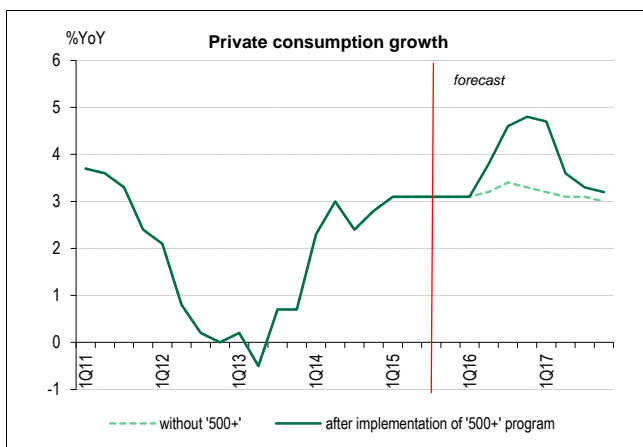
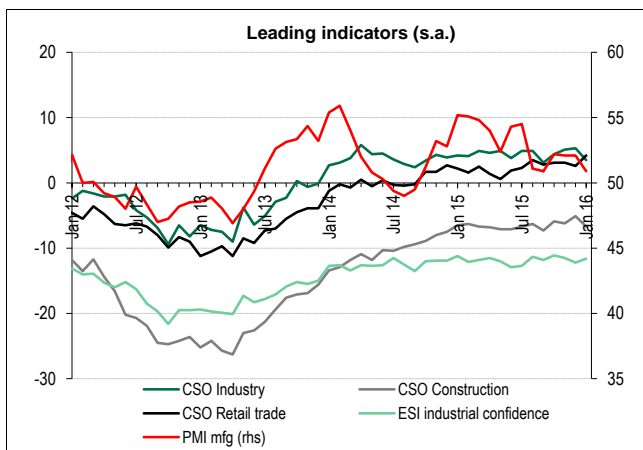
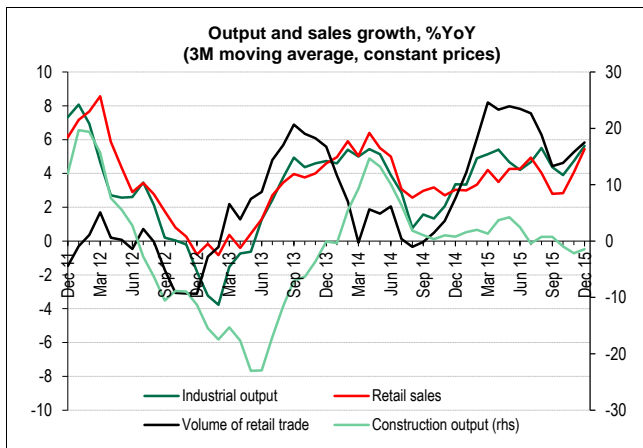
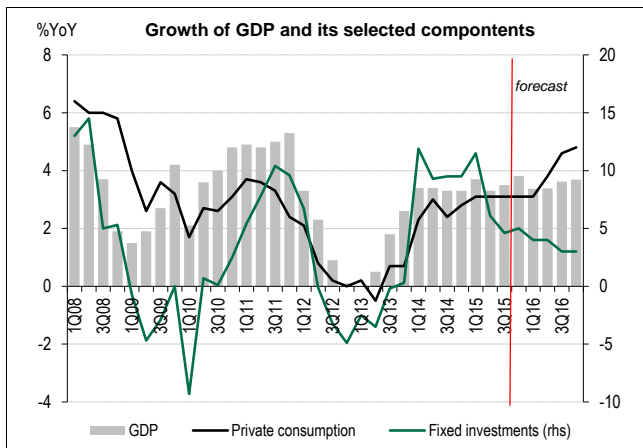
### Financial market on February 10 2016:

NBP deposit rate	0.50	WIBOR 3M	1.69	EURPLN	4.4366
NBP reference rate	1.50	Yield on 2-year T-bond	1.47	USDPLN	3.9383
NBP lombard rate	2.50	Yield on 5-year T-bond	2.32	CHFPLN	4.0445

This report is based on information available until 10.02.2016.

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## Economic update



Source: CSO, NBP, Markit, European Commission, BZ WBK.

### Summing up 2015

According to the statistics office's flash estimates, GDP grew 3.6% in 2015 vs. 3.3% in 2014. Private consumption grew 3.1% YoY and investment rose 6.1%. Total domestic demand expanded 3.4% in 2015. Net exports contributed 0.3pp to annual GDP growth.

These data imply that GDP growth accelerated in 4Q15 to c.3.8% YoY versus 3.5% YoY in 3Q15. We think this was mostly due to higher growth in fixed investments. However, the margin for error is quite large and the actual figure may be in the 3.7%-4.0% range.

Industrial production grew 6.7% YoY in December. According to the statistics office, excluding seasonal factors, production grew 4% YoY (the lowest since August). In general, we think that the December data confirm the strong performance of Polish industry, which is fuelled by growing external demand. In 4Q15 industrial output expanded by 6.0%YoY, making this the best quarter of the year (the annual figure was 4.9%YoY).

December retail sales were also strong and surprised on the upside with real growth of 7% YoY (the highest since April 2014). High growth was recorded in automobiles, furniture and household appliances, clothing, books and press. The revival in consumer demand is supported by positive trends in the labour market. We expect consumption to perform well in the months to come. As was the case with industrial output, 4Q was the best quarter for retail sales as they rose 4.4% YoY in real terms vs. an average 3.7% in 2015.

Construction output was disappointing in December, with a fall of 0.3% YoY, even despite a positive working-day effect and favourable weather. This could stem from weaker dynamics in infrastructure investment. 4Q construction output shrank by 1.5% YoY to log its worst quarter of 2015 (average growth was 0.3% YoY).

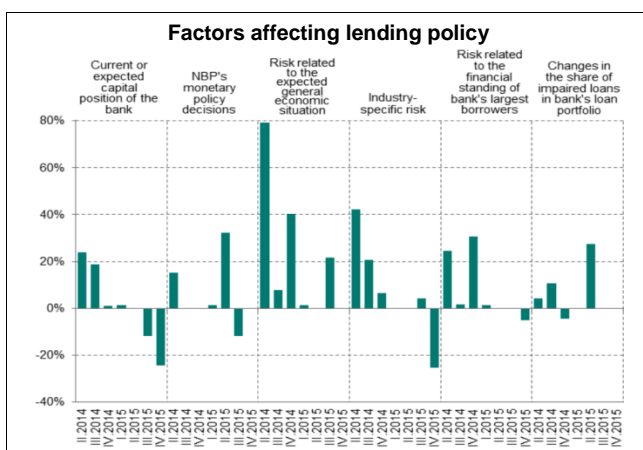
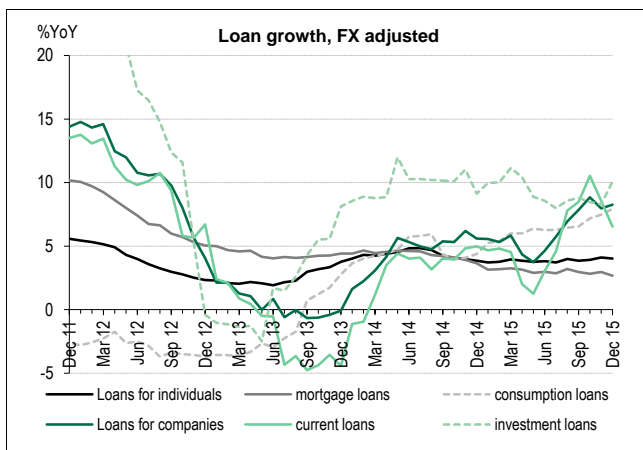
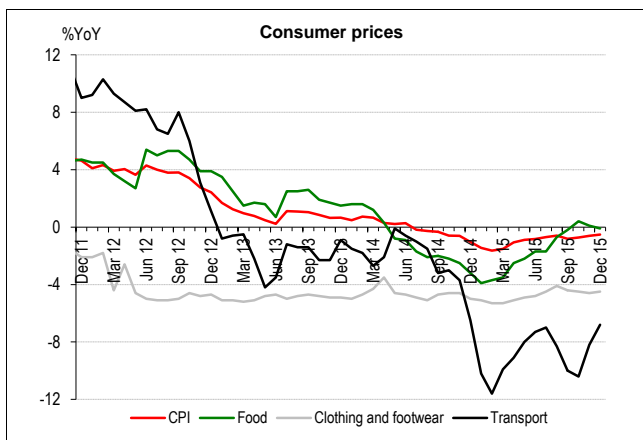
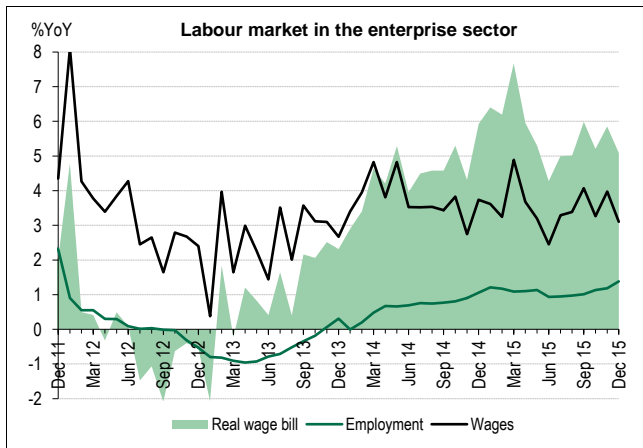
### First signals in 2016

