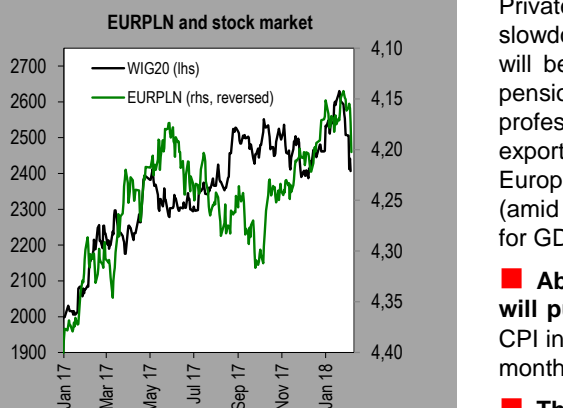
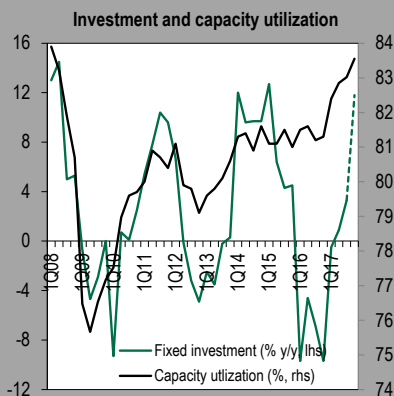


MACROscope

Polish Economy and Financial Markets

February 2018

Fifth gear still on



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ECONOMIC ANALYSIS DEPARTMENT:

al. Jana Pawła II 17, 00-854 Warszawa fax +48 22 5868340

email: ekonomia@bzwbk.pl

Website: skarb.bzwbk.pl

Maciej Reluga (chief economist)	+48 22 534 18 88
Piotr Bielski	+48 22 534 18 87
Marcin Luźniński	+48 22 534 18 85
Grzegorz Ogonek	+48 22 534 19 23
Konrad Soszyński	+48 22 534 18 86
Marcin Sulewski	+48 22 534 18 84

■ It is already the third quarter in a row when Polish economy is running in fifth gear. After 4.9% y/y GDP growth in 3Q17 and 5.1-5.3% y/y in 4Q17 (as implied by the flash full-year print of 4.6%), we think there are reasons to believe that the first quarter of 2018 will see again nearly 5% y/y expansion. It all takes place in an increasingly supportive external environment. Confidence surveys in the US and euro zone have hit new cycle highs and the optimism about the economic outlook has been growing. The IMF again revised up its economic forecasts for most economies, as did the European Commission in its winter edition of predictions. **After the most recent data we lifted forecast for Polish GDP growth to 4.3% this year vs. 4.6% in 2017.**

■ What is important, the long-awaited investment recovery has finally started, as the reported 5.4% fixed investment growth in the full 2017 implies an impressive, nearly 12% y/y surge in the final quarter. We expect investments to keep growing this year, albeit at less impressive pace than recorded in 4Q17, as severe capacity constraints in the construction sector will put a cap on infrastructure development. Private consumption growth remains robust, near 5% y/y, and we see no reasons for a slowdown in this department in the coming quarters, as households' disposable income will be boosted not only by accelerating wages and employment, but also by higher pension bill (as we noted last month, it seems that many people decided to resume their professional activity very shortly after getting the pension eligibility). On top of that, export should continue rapid, double-digit growth fuelled by strong demand from the European Union, but it should be paralleled by almost equally fast import expansion (amid strong domestic demand), so on balance the foreign trade will be roughly neutral for GDP growth.

■ Above-potential GDP growth and accelerating wages (outpacing productivity) will push core inflation higher, towards 2% at the year-end. However, the headline CPI inflation is likely to zig-zag during the year, not exceeding 2.5%, as the first and final months of 2018 will be influenced by very high base effects in food and fuels.

