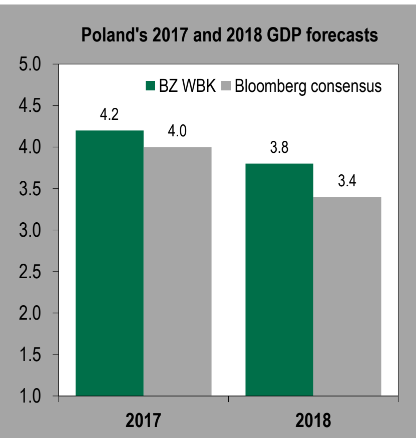
Bank Zachodni WBK
Grupa Santander

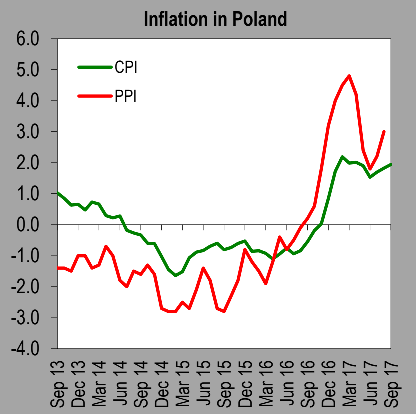
MACROscope

Polish Economy and Financial Markets

October 2017

Looking Through Rose-Coloured Glasses





- **More and more institutions look at the Polish economy with rose-coloured glasses, as upward surprises in August data triggered a spike in GDP growth forecasts**. Better-than-expected readings were observed in many statistics, including industrial output, wages and PMI index, which was not good enough in the previous months. The Polish economy is learning to fly, fuelled by strong consumer demand and positive business climate in Western Europe.
- **We joined this tide and raised our GDP growth forecast to 4.2% in 2017 and 3.8% in 2018.** The National Bank of Poland (NBP) is also optimistic about monetary outlook, noting no major imbalances, believing in low inflation and sticking to the waiting mode.
- **However, the reality behind the rose-coloured glasses may prove too good to be true.** Despite NBP's claims of no imbalances, we see at least one: the labour market, which is increasingly more squeezed, with unemployment free fallin' and rising higher wage pressure. Stronger wage pressure is likely to translate into higher price growth, at least in services. The housing market also seems to be booming and price tendencies on this market are likely to gain steam, in our view. Value of new EU-financing contracts in 3Q17 proved disappointing and was lower than in respective period of the previous financial framework (2007-2013), for the first time in a year. On the other hand, there may be something good coming in investment in machinery, so we keep our investment forecasts intact but with changed breakdown. On the fiscal front, we estimate that improvement in VAT collection was achieved almost exclusively via lower tax refunds and in our view there is not much space to make it better in 2018.
- **We stand a chance to witness the Monetary Policy Council start discussing hikes in 2018**, even though the NBP president remains dovish. We already have hawkish rebels among Polish central bankers, in our view some policymakers are likely to join this camp when the time comes.
- **US investors also decided to put on the rose-coloured glasses, as economic data proved upbeat despite recent hurricanes and the market finally believed in December Fed hike.** This triggered a strong correction of the interest rate market, making Polish bond yields climb that hill and reach the highest levels in 6 months. In our view, upward pressure on yields may continue, yet low debt supply in Poland is likely to limit the potential to rise on the front end.
- **The only fly in the ointment is the European politics**. The situation in Spain and very good results of far-right Alternative für Deutschland in Bundestag election raised worries about political stability in the major EU economies. This has hurt the Polish zloty, which anchored above 4.30, the highest level since March 2017. In our view, the zloty may keep on swingin' just below this mark.

In this issue:

Financial market on October 9, 2017:					
NBP deposit rate	0.50	WIBOR 3M	1.73	EURPLN	4.3121
NBP reference rate	1.50	Yield on 2-year T-bond	1.71	USDPLN	3.6743
NBP lombard rate	2.50	Yield on 10-year T-bond	3.41	CHFPLN	3.7541

This report is based on information available until 09.10.2017.

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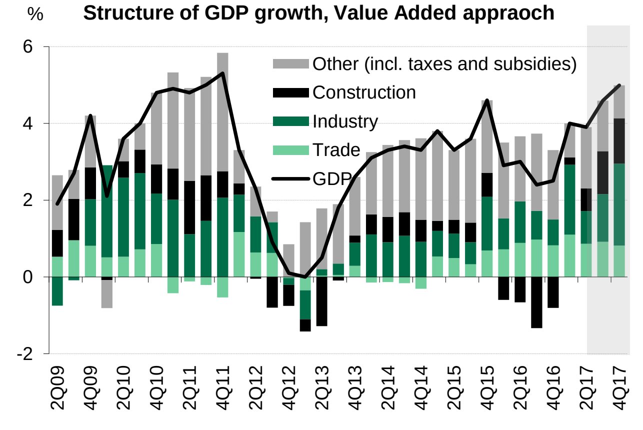
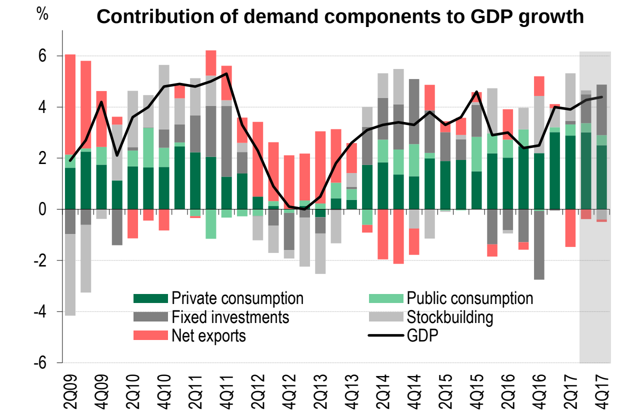
Economic update

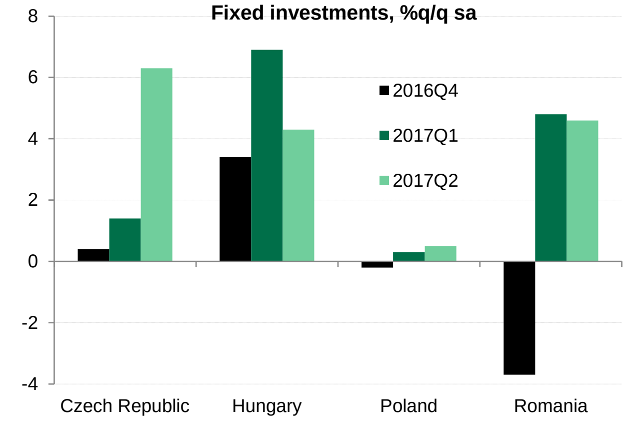
Structure of GDP growth, Value Added appraoch



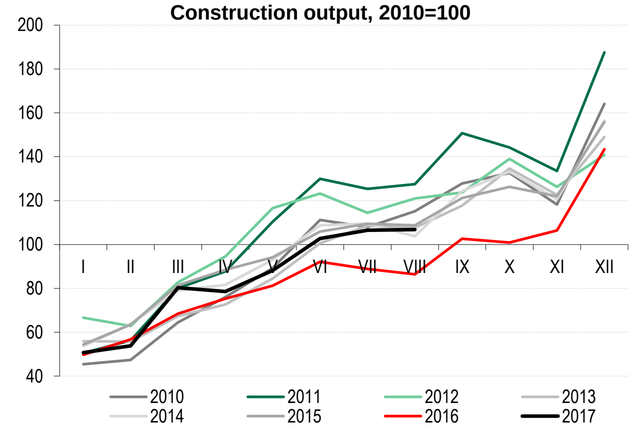
Contribution of demand components to GDP growth



Fixed investments, %q/q sa



Construction output, 2010=100



Source: GUS, Eurostat, BZ WBK.