Signals from industry and retail sales suggest that these sectors were robust and accelerating at the end of 2015 and the trend may continue into 2016. However, the main business climate indices fell at the start of the year (the PMI is at its lowest level in 16 months and only slightly above 50). In our view, this may be due to higher uncertainty about the regulatory and political environment.

We have not changed our general assessment of the outlook for the Polish economy. We expect GDP growth to stabilise at around 3.5% in 2016. The three main drivers of growth (consumption, investments, exports) should continue to expand, although the structure may change. We see upside potential for consumption demand (thanks to subsidies for families with children, among other things) and downside risk for investments and exports (the weaker outlook for the global economy and political uncertainty may cool economic sentiment and public investment may be lower).

Payments from the '500+' child benefit programme will equal PLN17bn in 2016, according to the government. Based on estimated transfers to various types of households and their propensity to spend, we think that the maximum effect on private consumption could be PLN14bn (adding 1.3 percentage points to the consumption growth rate in 2016). However, in our base-case scenario we adopt more cautious assumption, adding PLN8.5bn to private consumption demand. We assume that some of the new consumption will be of imported goods (historical import intensity is 40%-50%), so the final direct impact on 2016 GDP growth could be 0.3 percentage point. A further 0.1 point should be added in 2017E, when the programme has a full impact.

## Economic update



Source: CSO, NBP, BZ WBK.

**2016 should be positive for the labour market**

- 2015 was very good for the labour market, with all major gauges telling the same story. Employment in the corporate sector increased by 1.3% YoY, while LFS-based employment rose by 1.2% YoY. The registered unemployment rate fell 1.6pp and the LFS rate by 1.1pp (Dec vs. Dec). Registered unemployment was 10.3% in January 2016, the lowest reading for that month since 1991. We expect demand for labour and employment trends to remain strong in the near future, but to decelerate in a couple of quarters' time as the supply of labour dries up.

- Wage growth remained moderate at 3.5% YoY, held back, we think, by a strong inflow of immigrants (mostly from Ukraine). Real wage growth was 4.5% YoY, thanks to deflation. We expect wage growth to accelerate in 2016 due to a fall in the supply of both Polish and immigrant workers.

**Deflation until 3Q16E**

- The CPI fell back by 0.5% YoY in December. Such a low reading was due to food prices, which fell by 0.1% MoM, probably due to very low global food prices (this is not the typical seasonal pattern, as food prices usually go up in the winter). There was a strong drop in fuel prices (-2.6%MoM) and this trend will probably have continued and even deepened in January, as average fuel prices at the pump declined by 4%MoM in the month, according to our estimates. Clothing and footwear prices also fell (-1.0%MoM) due to the start of seasonal sales. Other categories were mostly stable.

- We expect the CPI to stay at very low in the months to come, due to fuel and food, among other things. We maintain our view that deflation could last until 3Q16.

**Loans growing steadily**

- Loans to companies (FX adjusted) rose 8.3% YoY in December 2015 vs. 5.6% YoY in December 2014. The acceleration in loan growth began in 2Q15, mainly thanks to the improving performance of real estate loans (6.6% YoY in Dec 2015 vs. 0.8% in Dec 2014) and, to a lesser extent, of current loans (6.5% YoY in Dec 2015 vs. 5.0% YoY a year earlier). Investment loans rose steadily throughout the year and to post 10% growth at year-end.

- Loans for households were more sluggish, up 4.0% YoY in December 2015 (vs. 4.2% YoY in Dec 2014). There was a slight acceleration in consumer loans (6.8% YoY at the end of 2015 versus 4.4% at the end of 2014), while mortgage loan growth slowed to 2.7% YoY from 3.8% YoY.

- A survey among senior loan officers showed that credit criteria for big companies tightened slightly in 4Q15 due to expected changes in bank capital requirements and industry-specific risk. Banks plan to further tighten criteria for loans to big firms in 1Q16. Criteria for lending to SMEs have not changed and demand for loans is expected to be fairly stable.

- As regards loans for households, banks significantly tightened lending criteria for mortgage loans (margins went up), due to regulatory issues and the uncertain economic outlook. Consumer loans were little changed, except for some rises in non-interest costs. Banks expect a further tightening of criteria for mortgage loans and a decline in demand, while they expect consumer loans to increase.

- Deposit growth was quite stable during 2015. Households' deposits rose by 9.7% YoY in December 2015 versus 10.1% YoY in December 2014. Corporate loans were up 8.1% YoY in December 2015 versus 7.4% YoY in December 2014.

## Monetary policy watch

### Excerpts from the MPC's official statement after February's meeting

Concerns have increased that economic growth in the emerging market economies might weaken further, which is a key downside risk to global economic conditions. In consequence, prices of many financial assets have declined in the global markets. This was accompanied by a weakening of emerging market currencies, including the zloty.

Prices of oil and other energy commodities remain low. In effect, inflation in many economies – including the euro area – stays close to zero. At the same time, in some advanced economies – including the United States – core inflation is markedly higher than headline consumer prices growth.

Against this background, the monetary policies in the United States and the euro area are diverging. The ECB continues its financial asset purchases and indicates that the scale of monetary expansion might be increased in the coming months. At the same time the Federal Reserve's interest rates are still expected to increase.

In Poland, preliminary estimate of national accounts for 2015 suggests that GDP growth likely increased in 2015 Q4. Domestic demand fuelled by stable consumption growth and rising investment, continues to be the key driver of economic growth. Growth is supported by favourable labour market conditions, positive consumer sentiment, sound financial standing of enterprises and high capacity utilisation.

As the output gap remains negative, and wage growth is only moderate, currently there are no inflationary pressure in the economy. The annual growth in both consumer and producer prices remains negative. Yet, the persistence of deflation results mainly from strong fall in global energy commodity prices in recent quarters. Inflationary expectations are still very low. However, the persisting deflation has not yet adversely affected decisions of economic agents.

In the Council's assessment, CPI inflation will remain negative in the coming months due to the depressed prices of global energy commodities. At the same time, a gradual increase in core inflation is expected and will be supported by economic growth amid improving economic activity in the euro area and favourable labour market conditions.

