Bank Zachodni WBK
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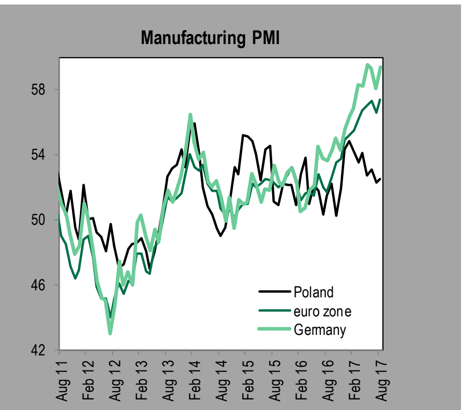
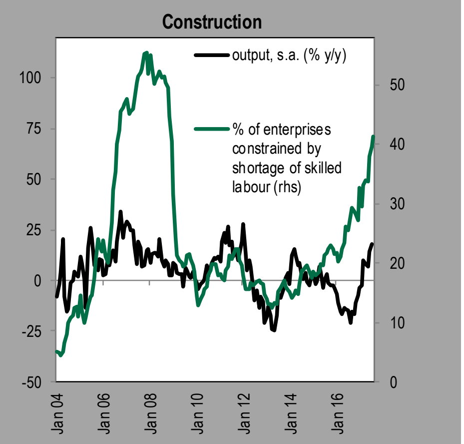
MACROscope

Polish Economy and Financial Markets

September 2017

As Good As It Gets





- **As we are slowly approaching the end of the third quarter, it looks like the Polish economy is still expanding at a solid rate, close to 4% per annum.** The structure of 3.9% y/y GDP growth in 2Q17 remained sub-optimal, as it was boosted mainly by the private consumption and stock building, with investments remaining stagnant (only 0.8% y/y growth despite very low base, driven almost entirely by dwelling construction). However, we expect to see a more pronounced investment rebound in the coming quarters, with higher public spending being the initial driver and private sector joining later on. The most recent high-frequency indicators seem to confirm it, showing a surge in construction output and still decent economic activity in 3Q17.
- Nevertheless, we still argue that the room for further acceleration of economic growth in Poland remains limited. We have signalled in the past that the shortage of workers may become a bottleneck for growth in the not-so-distant future, and in fact **the recent weeks brought a quickly mounting evidence that the labour shortage is already constraining the firms' activity**. One possible consequence of this situation is a significant rise in the wage pressure, another is a moderation of GDP growth, especially after the reduction of the retirement age in October pulls out thousands of people from the labour market.
- Inflation rate has inched up again, mainly due to higher prices of food and fuels, while the underlying price pressure remained subdued (core CPI below 1%). Given the likely acceleration of wages, **it is reasonable to expect that inflationary trends will be picking up in the coming quarters, but we still do not expect the CPI to hit the 2.5% official target before 2019**.
- We still think **the Polish central bank will keep monetary policy unchanged as long as possible, even until 4Q18**. While some MPC members have recently started calling for a sooner policy normalisation, the vast majority is still supporting the status quo. The balance of views may start changing only after the labour market data clearly confirm that wage growth is sharply accelerating.
- The government's draft budget for 2018 assumes a moderate widening of the deficit, which is quite unfortunate given the good economic cycle, but this year will probably end up with the fiscal gap much below plan. As a result, the fiscal outlook is unlikely to unnerve investors or rating agencies in the near future.
- The EURPLN was quite volatile in August, driven by geopolitical risks, solid domestic and global macro data, and dovish central banks' rhetoric. **We expect to see zloty strengthening in the near term** amid positive global sentiment and good economic fundamentals. The PLN may depreciate at the end of the year if the FOMC delivers another rate hike (currently not priced by the market).
- **We anticipate the downward pressure on yields on domestic debt market to continue** until the end of the month owing to low government borrowing needs and good global mood.

In this issue:

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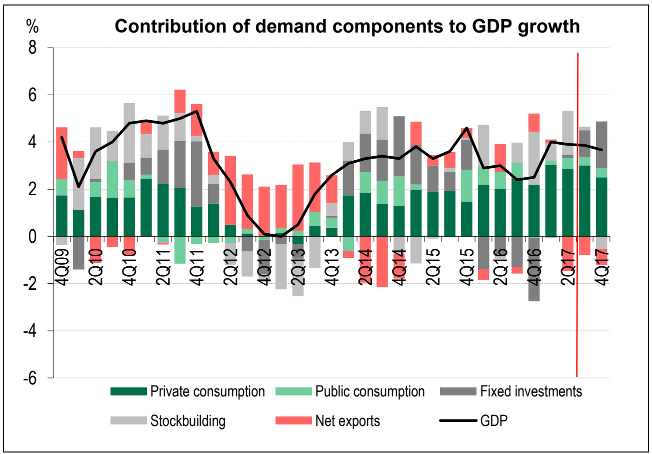
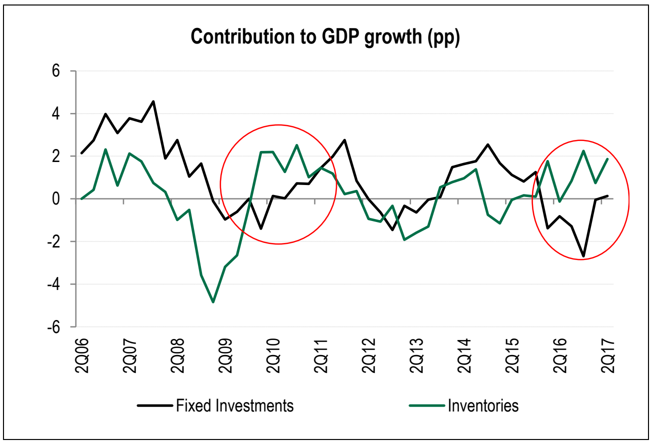
Financial market on September 7, 2017:

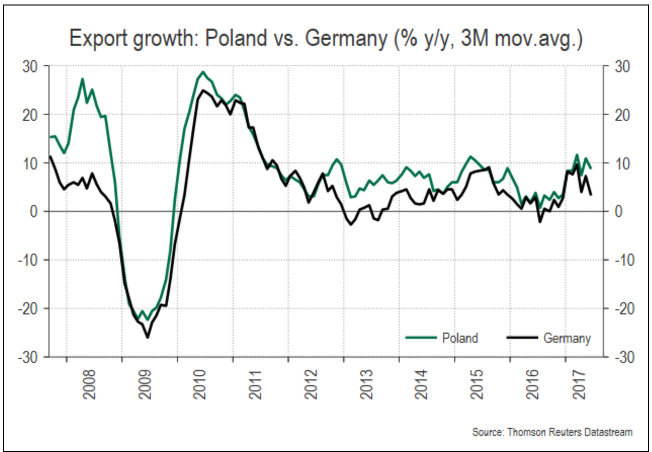
NBP deposit rate	0.50	WIBOR 3M	1.73	EURPLN	4.2466
NBP reference rate	1.50	Yield on 2-year T-bond	1.65	USDPLN	3.5511
NBP lombard rate	2.50	Yield on 10-year T-bond	3.14	CHFPLN	3.7526

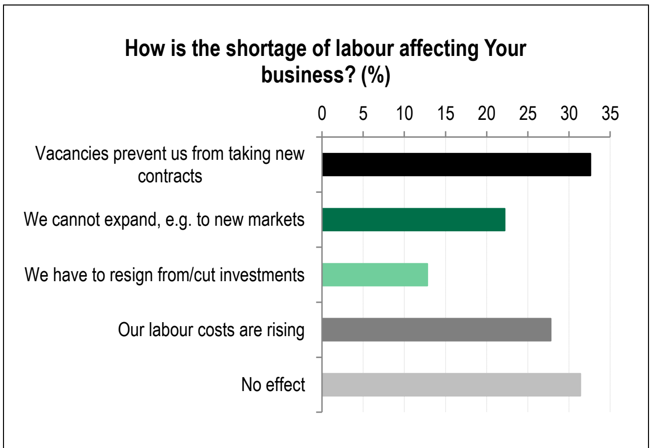
This report is based on information available until 07.09.2017.

