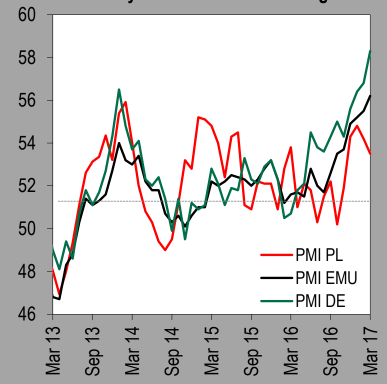
# MACROscope

Polish Economy and Financial Markets

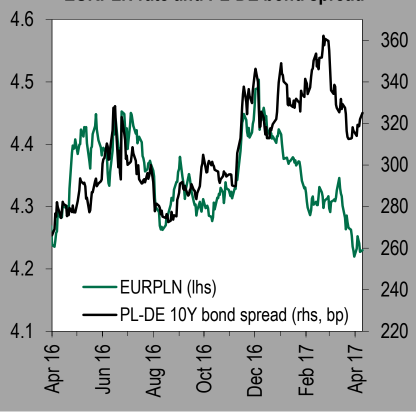
April 2017

## Changing up the gear

Activity indices in manufacturing




EURPLN rate and PL-DE bond spread




- After a moderate slowdown experienced in 2016, the Polish economy seems to have changed up the gear at the start of this year. Not only have most of the business climate indicators improved in the first quarter, but the real data have also shown the apparent signs of life, signalling that the economic activity is rising faster than we anticipated. The manufacturing sector and exports are being supported by a revival of demand from the euro zone, consumer demand remains healthy, while the construction output and production of investment goods signalled that investment activity is recovering from the bottom (probably mainly due to higher public spending).
- Taking into account the available data for January-February and our forecasts for March, we have revised our GDP growth forecasts for 1Q17 to 3.3% y/y. The average pace of economic growth in 2017 may be also near 3.3% in our view, with the highest momentum in the third quarter at slightly above 3.5% y/y.
- We think that much faster GDP growth would be hard to achieve, given the fact that a revival of the private sector investment would be probably quite slow, and the tightening labour market would be a growing problem for companies. The significant inflow of workers from Ukraine has allowed Poland to accommodate the decreasing domestic labour force in the last two years, however we expect to see a slower employment growth in 2H17 (especially after the implementation of lower retirement age in October), which may weigh on the pace of economic expansion.
- Although the labour market already seems to be tight, there are still no signs of building wage pressure in Poland. The wage growth remains moderate, even though the deflation has ended, unemployment is record low and falling, and the minimum pay increased substantially in January. The CPI inflation, after rising to 2.2% in February, retreated to 2.0% in March as the exogenous price drivers have faded. We think that the headline inflation is likely to stabilise near or below 2% in the coming months and in 1H18, while core inflation will be rising only gradually.
- In this environment, the Polish central bank will not hurry with monetary tightening, in our view. The Monetary Policy Council maintained its dovish rhetoric at the last meeting in April and the NBP Governor Adam Glapiński said that in his view interest rates may remain unchanged not only this year, but also in 2018. We maintain the view that the first interest rate hike may take place in the second half of 2018 at the earliest.
- Polish zloty and bonds strengthened significantly in March, supported by global capital flow to emerging markets, lower concerns about European elections, and improving economic forecasts for Poland. We think that it is high time for a moderate correction in both the currency and fixed income market.

**In this issue:**



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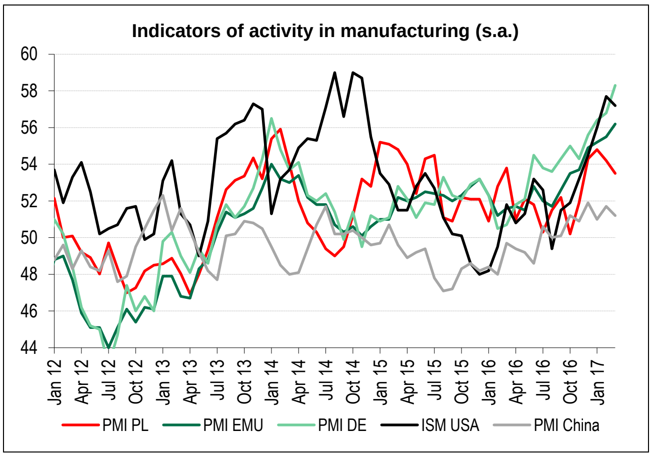
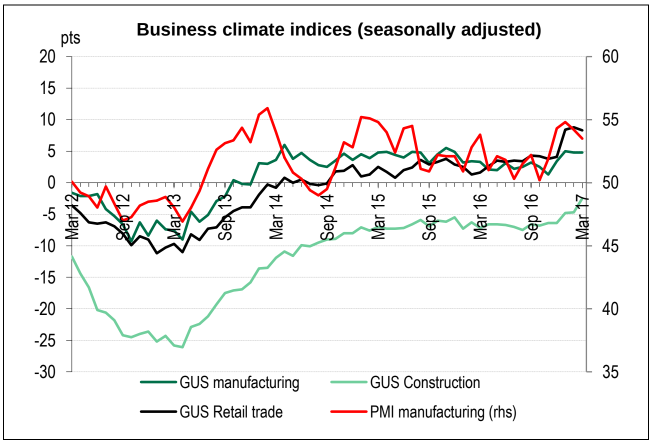
**Financial market on April 11, 2017:**

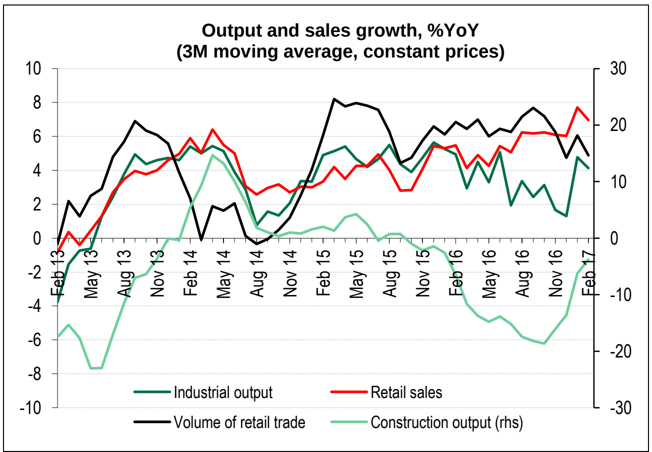
| | | | | | |
|---|---|---|---|---|---|
| NBP deposit rate | 0.50 | WIBOR 3M | 1.73 | EURPLN | 4.2415 |
| NBP reference rate | 1.50 | Yield on 2-year T-bond | 1.99 | USDPLN | 4.0009 |
| NBP lombard rate | 2.50 | Yield on 10-year T-bond | 3.44 | CHFPLN | 3.9720 |

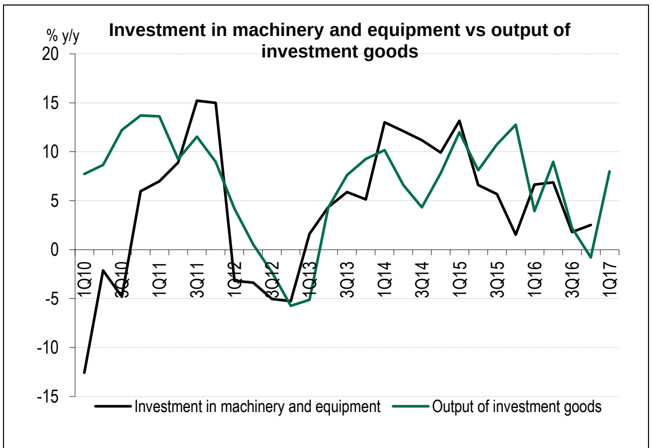
This report is based on information available until 11.04.2017.

# Economic update




Source: Markit, GUS, Eurostat, BZ WBK.