The Council decided to keep the NBP interest rates unchanged, assessing that – given the available data and forecasts – the current level of interest rates is conducive to keeping the Polish economy on a sustainable growth path and ensure macroeconomic balance.

A more comprehensive assessment of the outlook for price developments and economic growth in the coming quarters will be possible after the Council gets acquainted with the March projection of inflation and GDP.

### The MPC is still waiting . . . for the next projection?

- The Monetary Policy Council left interest rates unchanged at its February meeting, as expected. Although its official statement did not change much, the Council was less optimistic about a rise in the CPI in the coming months, suggesting a slightly more dovish tone. This will probably be reflected in the new inflation projection, which will be prepared soon by the central bank's analysts and will be available for the council at its next meeting.

- The council reiterated last month's statement that a deeper analysis of Poland's economic outlook will be possible in March after the release of the new NBP Inflation Report. NBP Governor Marek Belka told the press after the meeting that he did not see an increased chance of either a cut or a hike in rates. He said the external environment is uncertain, so it is better to wait than to expose the Polish economy to additional risks. However, Belka admitted he was wrong when he predicted that deflation would disappear soon. The NBP governor also said that the new banking tax will be included in the inflation report and that this may lead to decline in lending and lower investment. This is yet another reason for a careful reading of the new report, which will be published in full in mid-March.

- In our view, a downward revision of the inflation path by the central bank and an extended period of deflation might still favour a moderate monetary policy easing. We still see a chance of a 25bp rate cut in March (the market sees only 20% odds of a 25bp reduction) after the release of the NBP report and then stable rates at least until year end. As the March MPC meeting is scheduled after the ECB meeting, a decision to ease Euro zone monetary policy may be a strong argument for a similar move in Poland. Still, the recent increase in volatility in Polish financial markets (and the weaker zloty), whether driven by global (risk-off) or local (S&P downgrade) factors, is an important factor and could counter arguments in favour of a cut.

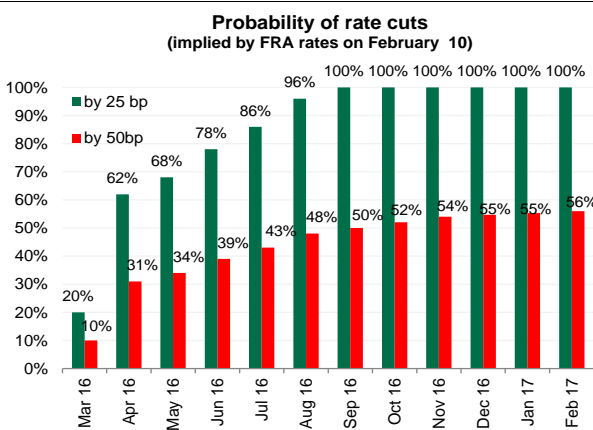
### New members should be in place before March meeting

- Three new MPC members – Marek Chrzanowski, Eugeniusz Gatnar and Jerzy Kropiwnicki (who were appointed by the Senate) – attended the meeting in February. Although they did not speak during the post-meeting conference, they have explained their views on monetary policy in media interviews. The other two new members – Grażyna Ancyparowicz and Eryk Łon (both appointed by the Sejm) – were not sworn in in time for the February meeting. The third Sejm nominee was expected to be appointed before the end of Anna Zielińska's term on February 9, but, surprisingly, PiS deputies decided to withdraw their support for Henryk Wronowicz. The new candidate will be most likely Jerzy Żyżyński (a PiS member of parliament).

- We have no news yet of the two new candidates to be appointed by President Duda (the deadline is February 19). All eight new members should be in place by the March meeting (which was rescheduled for March 11 instead of 9 because Belka was travelling). Accidentally or not, the change means it will happen after and not before the ECB meeting.

- Given the comments of new members (see table on the left), it is not surprising that, as Belka noted, the presence of three new members did not affect the consensus within the MPC.

- Chrzanowski, Gatnar and Kropiwnicki seem to agree that monetary policy in Poland should be managed as it was by the previous council (there is no reason to change the inflation target, rates are at an appropriate level). At the same time, they emphasised the importance of the central bank's new inflation projection as a driver of future decisions.



### Recent comments of new MPC members

**Marek Chrzanowski, Reuters, February 8:** The current level of interest rates supports the macroeconomic balance and stability of the Polish economy. Changing rates or the inflation target would negatively affect this balance. We should continue the current monetary policy.

**Eugeniusz Gatnar, Bloomberg, February 8:** A decision on changing the level of rates will depend on the inflation and GDP outlook published in March, as well as on how the economy reacts to the government's new economic policy. After all, the effects will be seen in only a few months. (...) The "supply-side nature" of Poland's long-lasting deflation means it isn't harming the economy, while indicators from retail sales to credit growth and manufacturing add to the evidence that the cost of money is appropriate. There is no need to use the central bank to "artificially boost" demand for lending.

**Jerzy Kropiwnicki, PAP, January 19:** In the near term I see no reason to change interest rates or the inflation target. (...) deflation trends in Poland may last longer, which is an important argument for monetary policy. On the other hand, GDP is relatively solid and stable (and does not require additional stimulus), while deflation is not a threat to economic activity.

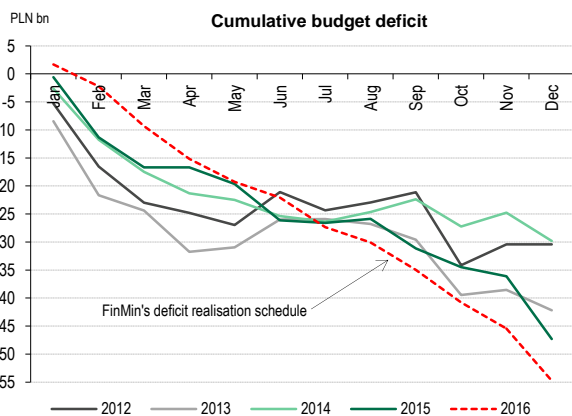
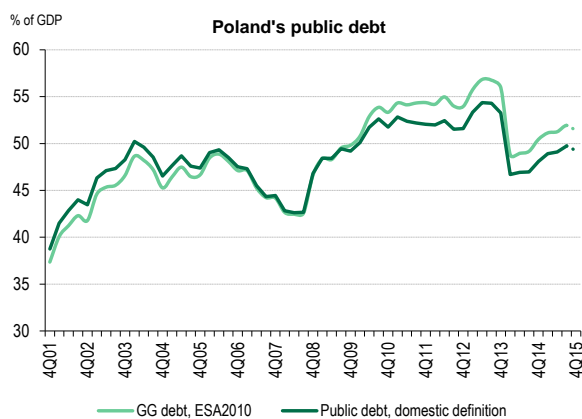
Sources: NBP, Reuters, Bloomberg, PAP, BZ WBK.

## Fiscal policy watch

### European Commission's forecasts for Poland

	2015	2016	2017
GDP growth <sup>(a)</sup>	3.5	3.5	3.5
Private consumption <sup>(a)</sup>	3.0	4.0	3.9
Gross fixed capital formation <sup>(a)</sup>	7.1	4.1	4.5
Unemployment rate <sup>(b)</sup>	7.5	7.0	6.5
HICP inflation <sup>(a)</sup>	-0.7	0.6	1.7
Current account balance <sup>(c)</sup>	-0.2	-0.7	-1.4
GG balance <sup>(c)</sup>	-3.0	-2.8	-3.4
Structural budget balance <sup>(c)</sup>	-2.7	-3.2	-3.4
GG debt <sup>(c)</sup>	51.4	52.5	53.5

(a) %YoY; (b) %, (c) % of GDP



	Spread vs. Bunds (10Y) in bp			CDS (5Y USD)		
	10.02	change since 15.01.16	change since 31.12.15	10.02	change since 15.01.16	change since 31.12.15
Poland	286	37	56	91	8	16
Czech	29	6	32	46	-4	-4
Hungary	334	45	55	164	-3	0
Greece	1091	267	320	1323	286	332
Spain	149	23	34	100	10	14
Ireland	79	14	26	48	10	11
Portugal	328	105	138	278	100	119
Italy	140	34	43	134	39	44
France	37	-2	2	35	11	12
Germany				19	7	7

Source: Ministry of Finance, Reuters, Eurostat, BZ WBK.