Economic update









Source: GUS, Work Service, Thomson Reuters. BZ WBK.

Solid GDP growth continued in 2Q

▪ According to the stat office (GUS) GDP rose by 3.9% y/y in 2Q17 after 4% in 1Q. Private consumption remained the biggest contributor to GDP growth and increased by 4.9% y/y (the fastest pace since 4Q08). Private consumption was boosted by an excellent labour market situation, gradual decrease in the unemployment rate and record high level of consumer confidence. Investment rose slightly by 0.8% y/y, increasing for the first time since the end of 2015, but not enough to influence the overall rate of economic growth. Inventory changes were high and positive for the fourth quarter running, adding as much as 1.9pp in 2Q. In general this category is considered an unstable source of growth, but since a rebound of investment is anticipated and in fact confirmed by some of the indicators the large size of inventory changes could be seen as non-finalized investments. Historically a rebound of investments in 2011 was preceded by several quarters of inventory buildup and in 2014/2015 and 2007/2008 investments and inventories started to grow together, but at a later stage of the rebound it seemed that the drop of inventories helped extend the period of growing investment outlays.

Negative trade balance

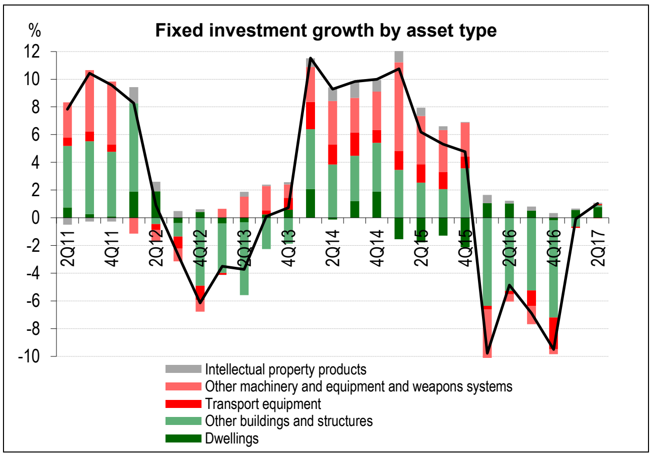
▪ The trade balance contribution to GDP growth amounted to -1.5pp, the most negative reading since 3Q14. The trade balance deterioration was a consequence of a fall in the real pace of export growth. This looks really surprising given the robust economic performance in the Euro zone (our biggest trading partner), which should support the sale of Polish goods abroad. However, if we take a closer look at the data from Western Europe we can see that recent months saw a clear deceleration of German exports with which Polish exports are highly correlated. Note that the PMIs in the CEE region have recently tended to underperform German business sentiment indicators suggesting that the positive growth impulse in the core Euro zone economy is not cascading to the economies supplying it. This, in turn, shows that while the growth rate of the Euro zone economy should support Polish export, the structure of this growth may be less beneficial than expected. Should these trends in the Polish foreign trade persist, the negative contribution of net exports to Polish GDP growth may linger (particularly given the expected rebound in investments).

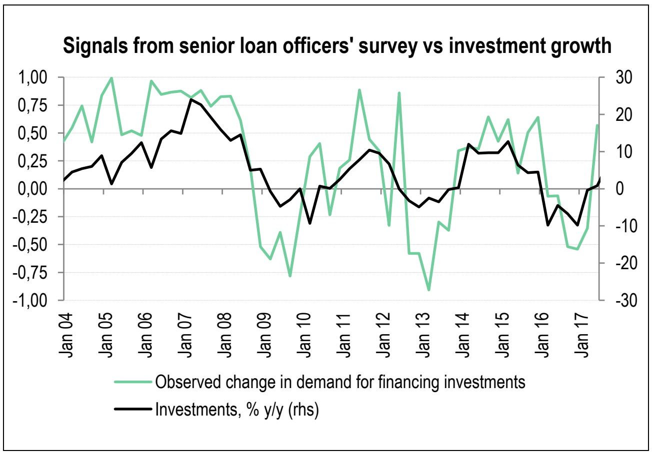
Is labour supply shortage capping growth?

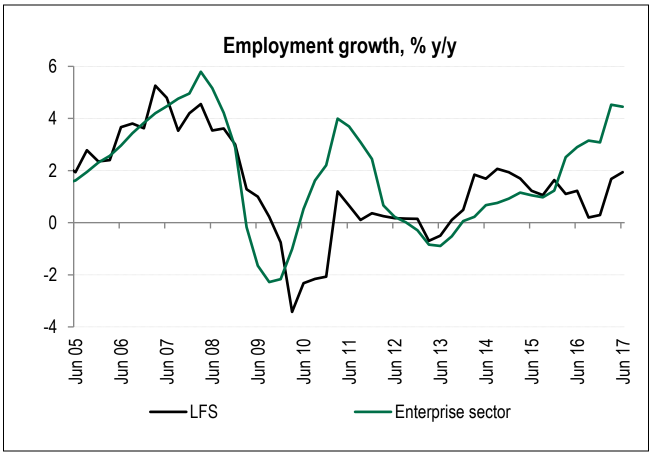
▪ In our view, 3Q17 GDP growth should stay close to 4% y/y although the next quarters will show a gradual deceleration rather than further acceleration. The outlook for exports may appear less optimistic than we have assumed so far and the shortage of workforce could become a more serious constraint; additionally, there will be a negative high base effect in 4Q17. The breakdown of growth will also change. We expect an investment revival mainly thanks to higher utilization of EU funds and higher public spending (in 2Q investment spending of local governments rose by 25% y/y) which should be followed by the reacceleration of corporate activity.

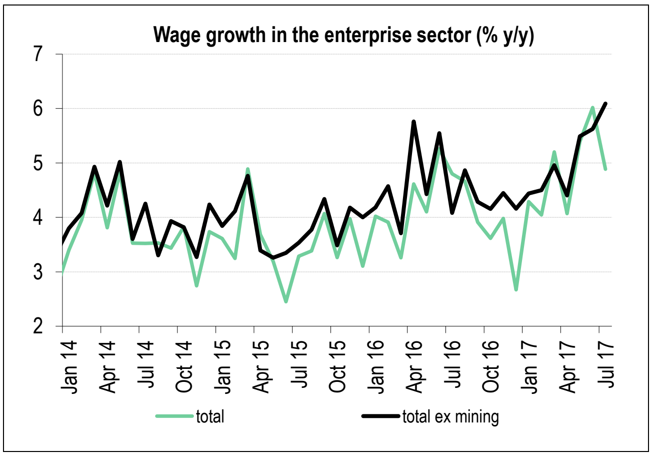
▪ More evidence of labour supply shortfall came with the August PMI report. The index itself has been surprising negatively in 2-3Q. It did not follow the path seen in the Euro zone despite strong trade ties. It also fell behind its regional peers. What caused its relatively poor performance? Markit reports suggested erratic new domestic orders (weak in May and July), but later the PMI's rise might have been prevented by the deceleration in German exports. The last, August, report openly named labour shortage as a reason for a rise in backlogs of work, next to the insufficient supply of commodities. In August, the employment index went back to the level from June, which was the lowest in 34 months, while other surveys confirm continued high demand for labour. The labour market bottleneck is so severe that it could even influence investment plans of enterprises, as Work Service argued in its recent analysis.

Economic update









Source: GUS, NBP, Eurostat, BZ WBK.