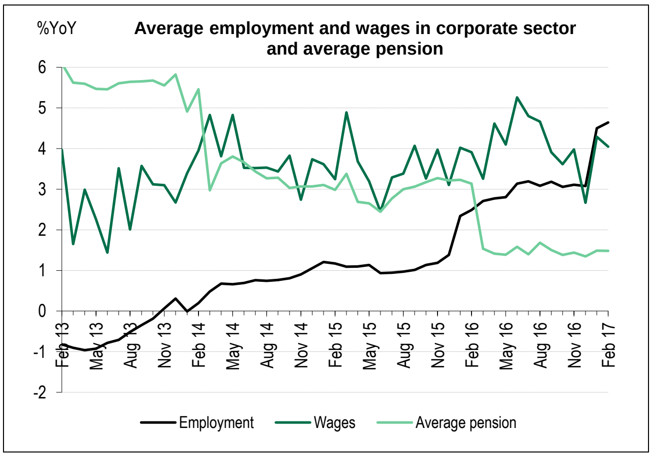
## Good start of 2017 in the European economy

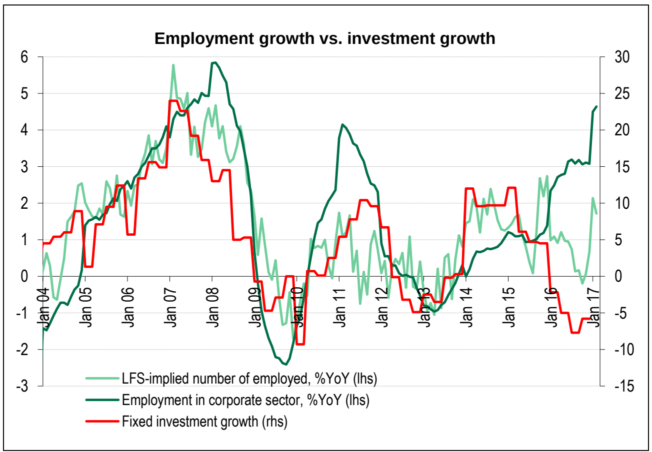
- After a very good performance in 2016, the euro zone economy seems to be doing fine at the start of 2017. The business climate indicators are rising, signalling that economic growth this year may surprise to the upside again. What is important, for the first time since the crisis started, there seems to be a generalised and, to some extent, coordinated recovery in the largest euro zone economies, supported by structural fundamentals.
- We hope the solid economic growth abroad will continue in the coming quarters, although there are some question marks on the horizon, including the political uncertainty related to the looming elections in France and Germany, doubts about Donald Trump's ability to deliver his promises, the discrepancy between the confidence indicators and the 'hard data' (especially in the USA), and the building evidence of weakening credit growth in main economies.

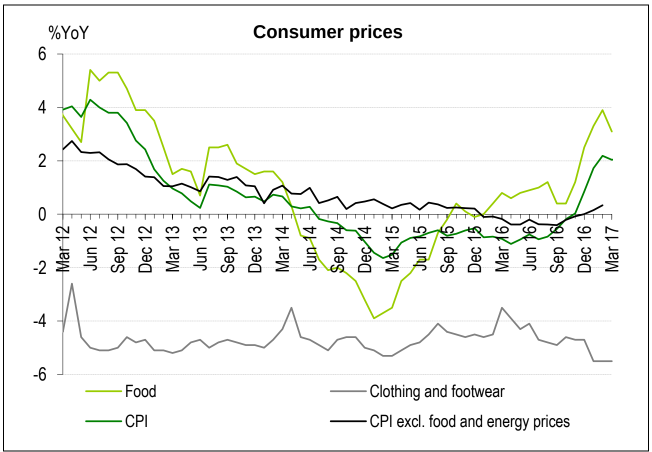
## Activity picking up also in Poland

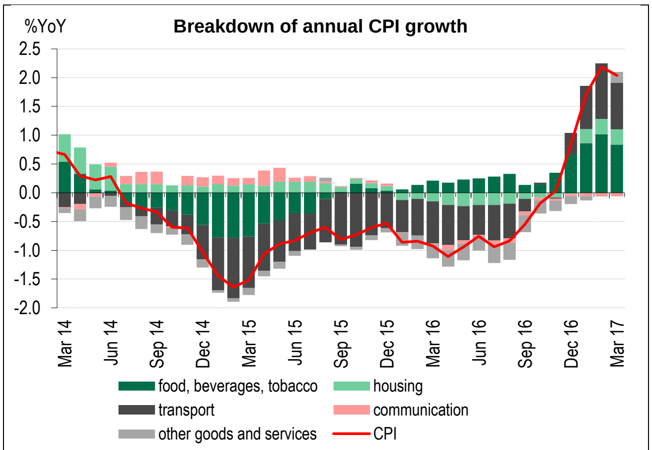
- Recent data from Poland also signalled that economic activity was picking up at the start of the year. Most of the local business climate indicators improved in January-March, signalling a moderate revival in majority of the economic sectors. However, we would like to stress that the improvement in business climate in Poland in the first quarter was less impressive than in the euro zone.
- In particular, the PMI index for Polish manufacturing fell unexpectedly to 53.5pts in March from 54.2pts in February. The decline was driven by lower subindices of output, new orders and employment. The index fell for the second time in a row, but let us note that PMI is quite volatile and in the recent years it has not been the best predictor for the trends in the industrial output. We think this was also the case recently; the jump of PMI seen in the previous months looked overdone and, in our view, the actual economic trends in Polish manufacturing were much better represented by the business climate index released by the Statistical Office. The latter has been stable since January, indicating seasonally adjusted industrial output growth around 5% y/y. Despite the recent drop, the manufacturing PMI still remains relatively high, pointing to the robust economic activity in manufacturing.
- The hard data from Polish economy were also relatively strong in the first quarter of the year. While a high degree of caution is needed when interpreting the recent high-frequency data, as the numbers were strongly affected by the calendar effects (+2 working days y/y in January, -1 in February, +1 in March, plus different timing of Easter than in 2016), there seemed to be an apparent improvement in economic activity, mainly in construction and manufacturing, with retail sales also showing signs of relative strength.
- Taking into account the available data for January-February and our forecasts for March, we have revised our GDP growth forecasts for 1Q17 to slightly above 3% y/y. Moreover, we think there is a chance of slight upward revision of 4Q16 GDP data, after the central bank has revised the balance of payments data – the surplus in goods and services in the fourth quarter has been raised from €3bn (PLN13.4bn) to €3.8bn (PLN16.5bn).
- Interestingly enough, in January and February, the production of investment goods increased by a total of 9.0% y/y vs. -0.8% y/y in 4Q and 3.5% y/y for the entire 2016. It is a sign that investments in machinery and transport equipment rebounded in early 2017, which increased chances for a positive growth in total investments as early as in 1Q17. At the same time, we think that investment growth in 1Q will be curbed by the high base effect, which is attributable to the fact that in 1Q16 investments in machines and transport equipment received one-off boost from military expenditure. In our view, this base effect is not fully factored in the industrial output data.

# Economic update




Source: GUS, NBP, Eurostat, BZ WBK.

## The pace of employment growth may slow

- According to the Labour Force Survey (LFS) the seasonally-adjusted unemployment rate in Poland fell in February to 5.3%, setting a new all-time record. The pace of job creation seems to remain high – in February, the employment in corporate sector increased by 16.5k, the most in this month since 2008, and its annual pace of growth reached 4.6% y/y. The pace of employment growth implied by the LFS data was lower (around 2% y/y), but also improved as compared to the second half of 2016.
- Despite the labour market already seems to be super-tight, the deflation has ended, and the minimum pay increased substantially at the start of the year, there are still no signs of building wage pressure in Poland. The wage growth in corporate sector remains moderate (4.0% y/y in February). In our opinion, this situation cannot last forever, and in the second half of this year we expect a to see a slowdown in employment and faster wage growth.
- One of the factors that allowed to keep wage pressure in curbs in recent quarters was the significant inflow of workers from Ukraine. Although it has allowed Poland to accommodate the decreasing domestic labour force in the last two years, such situation may not last forever, in our view. First of all, the reduction of the retirement age in Poland in October is likely to exacerbate a decrease in labour activity, observed since 2014. Additional risk factor is the likely introduction of the visa-free movement for Ukrainians by the EU later this year. While the net effect of this regulation on work migration to Poland is not certain, in our view, we see a risk that it may result in slowdown of the inflow of workers from Ukraine, deepening the labour force shortage on the Polish market.
- In general, we see a risk of slower employment growth in 2H17, which may weigh on the pace of economic expansion.

## Inflation's upward trend losing steam

- CPI inflation fell in March to 2.0% y/y, after having risen to 2.2% y/y in February. The main factor that pushed inflation higher in February and lower in March was the fluctuation of prices of food, and in particular of vegetables. As we predicted in the previous report, the surge in vegetable prices observed at the very start of the year, and caused by a severe winter in Southern Europe, proved to be short-lived, as prices started retreating just after the weather has improved and local products started replacing imported ones.
- According to our estimates, the core inflation excluding prices of food and energy rose from 0.3% in February to 0.7% y/y in March and was the highest since 2014.
- In general, the exogenous and statistical factors that have pushed the CPI higher at the start of the year, are now losing steam. Apart from lower food prices, fuel prices also started decreasing, as the upward trend in Brent oil price has corrected and the zloty strengthened. Moreover, the effect of very low statistical base has already waned. Meanwhile, there are still limited signs of strong underlying price pressure building. Therefore, we expect inflation rate to stay near 2% y/y in the months to come and to ease to c1.5% y/y at the year-end due to the high base effect. Core inflation should continue to rise steadily to c1.6-1.7% y/y in late 2017.

# Monetary policy watch

**Excerpts from the MPC's official statement after its April meeting**

Global economic growth remains moderate, with signs of recovery strengthening in many economies. In the euro area, GDP growth is stable, accompanied by favourable sentiment in the economy. In the United States, economic conditions are supported by improving labour market and a rebound in investment, although recent data point to some deceleration of growth in 2017 Q1. In China, economic activity growth has stabilised, while in Russia economic conditions remain weak.