### EC forecasts a higher deficit despite strong economic growth

▪ The European Commission (EC) released the winter 2016 edition of its economic forecasts. It expects Poland's economic growth to remain robust and stable at 3.5% in both 2016 and 2017. Private consumption is predicted to be the dominant driver of economic growth, supported by further improvements in the labour market and by an increase in government transfers, notably new child benefits. The commission also expects moderate investment growth, although it sees a risk of investments slowing if the new tax on bank assets triggers an increase in bank lending rates.

▪ As regards the fiscal outlook, the EC expects the general government (GG) deficit to be 3.0% of GDP in 2015 (up from 2.8% in its autumn 2015 forecast) and 2.8% in 2016. For 2017 the Commission predicts a rise to 3.4% of GDP, even though its baseline scenario does not incorporate implementation of two government proposals: a higher tax-free threshold for personal income tax (PIT) and a lower retirement age. Implementation of those plans would worsen the fiscal outlook further.

▪ Poland's Finance Ministry stated that the government is committed to the 3% GDP threshold. It added that the EC estimates do not take into account planned actions intended to restore tax flows and make tax collection more effective. The ministry said it would provide more details of its plans in the next update of Poland's Convergence Programme in April.

### No serious threat to the 2016 budget

▪ We still lack official data about the budget deficit at the end of 2015 although the Finance Ministry said that, according to its flash estimates, the state budget gap has not exceeded PLN47bn. This means the actual deficit was probably only c.PLN1bn higher than the previous government's original draft and, as we said last month, the budget amendment introduced in December was not really necessary.

▪ According to the unofficial press leaks, budget revenues from VAT were pretty solid at the start of 2016. This could be the result of a revival in domestic demand (given that labour market data show positive trends continue). Later in the year, VAT revenues are likely to get an additional boost from higher consumer spending after the 500+ child benefit programme kicks in. On balance, we do not expect the 2016 budget deficit target to be under threat.

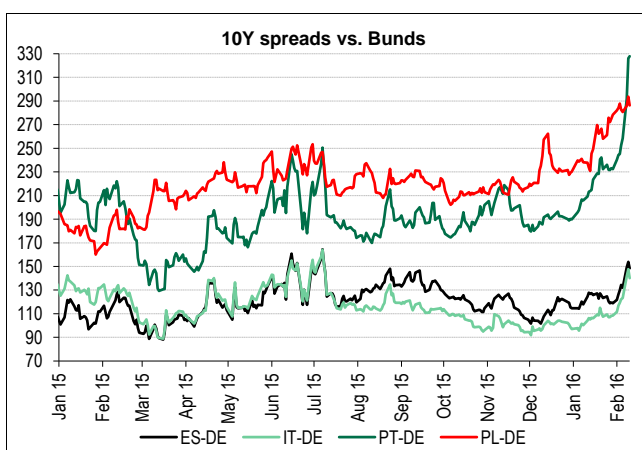
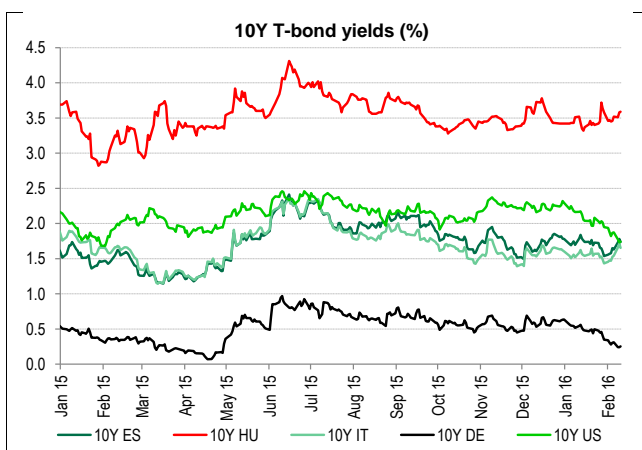
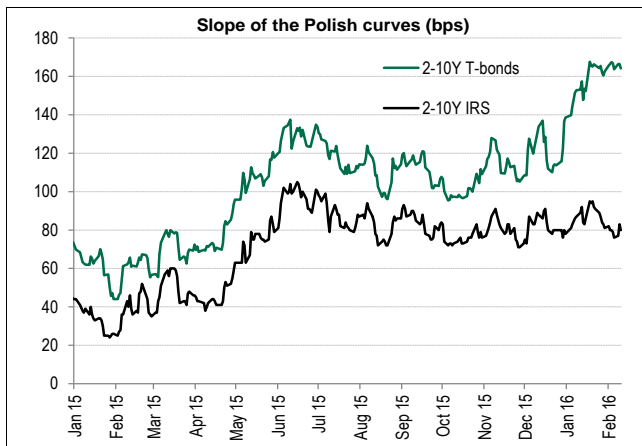
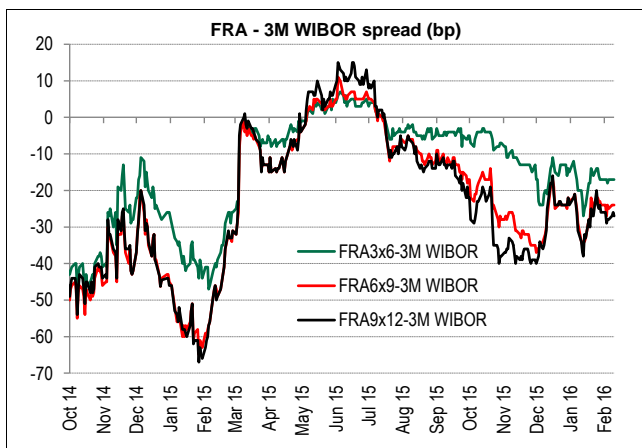
▪ Much more uncertain is the fiscal outlook for 2017, as one-off budget revenues (LTE auction revenue, high NBP profit) will disappear and the costs of the new government's proposals will be higher.

### Investors are still seeking safety

▪ Late January and early February brought in a risk-averse mood globally and capital shifted towards perceived safety, pushing the yield of 10Y Bunds to nearly 0.20% and yield of 10Y US Treasuries towards 1.70% for the first time since February 2015. Peripheral debt suffered from another wave of nerves and 10Y spreads over Bunds widened significantly, in particular for Greece and Portugal.

▪ The front end of the core debt curves is well anchored by dovish central banks and expectations of ECB action in March. While we think that the long end of core curves should move sideways (supported by investors' flight to safety), peripheral debt will be more vulnerable. However, we still believe that in the medium to long term further easing by the ECB and improving fundamentals should lead to spread tightening from current levels.

## Interest rate market



Source: Finance Ministry, Reuters, Bloomberg, BZ WBK.

### Global environment is supportive for bonds

- The ECB's dovish rhetoric, more monetary easing by the Bank of Japan and a less hawkish Fed underpinned Polish bonds in recent weeks, helping them recover all the losses of mid-January that followed the S&P downgrade. Another supporting factor was the bond auction, in which the 10Y benchmark (DS0726) yield fell below 3.10% (vs 3.14% before the S&P decision).

- On monthly basis, T-bonds underperformed IRS, which resulted in widening the asset swap spread (for the 10Y sector it rose above 80bp for the first time since January 2012). Yield curves flattened (in both IRS and bond markets), following trends in core markets. However, the risk premium for Polish debt rose significantly in early February as the spread over 10Y bunds widened to 290bp, the highest level since February 2014.