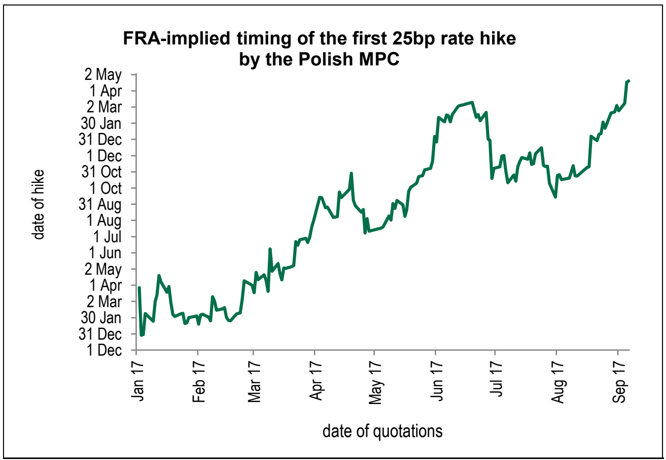
Investment rebound seems to be just behind the corner

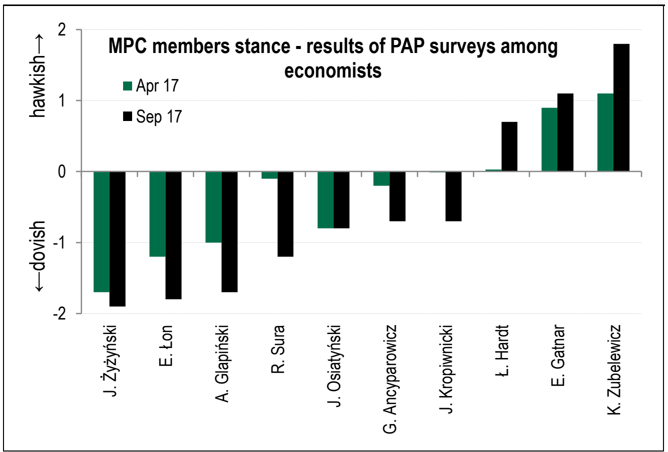
- One of the surprising things about the detailed 2Q GDP was the lack of a significant rebound in investments. Many indicators had suggested an improvement. A growth rate of just 0.8% y/y and 0.5% q/q seems just as disappointing as the 1Q performance of investments (when they failed to turn positive in y/y terms). The construction sector already stepped up the pace in March, and in July it recorded c20% y/y in output, while GUS business survey shows that it is facing a strong stream of new orders and expressing high demand for labour. The problem is that the performance of construction is based on the new investments of local governments and on housing, while enterprises seem to stay put. Expenditures on machinery and non-transport equipment fell in 2Q for enterprises employing 50+ persons. The breakdown of investments offered by the Eurostat for 2Q shows that neither buildings and structures nor ICT, machinery and other non-transport equipment grew in this period. It was the construction of dwellings that caused total investments to post at least a minor growth (0.8% y/y). This breakdown went against the monthly building sector data that pointed to a huge acceleration in civil engineering works, most likely linked to a c25% y/y rise in local government spending on infrastructure. As for the outlays of the private sector, real data do not appear to confirm the rebound. The best positive indication we have comes from the banking sector (the NBP senior loan officers' survey), which reported a huge rise in the interest in fixed investment financing in 2Q and a continued growth in investment loans (at a decent 11% y/y pace). Still, it wasn't enough for the investments to make a significant input to the 2Q GDP growth.
- It remains an open question whether the tight labour market is encouraging or discouraging investments. Evidence is ambiguous. On one hand, investments in technology are a way to get out of the trap of scarce available labour left on the market (a record low unemployment rate). On the other, investments focused on the expansion of the scale of output face a dilemma, as labour costs would have to rise more than proportionately (due to wage pressures), affecting the cost-benefit analysis. The rapid rise in material costs may also act as a discouraging factor. Also, businesses may simply recall too well the days before the global financial crisis, when the overheated labour market ratcheted up the wage bill, making it more difficult to adjust to the recessionary environment when the crisis struck. Another problem is the side effect of the 2.5-year period of deflation, which may now result in more opposition to price hikes from businesses and households. As a result, enterprises may find it difficult to transfer the rising labour and materials costs to their customers. Another obstacle to investments is posed by the constant inflow of new orders, which does not leave time for a technological shutdown of the current output or maintenance.

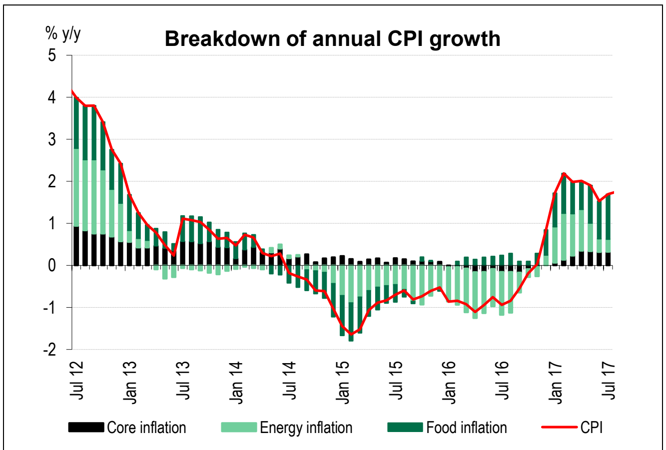
Wage acceleration to support private consumption

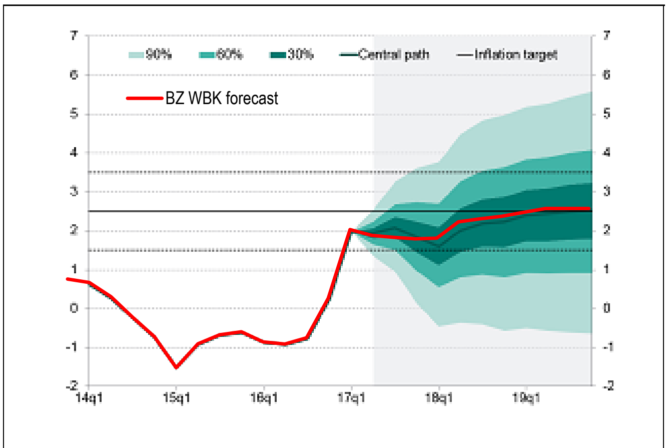
- As indicated by the NBP report on households' financial standing, incomes in 1Q barely grew y/y. The authors signalled that a decline in savings rate may be needed in 2H17 to maintain the high pace of consumption as the strong positive effect of 500+ program should wear out in y/y terms (while the program has covered months since April 2016, the first payments were made in July). Such a remark in the NBP report came as a blow as most of the market forecasts and even the government estimates of budget deficit in 2018 rely on a very strong private consumption pillar. We think that while some of the recorded employment growth may be just due to the reformulation of contracts, the increase in the headcount of those having a job is real, as confirmed by LFS data. What is more, there is finally evidence of wage acceleration (ex the volatile mining sector). In our view, the income side should be strong and continue to support a high path of private consumption growth even without a y/y increase in transfers of family benefits.

Monetary policy watch









Sources: GUS, NBP, PAP, Thomson Reuters, BZ WBK.

The MPC balance of power is unchanged

▪ The MPC doves remained fairly quiet in recent weeks, but their majority seems unthreatened. Usually, it is only the NBP governor who re-iterates the prevailing view that interest rates are likely to stay on hold until the end of 2018. It seems the hawks are making more effort to influence the Council's consensus and recently got some new interesting arguments, but nevertheless remain a minority.

▪ A poll among economists conducted by PAP at the start of September showed it is now easier to tell apart doves and hawks, and comparing to economists' opinions from April the Council as a whole became more dovish.

▪ There were several interviews during the summer suggesting that the view of some MPC members (Osiatyński, Ancyparowicz) may be tilting towards more hawkish, but the September MPC meeting showed no changes in the Council's balance of power.

▪ Interestingly, at the last MPC conference the NBP governor was accompanied by two members with a strong focus on the (tight) labour market: Jerzy Osiatyński and Jerzy Kropiwnicki. However, both seemed quite relaxed about the tensions that could become a source of higher inflation. They seem to be median voters (close to "neutral" in the PAP poll among analysts), so once the data prove that wage pressure intensifies significantly, they may move towards a more hawkish stance and we could see some (failed) votes on rate hikes before 4Q18.

Has consumer optimism gone too far?