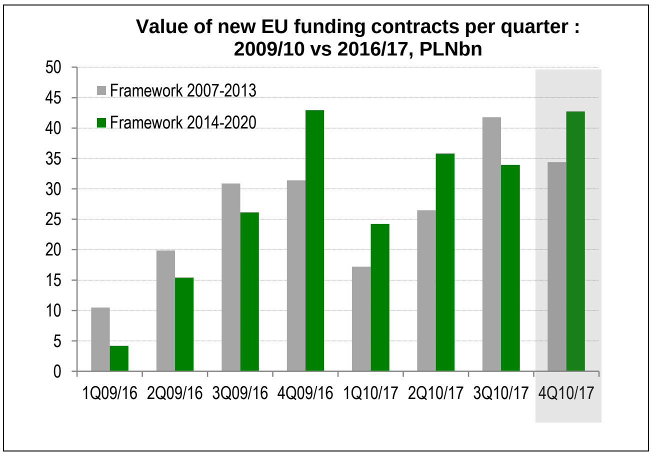
Upside revision of economic growth forecast

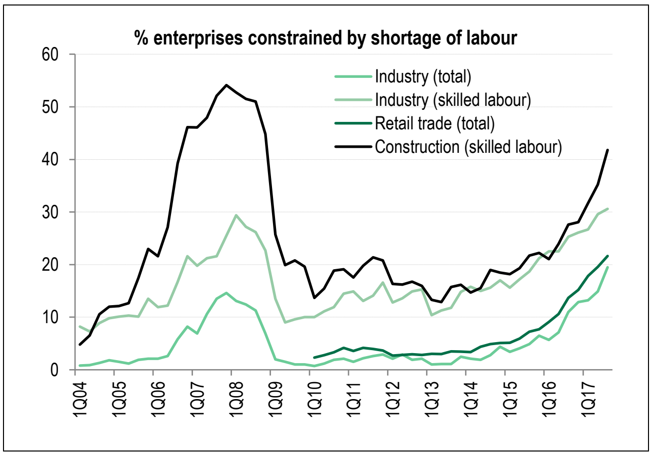
- The strong set of economic activity data for August was a trigger that made us revise our 2H17 GDP forecast higher. In 3Q GDP growth might have moved from 3.9% y/y to 4.3% while our forecast for 4Q is now 4.4%. This translates to 4.2% for the whole 2017.
- The manufacturing output accelerated in August from 6.9% y/y to 8.6% without any help from working day differences, which means that the underlying trend of improving activity has stepped up the pace. The construction output came weaker than we expected, but taken together with the industrial output it still suggested that from the point of view of value added statistics economic growth in 3Q most likely went above 4% y/y.
- When it comes to the demand side of the GDP equation information that we got in the course of last month confirmed that private consumption should hold close to 5% y/y in 3Q and in the following quarters. Real retail sales was relatively close to our call and consumer optimism remained record-high. We assumed that in 3Q there was a trade-off between inventory changes and net exports. The latter kept growing significantly in 2Q despite a substantial accumulation of inventories between 3Q16 and 1Q17 while the former showed the most negative contribution to GDP growth since 3Q14. We think the 3Q change in inventories will be relatively low, while real export growth could rebound from the disappointing 2.8% y /y in 2Q to 5.8%. While it would still grow slower than import this acceleration would reduce the negative impact of the trade gap as reported in the National Accounts from 1.5pp to just 0.4pp. Input from inventory changes to GDP growth should also decline if Poland is to follow the pattern of its CEE peers. Hungary and Romania also saw large build of stocks in 2H16 and 1Q17, but in 2Q inventory changes already turned negative (Hungary) or were still positive but much smaller (Romania). At the same time the CEE peer have already seen a strong rebound of investments: Czechia by 6.3% q/q in 2Q (after seasonal adjustment), Hungary by 6.9% q/q sa already in 1Q, followed by 4.3% and Romania by c4.7% in both quarters of 1H17. Poland scored just a negligible 0.3% q/q sa in 1Q and 0.5% in 2Q.

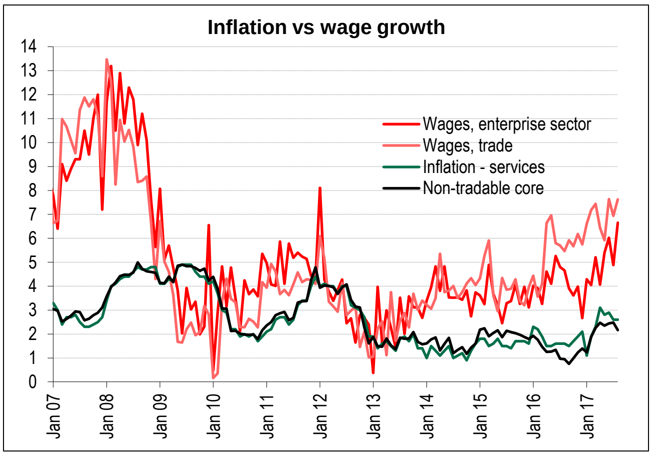
Investments - time to catch up?

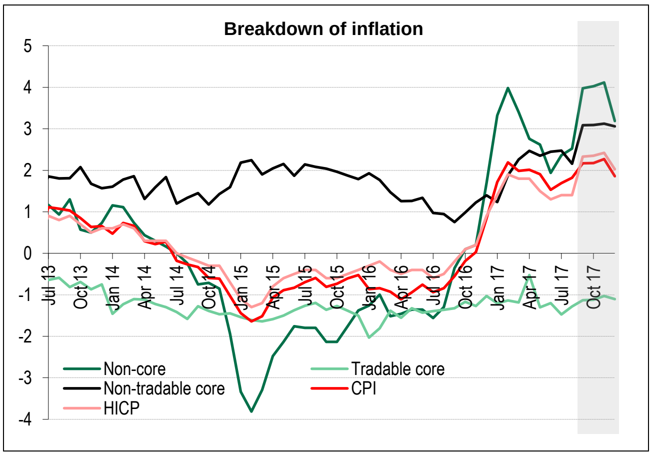
- We think investment-wise Poland played regional catch-up in 3Q. In our view investments have grown 6.5% y/y, after a tiny 0.8% growth was reported in 2Q. Theoretically, this time the EU projects alone should push investment growth to 4.5% y/y, judging by how the projects which utilize EU co-funding are moving through the pipeline. On the other hand even with output rising at about 20% y/y in July and August the construction sector is simply following the usual annual path when we look at levels of sold production rather than hovering above the paths from the previous years as was the case during the wave of increased investment outlays in 2011-2012 ahead of Euro2012 UEFA Cup in Poland and Ukraine. So the stellar y/y growth is still just a reminder of how bad the year 2016 was for construction output rather than how well the sector is performing this year.
- The enterprise sector as a whole might have stayed cautious about investing, given the labour shortage issues. However the diagnosis is more complicated as we break down the data. It was the sectors with high share of public ownership (utilities and mining) that kept total investment growth depressed in 1H17, while SMEs were reported in a quarterly NBP report to have raised capital expenditures by more than 20%y/y already in 1Q, with money spent mostly on (productivity-improving) machinery and equipment. What is more, the September PMI report for Polish manufacturing (covering large enterprises) mentioned investments as the reason for strongly positive sentiment of enterprises when it comes to output levels expected in 12 months' time. This suggests that there are already efforts to raise the capacity.

Economic update









Source: GUS, NBP, Eurostat, Ministry of Development, BZ WBK,.