- In the money market, WIBORs declined by 2-6bp across the curve in monthly terms, while FRAs inched 7-22bp lower. Investors scaled back their expectations of quick and significant monetary easing in the early months of 2016 after comments from the new MPC members. Currently, the market is pricing in a 25bp rate cut on a six-month horizon and is no longer expecting a 50bp reduction.

### Ministry could cover 50% of borrowing needs by end March

- The Finance Ministry's issuance plan for February is moderate, based on T-bonds worth up to PLN14bn. At the first auction, it successfully launched 2Y OK1018 and 10Y DS0726 bonds. It issued debt worth PLN9.0bn in total (at both regular and top-up tenders, more than the upper band of the originally planned offer). Demand was solid at nearly PLN15bn at both auctions (including over PLN3bn at the top-up). Healthy demand for the 10Y benchmark confirms that the rating downgrade did not have a dramatic impact on non-residents' demand for Polish debt (although it did have an impact on pricing, as Polish bonds underperformed peers in the aftermath of the decision). We estimate that after the first February auction, this year's gross borrowing needs are c36% covered.

- The current market environment is still favourable for bonds. Therefore we think that achieving 50% of the 2016 gross borrowing needs at the end of 1Q16 is realistic.

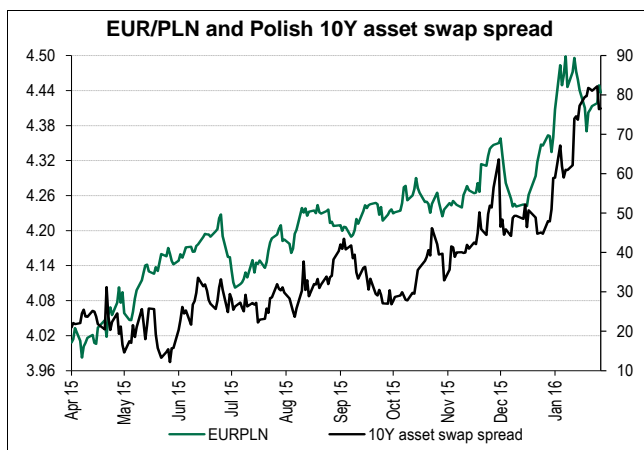
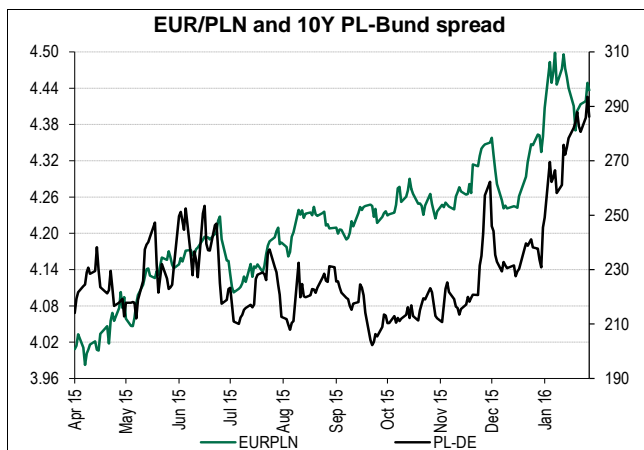
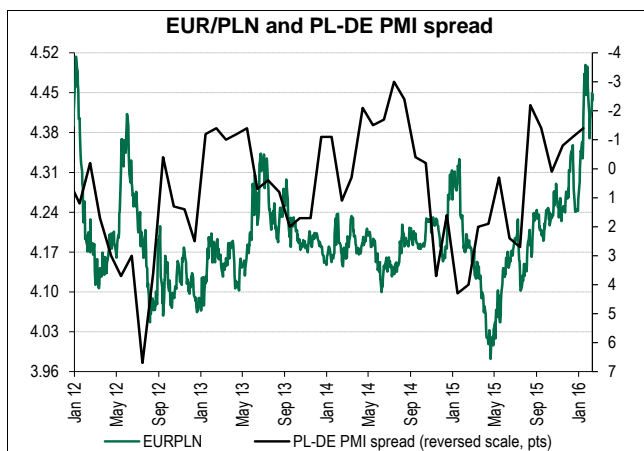
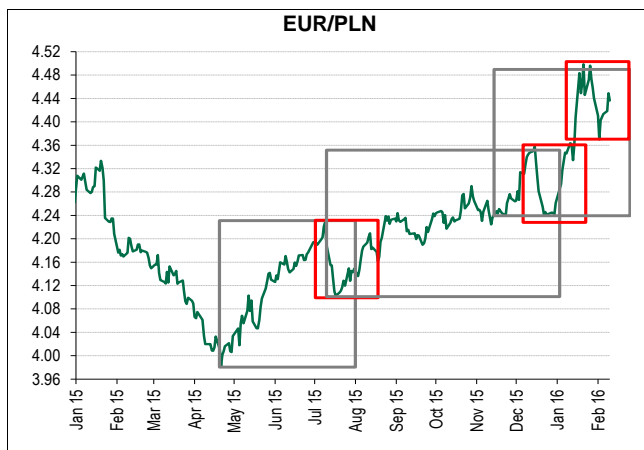
### Central banks still in the spotlight

- We still see a possibility of an NBP rate cut in March. However, the zloty's recent depreciation could undermine this. We think WIBOR rates are likely to remain more or less stable in the coming weeks.

- We still see some opportunity at the front end of the curves. In our view, the inflation outlook (prolonged deflation) and likely additional monetary easing should support a gradual downward trend. In addition, the gradual swap by commercial banks away from NBP bills and into T-bills, short-term fixed-rate T-bonds and/or floaters, which will not be taxed, should also favour the strengthening of the short end of the curve. There may be greater volatility at the end of the month due to the bank tax.

- The belly and long end of the curves will probably remain very vulnerable to outside factors. Global sentiment is still fragile and the pressure of higher domestic political risk remains. However, in the short term we see a gradual relief if market sentiment improves. In our view, relatively steep curves and a higher risk premium are still a valid scenario for the next weeks/months. In the medium term, we continue to see sustained pressure on medium- and longer-dated instruments, due to policy uncertainty and the risk of further country downgrades by other rating agencies.

## Foreign exchange market



Sources: Reuters, Bloomberg, Markit, BZ WBK.

### Zloty underperforms its peers

- The zloty recovered somewhat after a poor start to the year with EUR/PLN falling temporarily to 4.37 on the dovish signals from the ECB and more easing by the Bank of Japan. Interestingly, as the first chart shows, for the third time EUR/PLN did not manage to recover more than PLN0.14-0.15 or to stay lower for longer.

- Since the beginning of the year CEE currencies have been doing better than their LatAm peers, but the PLN has underperformed the HUF, CZK and RON. The zloty's depreciation is being accompanied by a rising spread vs. Bunds and a widening asset swap spread, suggesting that a higher risk premium is limiting the scope for it to appreciate during times of calmer global market sentiment. 10Y peripheral bond spreads vs. Bunds for have also widened since the beginning of the year, but on a smaller scale – 35bp for Spain, 45bp for Italy and 26bp for Ireland vs. 56bp for Poland. This suggests recent political issues and the S&P downgrade might have influenced investors' perception of Polish assets. We note that economic activity has also moved in opposite directions in Poland and Germany. Manufacturing PMIs have diverged and detailed data for Poland show that, while export orders are still strong, domestic demand has weakened. We think that a weakening of the business climate indicators for Poland should be temporary and both domestic demand and exports should be quite strong this year.