■ The better the economic data and the tighter the labour market, the more dovish is the stance of the Polish central bank. In February the Monetary Policy Council has signalled quite clearly, in our view, that it is not going to change interest rates at least until the end of 2018. Even though the new inflation projection in March may show inflation breaching the target in the medium run, we think it will be not enough to start serious discussion about policy tightening. It seems the MPC members have to see it (inflation well above the target) to believe it. And it is probably not going to happen before the end of this year.

■ The zloty lost some ground at the start of February due to rebound in dollar strength and we expect this correction to continue. The dovish MPC rhetoric and concerns about further equity market selloff may also weigh on the Polish currency.

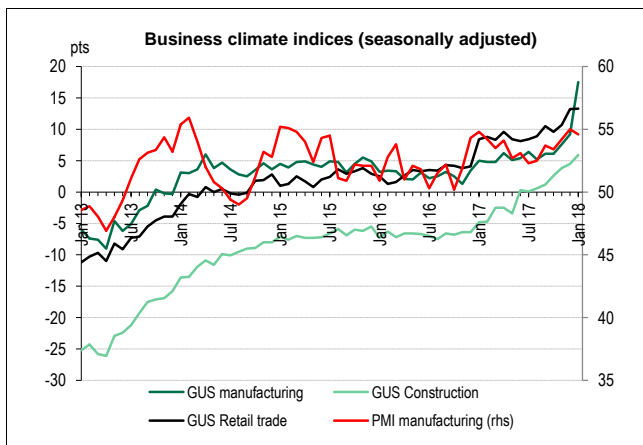
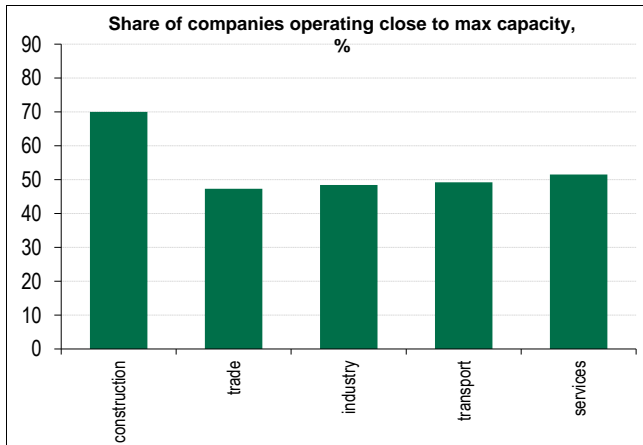
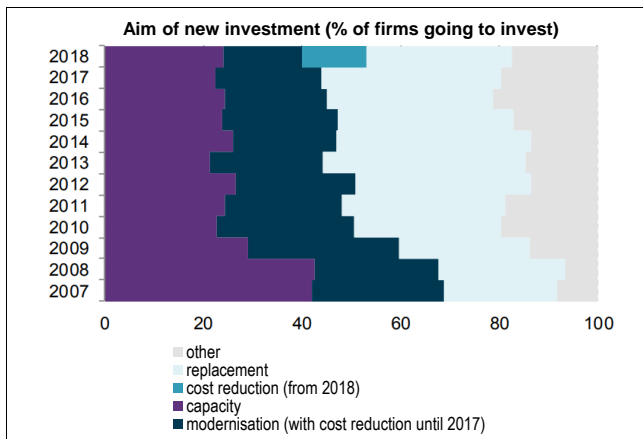
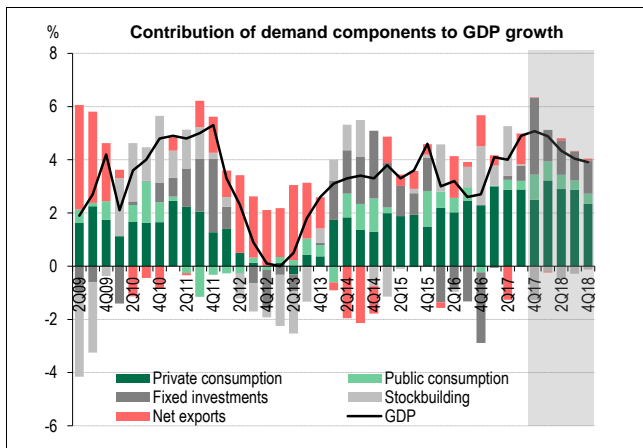
■ Debt markets saw quite substantial correction in recent weeks and we think that in the near term domestic yields may still remain under the upward pressure of situation on core markets. However, next month we see a scope for some rebound, as the speed of the recent upward move in yields seemed to be excessive. Dovish MPC and lower CPI in nearest months should weaken market speculation about looming rate hikes.