Unexpected obstacles

- Going back to investments utilizing the EU funds, the huge c25% y/y rise in local government spending on infrastructure in 2Q we mentioned in our previous MACROscope may not lead to a significant boost to total fixed investment figures going forward. The demand is definitely there with local elections looming (Nov'2018) but a few obstacles have appeared in our view, albeit there is only indirect and anecdotal evidence. The way the stream of new signed contracts is developing could be read as a warning sign. Compared to the analogous years of the previous fiscal framework the stream of new contracts withered in 3Q – it was weaker than in 2Q in nominal terms and broke the streak of quarterly readings coming stronger than in the 3rd and 4th year of the 2007-2013 EU framework. We still think this relatively poor result could be made up for in the 4Q, but now with less conviction.
- Searching for reasons of this deceleration we have come across anecdotal evidence that the tight labour market in the construction sector has already led to a situation where some building contractors stopped placing bids for large infrastructural projects, because of capacity constraints. The other issue is the cost of building materials which seem to have become scarce. So effectively there are less bids and the ones left may include much higher cost estimates and prices from contractors, going above budget. A consequence of such a scenario would be a cap on the growth rate of construction output and lower inventory changes in the National Accounts. But this is an issue that would affect the realization of EU co-financed projects at a later stage than contract-signing. So to get a more likely explanation we should seek procedural backlogs – possibly a stricter approach of domestic central agencies or of the EU side. Anyway, the outlook for public infrastructure spending looks less rosy now.

Labour market imbalance could infect CPI

- A link from labour market situation to price pressures goes through wage growth acceleration. Wage growth is a leading factor for the non-tradable part of core inflation (mostly services). Core CPI could rise to 2% y/y if services prices accelerate to c5% y/y next year. We think it is plausible, but needs some commentary. Ten years ago services inflation reached this pace a couple of quarters after wages surged above 8% y/y. We assume that wages will once again speed up above 8% in the coming quarters. However we should not expect an equally strong reaction of prices as a decade ago as in the meantime automatization processes made services less labour-intensive. On the other hand, in the last few years we had administrative decisions bringing core CPI lower (free textbooks, free medicines for pensioners) while in 2018 instead there are several changes planned (but not approved yet), that could lead to higher core inflation: introduction of excise on e-cigarettes, extra charge on non-returnable bottles, recycling fee on plastic bags, higher VAT on some cosmetic products, higher parking fees, more expensive obligatory car inspections for some drivers, all on top of the already introduced entry restrictions to the pharmacy market. Also, core CPI not exposed to international trade can more easily than tradables absorb higher non-core inflation seen this year in the current environment of strong consumer demand.
- We expect core inflation to hit 2% y/y in 2H18. Bear in mind that historically the MPC embarked on the tightening phase of monetary policy when the measure pushed above 1.5%, which could occur already with the start of next year. Another important trigger – headline CPI going above the 2.5% y/y target – could be activated around mid-2018 (albeit we assume inflation would stabilize after getting there, rather than shooting even higher). The tradable part of core CPI is likely to remain near -1% y/y on further appreciation of PLN and limited global inflation. But services inflation has already started to rebound. If it follows the described correlation with wages the breach of inflation target would not require any extreme scenarios for the exchange rate or oil and food prices to materialize. And yet, the MPC is still sticking to its 'wait and see' approach.

Monetary policy watch

Excerpts from the MPC's official statement after its October meeting

Global economy continues to recover. Available data indicate that GDP growth in the euro area stabilised in 2017 Q3, after picking up in previous quarters. In the United States, economic conditions are strong, although adverse weather factors could have had a negative impact on economic activity in recent months. In China, monthly indicators suggest that GDP growth may slow down slightly in 2017 Q3.

Despite ongoing global recovery, inflation abroad remains moderate, on the back of persistently low domestic inflationary pressure in many countries. Prices of some commodities, including oil, have risen somewhat of late.

The European Central Bank keeps interest rates close to zero, including the deposit rate below zero, and continues its asset purchase programme. At the same time, the US Federal Reserve gradually tightens its monetary policy, embarking on a reduction of its balance sheet.

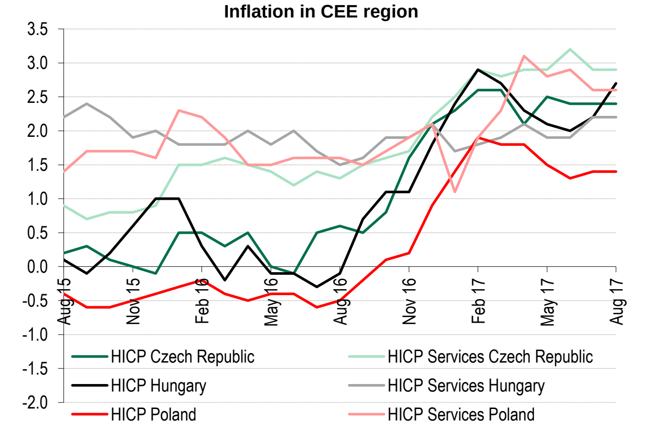
In Poland, incoming data confirm continued stable growth in economic activity. Growth is still driven primarily by consumer demand, supported by rising employment and wages, disbursement of benefits and very good consumer sentiment. At the same time, a marked rise in construction and assembly output growth points to a probable recovery in investment.

The annual growth in prices of consumer goods and services remains at a moderate level. At the same time, while wage growth in the economy has picked up, core inflation is still low

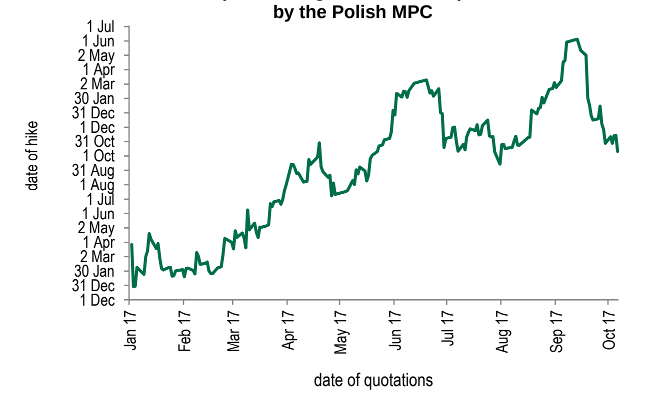
In the Council's opinion, in the following quarters inflation will remain moderate. This will result from moderate price growth in the external environment of the Polish economy, alongside a gradual rise in domestic inflationary pressure stemming from improving domestic economic conditions. In consequence, the risk of inflation running persistently above the target in the medium term is limited.

The Council confirms its assessment that, given the present 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.

Inflation in CEE region



FRA-implied timing of the first 25bp rate hike by the Polish MPC



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

MPC statement and rhetoric unchanged…

▪ The Monetary Policy Council kept the main interest rates unchanged at 1.5% in September, as expected. Official statement has hardly changed, as the MPC maintains its claim that it wants to keep monetary policy unchanged. The key paragraph of the post-meeting statement, saying that 'current level of interest rates is conducive to keeping the Polish economy on the sustainable growth path and maintaining macroeconomic balance', has been actually unchanged since December 2015. Also the NBP Governor Adam Glapiński reiterated his mantra that he saw no reasons to hike interest rates until the end of 2018, as the economy was balanced and inflation would remain moderate, even despite its recent upward surprise (yet he admitted that the inflation path in the new projection, to be released in November, may go up a bit).