- There are a number of crucial domestic events on the agenda in the coming weeks. The MPC will announce its rates decision the day after the ECB decides whether to extend its monetary stimulus. Recent comments by the new council members make us less convinced that rates in Poland will fall next month, but if the ECB launches more measures in early March, the MPC could have an additional reason to cut, on top of prolonged deflation. In our view, the net effect of these two decisions could strengthen the zloty. The ECB strongly suggested last time that it would deliver more easing in March while the Polish MPC may not cut next month as there has not been any clear signal that it should or will.

- In March, the Financial Supervision Authority is expected to show its estimates for banks' losses if the FX mortgage conversion plan is implemented in its current shape. According to the NBP, the president's proposal could cost banks PLN44bn and would be a threat to the banking sector's stability. Concern about the banking system has been a factor driving EUR/PLN up in recent weeks and the mortgage announcement will be carefully watched by investors.

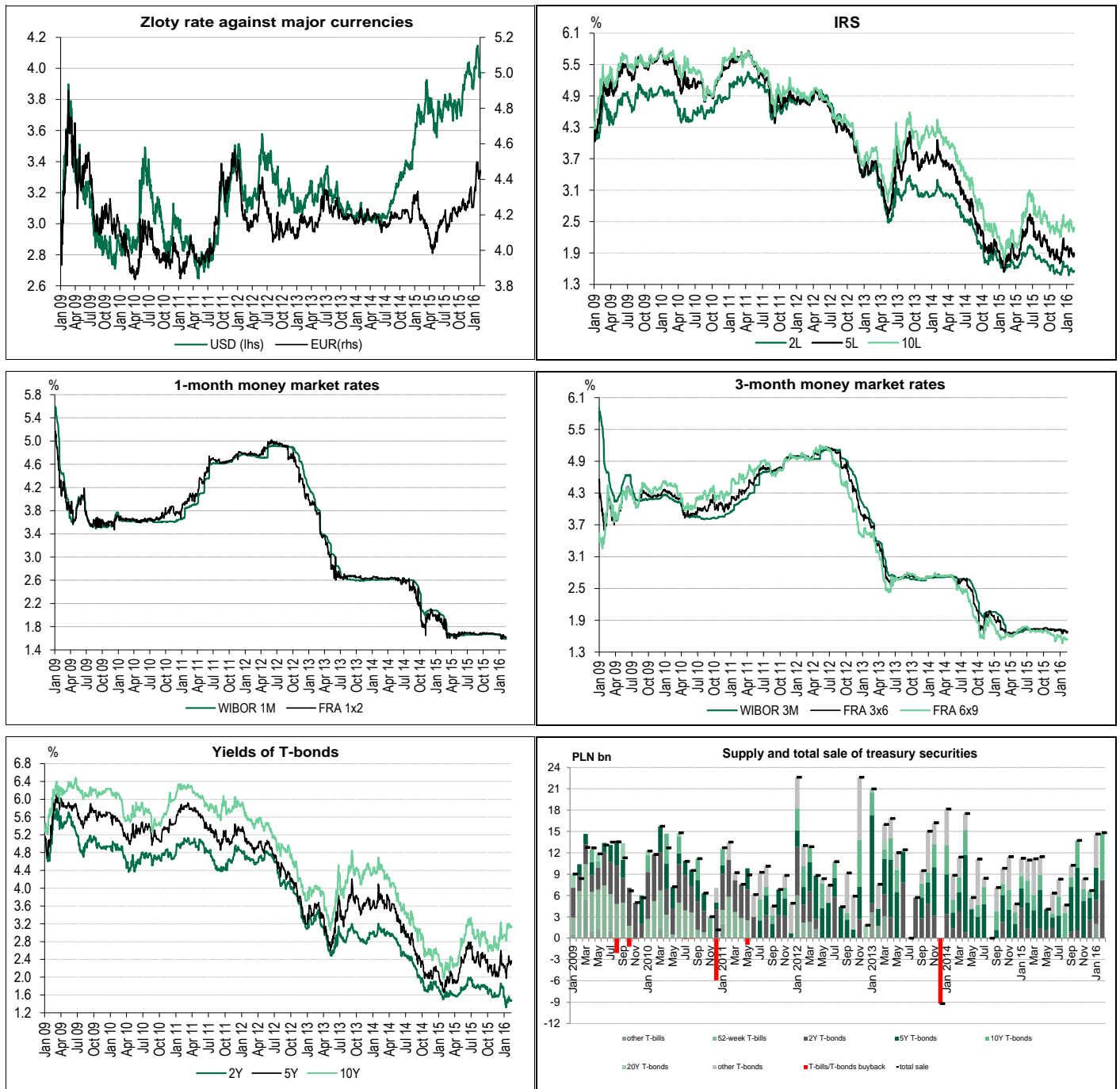
- We do not expect the zloty to fall further, but think it should stabilize somewhere below the recent peak. Still-robust domestic economic growth (with private consumption likely to strengthen further during the year), lower odds of NBP rate cuts and likely further stimulus from the ECB should allow the zloty to recover, although probably more slowly than its peers.

### Lower odds of Fed rate hikes hit the dollar

- EUR/USD rose above 1.13 in February on concerns about China, weak US data and the New York Fed's president saying that "financial conditions are considerably tighter than they were at the time of the December meeting," when the FOMC raised rates.

- The market now sees hardly any chance of more rate hikes in the US this year (less than a 30% probability of a 25bp rise by December) and we think there is a limited potential for the dollar to be hurt by this. At the same time, further ECB easing in March looks to have also been already priced in and that is why we think EUR/USD could now correct, after the recent jump, or at least slow its upward move. We still expect to see a stronger euro later in the year.

# Market monitor



## Treasury bond auctions in 2015/2016 (PLN mn)

month	date	First auction			date	Second auction			date	Switch auction	
		T-bonds	offer			T-bonds	offer			T-bonds	offer
February '15	5.02	WZ/DS/WS	3000-5000	5980.0	12.02	OK0717/PS0420	3000-5000	5000.0			
March	5.03	USD20150716/ USD20151019**	up to \$500m	\$400.6m	12.03	WZ0124/DS0725/WS0428	3000-4000	4639.0	26.03	PS0415/OK0715/DS1015 WZ0120/PS0420	
April	9.04	WZ0124/DS0725	2500-4500	3788.0	23.04	OK0717/WZ0120/PS0420	5000-7000	7654.3			
May	7.05	OK/WZ	3000-5000	Call off	21.05	OK0717/PS0420	2000-4000	4056.0			
June	11.06	OK0717/WZ0120	2000-4000	4236.5					25.06	OK0715/DS1015 PS0420/DS0725	
July	9.07	WZ0120/WZ0124	1000-2000	2430.3	23.07	PS0420/DS0725	3000-6000	5852.7			
August	6.08	DS0725/WZ0126	1000-4000	4655.9							
September	10.09	WZ0126/DS0726	2000-4000	3019.0	24.09	OK0717/PS0420	4000-6000	7214.0			
October	29.10	OK/PS/DS	5000-8000	8082.0					8.10	DS1015/OK0116 PS0421/DS0726	
November	26.11	EUR20160201**	Up to €1bn	€730m					19.11	OK0116/PS0416 WZ0120/PS0421/DS0726	
December									10.12	OK0116/PS0416 OK0717/PS0421/DS0726	
January '16	07.01	PS0421	2500-4500	4555.0	28.01	OK1018/WZ0120/WZ0126	5000-8000	8074.0			
February	04.02	OK1018/DS0726	4500-7500	9011.2	18.02	To be announced	2000-6000				

\* with supplementary auction, \*\* buy-back auction, \*\*\* demand/sale.

Source: Finance Ministry, Reuters, BZ WBK.