Financial market on February 8, 2018:

NBP deposit rate	0.50	WIBOR 3M	1.72	EURPLN	4.1733
NBP reference rate	1.50	Yield on 2-year T-bond	1.73	USDPLN	3.3677
NBP lombard rate	2.50	Yield on 10-year T-bond	3.58	CHFPLN	3.6056

This report is based on information available until 08.02.2018.

Economic update



Source: GUS, Eurostat, NBP, European Commission, Markit, BZ WBK.

GDP in 4Q17 above 5% y/y, forecasts moving up again

- Full-year flash GDP data for Poland showed 2017 economic growth at 4.6%, beating market expectations and our forecast, both at 4.5%. Based on stronger-than-expected GDP data and optimistic January surveys, we raised our 2018 GDP forecast to 4.3% from 4.0%, but we stick to a decelerating path.
- Implied 4Q17 GDP growth was slightly above 5.0% y/y (assuming no revisions of 1-3Q data), most likely in 5.1-5.3% range. Fixed investments most likely rose 11.8% y/y which is quite a rebound after three quarters of disappointing performance. The improvement came along with a substantial decrease in inventories (subtracting c1.2pp from GDP growth) and we assume this was caused by a re-classification of infrastructure projects on their completion as investments. Private consumption seems to have grown close to 5% y/y in 4Q, judging by its full-year figure, but this was widely expected. We estimate that contribution of net exports was near to neutral in both the whole year 2017 and its final quarter.

Investment growth to be constrained...

- Investment was surely the most striking figure of the 2017 GDP, encouraging us to move our investment forecast for 2018 to 6.6% from 5.9% with acceleration in machinery outlays. We still stick to our claim that investment will be limited by situation in construction sector, which is hitting capacity constraints. This will cause a gradual deceleration of investment growth throughout 2018. Actually, we were given some additional data to support this thesis. According to the newest NBP business climate survey, 70% of construction companies are operating at max capacity, by about 20 percentage points more than in services and industry. 80% of these constrained companies resign from orders, while only 30% invest to improve their capacity. Such a development will not only put a cap on investment in buildings but also ramp up costs, which is likely to postpone public investment, which operates based on tenders. On the other hand, the very same survey showed a higher share of companies planning to invest versus the last report. Among investment-planning companies, there is a rising occurrence of cost-cutting outlays. In our view, this can be viewed as a response to rising labour costs and will translate into higher investment in machinery (automatisation).