In March, global commodity prices fell, yet remained higher than a year before. As a result, in many countries the annual price growth rates are significantly higher than in 2016, but their rise has come to a halt. At the same time, in many economies, including the euro area, core inflation is still moderate amid low demand pressure.

The European Central Bank keeps interest rates close to zero, including the deposit rate below zero. The ECB also continues its asset purchase programme, albeit at a slower pace since April. The Federal Reserve has increased its interest rates, indicating further monetary policy tightening in the future

In Poland, recent data on production still point to improving economic conditions in 2017 Q1. Growth in economic activity is driven mainly by increasing consumer demand, supported by a rise in employment and wages, very good consumer sentiment and child benefit payments. This is confirmed by robust growth in retail sales.

The annual growth in prices of consumer goods and services, after a significant rise at the beginning of the year, declined somewhat in March. Core inflation remains low, which points to still weak demand pressure. Despite growing employment and wages, growth in unit labour costs remains moderate.

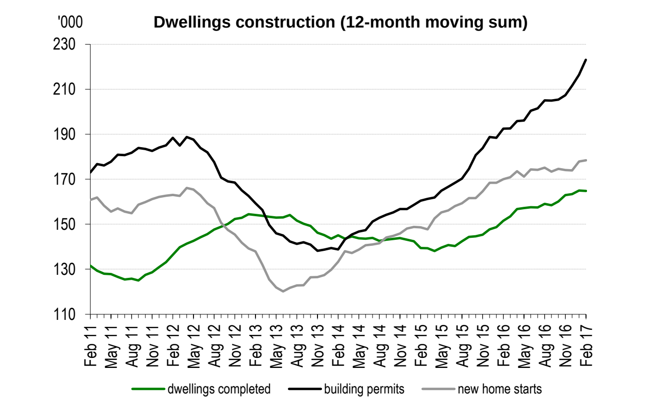
In the Council's opinion, inflation will stabilise at a moderate level over the following quarters. The stabilisation of price growth in the coming quarters will result from fading effects of the past increase in global commodity prices, with only a gradual rise in domestic inflationary pressure stemming from improving domestic economic conditions. In consequence, the risk of inflation running persistently above the target in the medium term is limited.

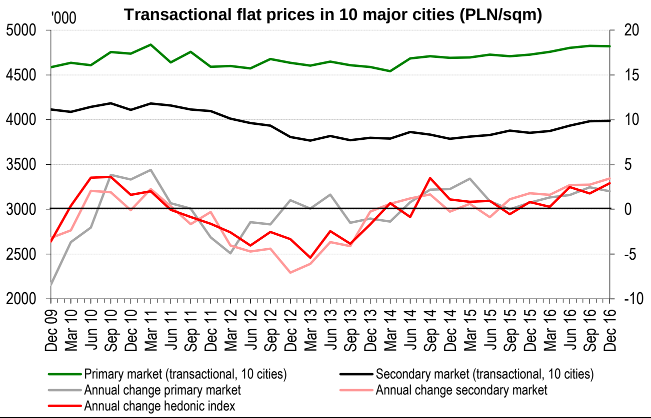
The Council confirms its assessment that, given the available data and forecasts, the current level of interest rates is conducive to keeping the Polish economy on the sustainable growth path and maintaining macroeconomic balance.

### MPC sees no interest rate hikes until late 2018

- In April, the Monetary Policy Council kept the main interest rates on hold, with the reference rate still at 1.5%.
- As we expected, the rhetoric at the post-meeting press conference was very similar as compared to the previous month. The official statement was almost the same as in March, emphasizing the limited risk of exceeding the inflation target in the medium run. The MPC predicted that inflation was likely to stabilize in the coming quarters, with fading impact of higher commodity prices and only a very gradual increase of internal inflationary pressure.
- The NBP President Adam Glapiński said that the recent data confirmed that the economic scenario predicted by the Monetary Policy Council was correct. In his view, inflation rate should decrease slightly in the coming months and is likely to stabilize near 2% y/y later this year and also in 2018. Glapiński added that he was not worried at all about the consequences of negative real interest rates and he did not expect to see an increase in wage pressure in Poland, despite record-low unemployment. The NBP President said that he believes that interest rate hike in 2017 is completely unlikely. Glapiński did not rule out a policy tightening in 2H18, depending on the situation, but in his personal view such move will not be needed in 2018.
- Summing up, there was no surprise at all from the Polish central bank. The recent flash CPI data for March reinforced the MPC's view that inflation will stabilize in the coming quarters and the risk of breaching the inflation target is limited. We maintain our view that the MPC will not hurry at all with monetary tightening and interest rate hikes are not likely before the second half of 2018.

# Housing market update



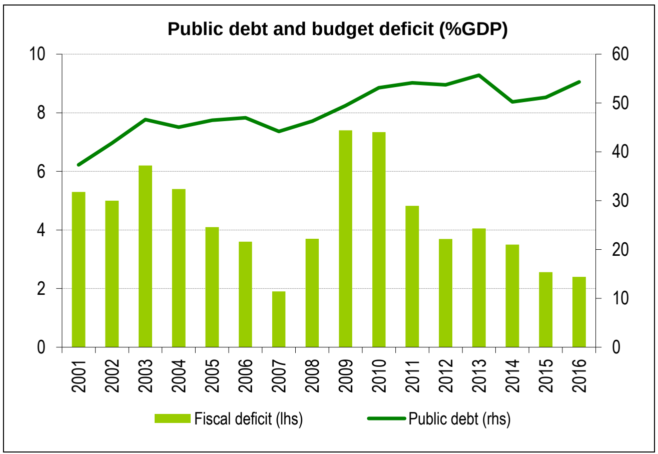



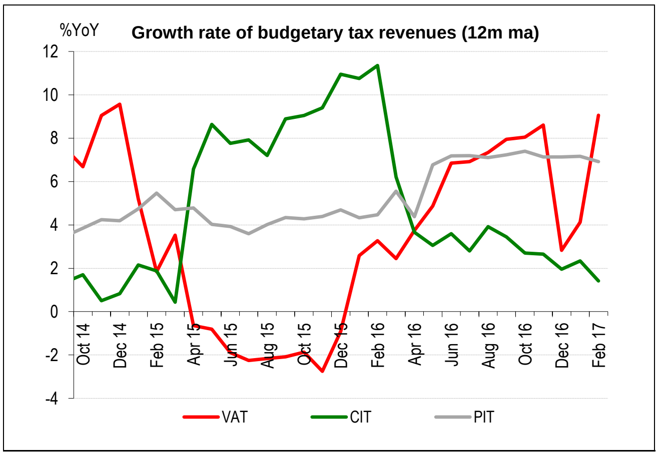

Sources: CSO, NBP, REAS, BIS, AMRON-SARFiN, BZ WBK.

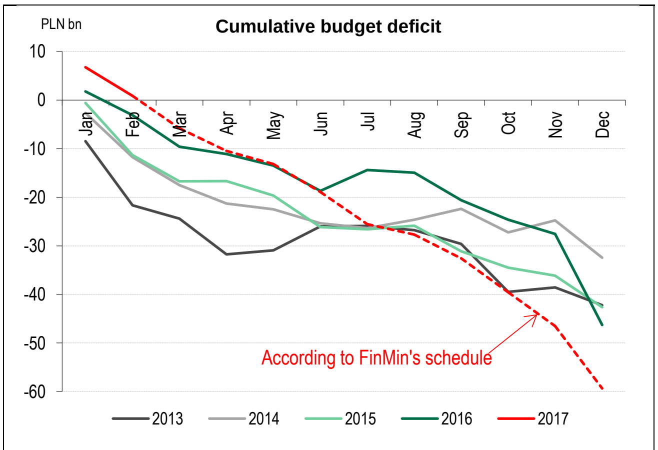
### Housing market on the rise

- Supply on the Polish housing market is still on the rise with 12-month total of 163.4k finished dwellings in December 2016 and 164.8k in February 2017 (highest since 2009). Sales were also robust, with 6 biggest cities (Warsaw, Krakow, Wrocław, Tri-city, Poznań, Łódź) witnessing 18.1k sold flats in 4Q16 (+25.7% y/y). Total volume of offered dwellings remained roughly stable, as number of sales was close to number of new flats. About 30% of flats were bought in order to be rented as the Polish housing market is witnessing higher renting needs because of inflow of workers from the Ukraine.
- It seems that the supply of flats will be rising in the quarters to come, as the 12-month rolling sum of housing permits hit 223.1k in February, its highest since 2009, and housing starts 178.4k, the highest since 2008.
- All major price indices (NBP, BIS) are showing a slight upward tendency, ranging 2.0-3.5% y/y in 4Q16. At the same time, flat affordability is on the rise given that wages grew stronger than prices.
- Amid growing supply, sales and prices, new mortgages reached PLN9.78bn in 4Q16, falling by 7.6% y/y and showing that higher demand is strongly generated by cash buyers. Loan margins were stable, oscillating close to 270bps.
- We are expecting rising supply and demand on the Polish market. The supply, as argued above, will be supported by high number of housing starts and building permits, while demand will be underpinned by strong labour market and inflow of workers from the Ukraine. Price growth may accelerate a bit, given high share of cash buyers and rising price tendencies in the economy.