## Economic calendar

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
<b>8 February</b> DE: Industrial output (Dec) CZ: Industrial output (Dec)	<b>9</b> DE: Exports (Dec)	<b>10</b>	<b>11</b> HU: CPI (Jan)	<b>12</b> <b>PL: DE, HU: Advance GDP (Q4)</b> <b>PL: CPI (Jan)</b> <b>PL: Balance of payments (Dec)</b> CZ: CPI (Jan) EZ: Industrial output (Dec) US: Retail sales (Jan) US: Flash Michigan (Feb)
<b>15</b>	<b>16</b> <b>PL: Wages and employment (Jan)</b> CZ: Advance GDP (Q4) DE: ZEW index (Feb)	<b>17</b> <b>PL: Industrial output (Jan)</b> <b>PL: Retail sales (Jan)</b> US: House starts (Jan) US: Building permits (Jan) US: Industrial output (Jan) US: FOMC minutes	<b>18</b> <b>PL: MPC minutes</b> US: Philly Fed index (Feb)	<b>19</b> US: CPI (Jan)
<b>22</b> DE: Flash PMI – manufacturing (Feb) EZ: Flash PMI – manufacturing (Feb)	<b>23</b> <b>PL: Unemployment rate (Jan)</b> DE: Ifo index (Feb) DE: GDP (Q4) HU: Central bank decision US: Consumer confidence index (Feb) US: Home sales (Jan)	<b>24</b> US: New home sales (Jan)	<b>25</b> EZ: HICP (Jan) US: Durable goods orders (Jan)	<b>26</b> US: Preliminary GDP (Q4) US: Personal income (Jan) US: Consumer spending (Jan) US: Michigan index (Feb)
<b>29</b> <b>PL: GDP (Q4)</b> <b>PL: Flash CPI (Feb)</b> <b>PL: Inflation expectations (Feb)</b> EZ: Flash HICP (Feb) US: Pending home sales (Jan)	<b>1 March</b> <b>PL: PMI – manufacturing (Jan)</b> CN: PMI – manufacturing (Jan) DE: PMI – manufacturing (Jan) EZ: PMI – manufacturing (Jan) US: ISM – manufacturing (Jan)	<b>2</b> US: ADP report (Feb) US: Fed Beige Book	<b>3</b> DE: PMI – services (Feb) EZ: PMI – services (Feb) US: ISM – services (Feb) US: Industrial orders (Jan)	<b>4</b> CZ: GDP (Q4) US: Non-farm payrolls (Feb) US: Unemployment rate (Feb)
<b>7</b> DE: Industrial orders (Jan)	<b>8</b> DE: Industrial output (Jan) HU: CPI (Feb) HU: GDP (Q4)	<b>9</b> CZ: CPI (Feb)	<b>10</b> EZ: ECB decision DE: Exports (Jan)	<b>11</b> <b>PL: MPC decision</b>
<b>14</b> EZ: Industrial output (Jan) <b>PL: Money supply (Feb)</b>	<b>15</b> <b>PL: CPI (Feb)</b> <b>PL: Balance of payments (Jan)</b> CZ: Industrial output (Jan) US: Retail sales (Feb)	<b>16</b> <b>PL: Wages and employment (Feb)</b> <b>PL: Core inflation (Feb)</b> US: House starts (Jan) US: Building permits (Jan) US: CPI (Feb) US: Industrial output (Feb) US: FOMC decision	<b>17</b> <b>PL: Industrial output (Feb)</b> <b>PL: PPI (Feb)</b> <b>PL: Retail sales (Feb)</b> <b>PL: MPC minutes</b> EZ: HICP (Feb)	<b>18</b> US: Flash Michigan (Mar)

Source: CSO, NBP, Bloomberg

## Calendar of MPC meetings and data releases for 2016

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
ECB meeting	21	-	10	21	-	2	21	-	8	20	-	8
MPC meeting	13-14	2-3	10-11	5-6	12-13	7-8	5-6	-	6-7	4-5	8-9	6-7
MPC minutes	28	18	17	21	27	23	-	25	22	20	24	22
Flash GDP*		12			13			12			15	
GDP*	-	29	-	-	31	-	-	30	-	-	30	-
CPI	15	12 <sup>a</sup>	15 <sup>b</sup>	11	12	13	11	12	12	11	14	12
Core inflation	18		16	12	13	14	12	16	13	12	15	13
PPI	21	17	17	19	19	17	19	18	19	19	21	19
Industrial output	21	17	17	19	19	17	19	18	19	19	21	19
Retail sales	21	17	17	19	19	17	19	18	19	19	21	19
Gross wages, employment	20	16	16	18	18	16	18	17	16	18	18	16
Foreign trade	about 50 working days after reported period											
Balance of payments*			31									
Balance of payments	13	15	15	13								
Money supply	14	12	14	14								

\* quarterly data. a preliminary data for January. b January and February.

Source: CSO, NBP

## Economic data and forecasts for Poland

## Monthly economic indicators

		Jan 15	Feb 15	Mar 15	Apr 15	May 15E	Jun 15	Jul 15	Aug 15	Sep 15	Oct 15	Nov 15	Dec 15	Jan 16E	Feb 16E
PMI	pts	55.2	55.1	54.8	54.0	52.4	54.3	54.5	51.1	50.9	52.2	52.1	52.1	50.9	50.6
Industrial production	% YoY	1.6	5.0	8.8	2.4	2.8	7.4	3.8	5.3	4.0	2.4	7.8	6.7	1.7	6.3
Construction production	% YoY	1.3	-0.3	2.9	8.5	1.3	-2.5	-0.1	4.8	-2.5	-5.2	1.2	-0.3	-5.4	-5.5
Retail sales <sup>a</sup>	% YoY	0.1	-1.3	3.0	-1.5	1.8	3.8	1.2	-0.3	0.1	0.8	3.3	4.9	4.8	5.0
Unemployment rate	%	11.9	11.9	11.5	11.1	10.7	10.2	10.0	9.9	9.7	9.6	9.6	9.8	10.3	10.3
Gross wages in corporate sector	% YoY	3.6	3.2	4.9	3.7	3.2	2.5	3.3	3.4	4.1	3.3	4.0	3.1	3.9	3.9
Employment in corporate sector	% YoY	1.2	1.2	1.1	1.1	1.1	0.9	0.9	1.0	1.0	1.1	1.2	1.4	1.6	1.6
Exports (€)	% YoY	4.4	10.9	14.3	8.6	7.8	10.6	5.2	8.1	3.0	3.0	12.6	9.8	2.9	6.3
Imports (€)	% YoY	-2.1	3.9	8.7	7.7	0.5	10.3	7.3	6.7	5.2	-2.9	5.4	5.7	9.3	10.8
Trade balance	EUR mn	639	526	485	-117	500	-165	-726	-150	19	499	756	-160	-162	-34
Current account balance	EUR mn	-228	93	1,054	929	928	-963	-1,110	-654	-768	-163	620	-1,144	-888	-646
Current account balance	% GDP	-1.7	-1.5	-1.3	-0.9	-0.7	-0.4	-0.5	-0.3	-0.5	-0.4	-0.3	-0.3	-0.5	-0.7
Budget deficit (cumulative)	PLN bn	-0.6	-11.3	-16.7	-16.7	-19.6	-26.1	-26.6	-25.9	-31.1	-34.5	-36.1	-47.3	1.7	-2.2
Budget deficit (cumulative)	% of FY plan	1.3	24.6	36.2	36.2	42.6	56.7	57.7	56.1	67.6	74.8	78.4	102.6	-3.1	4.0
CPI	% YoY	-1.4	-1.6	-1.5	-1.1	-0.9	-0.8	-0.7	-0.6	-0.8	-0.7	-0.6	-0.5	-0.5	-0.5
CPI excluding food and energy	% YoY	0.6	0.4	0.2	0.4	0.4	0.2	0.4	0.4	0.2	0.3	0.2	0.2	0.3	0.4
PPI	% YoY	-2.8	-2.8	-2.5	-2.7	-2.1	-1.4	-1.8	-2.7	-2.8	-2.3	-1.8	-0.8	-0.5	-0.3
Broad money (M3)	% YoY	8.6	8.7	8.9	7.2	7.6	8.3	8.6	7.3	8.4	9.1	9.4	9.1	9.4	9.6
Deposits	%YoY	9.1	9.0	9.2	7.8	7.8	8.7	8.8	7.7	8.9	9.2	9.7	9.1	9.5	10.0
Loans	%YoY	8.0	7.7	7.8	6.4	7.7	7.9	7.9	7.6	7.9	7.7	7.0	6.9	6.6	6.8
EUR/PLN	PLN	4.28	4.18	4.13	4.02	4.08	4.16	4.15	4.19	4.22	4.25	4.25	4.29	4.41	4.40
USD/PLN	PLN	3.68	3.68	3.81	3.73	3.66	3.71	3.78	3.77	3.75	3.78	3.96	3.95	4.06	4.03
CHF/PLN	PLN	3.96	3.93	3.89	3.88	3.93	3.98	3.96	3.89	3.86	3.91	3.92	3.96	4.03	3.99
Reference rate <sup>b</sup>	%	2.00	2.00	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
3M WIBOR	%	2.03	1.92	1.67	1.65	1.67	1.70	1.72	1.72	1.72	1.73	1.73	1.72	1.71	1.68
Yield on 2-year T-bonds	%	1.60	1.60	1.62	1.60	1.74	1.91	1.82	1.79	1.79	1.65	1.58	1.71	1.46	1.45
Yield on 5-year T-bonds	%	1.82	1.88	1.99	1.98	2.38	2.68	2.45	2.40	2.43	2.18	2.10	2.28	2.24	2.24
Yield on 10-year T-bonds	%	2.21	2.20	2.32	2.36	2.83	3.20	3.00	2.88	2.91	2.66	2.73	2.93	3.04	3.09