… as central bankers believe in low inflation…

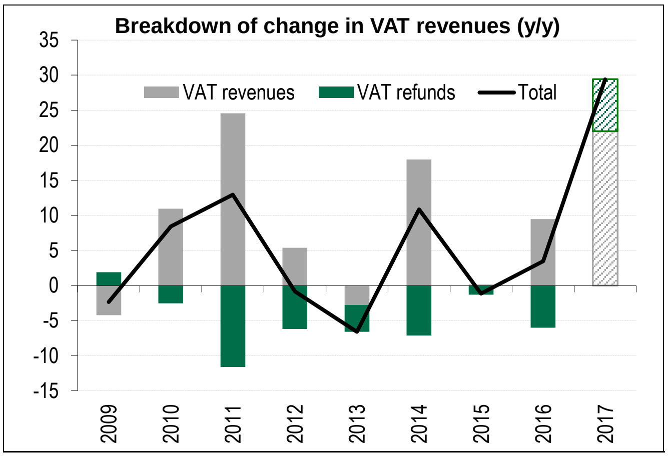
▪ The MPC's pledge to keep rates unchanged is based on its members' belief that inflation will remain contained (Glapiński: 'inflation at 3.5% is unimaginable'). As we argued on the previous pages, the labour market squeeze is likely to contribute to higher wage growth, which is likely to push CPI higher. NBP Governor does not agree with such view and he claimed there are buffers for the labour market: too high employment in agriculture, low labour participation rate in small towns, among young people and women. Basically, we agree with Glapiński's arguments, but in our view it will take time until these reserves become activated, especially given that the government policies are discouraging from labour participation (500+ child benefits, lower retirement age). Moreover, before they are activated, we would need to see an important trigger for change (most likely: significant rise in wages). Glapiński also claimed that wages do not affect prices and referred to Hungary and Czech Republic, which record double digit wage growth amid low inflation. However, these two countries saw an acceleration of services prices inflation (Czech Rep. 2.9% y/y, Hungary 2.2% y/y in August 2017), which is more vulnerable to unit labour costs than tradables.

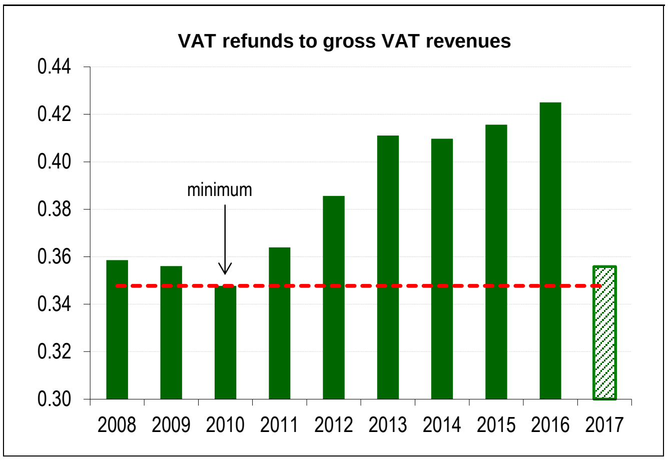
… but the divergence within the MPC will be growing

▪ The situation within the MPC is actually more interesting than one could think based on minute changes in the official statement. Three members (E. Gatnar, Ł. Hardt and K. Zubelewicz) are already arguing that the discussion about monetary tightening is imminent. Stronger wage growth is likely to make more members join this hawkish camp. In our view, there are two candidates who may change their views if data confirm that labour market tensions are growing and persistent: G. Ancyparowicz and J. Osiatyński. The latter said already in July that rising wage pressure could encourage him to file a motion for a hike. Ancyparowicz said during the October's post-meeting conference that discussion about rate hikes may start in mid-2018, provided that wages grow stronger than expected, private investments rebound and there are some external shocks. A. Glapiński, J. Kropiwnicki, R. Sura and J. Żyżyński seem more dovish. R. Sura even said during the last conference he expects wage growth to go down. E. Łon is the most dovish member, but his view that even interest rates cuts in Poland should be considered is isolated.

▪ In general, the monetary policy is becoming increasingly more interesting in Poland. If the looming data on CPI and wages surprise to the upside, the currently vast majority in favour of keeping interest rates stable may turn into a slim majority, which would surely affect the probability of sooner interest rate hike priced-in by the financial market. Nevertheless, we still expect the first rate hike by 25bps to take place in 4Q18.

Fiscal policy watch

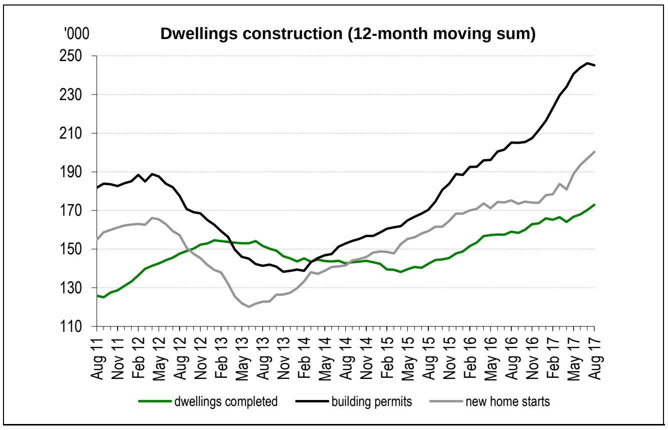


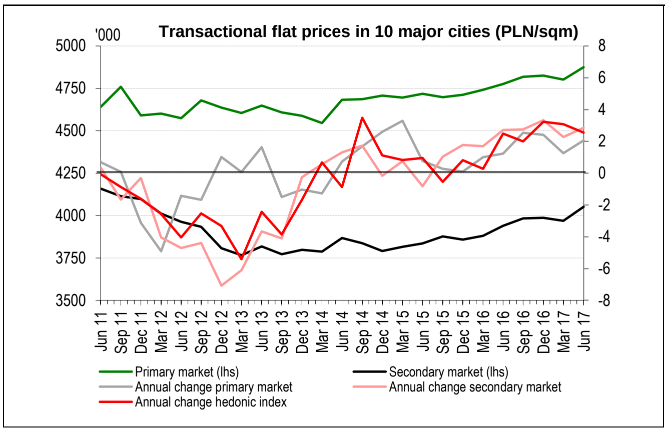


Improvement in tax collection mostly visible in lower refunds

- After August, budget revenues stood at PLN235bn (110% of schedule for this month), with spending at PLN230bn (95% of schedule), yielding a budget surplus at PLN4.9bn, the best August result since comparable data are available (1995). Budget situation continues to be very positive, with strong growth rates of tax revenues, especially VAT (24.6% y/y in Jan-Aug), CIT (13.3% y/y) and PIT (8.3% y/y). We stick to our forecast that 2017 central budget deficit will fall into PLN30-35bn range and this is consistent with government's forecast at PLN33bn.
- High growth rate of VAT revenues looks impressive, and improved statistics are a combination of three effects: strong, consumption-driven economic growth, improved tax collection and governance of tax refunds.
- Gross YTD VAT inflows (ex refunds) in July 2017 amounted to PLN140bn versus PLN130bn one year earlier (rise by 7.9% y/y). Refunds amounted to PLN44.2bn versus PLN53.5bn one year earlier (-17.2% y/y).
- We are expecting entire 2017 VAT revenues at PLN156bn in total. Our models suggest that improved tax collection may yield PLN11-13bn of additional revenues this year, which implies growth in VAT revenues generated purely by faster economic growth at c.8-10% y/y. Interestingly, our estimate of VAT growth ex tax collection improvement is quite similar to growth of gross tax revenues ex refunds. This suggests that the tax improvement effects are visible almost exclusively in lower refunds.
- This year, the ratio of VAT tax refunds to gross VAT revenue is going to be near all-time lows. This raises question if a further significant improvement on this field is likely next year (the budget draft assumes that better tax collection will yield additional PLN10bn in 2018).