# Fiscal policy watch




| | Spread vs. Bunds (10Y) in bp | | | CDS (5Y USD) | | |
|---|---|---|---|---|---|---|
| | 11.04 | Change since 10.03.17 | Change since 30.12.16 | 11.04 | Change since 10.03.17 | Change since 30.12.16 |
| Poland | 345 | -28 | -16 | 72.4 | 1 | -7.6 |
| Czech R. | 102 | 27 | 44 | 41.5 | 0 | -1 |
| Hungary | 340 | -33 | 14 | 114.2 | -1.5 | -11.3 |
| Greece | 676 | -45 | -38 | 933.6 | -19.6 | -39.9 |
| Spain | 163 | -22 | 22 | 64.5 | 9.9 | -6.9 |
| Ireland | 96 | -18 | 19 | 44.8 | -4.9 | -15.8 |
| Portugal | 383 | -19 | 7 | 219 | 7.3 | -40.9 |
| Italy | 227 | -5 | 45 | 135.7 | 11.2 | -6.9 |
| France | 96 | -14 | 26 | 28.5 | 1 | -5.9 |
| Germany | - | - | - | 15.1 | -1.5 | -5.0 |

Source: Ministry of Finance, Reuters, BZ WBK.

### 2016 GG deficit below expectations…

- The Poland's general government deficit reached 2.4% of GDP in 2016 (preliminary data), which was the lowest gap since 2007. At the same time, according to the EU methodology, the public debt amounted to 54.4% of GDP. The fiscal deficit fell below the estimates of the Ministry of Finance (2.8-2.9%) outlined several weeks ago which might have been due to higher than expected surplus in local governments. The Ministry confirmed that this reading includes LTE inflows (PLN9.2bn or 0.5% of GDP) distributed on 15 years.

### … and 2017 likely to be in line with forecasts

- At the end of February, the state budget revenues reached PLN60.9bn (up 8.5% y/y; 18.7% of the annual plan), while expenditure amounted to PLN60.1bn (up 1.4% y/y; 15.6% of the plan), which translated into PLN855m surplus. As for the revenue, attention should be paid to a very good level of VAT revenues, which went up ca. 80% y/y in February alone, which is attributable to several factors: accelerated December VAT refunds, favourable business conditions, quickly growing consumption and abandonment of quarterly VAT settlement as of January 2017 (now businesses have to settle VAT on a monthly basis). After two months of the year, CIT revenue climbed 5.8% y/y, while PIT revenue rose 5.5% y/y. The increase in tax revenue will not be so impressive in the months to come but realisation of the central budget this year is not at risk. Especially, as the NBP revealed it's last year's profit at cPLN9.0bn, an all-time high. Some 95% of this sum is earmarked to be transferred to the central budget and it will markedly lower the borrowing needs as well as the central budget deficit.
- At the end of January local governments reported PLN6.6bn budget surplus. Revenues reached PLN20.7bn (up 17.5%, representing 9.2% of the annual plan), while expenditure amounted to PLN14.1bn (up 19.4%, representing 5.9% of the annual plan). Unfortunately, we do not have any comparable data available so it is difficult to establish whether local governments are on the right path to reach all-year deficit target at PLN12.7bn. Still, there are also no factors suggesting that risk is skewed in any particular direction.
- In general, we do not see a serious risk to the Ministry's forecast of 2017 general government deficit at 2.9% of GDP.

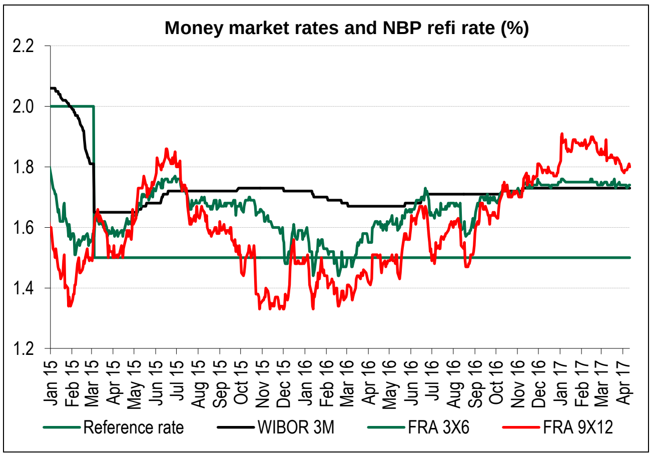
### The government to stick to 3% deficit benchmark

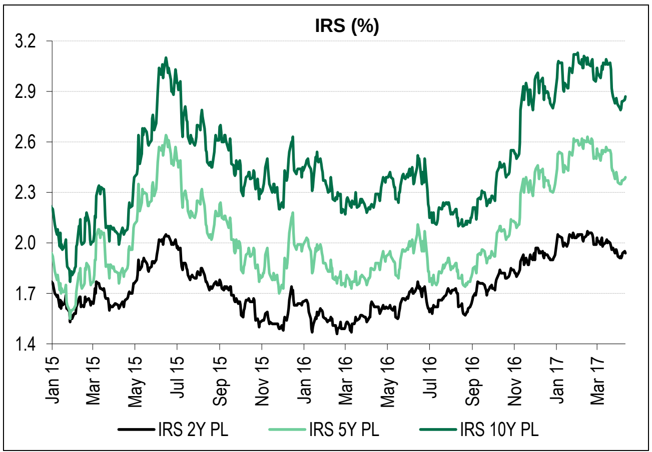
- In April, the government is scheduled to release its new Convergence Programme, with the multi-year economic and fiscal forecasts. We expect the government to stick to its commitment to keep GG deficit below 3%. Previous forecasts were at 2.0% of GDP in 2018 and 1.3% in 2019, however we do not expect such ambitious path of deficit reduction to be maintained due to additional burden to the public finances coming from the cut of retirement age effective from 4Q17 (the previous Convergence Programme has not included the costs of lower retirement age).

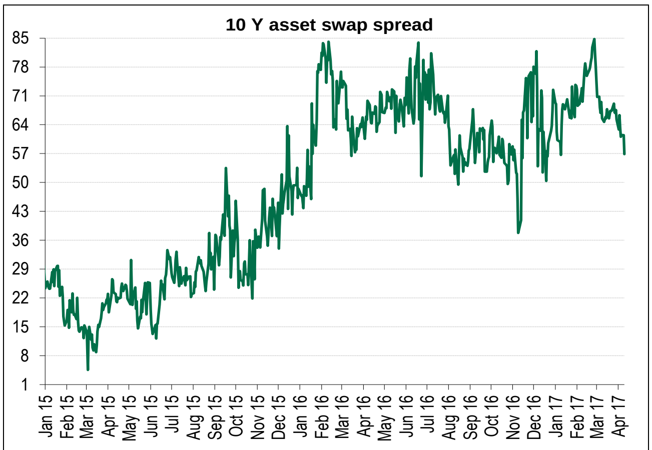
### Rating agencies unlikely to be negative

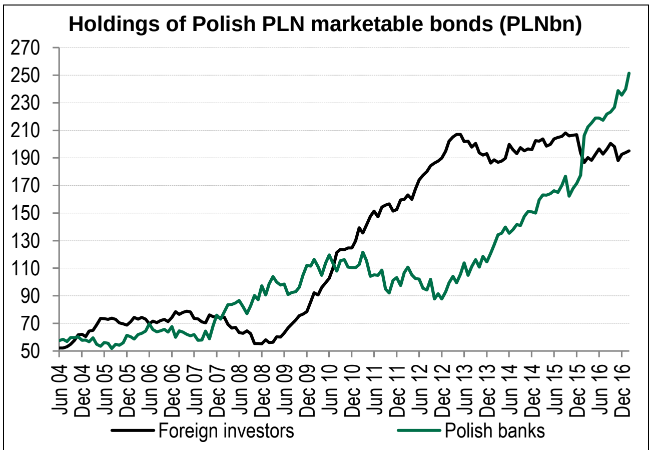
- The S&P is scheduled to update its rating for Poland on 21 April, while in case of the Moody's the rating day is scheduled for 12 May. We do not expect any negative changes. Since the last rating updates there has not been any negative fiscal news. On the contrary, the GG deficit in 2016 proved to be at the record low level and economic conditions improved after the moderate economic slowdown witnessed last year.

# Interest rate market




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

**Rally at the end of the quarter**

▪ Last month the FOMC delivered a “dovish” rate hike, anti-euro party did not win in the Dutch parliamentary elections, Donald Trump was unable to push a first part of his promises through the US Congress and March flash inflation data in Poland and euro zone surprised to the downside. All this was pushing bond yields and IRS lower. Both Polish curves flattened with the 10Y IRS/yields falling by 20bp, 5Y rates moving down by 15bp and the short end easing c5bp.

▪ 1-12M WIBORs stayed unchanged. FRA rates up to one year did not move much while for longer tenors rates fell c10bp, reflecting weakening market expectations for rate hikes in Poland.