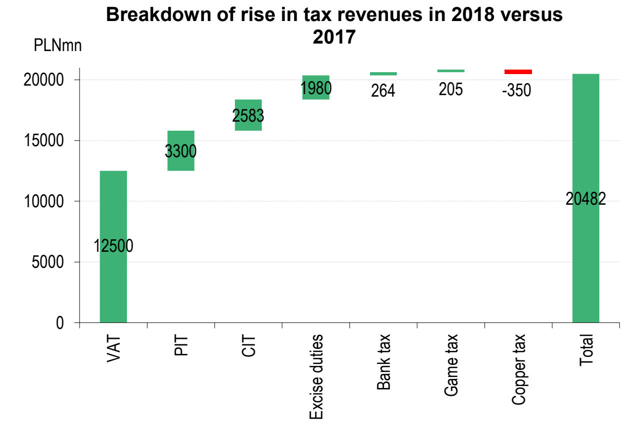
▪ As the July minutes showed, the hawks' view is that further decisions should take into account the impact of negative real interest rates (present since January) on credit creation, asset prices and households' savings rate. The recently released NBP report on households' situation signalled that a drop of saving rate may be coming and the recent money supply data surprised with a significant slowdown of household deposits. Consumer confidence reached the new all-time high in August and so did several sub-categories like current financial situation assessment and the scope for big-ticket purchases. The pace of growth this year of the latter reminds of 2006-2007 when Polish households were said to have been spending more than their financial situation allowed.

▪ That said, we remain of the view that interest rates are going to stay unchanged in Poland for at least one more year, but the internal discussion in the central bank may heat up a bit sooner than we expected. The market is pricing-in even later date of the first interest rate hike, i.e. the spring of 2019.

Inflation is on the rise again

▪ Naturally, many MPC members admitted that a quicker-than-expected rise of inflation would affect their stance. Last NBP projection predicted average CPI at 1.9% in 2017, 2% in 2018 and 2.5% in 2019; according to NBP staff inflation target should be reached in 2H19. July was the first month since February that CPI surprised to the upside. It happened for reasons outside the scope of monetary policy – due to the behaviour of food and energy prices. Core CPI peaked in April and eased gently since then while the headline measure seems to have established a local low in June, which might be a turning point. It is unlikely that inflationary forces could become strong enough by the end of the year to offset the strong negative base effect worth 0.5pp that will kick in in December. Food prices deviated from the usual m/m seasonal pattern in May when news of a ground freeze spread. There was no counterbalancing decline in June, and July was again historically strong in this CPI category in m/m terms. Supply issues in fruit and vegetables were not the only factor. Food inflation was also strengthened by meat prices (same as elsewhere in the EU) and by rising prices of dairy products, butter in particular. What is more, fuel prices started to grow again in August.

Fiscal policy watch



Main macroeconomic assumptions of 2018 budget

	2016	2017 E	2018 E
GDP growth	2.7	3.6	3.8
- Private consumption	3.8	4.0	3.5
- Fixed investment	-7.9	7.2	7.6
CPI growth	-0.6	1.8	2.3
Wage growth in corporate sector	4.1	4.9	5.3
EURPLN, average	4.36	4.27	4.25
NBP rate, average	1.5	1.5	2.3
Current account balance	-0.3	-0.9	-1.0

Main parameters of 2018 budget draft (PLNm)

	2017 plan (1)	2017 E (2)	2018 plan (3)	change (3) / (2)
Total revenue	**324,055**	**343,836**	**355,717**	***3,5%***
Tax revenue	299,846	311,191	331,673	*6,6%*
VAT	143,000	153,500	166,000	*8,1%*
CIT	28,600	29,817	32,400	*8,7%*
PIT	51,000	52,200	55,500	*6,3%*
Non-tax revenue	22,413	30,919	21,923	*-29,1%*
Total spending	**383,400**	**376,773**	**397,209**	***5,4%***
Budget balance	**-59,346**	**-32,937**	**-41,492**	***26,0%***

Net borrowing needs and their funding (PLNm)

	2017 plan (1)	2017 E (2)	2018 plan (3)	change (3) / (2)
Total net borrowing needs	**79,012**	**53,780**	**63,323**	***17.7%***
Funding of net borrowing needs: domestic funding, of which	62,613	47,827	57,917	*21.1%*
- marketable T-bonds	62,613	44,547	57,917	*21.1%*
- T-bills	-	-	-	*0.0%*
- other	0,0	3,280	0,0	*-100.0%*
foreign funding	16,398	5,953	5,406	-9.2%
- bonds	6,619	-1,784	1,251	-

Source: GUS, Ministry of Finance, BZ WBK.

Fiscal deficit in 2017 should be well below plan

- The draft budget for 2018 reveals that the government expects the state budget deficit in 2017 to reach PLN33bn (vs. initially planned PLN59.3bn). The budget revenues are expected to be PLN18.5bn above the plan and spending is to be lower by PLN7.9bn.
- It suggests, in our view, that the general government (GG) deficit in 2017 could easily near 2% of GDP. However, the minister of finance M.Morawiecki remains cautious, saying that the gap could be near 2.5% of GDP. We would not dare to disagree, as we remember what happened with the deficit at the end of last year. Please recall that in December 2016 the budget gap rose sharply, as the government decided to smooth the 2016/17 fiscal path by moving forward some spending and accelerating VAT tax returns. It cannot be ruled out that similar 'tricks' may be used also at the end of this year, and perhaps this explains why the finance minister remains cautious.

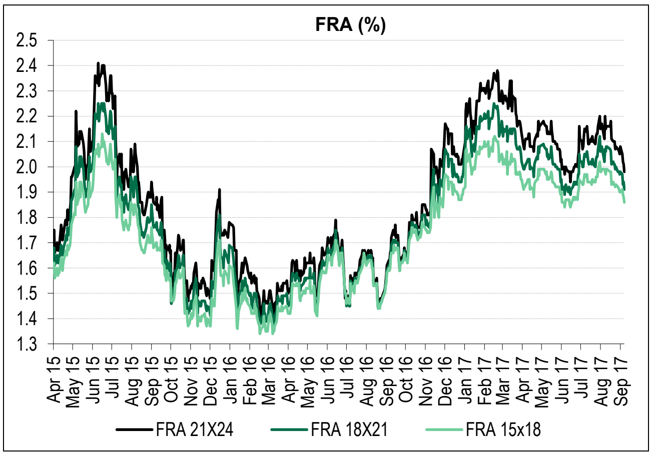
Budget 2018 – moderate easing, but still under control

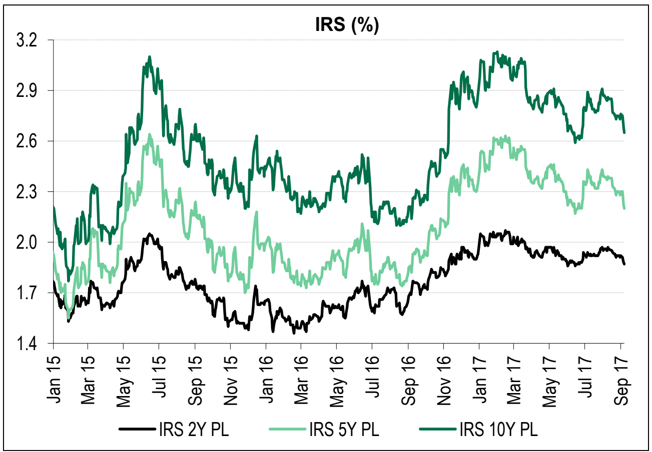
- The draft budget for 2018 assumes the state deficit at PLN41.5bn, with revenues PLN355.7bn, and spending PLN397.2bn.
- The macroeconomic assumptions of the budget seem fairly realistic, even though real GDP growth forecast is slightly above our estimate. Some assumptions are even conservative. For example we think that average wage growth could be much higher, boosting the tax base and private consumption. Also, the NBP interest rate have been assumed to equal average inflation rate (2.3%), which in our view is very unlikely to happen given the central bank's bias.
- The planned growth in tax revenues (6.6%) is slightly above the assumed nominal GDP growth, yet more than half of this increase stems from the continued increase in tax collection (further reduction of tax gap is supposed to generate additional PLN10.8bn). Even if the assumed progress in raising tax collection does not materialise in full, we do not see a big risk for revenue plan.
- Budget expenditure is supposed to rise by PLN20.4bn (5.4%) and in fact most of this amount will be consumed by higher costs of government's programmes (lower retirement age, 500+, Dwelling+, higher spending on defence), which leaves very small room for rise in other spending (on investments, for example). Spending to GDP ratio is planned to decline to 19.3%, its lowest since 2015.
- The budget draft assumes the general government balance at 2.7% of GDP, which implies a moderate fiscal expansion (despite fast economic growth) and a departure from the mid-term fiscal consolidation plan. The spring update of Poland's Convergence Programme predicted 2.9% fiscal gap in 2017 and 2.5% in 2018. This is, however, unlikely to be perceived as a reason for grave concern for investors or the European Commission, as long as the gap is well below the 3% of GDP mark.