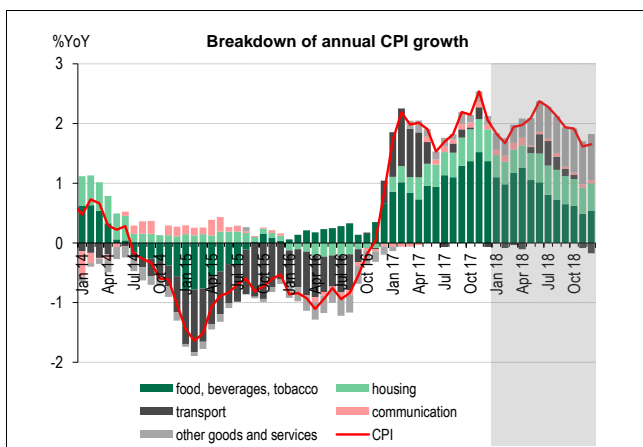
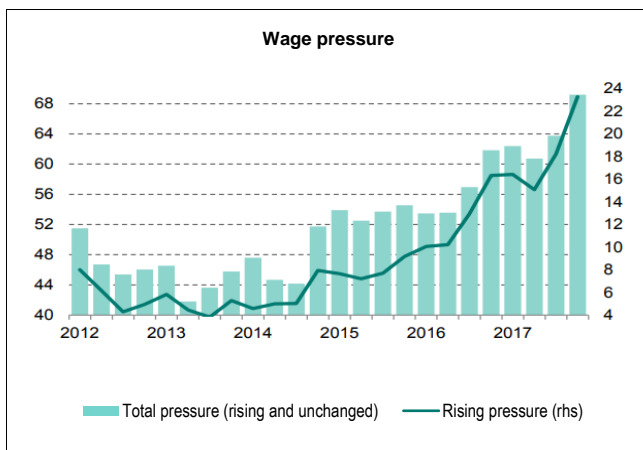
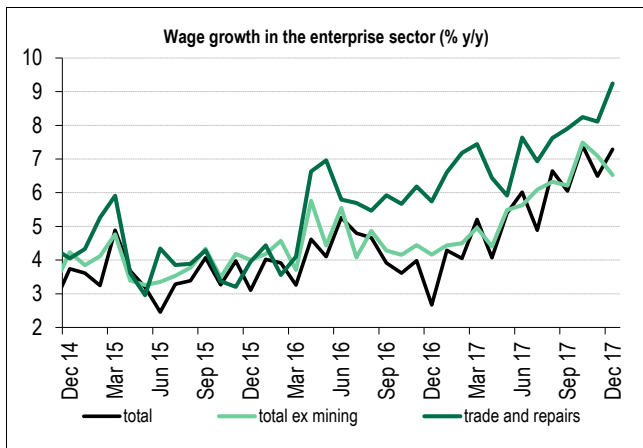
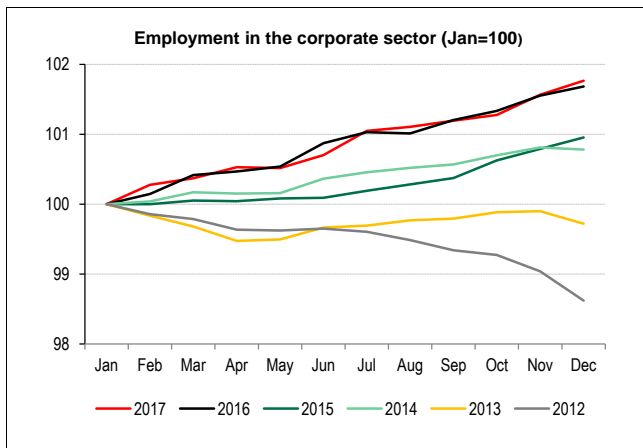
...but other GDP elements to remain strong

- Other elements of our GDP forecast remain roughly unchanged, with strong consumption and exports. The former will be driven by low unemployment and high wage growth. Export-share-weighted consensus GDP forecasts of Poland's trade partners point to 2.4% growth in 2018. This is slightly lower than in 2017 (2.7%), but significantly higher than in 2012-2016 (1.4% on average), so still warrant high foreign demand for Polish products. Strong consumption and automatization will fuel strong growth of imports, which we expect to outpace exports, yielding a deterioration in trade balance.

Leading indicators point to positive business climate

- January's leading indicators have sent positive signals, yet in our view they support our claim that the economic climate in Poland remains positive.
- The business climate indicators published by GUS improved in all sectors. Gains in manufacturing and hotels and restaurants were among the strongest in history. Index in manufacturing jumped from 9.2 to 17.5, its highest since April 2008, amid rebound in nearly all its components. European Commission's ESI also went up strongly, with subindex for construction reaching the highest level since 1994. Manufacturing PMI fell in January to 54.6pts from 55.0pts. Downward correction was due to fall in output and delivery times subindices, while new orders rose at the fastest pace in three years. Employment subindex was at the highest level in nine months.