**Time for correction?**

▪ Polish bonds ended the quarter with a gain. Note that since the beginning of 2015, the 10Y yields has never fallen for the two consecutive quarters. In 2013-14 the 10Y benchmark was gaining for six quarters in a row but this was when investors were first expecting rate cuts and later the MPC started to deliver them. Obviously, now the market pricing is quite the other way round.

▪ The most recent US data were pretty robust but according to Bloomberg, the market sees c60% chance for a Fed rate hike in June. We find this rather low given that recently FOMC members have been saying that three or four 25bp hikes could be delivered in total this year. If the next US figures are strong (March non-farm payrolls seem to have been distorted by weather conditions), an upside pressure on global yields could emerge. The 10Y Polish bond yield fell to 3.40% (its lowest since December 2016) and we think it could now start to rise.

▪ Investors seem to have factored in the recent inflation figure and the dovish rhetoric of the MPC, and according to FRA rates the market sees first 25bp rate hike in 18 months, which is now in line with our base scenario.

▪ In late February, the 10Y asset swap spread reached resistance at c85bp and neared back to c60bp in April. As long as we see a risk of rising political uncertainty ahead of the French presidential elections, and higher geopolitical tensions related to conflict in Syria and relations between US and North Korea, we do not see much room for the spread to continue the decline.

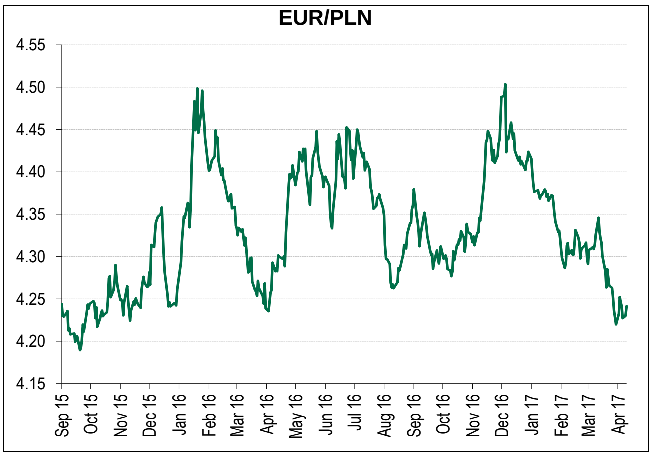
**Polish banks accumulate bonds**

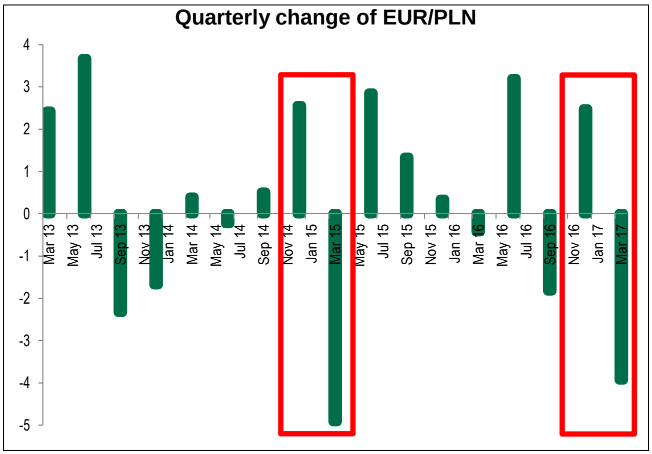
▪ According to the data released by the Ministry of Finance, in February Polish PLN-denominated marketable debt increased by PLN13bn, out of which PLN11.5bn was bought by the Polish banks. As a result, the nominal value of their portfolio rose above PLN251bn.

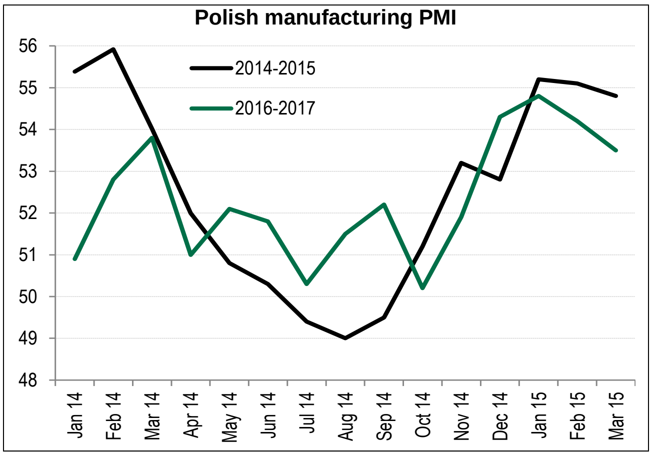
▪ Non-residents purchased PLN1.3bn of the Polish bonds and at the end of February the nominal value of their portfolio stood at PLN195bn (highest since October 2016). Within this group, mutual funds purchased bonds for PLN2.2bn, commercial banks increased their holdings by PLN645mn while the stock on the omnibus accounts fell by PLN2bn. Central banks (mainly from Asia and Middle East) cut holdings by PLN900mn. Under the geographical criteria, euro zone countries and the entities from the US were the biggest buyers.

▪ First bond auction in April was pretty successful as the Ministry of Finance sold debt for PLN5bn, at the upper band of the planned supply. Demand amounted to PLN8.7bn. The Ministry said that after this auction this year’s gross borrowing needs have been covered in 56%.

# Foreign exchange market





Sources: Reuters, Bloomberg, Markit, BZ WBK.

### Time for correction after big quarterly move

- After the February's pause, the zloty resumed its appreciation trend in March. EUR/PLN reached a fresh 2017 low at just below 4.21 thanks to the rather positive global market sentiment as the FOMC delivered a "dovish" rate hike and anti-EU party did not win the Dutch elections.
- The zloty's 1Q17 appreciation versus the euro has been the best quarterly performance of the Polish currency since 1Q15. It is also worth noting that the last time EUR/PLN fell for the two quarters in a row was in 2013. What we have seen on the EUR/PLN market in 3Q16-1Q17 looks very similar to the zloty's performance vs the euro in the 4Q14-1Q15 period. Back then, EUR/PLN rose in the final quarter of the year and then started to decline in the first quarter of the new year and was on the rise during the next three quarters. Also, when we look at the performance of the Polish economy two years ago and now, we can see that the PMI index for the domestic manufacturing is following the 2014-early 2015 pattern, suggesting that the similarities on the FX market are not a coincidence. That is why we assume that some profit taking could take place in 2Q17 after the last zloty's rally.
- In April France holds presidential elections and the investors' attention could again turn to the European politics. Also, we see a rising risk for a correction on the stock markets after the robust jump of equity prices seen since the beginning of the year. Lower risk appetite could hit the zloty.

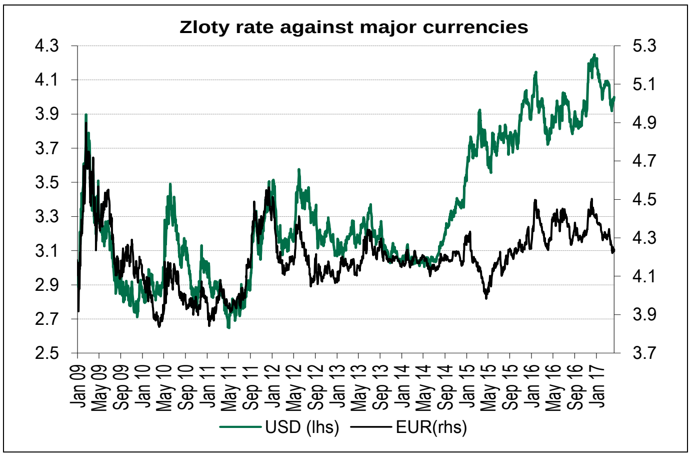
### Central bankers drive EUR/USD

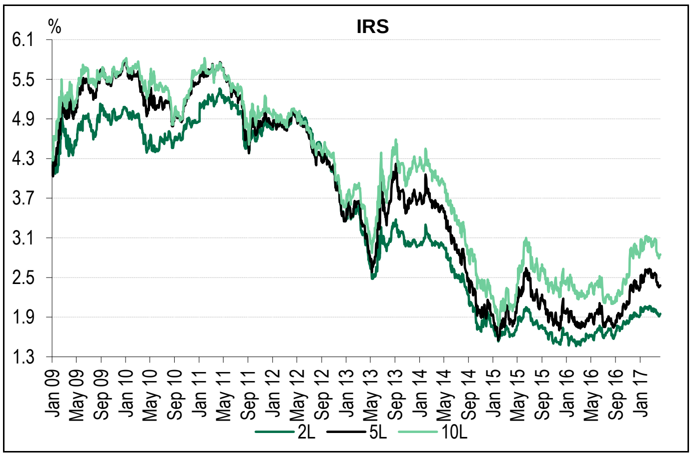
- In early April EUR/USD is near where is was in late February but in the meantime the exchange rate jumped to 1.09 from 1.06. The main driver for the euro's appreciation observed until late March was the market impression of the ECB rhetoric being rather hawkish at its last meeting. However, later in the month, the European central bankers were intervening verbally, trying to stop the upside move of EUR/USD. At the same time, some members of the FOMC said that three or four rate hikes could be delivered in total this year which was positive for the dollar and helped to bring EUR/USD back to 1.06 area.
- We decided to leave our forecast unchanged and we still expect the euro to gain vs the dollar in the course of the year. However, in the short term, the dollar should remain strong thanks to the hawkish comments made by FOMC members and sound US macro data. Also, the French presidential elections are looming which may curb any gains of the single currency.