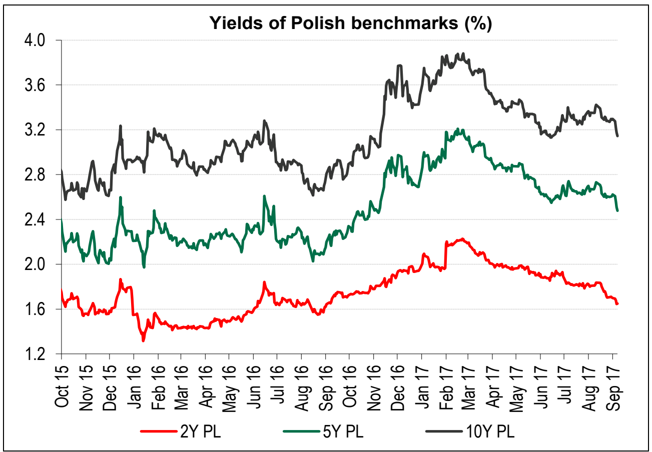
2018 budget financing

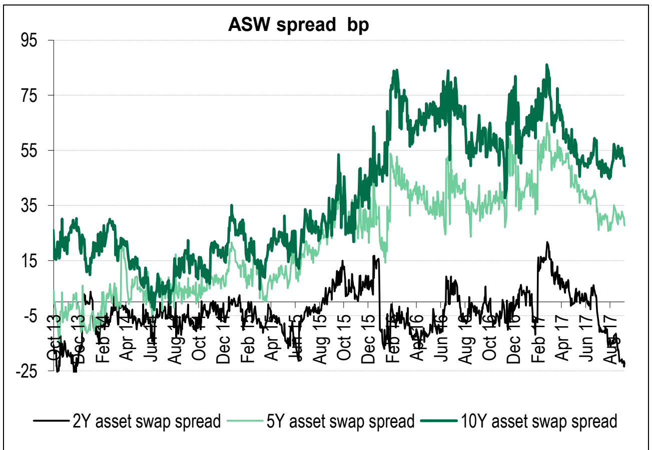
- According to 2018 budget draft, the net borrowing needs are assumed to amount to PLN63.3bn vs PLN53.8bn expected performance for this year (PLN79.5bn planned initially). Bonds net issuance on the domestic market is planned to reach PLN57.9bn vs PLN44.5bn expected this year. Gross borrowing needs are planned to amount to PLN181.7bn vs PLN143.1bn in 2017 (last MoF estimates) and 178.5 ('17 budget plan).
- We believe that information about the major central banks potentially delaying the strengthening of monetary policy (especially slowing the pace of QE reduction) should help to finance borrowing needs at reasonable cost. Additional support would come from the further switch from the NBP bills (cPLN70bn) to treasury papers in Polish commercial banks' portfolios, as well as growing demand for bonds from the insurance and investment fund sector.

Interest rate market







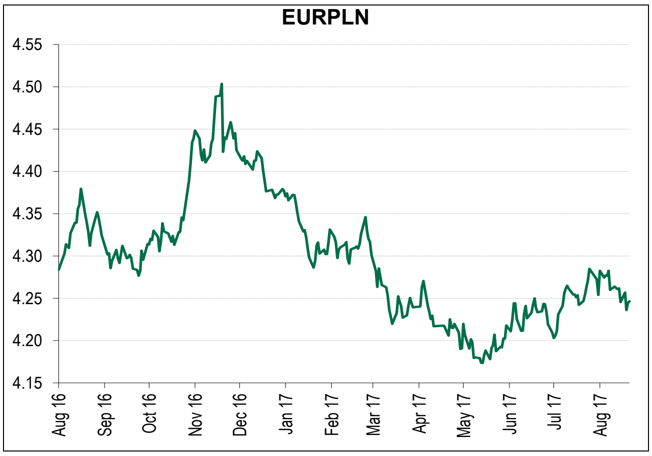


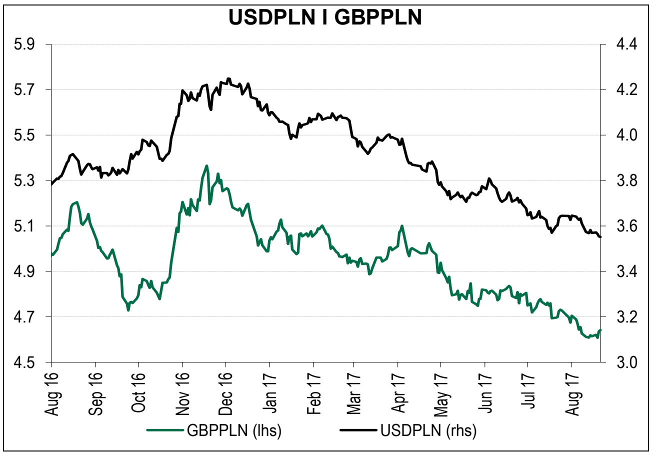
Source: Finance Ministry, Reuters, Bloomberg, BZ WBK.

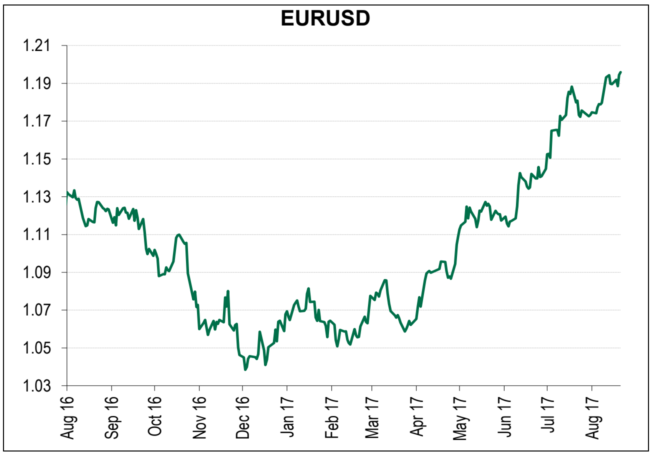
Rates rallying amid dovish central banks' stance