Housing market update





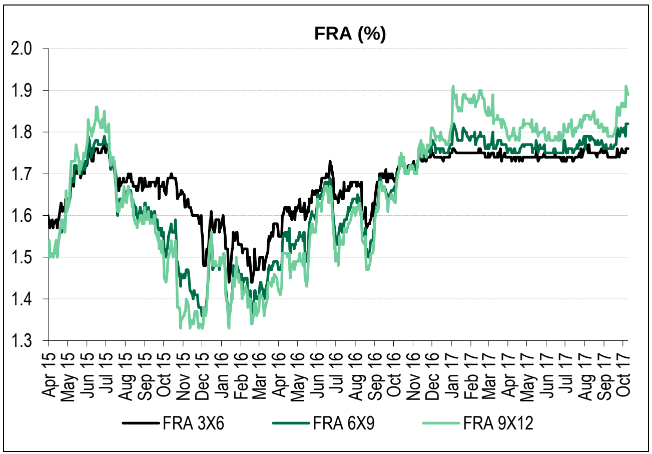
Sources: Finance Ministry, GUS, NBP, REAS, BIS, AMRON-SARFiN, BZ WBK.

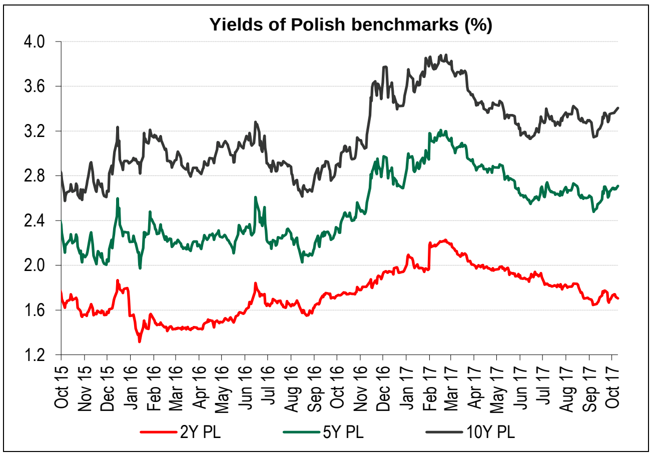
Housing market on the rise

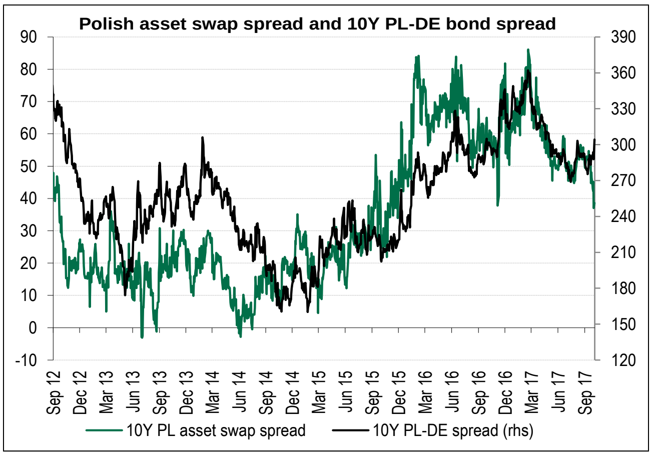
- Polish housing market is booming, with 12-month number of finished dwellings hitting 172.9k in August 2017, the highest since August 2009. We expect a further rise of supply, given 200.3k housing starts (highest since comparable data are available, i.e. 2007) and 246.2k building permits (highest since August 2008).
- Sales were also robust, with 6 biggest cities (Warsaw, Krakow, Wrocław, Tri-city, Poznań, Łódź) witnessing 17.6k sold flats in 2Q17 (+16.6% y/y). 12M sales totalled 68.9k, the highest level since comparable data are available (2008). Some negative pressure was put on 2Q17 demand as the MdM programme funds (state's support for young families) were depleted. However, it seems that demand is fuelled mostly by investors, looking for investment opportunities given negative real deposit interest rates.
- All major price indices (NBP, BIS) are showing a slight upward tendency, ranging 2.0-3.0% y/y in 2Q17. However, some cities already witness a double-digit price growth (Tri-city, Zielona Góra). At the same time, housing affordability is on the rise given that wages have been growing faster than dwelling prices.
- New mortgages rose by 13.3% y/y in 1H2017 and reached PLN22.7bn, the highest since 2011. Loan margins were stable and stayed slightly below 270bps.

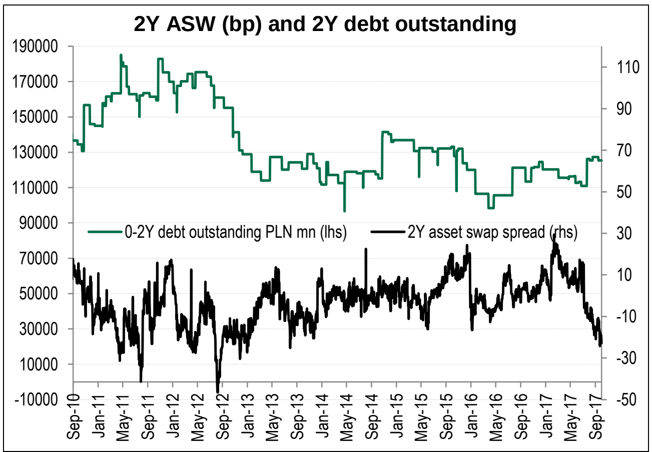
We are expecting rising supply and demand on the Polish market. The supply, as argued above, will be supported by high number of housing starts and building permits, while demand will be underpinned by strong labour market and low interest rates. However, developers are witnessing shortage of land available for building in Warsaw and this may put a cap on supply later on. This is likely to translate into higher price growth.

Interest rate market









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

Rates lifted by solid US and European macro data

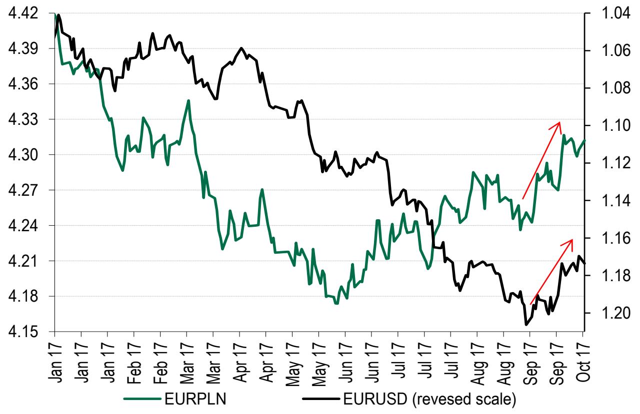
- At the start of September we saw a drop in IRS rates, fuelled by anticipation that the scaling back of quantitative easing by ECB would be postponed. Related market comments and the very mild tone of of M. Draghi's speech during the conference (ECB president repeated that the eurozone economy still needs a substantial support from monetary policy) led to decreases in IRS curve to the lowest levels since June 2017. Additionally, the rates were pulled down by Moody's which delivered an update of macro forecast for Poland (the agency lifted growth forecast and improved expectation for fiscal deficit). As a result, the IRS rates dropped to 1.84% for 2Y, 2.16% for 5Y and 2.61% for 10Y. Since the second decade of September we've been observing a persistent increase in IRS rates, fuelled by rising expectations of interest rates hikes in the US in December and of Fed initiating a balance sheet reduction. Moreover, the domestic interest rates upshift was supported by solid domestic and Eurozone macro figures. As a result the IRS curve shifted up to 2.02% for 2Y, 2.53% for 5Y and 3.02% for 10Y, the levels last seen at the turn of March and April this year.
- Yields of domestic sovereign bonds followed the IRS rates, going up from this year lows (registered in June) to close to the last local high (recorded at the beginning of August). The only exception were 2Y bonds which couldn't reach the August peak. However, the level of bonds yields increase was lower than the IRS rates shift, due to the gradual decline of credit risk, as a reaction to improved fiscal situation and improved GDP growth forecasts by rating agencies. Additional fuel for Asset Swap (ASW) spreads decline was delivered by the Ministry of Finance which presented excellent budget results (more in the fiscal part). As a result, at the beginning of October bonds yields rose to 3.47% for 10Y, 2.75% for 5Y and 1.76% for 2Y. Simultaneously we observed the credit risk cost dropping by 5-6pb across the whole PLN ASW curve.
- The FRA rates fully value the 25-point rate hike as early as October/December 2019.