Economic update



Source: GUS, NBP, BZ WBK.

Employment still rising

- Polish labour market statistics are still positive, with employment on the rise, unemployment falling and wage pressure building up.
- Enterprise sector employment data for December surprised on the upside, with y/y growth rising further from 4.5% to 4.6%. Corporate employment seems to defy the scarcity of spare labour force issues faced by the Polish economy and expressed by firms in business sentiment surveys. Even the lowering of the retirement age in October did not depress employment growth, suggesting that the new retirees returned to their previous jobs after acquiring pensions.
- The monthly increase in employment by 0.2% was the strongest among all Decembers since comparable data are available (1990!). The same was true about the November reading. Moreover, business climate surveys point that demand for labour remains strong.
- In January the Statistics Office is revising the covered population of surveyed companies employing more than 9 people. In our view, the positive economic situation means that many companies are likely to enter the survey so we are likely to see a strong jump.
- According to the ZUS (Social Security), the institution was insuring 316.5k Ukrainians at the end of 2017 versus 194.4k at the end of 2016.

Wage pressure building up

- Wage growth accelerated from 6.5% y/y to 7.3% in December. Wages were pushed up by one-off payments in the mining sector, which contributed 1.3pp to the wages increase, the highest since February 2013. The growth in other sectors amounted, on average, to 6.5% y/y, which is less than in November (7.1% y/y). However, we believe that this slowdown does not imply a lower wage pressure, but is rather the outcome of the negative effect of business days, which reduced wages in sectors applying the piecework system more often (e.g. manufacturing). The growth of wages in trade is worth noting, as it accelerated to 9.2% y/y and was the highest since mid-2008. Wage growth in retail trade accelerated to 12% y/y.
- NBP Business Climate survey is pointing to a further growth in wage pressure with already 70% of companies feeling it.
- Real wage bill growth jumped from 8.5% y/y to 9.9% in December. This is its strongest print since September 2008, and leaves the 4Q17 average at 9.4% y/y, a whole 3pp higher than the average for 4Q16.

Inflation on the decline

- December CPI stood at 2.1% y/y. Decline from November's 2.5% was due to high base effect in food and fuels. Core inflation excluding food and energy prices was at 0.9% y/y.
- Our forecasts for January suggest a further slide, to 1.8% y/y. In our view, January saw an unusually low growth in food prices due to downward tendencies in eggs and butter, earlier driven strongly up by shocks. CPI will also be dragged lower by high base effect in energy prices: in January 2017 electricity prices went up. Core inflation, on the other hand, most likely climbed to 1.1% y/y, the highest since 2014.
- In our view, inflation is likely to oscillate above 2.0% in the months to come and to hit 2.5% in mid-2018. We are expecting a further change in its breakdown: from food/energy driven to core driven (we expect core inflation at 2.0% at the end of 2018).
- In March the Office is scheduled to release its revised inflation basket. Our analysis based on changes in relative prices suggests that the basket revision will make 2018 CPI go slightly up, with the most considerable impact in January (+0.045pp) and diminishing throughout the year to hit 0 in December, reaching +0.035pp on average.

Monetary policy watch

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

Despite ongoing global recovery, inflation abroad remains moderate, on the back of **persistently low domestic inflationary pressure in many countries**.

Despite the acceleration in economic growth, **annual consumer price growth continues to run at a moderate level** (...) At the same time – although wage growth in enterprises increased – **core inflation net of food and energy prices remains low**.

GDP growth in 2018 will probably be slightly lower than in the second half of 2017. Taking into account the current information, **the Council judges that inflation will remain close to the target over the projection horizon**. As a result, **the current level of interest rates is conducive to keeping the Polish economy on the sustainable growth path and maintaining macroeconomic stability**.