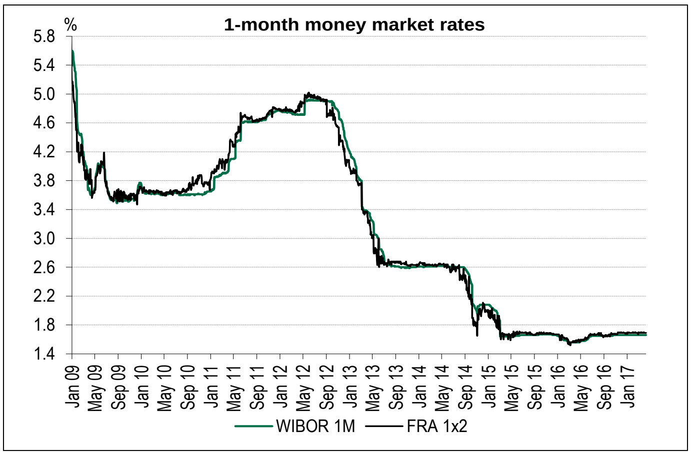
### Czech central bank abandons floor

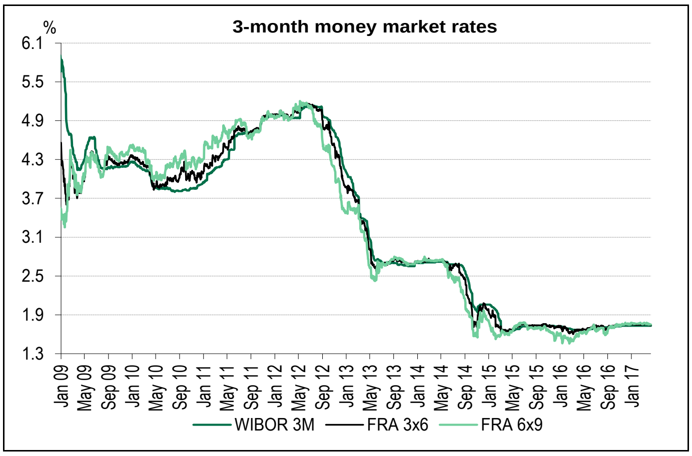
- The main event in the last few weeks in the CEE market was the decision of the Czech central bank (CNB) to abandon its 27.0 floor for EUR/CZK introduced in November 2013. EUR/CZK plummeted to 26.5 after the decision was announced. Jiri Rusnok, the governor of the CNB, said that the bank is ready to take measures to curb the exchange rate fluctuations. However, he also added that the bank would not take any steps in the first days after the decision in order to enable the exchange rate to find a new level of market equilibrium. We think that the koruna's appreciation should fade soon and EUR/CZK could stabilize near 26.5. Later in the year, the exchange rate may continue to decline but at a very slow pace.
- The forint and ruble have underperformed. EUR/HUF rose to 310 from 308. We can see that trading range is narrowing gradually and some bigger move could take place soon on the Hungarian market. At the same time, USD/RUB rose to 57.58 from 55.79 as the oil price fell temporarily in March.

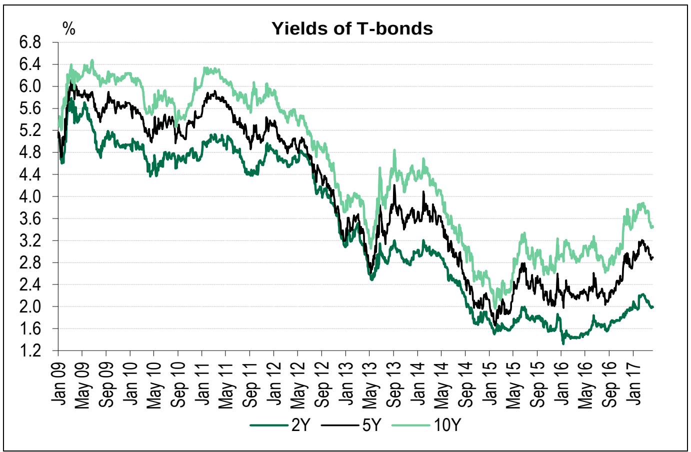
# Market monitor

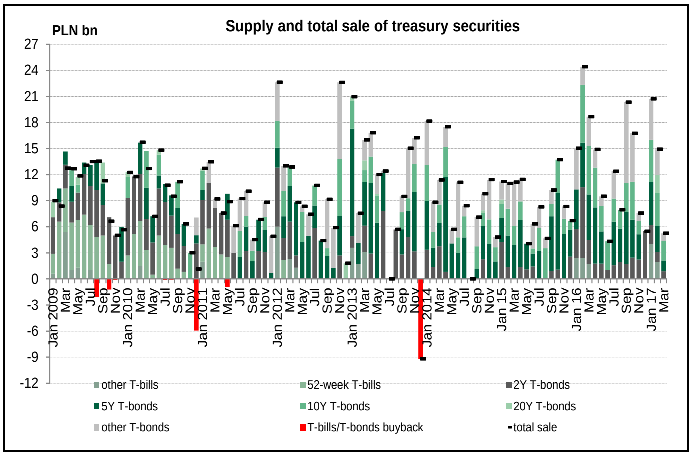



## Treasury bond auctions in 2016/2017 (PLN mn)

| Month | First Auction | | | | Second Auction | | | | Switch Auction | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Date | T-bonds | Offer | | Date | T-bonds | Offer | | Date | T-bonds | Offer |
| March '16 | 3.03 | OK1018/DS0726 | 4000-7000 | 8387.5 | | | | | 24.03 | PS0416/OK0716/PS1016 | WZ0120/PS0721/WZ0126 |
| April | 7.04 | OK1018/DS0726 | 3000-6000 | 6356.6 | 28.04 | WZ0120/PS0721/WZ0126 | 5000-8000 | 8534.7 | | | |
| May | 5.05 | OK1018/DS0726 | 2500-4500 | 4703.9 | 25.05 | PS0721/IZ0823 | 2000-4000 | 4801.7 | | | |
| June | 9.06 | OK1018/DS0726 | 3000-4000 | 4321.7 | | | | | 27.06 | OK0716/IZ0816/PS1016 | Cancelled |
| July | 7.07 | OK/DS/WS | 3000-6000 | 4431.9 | 28.07 | PS0721/WZ1122/WZ0126 | 5000-8000 | 7950.9 | | | |
| August | 18.08 | OK/PS/DS | 5000-8000 | 7949.4 | | | | | | | |
| September | 1.09 | OK/DS/WZ | 4000-7000 | 7593.5 | | | | | 22.09 | PS1016/WZ0117/PS0417 | PS0721/WZ0120/WZ0126 |
| October | 6.10 | OK1018/DS0727 | 3000-6000 | 6806.5 | 21.10 | WZ0121/PS0422/WZ1122 | 6000-10000 | 9943.1 | | | |
| November | 17.11 | PS/WZ | 3000-5000 | 3694.0 | | | | | 3.11 | WZ0117/PS0417/DS1017 | OK1018/IZ0823/DS0727 |
| December | | | | | | | | | 15.12 | WZ0117/PS0417/DS1017 | OK0419 |
| January '17 | 5.01 | OK/PS/WZ/DS | 3000-5000 | 6004.0 | 23.01 | OK/PS/WZ/DS/ | 6000-9000 | 10684.7 | | | |
| February | 2.02 | OK/PS/WZ/DS | 3000-5000 | 5964.3 | 16.02 | OK/PS/WZ/DS/WS | 3000-7000 | 7000.2 | | | |
| March | 23.03 | OK/PS/WZ/DS/WS/IZ | 3000-5000 | | | | | | 2.03 | PS0417/OK0717/DS1017 | OK/PS/WZ/DS |

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

Source: Finance Ministry, Reuters, BZ WBK.