Fed's monetary tightening will likely affect PLN bonds

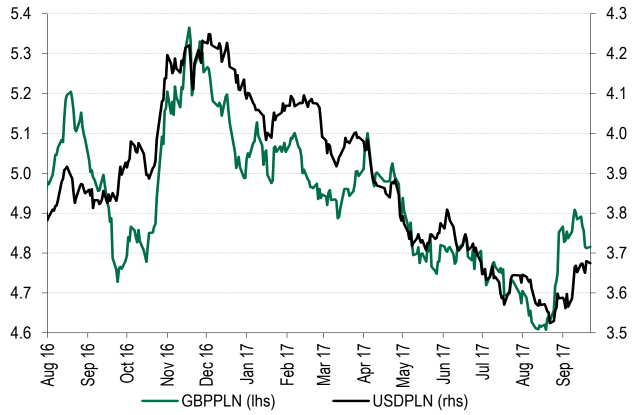
- By the end of the month we expect some downward pressures on the yields on the front end of the yield curve and as a reaction to cPLN17.50bn principal and interest redemption, at the end of October. The effect of rates decreases will be more pronounced on the ASW spread than on the bond yields, which will be a result of expected lower level of short t-bonds supply. In our opinion Ministry of Finance will offer the longer-term bonds, to approach the target an average debt maturity of 5Y. On the belly and long end of the curve we forecast some upward shift (however we expect compression of asset swap spread, owing to principal and interests repayment). Positive influence of solid domestic fiscal numbers and real side economy data will probably be overstated by expectations of rate hikes in the US (we forecast a 25 point rate hike in December) and Fed's balance sheet unwind. Moreover information about Fed chairman's successor can negatively affect the bond prices. Two (Mr. Warsh and Mr. Cohn) of the three candidates can be classified as hawks. On the domestic front investors will likely be still afraid about inflation perspectives, after the unexpected high flash inflation reading (2.2% y/y) for September.
- We anticipate a boost in longer yields by year-end, as investors will start weighing the Fed's plans to press ahead with more aggressive policy tightening in the US. The short bonds are also likely to suffer, however on a smaller scale thanks to relatively low debt supply in the 17Q4 (PLN 8-16bn, at two auctions).

Foreign exchange market

EURPLN and EURUSD

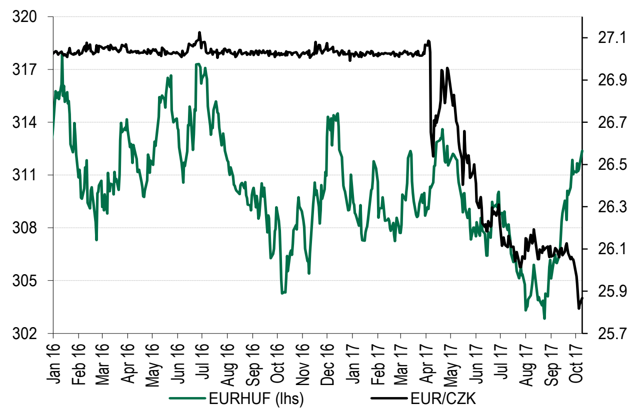


USDPLN I GBPPLN



EURUSD

EURHUF and EURCZK



Sources: Reuters, Bloomberg, BZ WBK.

EURPLN to hold below 4.33

- The zloty depreciated slightly on monthly basis and EUR/PLN has settled in the new 4.29-4.33 range amid dollar's appreciation on the global market and concerns about political conflict in Poland after the government did not support president's plans for changes in the judiciary system. Polish macro data were encouraging and limited the room for the zloty's depreciation.
- We expect EURPLN to remain below 4.33 until the end of the year. As we wrote last month, internal environment (robust data, positive budget performance, encouraging comments from rating agencies) should be supportive for the zloty. Conflict with the EC shall not be an important issue for foreign investors as we think that significant financial sanctions are unlikely for the time being. Furthermore, recent global economic activity data were solid which should help equity indexes to stay high. At the same time, any jumps of EURPLN are, in our view, likely to be utilized by exporters limiting the upside potential for the exchange rate.
- On the other hand, the dollar's strength on the global market might limit the scope for the zloty's appreciation. Like we elaborate below, we still expect the dollar to gain in the year-end which could limit the scope for the zloty's appreciation. The first chart shows that the EURPLN-EURUSD correlation has increased as of recently and the continued downside correction of the latter might limit scope for the zloty's appreciation vs the euro. At the same time, we expect the FOMC to hike rates only when the global market sentiment is positive and encouraging economic outlook is not threatened – high risk appetite persisting on the global market might also be supportive for the Polish currency.

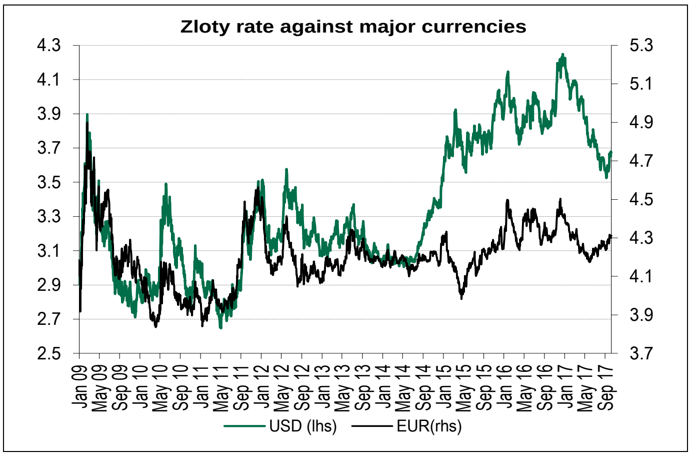
Room for stronger dollar

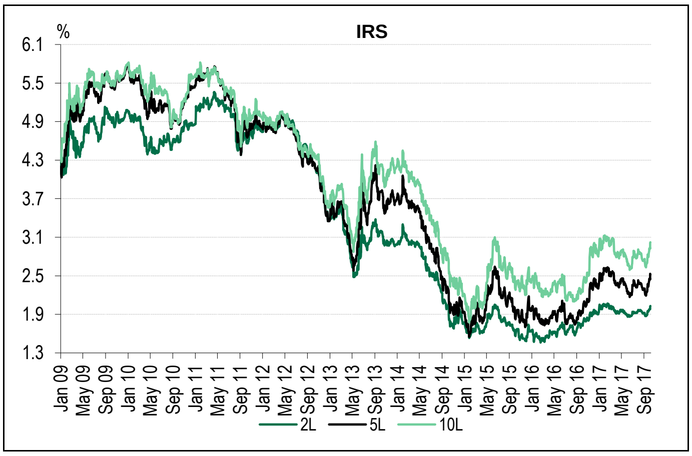
- Upside trend of EURUSD paused at the August/September turn as there were no new impulses that could boost the euro and chances for realization of Donald Trump tax reform rose. Additionally, result of the German parliamentary elections suggested that it could take more time to form a new government and FOMC maintained its view that one more Fed rate hike could be delivered this year. As a result, EURUSD fell to 1.17 from c1.21.
- We reckon the dollar could continue to gain until the year-end. The market is still not pricing the December 25bp Fed rate hike and the European data may not be that exceptionally strong like they were in the recent months. Also, the ECB rhetoric remains fairly dovish as the central bank is not in a hurry to outline its QE exit plan. We still think EURUSD might ease towards 1.15 at the year-end and only then resume the upside trend.