Excerpts from the MPC's minutes from its January meeting

The majority of the Council members expressed the opinion that, **taking into account current information, interest rates were also likely to remain stable in the coming quarters**. These members judged that the stabilisation of interest rates would continue to help meet the inflation target, while supporting the maintenance of the balanced economic growth, including the expected further recovery in investment. Moreover, these Council members pointed out that the need to take into account the monetary conditions in the immediate environment of the Polish economy, including **the likelihood of the maintenance of negative interest rates in the euro area, also spoke in favour of keeping the current level of interest rates in the coming quarters**.

In the opinion of some Council members, should data and forecasts incoming in the following quarters suggest a more marked intensification of inflationary pressure than expected, most notably associated with a possibility of a stronger acceleration in wage growth, **it might be justified to consider an increase in the NBP interest rates in the quarters to come**. In the opinion of these Council members, developments in inflation expectations would also be important for monetary policy. **At the same time, these members emphasised that in the light of recently released data the risk of a marked increase in inflationary pressure was lower than previously assumed**.

NBP Governor's stance remains dovish and stable

▪ Seemingly, there was a difference between the NBP Governor Adam Glapiński's attitude during the previous post-meeting press conferences and what he said in an interview from Davos. The February meeting confirmed, however, our view that his views remained dovish. While he initially stressed that it is too early to talk credibly about next year, later on he admitted that he still sees a chance for stable rates in 1H19. The MPC reaction to strong investment rebound in 4Q (12% y/y implied by full-year data) was interesting. While the need to support muted investments was earlier one of the key arguments to justify the dovish stance, now the likely rebound in corporate investments was seen as a factor limiting worries about the wage pressure, thus also supporting a dovish approach. The hawkish camp seems now in disarray due to the recent decline of headline inflation and stable core CPI.

▪ CPI hit the target in November, but since then it has been only going down, making the November print look like a mere incident. We expect inflation to inch down to 1.8-1.7% in January-February (mainly due to lower prices of food and fuels), which is probably going to even reinforce the MPC's dovish bias.

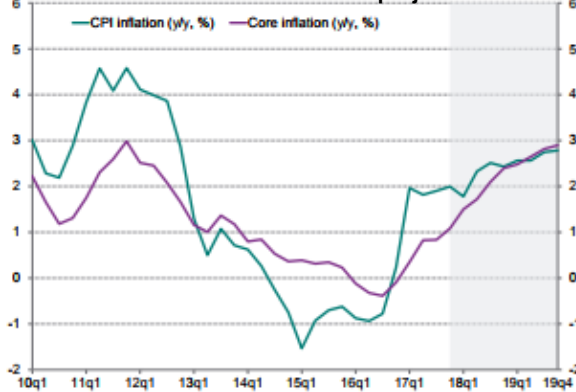
▪ However, what should really matter for the central bank is the underlying inflation, and it is not going to get lower, in our view. While through a better part of 2017 it remained flat, at the turn of the year there was a slight rise, which in our view, will continue until late 2018. While we do not think CPI could be repeatedly breaching the target this year, the rise of core inflation may change the perception of inflationary trends of several MPC members. That said, we are no longer convinced that one of the two 25bp rate hikes we see by the end of 2019 will come this year and we move the first rate hike from November to March 2019.

▪ In March, there will be a new NBP projection, and judging by further positive surprises from economic activity (4Q17 GDP growth probably above 5% y/y), tighter labour market and higher oil prices, the path of inflation might be moved higher. This will be the first time the projection covers 2020 and please note the previous one had an upward trajectory up to 4Q19 in core CPI, showing it at almost 3% at the end, so we could expect to see a significant positive deviation from the target (which refers to headline CPI) also in 2020, giving the more hawkish members a nudge. The PLN appreciation will act on the CPI projection in the other direction, but NBP staff seems conservative in setting the path of the zloty for the purpose of calculating macroeconomic projections. Would it be enough to trigger a serious discussion in the central bank about monetary tightening? We rather doubt it after the recent dovish tilt in the MPC's stance. It seems the Council members need to see much higher inflation to believe it.