# Economic calendar

| MONDAY | TUESDAY | WEDNESDAY | THURSDAY | FRIDAY |
|---|---|---|---|---|
| **10 April**<br>CZ: CPI (Mar) | **11**<br>***PL: CPI (Mar)***<br>EZ: Industrial output (Feb)<br>DE: ZEW index (Apr)<br>HU: CPI (Mar) | **12**<br>***PL: Core inflation (Mar)*** | **13**<br>***PL: Balance of payments (Feb)***<br>US: Flash Michigan (Apr) | **14**<br>***PL: Money supply (Mar)***<br>US: CPI (Mar)<br>US: Retail sales (Mar) |
| **17** | **18**<br>US: House starts (Mar)<br>US: Building permits (Mar)<br>US: Industrial output (Mar) | **19**<br>***PL: Wages and employment (Mar)***<br>EZ: CPI (Mar)<br>US: Fed Beige Book | **20**<br>***PL: Retail sales (Mar)***<br>***PL: Industrial output (Mar)***<br>***PL: PPI (Mar)***<br>US: Philly Fed index (Apr) | **21**<br>***PL: MPC minutes***<br>DE: Flash PMI – services (Apr)<br>DE: Flash PMI – manufacturing (Apr)<br>US: Flash PMI – services (Apr)<br>US: Flash PMI – manufacturing (Apr)<br>US: Home sales (Mar) |
| **24**<br>DE: Ifo index (Apr) | **25**<br>HU: Central bank decision<br>US: New home sales (Mar)<br>US: Consumer confidence index (Apr) | **26**<br>***PL: Unemployment rate (Mar)*** | **27**<br>EZ: Central bank decision<br>US: Durable goods orders (Mar)<br>US: Pending home sales (Mar) | **28**<br>***PL: Flash CPI (Apr)***<br>EZ: Flash CPI (Apr)<br>US: Advance GDP (Q1)<br>US: Michigan index (Apr) |
| **1 May**<br>US: Personal income (Mar)<br>US: Consumer spending (Mar)<br>US: ISM – manufacturing (Apr) | **2**<br>***PL: PMI – manufacturing (Apr)***<br>DE: PMI – manufacturing (Apr)<br>EZ: PMI – manufacturing (Apr)<br>EZ: Unemployment rate (Mar) | **3**<br>EZ: Advance GDP (Q1)<br>US: ADP report (Apr)<br>US: ISM – services (Apr)<br>US: FOMC decision | **4**<br>DE: PMI – services (Apr)<br>EZ: PMI – services (Apr)<br>US: Industrial orders (Mar)<br>CZ: Central bank decision | **5**<br>US: Non-farm payrolls (Apr)<br>US: Unemployment rate (Apr) |
| **8**<br>DE: Industrial orders (Mar) | **9**<br>DE: Industrial output (Mar)<br>DE: Exports (Mar) | **10**<br>CZ: Industrial output (Mar)<br>CZ: CPI (Apr)<br>HU: CPI (Apr) | **11** | **12**<br>***PL: Money supply (Apr)***<br>***PL: CPI (Apr)***<br>***PL: Moody's rating review***<br>EZ: Industrial output (Mar)<br>DE: Flash GDP (Q1)<br>US: Retail sales (Apr)<br>US: Flash Michigan (May) |

Source: CSO, NBP, Bloomberg.

**Calendar of MPC meetings and data releases for 2017**

| | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| ECB meeting | 19 | - | 9 | 27 | - | 8 | 20 | - | 7 | 26 | - | 14 |
| MPC meeting | 10-11 | 7-8 | 7-8 | 4-5 | 16-17 | 6-7 | 4-5 | - | 5-6 | 3-4 | 7-8 | 4-5 |
| MPC minutes | 26 | 23 | 23 | 21 | 25 | 22 | - | 24 | 21 | 19 | 23 | 21 |
| Flash GDP* | | 14 | | | 16 | | | 16 | | | 14 | |
| GDP* | | 28 | | | 31 | | | 31 | | | 30 | |
| CPI | 13 | 13 | 14 | 11 | 12 | 12 | 11 | 11 | 11 | 12 | 13 | 11 |
| Core inflation | 16 | | 15 | 12 | 15 | 13 | 12 | 14 | 12 | 13 | 14 | 12 |
| PPI | 19 | 17 | 17 | 20 | 19 | 20 | 19 | 18 | 19 | 18 | 20 | 19 |
| Industrial output | 19 | 17 | 17 | 20 | 19 | 20 | 19 | 18 | 19 | 18 | 20 | 19 |
| Retail sales | 19 | 17 | 17 | 20 | 19 | 20 | 19 | 18 | 19 | 18 | 20 | 19 |
| Gross wages,employment | 18 | 16 | 16 | 19 | 18 | 19 | 18 | 17 | 18 | 17 | 17 | 18 |
| Foreign trade | | | | | about 50 working days after reported period | | | | | | | |
| Balance of payments* | | | 31 | | | | | | | | | |
| Balance of payments | 13 | 13 | 16 | 13 | | | | | | | | |
| Money supply | 13 | 14 | 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

| | | Mar 16 | Apr 16 | May 16 | Jun 16 | Jul 16 | Aug 16 | Sep 16 | Oct 16 | Nov 16 | Dec 16 | Jan 17 | Feb 17 | Mar 17E | Apr 17E |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| PMI | pts | 53.8 | 51.0 | 52.1 | 51.8 | 50.3 | 51.5 | 52.2 | 50.2 | 51.9 | 54.3 | 54.8 | 54.2 | 53.5 | 54.0 |
| Industrial production | % YoY | 0.7 | 6.0 | 3.2 | 6.0 | -3.4 | 7.5 | 3.2 | -1.3 | 3.1 | 2.1 | 9.1 | 1.2 | 8.7 | -3.4 |
| Construction production | % YoY | -15.8 | -14.9 | -13.7 | -13.0 | -18.8 | -20.5 | -15.3 | -20.1 | -12.8 | -8.0 | 2.1 | -5.4 | 2.1 | -7.2 |
| Retail sales [a] | % YoY | 0.8 | 3.2 | 2.2 | 4.6 | 2.0 | 5.6 | 4.8 | 3.7 | 6.6 | 6.4 | 11.4 | 7.3 | 9.2 | 11.6 |
| Unemployment rate | % | 9.9 | 9.4 | 9.1 | 8.7 | 8.5 | 8.4 | 8.3 | 8.2 | 8.2 | 8.3 | 8.6 | 8.5 | 8.2 | 7.8 |
| Gross wages in corporate sector | % YoY | 3.3 | 4.6 | 4.1 | 5.3 | 4.8 | 4.7 | 3.9 | 3.6 | 4.0 | 2.7 | 4.3 | 4.0 | 4.2 | 4.1 |
| Employment in corporate sector | % YoY | 2.7 | 2.8 | 2.8 | 3.1 | 3.2 | 3.1 | 3.2 | 3.1 | 3.1 | 3.1 | 4.5 | 4.6 | 4.6 | 4.6 |
| Exports (€) | % YoY | 0.0 | 4.0 | 1.4 | 6.0 | -5.3 | 9.3 | 3.1 | -0.5 | 5.8 | 5.2 | 13.8 | 4.0 | 13.8 | -1.8 |
| Imports (€) | % YoY | 0.9 | 0.0 | 2.5 | 0.8 | -7.3 | 10.7 | 3.5 | 3.6 | 6.3 | 7.1 | 16.0 | 7.1 | 15.1 | 13.6 |
| Trade balance | EUR mn | 337 | 487 | 375 | 641 | -272 | -387 | 5 | -80 | 307 | -105 | 225 | -235.8 | 183 | -1,765 |
| Current account balance | EUR mn | -217 | 691 | 1,392 | -723 | -503 | -729 | -858 | -179 | -128 | -56 | 2,457 | -357 | -183 | -1,613 |
| Current account balance | % GDP | -0.8 | -0.9 | -0.8 | -0.5 | -0.4 | -0.4 | -0.4 | -0.5 | -0.5 | -0.3 | 0 | 0.2 | 0.2 | -0.3 |
| Budget deficit (cumulative) | PLN bn | -9.6 | -11.1 | -13.5 | -18.7 | -14.4 | -14.9 | -20.6 | -24.6 | -27.6 | -46.3 | 6.7 | 0.9 | -5.8 | -10.5 |
| Budget deficit (cumulative) | % of FY plan | 17.5 | 20.3 | 24.6 | 34.1 | 26.3 | 27.3 | 37.7 | 45.0 | 50.4 | 84.6 | -11.4 | -1.4 | 9.8 | 17.6 |
| CPI | % YoY | -0.9 | -1.1 | -0.9 | -0.8 | -0.9 | -0.8 | -0.5 | -0.2 | 0.0 | 0.8 | 1.7 | 2.2 | 2.0 | 2.1 |
| CPI excluding food and energy | % YoY | -0.2 | -0.4 | -0.4 | -0.2 | -0.4 | -0.4 | -0.4 | -0.2 | -0.1 | 0.0 | 0.2 | 0.3 | 0.7 | 0.9 |
| PPI | % YoY | -1.9 | -1.2 | -0.4 | -0.8 | -0.5 | -0.1 | 0.2 | 0.6 | 1.8 | 3.2 | 4.0 | 4.4 | 4.6 | 4.1 |
| Broad money (M3) | % YoY | 9.1 | 11.6 | 11.6 | 11.4 | 10.7 | 10.1 | 9.4 | 8.7 | 9.7 | 9.6 | 8.5 | 8.2 | 8.3 | 7.9 |
| Deposits | %YoY | 9.4 | 11.6 | 11.8 | 11.3 | 10.6 | 9.9 | 9.1 | 8.7 | 9.6 | 9.1 | 8.3 | 7.7 | 7.7 | 7.4 |
| Loans | %YoY | 4.4 | 6.7 | 5.0 | 4.6 | 4.7 | 3.7 | 3.7 | 3.9 | 4.8 | 4.7 | 3.5 | 4.8 | 4.8 | 3.8 |
| EUR/PLN | PLN | 4.29 | 4.31 | 4.41 | 4.40 | 4.40 | 4.30 | 4.32 | 4.31 | 4.39 | 4.44 | 4.37 | 4.31 | 4.29 | 4.23 |
| USD/PLN | PLN | 3.87 | 3.80 | 3.90 | 3.92 | 3.98 | 3.84 | 3.86 | 3.91 | 4.07 | 4.20 | 4.11 | 4.05 | 4.02 | 3.94 |
| CHF/PLN | PLN | 3.93 | 3.94 | 3.99 | 4.04 | 4.05 | 3.96 | 3.96 | 3.96 | 4.08 | 4.13 | 4.08 | 4.04 | 4.01 | 3.94 |
| Reference rate [b] | % | 1.50 | 1.50 | 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 | % | 1.67 | 1.67 | 1.67 | 1.69 | 1.71 | 1.71 | 1.71 | 1.72 | 1.73 | 1.73 | 1.73 | 1.73 | 1.73 | 1.73 |
| Yield on 2-year T-bonds | % | 1.44 | 1.48 | 1.54 | 1.70 | 1.66 | 1.61 | 1.71 | 1.75 | 1.85 | 1.95 | 2.01 | 2.20 | 2.08 | 2.02 |
| Yield on 5-year T-bonds | % | 2.18 | 2.25 | 2.24 | 2.38 | 2.24 | 2.14 | 2.26 | 2.43 | 2.74 | 2.80 | 2.94 | 3.15 | 3.02 | 3.00 |
| Yield on 10-year T-bonds | % | 2.88 | 2.95 | 3.04 | 3.11 | 2.89 | 2.71 | 2.85 | 3.01 | 3.41 | 3.55 | 3.69 | 3.82 | 3.66 | 3.50 |