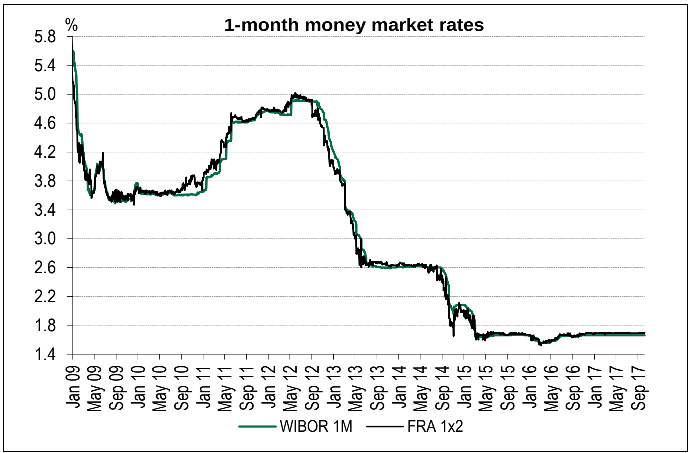
Forint weaker, ruble stable, koruna gains

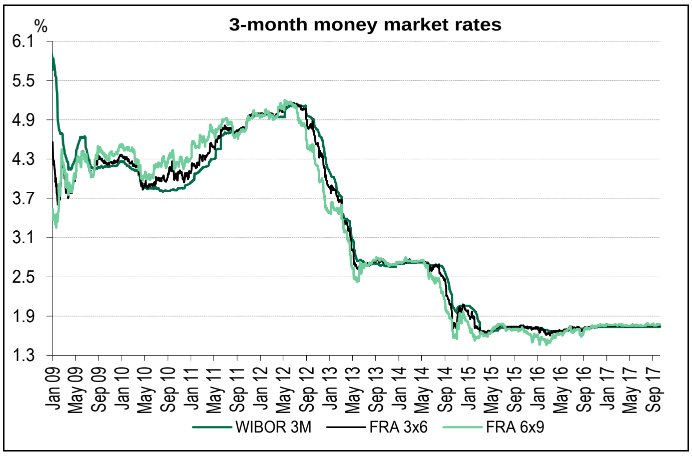
- Elsewhere, in the CEE region, the forint depreciated, ruble stayed flat while koruna gained.
- EURHUF jumped temporarily above 312 (its highest since April) as the Hungarian central bank cut the 1M deposit rate and sustained its declaration that more monetary policy easing may be delivered if needed. This dovish rhetoric contrasted with the Fed's stance and hit the forint.
- USDRUB stabilized near 57.6 after it fell to 56.7 owing to jump in oil prices.
- Czech koruna resumed its appreciation trend after nearly three months of stabilization vs the euro. EURCZK broke 26 and fell to 25.8, its lowest since November 2013 when the Czech central bank introduced 27.0 floor. Koruna was benefiting from expectations that more rate hikes will be delivered yet this year.

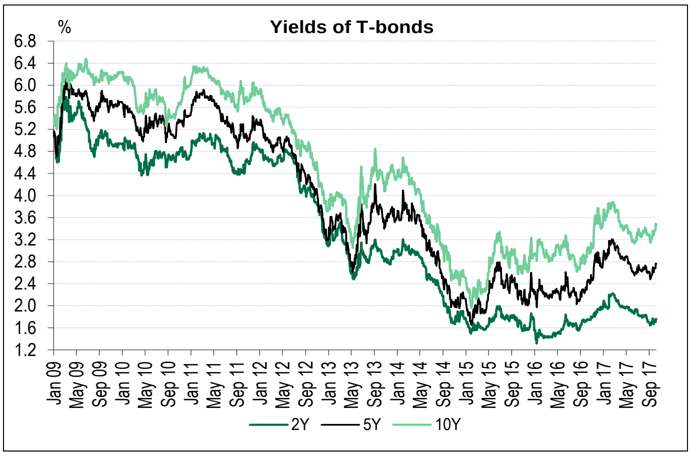
Market monitor

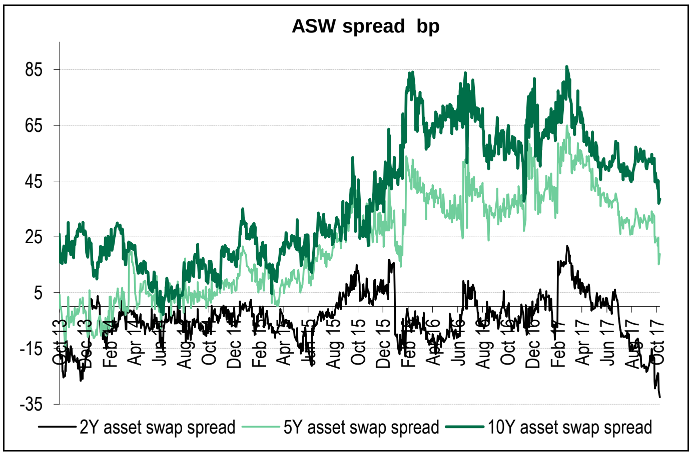












Treasury bond auctions in 2016/2017 (PLN mn)

Month	First Auction				Second Auction				Switch Auction		
	Date	T-bonds	Offer		Date	T-bonds	Offer		Date	T-bonds	Offer
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
9 October 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: Manufacturing 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)
23 ***PL: Money supply (Sep)***	**24** ***PL: Unemployment rate (Sep)*** DE: Flash PMI – services (Oct) DE: Flash PMI – manufacturing (Oct) EZ: Flash PMI – manufacturing (Oct) EZ: Flash PMI – services (Oct) HU: Central bank decision	**25** DE: Ifo index (Sep) US: Durable goods orders (Sep) US: New home sales (Sep)	**26** EZ: ECB decision US: Pending home sales (Sep)	**27** US: Advance GDP (Q3) US: Michigan index (Oct)
30 US: Personal income (Sep) US: Consumer spending (Sep)	**31** ***PL: Flash CPI (Oct)*** EZ: Flash GDP (Q3) EZ: Flash CPI (Oct) US: Consumer confidence index (Oct)	**1 November** ***PL: Market holiday*** US: ADP report (Oct) US: ISM – manufacturing (Oct) US: FOMC decision	**2** ***PL: PMI – manufacturing (Oct)*** EZ: PMI – manufacturing (Oct) DE: PMI – manufacturing (Oct) CZ: Central bank decision	**3** US: Non-farm payrolls (Oct) US: Unemployment rate (Oct) US: ISM – services (Oct) US: Industrial orders (Sep)
6 DE: Industrial orders (Sep) CZ: Industrial output (Sep) DE: PMI – services (Oct) EZ: PMI – services (Oct)	**7** DE: Industrial output (Sep) EZ: Retail sales (Sep)	**8** ***PL: MPC decision***	**9** DE: Exports (Sep) CZ: CPI (Oct) HU: CPI (Oct)	**10** ***PL: Balance of payments (Sep)*** US: Flash Michigan (Nov)
13 ***PL: CPI (Oct)***	**14** ***PL: Core inflation (Oct)*** ***PL. DE. CZ. HU. EZ: Flash GDP (Q3)*** EZ: Manufacturing output (Sep) DE: ZEW index (Nov)	**15** US: CPI (Oct) US: Retail sales (Oct)	**16** EZ: CPI (Oct) US: Philly Fed index (Nov) US: Industrial output (Oct)	**17** ***PL: Wages and employment (Oct)*** US: House starts (Sep) US: Building permits (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