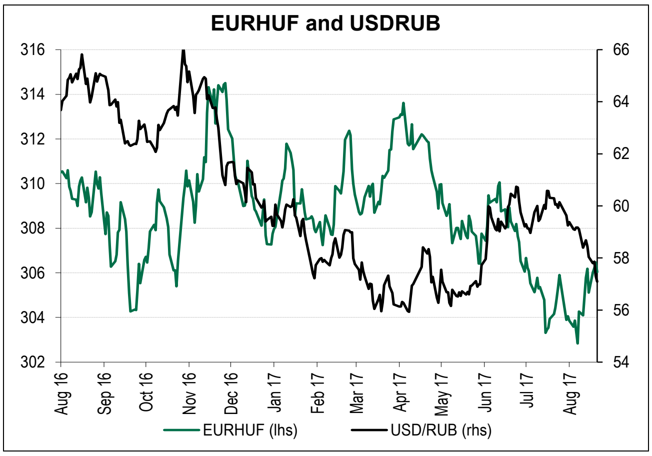
- Since the beginning of August, we observed a gradual slide of IRS rates on the domestic market. This happened under condition which usually fosters rates increase i.e. in anticipation of good macro numbers and the Jackson Hole conference, where investors anticipated ECB to announce a gradual acceleration of policy unwinding and Fed to confirm a continuation of rate hikes. The rates compression accelerated since the second decade of August, after mixed data begun to flow from the US economy and North Korea took an unexpectedly aggressive action against US and Japan. An additional push came from the Jackson Hole conference, where central bankers refrained from any comments which would suggest a faster tightening of monetary policy. The release of 2Q17 GDP data for Poland and CEE did not push the yields up, and neither did Moody's report lifting GDP growth forecast for Polish economy to 4.3% (which implies 4.7% growth forecast for 2H this year). Final push came from the ECB conference where M. Draghi said that euro area economy still required considerable support from the monetary policy and that asset purchases would continue until the end of 2017, and beyond, if necessary. As a result, the IRS curve slid by 23bp to 2.65% for 10Y, by 20pb to 2.20 for 5Y and by 6bp to 1.88% for 2Y segment.
- On the bonds market, we observed a somewhat different chain of events. In the first decade of August, the yields increased owing to rising cost of credit risk, on the back of the message expected of the Jackson Hole conference as well as the rise of geopolitical tension related to the Korean peninsula. However, in the 2H of the month there was a rebound and assets swap spreads dropped. This move was supported by a series of mixed macroeconomic data from US, Jackson Hole conference, solid domestic and CEE GDP reading, and Moody's upward revision of forecasts for Poland at the beginning of September. Like in the case of IRS, it was Mario Draghi who delivered fuel for the final stage of this trend. As a result, the Polish yield curve came down from its peak (recorded in the first decade of August) of 3.44% for 10Y, 2.69% for 5Y and 1.84% for 2Y, to respectively 3.14%, 2.47% and 1.65% at the beginning of September.
- The FRA rates for 3M Wibor decreased for the +12M segment since the beginning of August, but in the case of FRA21X24 the market has already erased almost the whole expected increase of central bank interests rates, i.e. 20bp.
- We expect the downward pressure on yields on domestic debt market to continue until the end of the month in response to the strongly falling expectations that the ECB would start withdrawing from QE soon. In the short term, the further yield decline path may be interrupted by the profit taking after it turns out that Moody's will not upgrade Poland's rating in September. The scenario of declining yields can be supported by low government borrowing needs (only one switch auction scheduled for September) and expectations for other upward revisions of forecasts for the Polish economy by rating agencies (e.g. S&P's). We believe that bond prices will benefit from both lower cost of credit risk and lower expected level of interest rates. The latter will reflect the behaviour of underlying markets, i.e. downward pressure on financing cost is expected to continue.
- In a horizon beyond one month, we expect yields to start going up in the view of progressing tightening of the labour market. However, we believe that owing to the expected low supply of domestic debt and the FinMin's need to extend the maturity of treasuries, the short end of the bond curve will remain low.

Foreign exchange market









Sources: Reuters, Bloomberg, Markit, BZ WBK.

Balance turns to stronger zloty

▪ The zloty depreciated vs the euro since we have published our mid-year Outlook in late June, in line with what we had expected. Polish currency was pressured by risk aversion persisting in the global market and tensions between the Polish government and the European Commission. EUR/PLN temporarily neared 4.30 reaching its highest level since March but in early September the exchange rate is back close to 4.25. At the same time, the euro's appreciation versus the dollar, Swiss franc and British pound pushed USD/PLN down to 3.51, CHFPLN to 3.72 and GBPPLN to 5.60.

▪ In July, the protests in Poland against the government's planned changes to the judiciary system weighed on the zloty. Although President Andrzej Duda vetoed two of the three controversial bills, the European Commission (EC) launched an infringement procedure against Poland. In late July, the EC gave the government one month to answer charges. We think the conflict should not escalate in the near term, as the EC will probably wait for the new versions of the bills to be presented by the President. Moreover, the risk of significant financial sanctions being imposed on Poland is quite low, in our view, as it would require the unanimous support of all 27 EU countries. Thus, we think that this issue is rather unlikely to have significant impact on the Polish FX market in the coming weeks.

▪ Until now, we have been expecting that EURPLN could stay high in the next two or three months and ease towards 4.20 at the end of the year but we are of the opinion that order of the events will be the opposite.

▪ In our view, global market sentiment could remain positive in the weeks to come amid robust economic data and no signals from the central banks of an acceleration of monetary policy normalization process. Also, the conflict between the Polish government and the European Commission may not attract that much market attention as long as the risk of imminent financial consequences is low. At the same, time we still expect one more 25bp Fed rate hike to be delivered this year in December and the market is not pricing such scenario. Once this hike becomes more likely, we expect emerging currencies, including the zloty, to be under pressure in late 2017.

Dollar may recover

▪ EURUSD stayed in the strong upside trend observed since the beginning of the year. The main factors pushing the exchange rate temporarily above 1.20 were solid euro zone data, tensions between the US and North Korea/China and market doubting in one more 25bp Fed rate hike to be delivered this year.

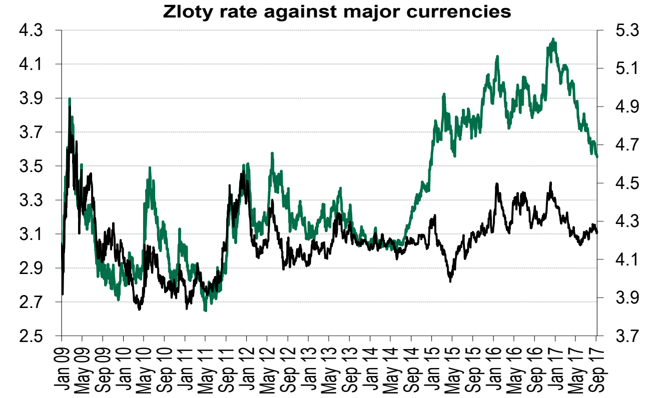
▪ We think the dollar is oversold and we think EURUSD might fall to c1.15 at the end of the year. In our view, current pricing does not reflect strength of the US economy while it would be difficult for the euro zone data to surprise even more to the upside given the recent exceptionally strong performance. Also, we think the Fed will hike rates one more time this year, which should boost the dollar. At the same time, strong euro might concern the ECB and the central bank may delay the start of policy normalization.

CNB interest rate hike supported the koruna

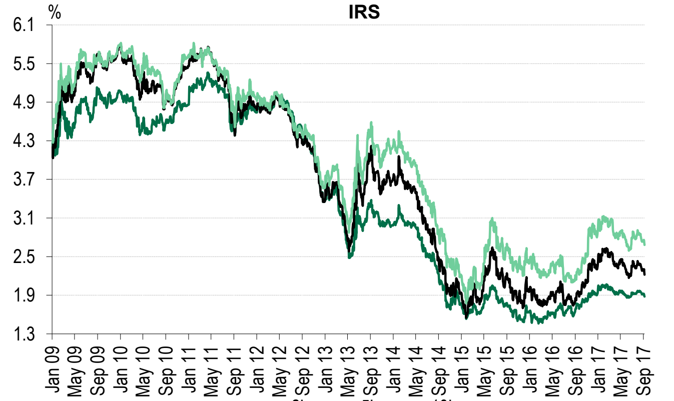
▪ The main event of the past months in the CEE region was the interest rate hike delivered by the Czech National Bank (CNB). The CNB increased rates by 20bp in August (main refi rate at 0.25%), making it the first CEE central bank to tighten monetary policy in the last five years. CNB governor Jiri Rusnok said that sound economic growth, rising inflation and tight labour market supported the decision. The statement released after the decision sounded dovish but in late August two Czech central bankers said that more hikes could take place already this year which boosted koruna and kept EUR/CZK near 26.0 despite the shaky global market sentiment.