Note: <sup>a</sup> in nominal terms, <sup>b</sup> at the end of the period.

Source: CSO, NBP, Finance Ministry, BZ WBK estimates.

## Quarterly and annual economic indicators

		2013	2014	2015	2016E	1Q15	2Q15	3Q15	4Q15	1Q16E	2Q16E	3Q16E	4Q16E
GDP	PLN bn	1,656.3	1,719.1	1,790.8	1,852.2	414.6	432.2	438.6	505.5	426.2	445.1	452.9	528.0
GDP	% YoY	1.3	3.3	3.6	3.5	3.7	3.3	3.5	3.8	3.4	3.4	3.6	3.7
Domestic demand	% YoY	-0.7	4.9	3.4	4.0	2.9	3.1	3.2	4.2	4.6	3.8	4.0	3.6
Private consumption	% YoY	0.2	2.6	3.1	4.1	3.1	3.1	3.1	3.1	3.1	3.8	4.6	4.8
Fixed investments	% YoY	-1.1	9.8	6.1	3.4	11.5	6.1	4.6	5.0	4.0	4.0	3.0	3.0
Industrial production	% YoY	2.3	3.4	4.8	5.8	5.3	3.9	4.3	6.0	5.0	6.9	6.7	4.7
Construction production	% YoY	-10.3	4.3	0.3	-3.5	1.4	1.9	0.5	-1.5	-5.4	-3.5	-3.6	-2.4
Retail sales <sup>a</sup>	% YoY	2.6	3.1	1.5	7.3	0.7	1.4	0.4	3.2	5.4	5.5	9.1	9.1
Unemployment rate <sup>b</sup>	%	13.4	11.4	9.8	9.0	11.5	10.2	9.7	9.8	10.0	9.1	8.8	9.0
Gross wages in the national economy <sup>a</sup>	% YoY	3.4	3.6	3.3	5.1	4.1	3.1	3.0	3.2	4.0	5.4	5.3	5.8
Employment in the national economy	% YoY	-1.1	0.2	0.8	1.0	0.8	0.8	0.7	0.8	1.1	1.0	1.0	0.7
Exports (€)	% YoY	5.7	6.4	8.1	9.2	9.8	9.0	5.3	8.3	7.5	9.0	10.0	10.3
Imports (€)	% YoY	0.2	8.3	4.6	11.0	3.5	6.2	6.4	2.5	11.0	11.0	11.0	11.0
Trade balance	EUR mn	-335	-3,255	2,111	-728	1,651	216	-851	1,095	345	-614	-1,363	904
Current account balance	EUR mn	-5,031	-8,303	-1,450	-3,931	900	864	-2,527	-687	-406	-113	-3,048	-365
Current account balance	% GDP	-1.3	-2.0	-0.3	-0.9	-1.3	-0.4	-0.5	-0.3	-0.6	-0.9	-1.0	-0.9
General government balance	% GDP	-4.0	-3.2	-3.1	-3.3	-	-	-	-	-	-	-	-
CPI	% YoY	0.9	0.0	-0.9	-0.1	-1.5	-0.9	-0.7	-0.6	-0.5	-0.4	-0.3	0.6
CPI <sup>b</sup>	% YoY	0.7	-1.0	-0.5	1.0	-1.5	-0.8	-0.8	-0.5	-0.6	-0.3	0.0	1.0
CPI excluding food and energy	% YoY	1.2	0.6	0.3	0.6	0.4	0.3	0.3	0.2	0.4	0.5	0.5	0.9
PPI	% YoY	-1.3	-1.5	-2.2	0.0	-2.7	-2.1	-2.4	-1.6	-0.5	-0.9	0.4	0.8
Broad money (M3) <sup>b</sup>	% oY	6.2	8.2	9.1	4.9	8.9	8.3	8.4	9.1	8.1	7.0	6.0	4.9
Deposits <sup>b</sup>	%YoY	6.6	9.0	9.1	4.4	9.2	8.7	8.9	9.1	7.9	6.7	5.6	4.4
Loans <sup>b</sup>	%YoY	3.5	7.2	6.9	5.4	7.8	7.9	7.9	6.9	6.6	6.2	5.8	5.4
EUR/PLN	PLN	4.20	4.18	4.18	4.34	4.20	4.09	4.19	4.26	4.39	4.31	4.36	4.32
USD/PLN	PLN	3.16	3.15	3.77	3.88	3.72	3.70	3.77	3.90	4.02	3.88	3.86	3.76
CHF/PLN	PLN	3.41	3.45	3.92	3.78	3.93	3.93	3.90	3.93	3.98	3.80	3.73	3.62
Reference rate <sup>b</sup>	%	2.50	2.00	1.50	1.25	1.50	1.50	1.50	1.50	1.25	1.25	1.25	1.25
3M WIBOR	%	3.02	2.52	1.75	1.50	1.87	1.67	1.72	1.73	1.62	1.45	1.45	1.46
Yield on 2-year T-bonds	%	2.98	2.46	1.70	1.47	1.61	1.75	1.80	1.65	1.44	1.43	1.45	1.55
Yield on 5-year T-bonds	%	3.46	2.96	2.21	2.45	1.90	2.35	2.43	2.19	2.24	2.35	2.53	2.67
Yield on 10-year T-bonds	%	4.04	3.49	2.69	3.25	2.24	2.79	2.93	2.77	3.08	3.17	3.30	3.45

Note: <sup>a</sup> in nominal terms, <sup>b</sup> at the end of period. Source: CSO, NBP, Finance Ministry, BZ WBK estimates.

This analysis is based on information available until 10.02.2016 has been prepared by:

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## IMPORTANT DISCLOSURES

### ANALYST CERTIFICATION:

The views expressed in this report accurately reflect the personal views of the undersigned analyst(s). In addition, the undersigned analyst(s) have not and will not receive any compensation for providing a specific recommendation or view in this report: **Maciej Reluga\***, **Piotr Bielski\***, **Agnieszka Decewicz\***, **Marcin Luziński\***, **Marcin Sulewski\***.

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