Note: [a] in nominal terms, [b] at the end of the period.
Source: CSO, NBP, Finance Ministry, BZ WBK estimates.

## Quarterly and annual economic indicators

| | | 2014 | 2015 | 2016 | 2017E | 1Q16 | 2Q16 | 3Q16 | 4Q16 | 1Q17E | 2Q17E | 3Q17E | 4Q17E |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| GDP | PLN bn | 1,719.7 | 1,798.3 | 1,852.5 | 1,941.7 | 428.3 | 449.4 | 453.4 | 521.4 | 449.7 | 465.2 | 477.5 | 549.3 |
| GDP | % YoY | 3.3 | 3.9 | 2.8 | 3.3 | 3.0 | 3.1 | 2.5 | 2.7 | 3.3 | 3.1 | 3.6 | 3.3 |
| Domestic demand | % YoY | 4.7 | 3.4 | 2.8 | 3.3 | 3.9 | 2.2 | 2.9 | 2.4 | 3.2 | 3.7 | 3.4 | 2.8 |
| Private consumption | % YoY | 2.6 | 3.2 | 3.6 | 4.1 | 3.2 | 3.3 | 3.9 | 4.2 | 4.2 | 4.2 | 4.0 | 4.0 |
| Fixed investments | % YoY | 10.0 | 6.1 | -5.5 | 3.7 | -2.2 | -5.0 | -7.7 | -5.8 | 0.8 | 0.7 | 5.1 | 5.7 |
| Industrial production | % YoY | 3.4 | 4.8 | 2.9 | 4.3 | 3.0 | 5.7 | 2.5 | 1.5 | 6.3 | 1.7 | 4.7 | 4.4 |
| Construction production | % YoY | 4.3 | 0.3 | -14.6 | 2.9 | -12.2 | -13.9 | -18.1 | -13.2 | -0.3 | -0.8 | 5.6 | 4.9 |
| Retail sales [a] | % YoY | 3.1 | 1.5 | 3.9 | 9.2 | 1.9 | 3.5 | 4.1 | 5.6 | 9.4 | 11.0 | 9.3 | 7.4 |
| Unemployment rate [b] | % | 11.4 | 9.7 | 8.3 | 7.1 | 9.9 | 8.7 | 8.3 | 8.3 | 8.2 | 7.2 | 7.0 | 7.1 |
| Gross wages in the national economy [a] | % YoY | 3.6 | 3.3 | 3.8 | 4.7 | 3.1 | 4.3 | 4.1 | 3.7 | 4.2 | 4.3 | 4.0 | 5.8 |
| Employment in the national economy | % YoY | 0.2 | 0.9 | 2.3 | 3.5 | 2.1 | 2.4 | 2.4 | 2.3 | 3.4 | 3.3 | 3.2 | 2.8 |
| Exports (€) | % YoY | 6.4 | 8.5 | 2.7 | 8.1 | 1.4 | 3.8 | 2.1 | 3.4 | 10.6 | 8.0 | 7.0 | 7.0 |
| Imports (€) | % YoY | 8.3 | 5.0 | 2.9 | 10.2 | 2.9 | 1.1 | 1.9 | 5.6 | 12.7 | 13.5 | 7.7 | 7.2 |
| Trade balance | EUR mn | -3,255 | 2,213 | 1,949 | -1,534 | 976 | 1,503 | -652 | 122 | 172 | -742 | -1,003 | 39 |
| Current account balance | EUR mn | -8,534 | -2,653 | -1,273 | -115 | -186 | 1,357 | -2,087 | -357 | 1,918 | -934 | -1,731 | 633 |
| Current account balance | % GDP | -2.1 | -0.6 | -0.3 | 0.0 | -0.8 | -0.5 | -0.4 | -0.3 | 0.2 | -0.3 | -0.2 | 0.0 |
| General government balance | % GDP | -3.5 | -2.6 | -2.4 | -3.0 | - | - | - | - | - | - | - | - |
| CPI | % YoY | 0.0 | -0.9 | -0.6 | 1.9 | -0.9 | -0.9 | -0.8 | 0.2 | 2.0 | 1.9 | 1.9 | 1.8 |
| CPI [b] | % YoY | -1.0 | -0.5 | 0.8 | 1.5 | -1.1 | -0.8 | -0.5 | 0.8 | 2.0 | 1.8 | 2.1 | 1.5 |
| CPI excluding food and energy | % YoY | 0.6 | 0.3 | -0.2 | 1.1 | -0.1 | -0.3 | -0.4 | -0.1 | 0.4 | 1.0 | 1.2 | 1.7 |
| PPI | % YoY | -1.5 | -2.2 | -0.2 | 3.6 | -1.5 | -0.8 | -0.1 | 1.9 | 4.3 | 3.5 | 4.1 | 2.4 |
| Broad money (M3) [b] | % oY | 8.2 | 9.1 | 9.6 | 8.9 | 9.1 | 11.4 | 9.4 | 9.6 | 9.4 | 9.3 | 9.1 | 8.9 |
| Deposits [b] | %YoY | 9.0 | 9.0 | 9.1 | 9.1 | 9.4 | 11.3 | 9.1 | 9.1 | 9.1 | 9.1 | 9.1 | 9.1 |
| Loans [b] | %YoY | 7.2 | 6.9 | 4.7 | 4.2 | 4.4 | 4.6 | 3.7 | 4.7 | 4.5 | 4.4 | 4.3 | 4.2 |
| EUR/PLN | PLN | 4.18 | 4.18 | 4.36 | 4.28 | 4.37 | 4.37 | 4.34 | 4.38 | 4.32 | 4.25 | 4.32 | 4.24 |
| USD/PLN | PLN | 3.15 | 3.77 | 3.95 | 3.95 | 3.96 | 3.87 | 3.89 | 4.06 | 4.06 | 3.94 | 3.95 | 3.84 |
| CHF/PLN | PLN | 3.45 | 3.92 | 4.00 | 3.92 | 3.98 | 3.99 | 3.99 | 4.06 | 4.04 | 3.92 | 3.91 | 3.80 |
| Reference rate [b] | % | 2.00 | 1.50 | 1.50 | 1.50 | 1.50 | 1.50 | 1.50 | 1.50 | 1.50 | 1.50 | 1.50 | 1.50 |
| 3M WIBOR | % | 2.52 | 1.75 | 1.70 | 1.73 | 1.69 | 1.68 | 1.71 | 1.73 | 1.73 | 1.73 | 1.73 | 1.73 |
| Yield on 2-year T-bonds | % | 2.46 | 1.70 | 1.63 | 2.19 | 1.45 | 1.57 | 1.66 | 1.85 | 2.10 | 2.05 | 2.23 | 2.37 |
| Yield on 5-year T-bonds | % | 2.96 | 2.21 | 2.35 | 3.14 | 2.23 | 2.29 | 2.22 | 2.66 | 3.03 | 3.04 | 3.20 | 3.28 |
| Yield on 10-year T-bonds | % | 3.49 | 2.69 | 3.04 | 3.78 | 2.98 | 3.04 | 2.82 | 3.32 | 3.72 | 3.62 | 3.87 | 3.93 |

Note: [a] in nominal terms, [b] at the end of period. Source: CSO, NBP, Finance Ministry, BZ WBK estimates.

This analysis is based on information available until 11.04.2017 has been prepared by:

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