Market monitor

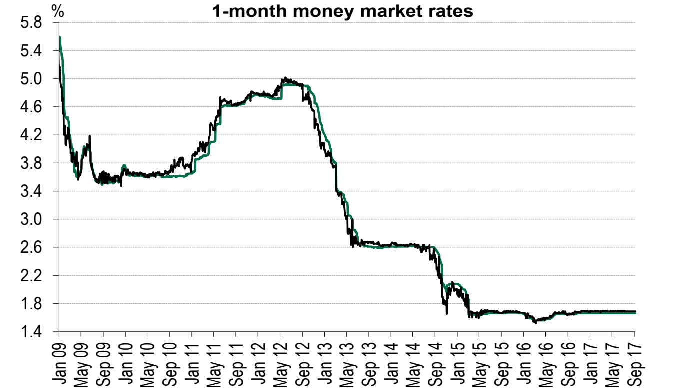
Zloty rate against major currencies



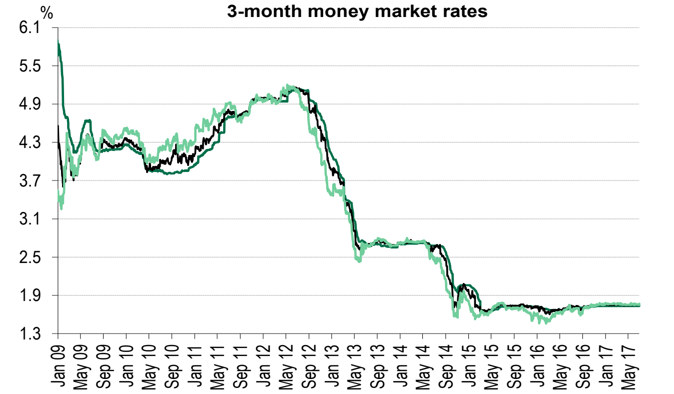
IRS



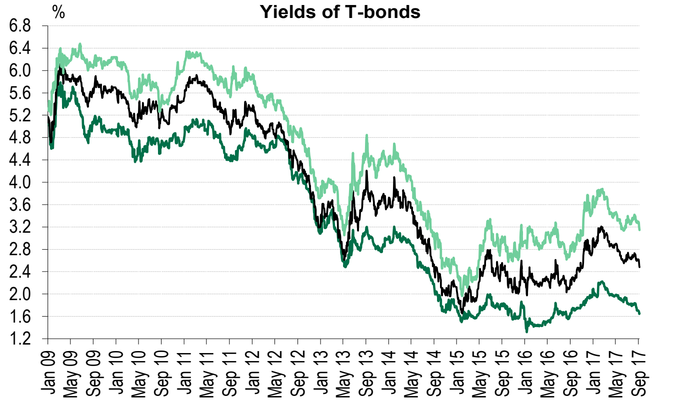
1-month money market rates



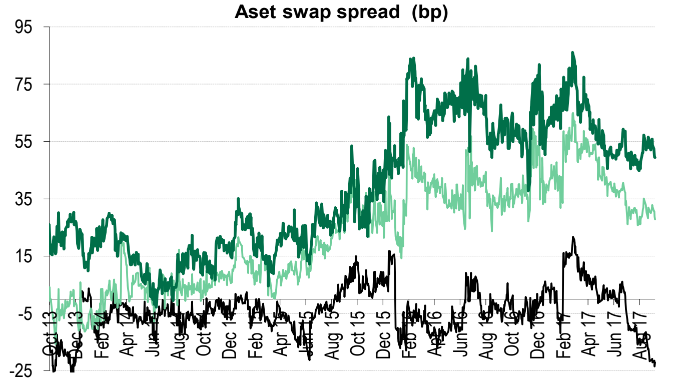
3-month money market rates



Yields of T-bonds



Aset swap spread (bp)



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
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
April	6.04	OK/PS/WZ/DS	3000-5000	5000	25.04.	OK/PS/WZ/DS	6000-9000	8970			
May	18.05	OK/PS/WZ/DS	3000	3000					25.05	OK0717/DS1017	OK/PS/WZ/DS
June	9.06	OK/PS/WZ/DS/WS	3000	3000					22.06	OK0717/DS1017/WZ0118	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
11 September ***PL: CPI (Aug)*** CZ: CPI (Aug)	**12** ***PL: Core inflation (Aug)***	**13** ***PL: Balance of payments (Jun)*** EZ: Industrial output (Jul)	**14** US: CPI (Aug)	**15** US: Retail sales (Aug) US: Industrial output (Aug) US: Flash Michigan (Sep)
18 ***PL: Wages and employment (Aug)*** EZ: CPI (Aug)	**19** ***PL: Industrial output (Aug)*** ***PL: Retail sales (Aug)*** ***PL: PPI (Aug)*** DE: ZEW index (Sep) HU: Central bank decision US: House starts (Aug) US: Building permits (Aug)	**20** US: Home sales (Aug) US: FOMC decision	**21** ***PL: MPC minutes*** US: Philly Fed index (Sep)	**22** ***PL: Money supply (Aug)*** DE: Flash PMI – services (Sep) DE: Flash PMI – manufacturing (Sep) EZ: Flash PMI – manufacturing (Sep) EZ: Flash PMI – services (Sep)
25 ***PL: Unemployment rate (Aug)*** DE: Ifo index (Sep)	**26** US: New home sales (Aug) US: Consumer confidence index (Sep)	**27** CZ: Central bank decision US: Durable goods orders (Aug) US: Pending home sales (Aug)	**28** US: GDP third estimate (Q2)	**29** ***PL: Flash CPI (Sep)*** EZ: Flash CPI (Sep) US: Personal income (Aug) US: Consumer spending (Aug) CN: PMI – manufacturing (Sep) US: Michigan index (Sep)
2 October ***PL: PMI – manufacturing (Sep)*** EZ: PMI – manufacturing (Sep) DE: PMI – manufacturing (Sep) US: ISM – manufacturing (Sep)	**3** CZ: GDP (Q2)	**4** ***PL: MPC decision*** DE: PMI – services (Sep) EZ: PMI – services (Sep) EZ: Retail sales (Aug) US: ADP report (Sep) US: ISM – services (Sep)	**5** US: Industrial orders (Aug)	**6** DE: Industrial orders (Aug) US: Non-farm payrolls (Sep) US: Unemployment rate (Sep)
9 DE: Industrial output (Aug) CZ: Industrial output (Aug) CZ: CPI (Sep)	**10** DE: Exports (Aug) HU: CPI (Sep)	**11** US: FOMC minutes	**12** ***PL: CPI (Sep)*** EZ: Industrial output (Aug)	**13** ***PL: Core inflation (Sep)*** US: CPI (Sep) US: Retail sales (Sep) US: Flash Michigan (Oct)
16 ***PL: Balance of payments (Aug)***	**17** ***PL: Wages and employment (Sep)*** EZ: CPI (Sep) DE: ZEW index (Oct) US: Industrial output (Sep)	**18** ***PL: Industrial output (Sep)*** ***PL: Retail sales (Sep)*** ***PL: PPI (Sep)*** US: House starts (Sep) US: Building permits (Sep) US: Fed Beige Book	**19** ***PL: MPC minutes*** US: Philly Fed index (Oct)	**20** US: Home sales (Sep)

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	11-12	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	15	13		11	13	16	10	
Money supply	13	14	14	14	12	14		23	22	23	23	