		Sep 16	Oct 16	Nov 16	Dec 16	Jan 17	Feb 17	Mar 17	Apr 17	May 17	Jun 17	Jul 17	Aug 17	Sep 17E	Oct 17E
PMI	pts	52.2	50.2	51.9	54.3	54.8	54.2	53.5	54.1	52.7	53.1	52.3	52.5	53.7	54.4
Industrial production	% YoY	3.2	-1.3	3.1	2.1	9.1	1.1	11.1	-0.6	9.1	4.5	6.2	8.8	6.1	14.2
Construction production	% YoY	-15.3	-20.1	-12.8	-8.0	2.1	-5.3	17.2	4.3	8.4	11.6	19.8	23.5	16.6	27.5
Retail sales [a]	% YoY	4.8	3.7	6.6	6.4	11.4	7.3	9.7	8.1	8.4	6.0	7.1	7.6	7.6	8.2
Unemployment rate	%	8.3	8.2	8.2	8.3	8.6	8.5	8.1	7.7	7.4	7.1	7.1	7.0	6.9	6.7
Gross wages in corporate sector	% YoY	3.9	3.6	4.0	2.7	4.3	4.0	5.2	4.1	5.4	6.0	4.9	6.6	5.9	6.9
Employment in corporate sector	% YoY	3.2	3.1	3.1	3.1	4.5	4.6	4.5	4.6	4.5	4.3	4.5	4.6	4.6	4.5
Exports (€)	% YoY	3.5	-1.0	4.3	9.0	15.1	6.4	19.7	2.5	18.5	6.5	10.2	13.8	5.0	15.0
Imports (€)	% YoY	3.5	1.3	5.2	9.8	16.0	10.5	19.8	3.8	20.4	13.0	12.8	14.1	8.0	16.0
Trade balance	EUR mn	67	187	239	48	477	-169	330	524	8	-124	-547	-434.0	-396	62
Current account balance	EUR mn	-874	-14	-97	-106	2,548	-514	-405	459	-297	-1,114	-878	-602	-1,009	292
Current account balance	% GDP	-0.5	-0.4	-0.5	-0.3	0.1	0.1	0.1	0.1	-0.1	-0.5	-0.5	-0.4	-0.5	-0.4
Budget deficit (cumulative)	PLN bn	-20.6	-24.6	-27.6	-46.2	6.7	0.9	-2.3	-0.9	-0.2	5.9	2.4	4.9	-3.1	-16.9
Budget deficit (cumulative)	% of FY plan	37.7	45.0	50.4	84.3	-11.4	-1.4	3.8	1.5	0.3	-9.9	-4.0	-8.2	5.2	28.5
CPI	% YoY	-0.5	-0.2	0.0	0.8	1.7	2.2	2.0	2.0	1.9	1.5	1.7	1.8	2.2	2.2
CPI excluding food and energy	% YoY	-0.4	-0.2	-0.1	0.0	0.2	0.3	0.6	0.9	0.8	0.8	0.8	0.7	1.0	0.9
PPI	% YoY	0.2	0.6	1.8	3.2	4.0	4.5	4.8	4.2	2.4	1.8	2.2	3.0	3.1	2.7
Broad money (M3)	% YoY	9.4	8.7	9.7	9.6	8.5	8.2	7.8	6.7	6.3	5.0	5.0	5.5	5.6	5.8
Deposits	%YoY	9.1	8.7	9.6	9.1	8.3	7.7	7.3	6.1	5.7	4.5	4.6	5.1	5.2	5.3
Loans	%YoY	3.7	3.9	4.8	4.7	3.5	4.8	5.3	4.5	4.8	4.4	4.5	4.9	4.8	4.8
EUR/PLN	PLN	4.32	4.31	4.39	4.44	4.37	4.31	4.29	4.24	4.20	4.21	4.24	4.26	4.27	4.27
USD/PLN	PLN	3.86	3.91	4.07	4.20	4.11	4.05	4.02	3.96	3.80	3.75	3.68	3.61	3.59	3.65
CHF/PLN	PLN	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	3.74
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	1.72	1.73	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	%	1.71	1.75	1.85	1.95	2.01	2.20	2.08	1.98	1.95	1.90	1.82	1.78	1.70	1.68
Yield on 5-year T-bonds	%	2.26	2.43	2.74	2.80	2.94	3.15	3.02	2.87	2.79	2.61	2.65	2.65	2.60	2.70
Yield on 10-year T-bonds	%	2.85	3.01	3.41	3.55	3.69	3.82	3.66	3.42	3.35	3.19	3.30	3.33	3.27	3.45

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	1,966.2	2,090.4	453.8	474.3	482.1	556.0	482.7	507.0	512.0	588.7
GDP	% YoY	3.8	2.7	4.2	3.8	4.0	3.9	4.3	4.4	4.0	4.2	3.6	3.5
Domestic demand	% YoY	3.3	2.4	4.8	3.9	4.1	5.6	4.8	4.6	4.1	4.1	3.8	3.7
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	6.9	5.6	7.3	4.3	7.0	9.1	5.1	5.6	7.2	4.4
Construction production	% YoY	0.3	-14.6	14.2	13.6	5.6	8.4	19.8	18.2	16.6	19.8	12.7	9.0
Retail sales [a]	% YoY	1.5	3.9	8.2	8.0	9.6	7.6	7.6	8.1	7.5	8.8	9.7	6.2
Unemployment rate [b]	%	9.7	8.3	7.0	6.2	8.1	7.1	6.9	7.0	7.1	6.3	6.1	6.2
Gross wages in the national economy [a]	% YoY	3.3	3.8	5.8	7.7	4.1	5.0	5.5	7.6	7.8	7.8	7.6	8.0
Employment in the national economy	% YoY	0.9	2.3	3.6	0.8	3.2	3.0	3.4	3.2	1.1	0.9	0.6	0.5
Exports (€)	% YoY	8.5	3.1	10.5	9.0	13.8	8.9	9.5	9.8	9.0	9.0	9.0	9.0
Imports (€)	% YoY	5.0	2.7	12.7	9.6	15.5	12.3	11.6	11.8	10.0	9.5	9.5	9.5
Trade balance	EUR mn	2,213	2,935	-707	-1,997	641	410	-1,377	-381	214	205	-1,744	-671
Current account balance	EUR mn	-2,405	-1,254	-1,775	-2,107	1,659	-951	-2,489	6	1,571	-997	-2,680	0
Current account balance	% GDP	-0.6	-0.3	-0.4	-0.4	0.1	-0.5	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4
General government balance	% GDP	-2.6	-2.4	-2.4	-2.7	-	-	-	-	-	-	-	-
CPI	% YoY	-0.9	-0.6	1.9	2.4	2.0	1.8	1.9	2.1	2.1	2.5	2.5	2.3
CPI [b]	% YoY	-0.5	0.8	1.9	2.3	2.0	1.5	2.2	1.9	2.1	2.5	2.5	2.3
CPI excluding food and energy	% YoY	0.3	-0.2	0.7	1.8	0.3	0.8	0.8	1.0	1.6	1.6	1.9	2.1
PPI	% YoY	-2.2	-0.2	2.9	2.2	4.4	2.8	2.8	1.7	0.8	2.3	2.8	2.7
Broad money (M3) [b]	% oY	9.1	9.6	6.8	8.6	7.8	5.0	5.6	6.8	7.3	7.7	8.2	8.6
Deposits [b]	%YoY	9.0	9.1	6.6	8.6	7.3	4.5	5.2	6.6	7.1	7.6	8.1	8.6
Loans [b]	%YoY	6.9	4.7	4.2	6.0	5.3	4.4	4.8	4.2	4.7	5.1	5.5	6.0
EUR/PLN	PLN	4.18	4.36	4.26	4.22	4.32	4.22	4.26	4.26	4.22	4.23	4.23	4.22
USD/PLN	PLN	3.77	3.95	3.80	3.61	4.06	3.83	3.63	3.67	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	1.87	2.21	2.10	1.94	1.77	1.69	1.87	2.19	2.32	2.44
Yield on 5-year T-bonds	%	2.21	2.35	2.80	3.11	3.03	2.76	2.64	2.76	3.02	3.12	3.10	3.19
Yield on 10-year T-bonds	%	2.69	3.04	3.46	3.79	3.72	3.32	3.30	3.50	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.

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