** Quarterly data. a preliminary data for January. b January and February.*
Source: CSO, NBP.

Economic data and forecasts for Poland

Monthly economic indicators

		Aug 16	Sep 16	Oct 16	Nov 16	Dec 16	Jan 17	Feb 17	Mar 17	Apr 17	May 17	Jun 17	Jul 17	Aug 17E	Sep 17E
PMI	pts	51.5	52.2	50.2	51.9	54.3	54.8	54.2	53.5	54.1	52.7	53.1	52.3	52.5	52.8
Industrial production	% YoY	7.5	3.2	-1.3	3.1	2.1	9.1	1.1	11.1	-0.6	9.1	4.5	6.2	6.1	0.9
Construction production	% YoY	-20.5	-15.3	-20.1	-12.8	-8.0	2.1	-5.3	17.2	4.3	8.4	11.6	19.8	27.9	19.5
Retail sales [a]	% YoY	5.6	4.8	3.7	6.6	6.4	11.4	7.3	9.7	8.1	8.4	6.0	7.1	7.9	8.6
Unemployment rate	%	8.4	8.3	8.2	8.2	8.3	8.6	8.5	8.1	7.7	7.4	7.1	7.1	7.0	7.0
Gross wages in corporate sector	% YoY	4.7	3.9	3.6	4.0	2.7	4.3	4.0	5.2	4.1	5.4	6.0	4.9	5.9	5.9
Employment in corporate sector	% YoY	3.1	3.2	3.1	3.1	3.1	4.5	4.6	4.5	4.6	4.5	4.3	4.5	4.7	4.6
Exports (€)	% YoY	9.3	3.1	-0.6	5.7	5.1	14.3	5.7	15.1	1.4	16.2	8.7	10.4	12.0	3.0
Imports (€)	% YoY	10.7	3.5	3.6	6.3	7.1	16.0	8.9	16.8	3.3	21.4	15.0	11.1	13.0	6.0
Trade balance	EUR mn	-387	5	-89	297	-114	290	-247	142	211	-277	-227	-400.0	-576	-462
Current account balance	EUR mn	-729	-858	172	99	-219	2,342	-599	-529	-160	-298	-932	-532	-953	-1,092
Current account balance	% GDP	-0.4	-0.4	-0.4	-0.4	-0.2	0.2	0.2	0.1	-0.1	-0.5	-0.5	-0.5	-0.6	-0.6
Budget deficit (cumulative)	PLN bn	-14.9	-20.6	-24.6	-27.6	-46.2	6.7	0.9	-2.3	-0.9	-0.2	5.9	2.4	-1.6	-9.6
Budget deficit (cumulative)	% of FY plan	27.3	37.7	45.0	50.4	84.3	-11.4	-1.4	3.8	1.5	0.3	-9.9	-4.0	2.8	16.3
CPI	% YoY	-0.8	-0.5	-0.2	0.0	0.8	1.7	2.2	2.0	2.0	1.9	1.5	1.7	1.8	1.9
CPI excluding food and energy	% YoY	-0.4	-0.4	-0.2	-0.1	0.0	0.2	0.3	0.6	0.9	0.8	0.8	0.8	0.7	0.9
PPI	% YoY	-0.1	0.2	0.6	1.8	3.2	4.0	4.5	4.8	4.2	2.4	1.8	2.2	3.2	3.1
Broad money (M3)	% YoY	10.1	9.4	8.7	9.7	9.6	8.5	8.2	7.8	6.7	6.3	5.0	5.0	5.3	5.5
Deposits	%YoY	9.9	9.1	8.7	9.6	9.1	8.3	7.7	7.3	6.1	5.7	4.5	4.6	4.8	5.0
Loans	%YoY	3.7	3.7	3.9	4.8	4.7	3.5	4.8	5.3	4.5	4.8	4.4	4.5	5.5	5.3
EUR/PLN	PLN	4.30	4.32	4.31	4.39	4.44	4.37	4.31	4.29	4.24	4.20	4.21	4.24	4.26	4.24
USD/PLN	PLN	3.84	3.86	3.91	4.07	4.20	4.11	4.05	4.02	3.96	3.80	3.75	3.68	3.61	3.58
CHF/PLN	PLN	3.96	3.96	3.96	4.08	4.13	4.08	4.04	4.01	3.95	3.85	3.87	3.83	3.74	3.73
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	%	1.71	1.71	1.72	1.73	1.73	1.73	1.73	1.73	1.73	1.73	1.73	1.73	1.73	1.73
Yield on 2-year T-bonds	%	1.61	1.71	1.75	1.85	1.95	2.01	2.20	2.08	1.98	1.95	1.90	1.82	1.80	1.62
Yield on 5-year T-bonds	%	2.14	2.26	2.43	2.74	2.80	2.94	3.15	3.02	2.87	2.79	2.61	2.65	2.67	2.53
Yield on 10-year T-bonds	%	2.71	2.85	3.01	3.41	3.55	3.69	3.82	3.66	3.42	3.35	3.19	3.30	3.35	3.12

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

		2015	2016	2017E	2018E	1Q17	2Q17	3Q17E	4Q17E	1Q18E	2Q18E	3Q18E	4Q18E
GDP	PLN bn	1,798.3	1,851.2	1,958.6	2,073.7	453.8	474.3	480.2	550.4	479.8	502.2	508.6	583.1
GDP	% YoY	3.8	2.7	3.9	3.6	4.0	3.9	3.9	3.7	3.7	3.6	3.6	3.6
Domestic demand	% YoY	3.3	2.4	4.7	3.9	4.1	5.6	4.8	4.5	4.1	4.1	3.8	3.8
Private consumption	% YoY	3.0	3.8	4.9	4.9	4.7	4.9	5.0	5.0	5.0	4.9	4.8	4.7
Fixed investments	% YoY	6.1	-7.9	4.7	8.0	-0.4	0.8	6.5	8.1	8.0	8.0	8.0	8.0
Industrial production	% YoY	4.8	2.9	5.0	5.5	7.3	4.3	4.3	4.5	3.1	3.7	8.0	7.0
Construction production	% YoY	0.3	-14.6	15.9	18.3	5.6	8.4	22.2	21.4	23.2	26.6	16.7	12.1
Retail sales [a]	% YoY	1.5	3.9	8.0	6.7	9.6	7.6	8.0	7.1	6.0	7.3	7.7	5.6
Unemployment rate [b]	%	9.7	8.3	7.1	6.3	8.1	7.1	7.0	7.1	7.2	6.4	6.2	6.3
Gross wages in the national economy [a]	% YoY	3.3	3.8	5.8	7.7	4.1	5.0	5.3	7.6	7.8	7.8	7.8	8.0
Employment in the national economy	% YoY	0.9	2.3	3.6	0.8	3.2	3.3	3.4	3.3	1.2	0.9	0.6	0.5
Exports (€)	% YoY	8.5	2.7	9.6	9.0	11.7	8.6	8.3	9.9	9.0	9.0	9.0	9.0
Imports (€)	% YoY	5.0	2.9	12.2	9.6	13.8	13.1	9.9	11.9	10.0	9.5	9.5	9.5
Trade balance	EUR mn	2,213	1,921	-2,337	-3,768	188	-293	-1,438	-794	-275	-563	-1,807	-1,123
Current account balance	EUR mn	-2,653	-870	-2,939	-3,563	1,244	-1,390	-2,577	-216	1,096	-1,523	-2,814	-322
Current account balance	% GDP	-0.6	-0.2	-0.6	-0.7	0.1	-0.5	-0.6	-0.6	-0.7	-0.7	-0.7	-0.7
General government balance	% GDP	-2.6	-2.4	-2.4	-2.7	-	-	-	-	-	-	-	-
CPI	% YoY	-0.9	-0.6	1.8	2.2	2.0	1.8	1.8	1.8	1.8	2.2	2.3	2.3
CPI [b]	% YoY	-0.5	0.8	1.5	2.3	2.0	1.5	1.9	1.5	1.8	2.2	2.3	2.3
CPI excluding food and energy	% YoY	0.3	-0.2	0.7	1.7	0.3	0.8	0.8	0.9	1.5	1.5	1.8	2.1
PPI	% YoY	-2.2	-0.2	3.0	2.5	4.4	2.8	2.8	1.9	1.1	2.7	3.1	2.9
Broad money (M3) [b]	% oY	9.1	9.6	6.4	8.2	7.8	5.0	5.7	6.4	6.9	7.3	7.7	8.2
Deposits [b]	%YoY	9.0	9.1	6.2	8.2	7.3	4.5	5.4	6.2	6.7	7.2	7.7	8.2
Loans [b]	%YoY	6.9	4.7	4.5	6.3	5.3	4.4	4.5	4.5	5.0	5.4	5.8	6.3
EUR/PLN	PLN	4.18	4.36	4.25	4.22	4.32	4.22	4.25	4.23	4.22	4.23	4.23	4.22
USD/PLN	PLN	3.77	3.95	3.79	3.61	4.06	3.83	3.62	3.63	3.67	3.64	3.59	3.55
CHF/PLN	PLN	3.92	4.00	3.86	3.67	4.04	3.89	3.77	3.76	3.73	3.71	3.68	3.58
Reference rate [b]	%	1.50	1.50	1.50	1.75	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.75
3M WIBOR	%	1.75	1.70	1.73	1.76	1.73	1.73	1.73	1.73	1.73	1.73	1.73	1.87
Yield on 2-year T-bonds	%	1.70	1.63	1.86	2.29	2.10	1.94	1.75	1.68	2.09	2.30	2.32	2.44
Yield on 5-year T-bonds	%	2.21	2.35	2.78	3.11	3.03	2.76	2.62	2.71	3.02	3.12	3.10	3.19
Yield on 10-year T-bonds	%	2.69	3.04	3.43	3.79	3.72	3.32	3.26	3.42	3.71	3.80	3.78	3.86

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 07.09.2017 has been prepared by:

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