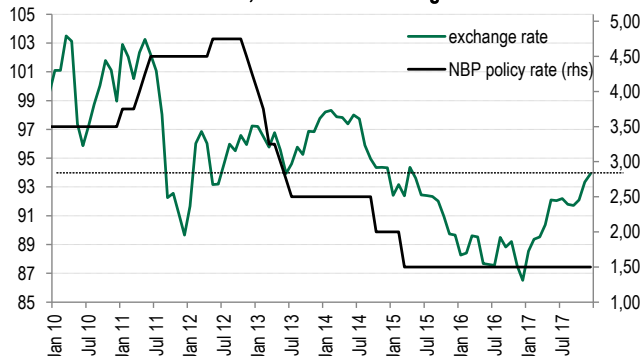
The FX substitute of rate hikes

▪ Some MPC members, including the NBP Governor, referred to the PLN appreciation in 4Q17 as a factor that tightens monetary policy irrespective of their rate decisions. The BIS measure of real effective exchange rate (REER) for the zloty showed c8.6% strengthening in 2017, and 2.4% in 4Q alone, which leaves the currency at the strongest levels since early 2015, but weaker than it was in 2012-2014. We checked what NBP models say about the impact of an exchange rate shock on CPI and compared this to their reaction functions for interest rate hikes. Looking only at peak reactions, a sustained 10% appreciation of REER leads to a 2pp drop of inflation after 3-4 quarters, whereas a 100bp rate hike introduced for four quarters lowers CPI by 0.4pp in a similar time horizon. Mechanical rescaling of the shocks (which seems an oversimplification) would yield a 1% currency strengthening as an equivalent of 50bp-worth of monetary tightening. This does not necessarily reflect what decision makers have on their mind when mentioning the fx appreciation vs. rate hikes substitution. Reality is just far more complicated.

November NBP's inflation projection

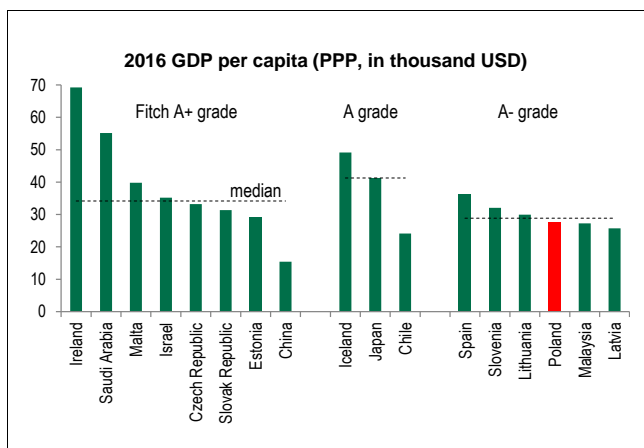
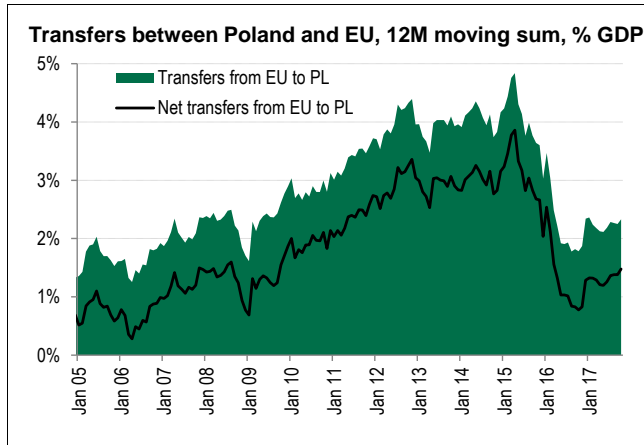
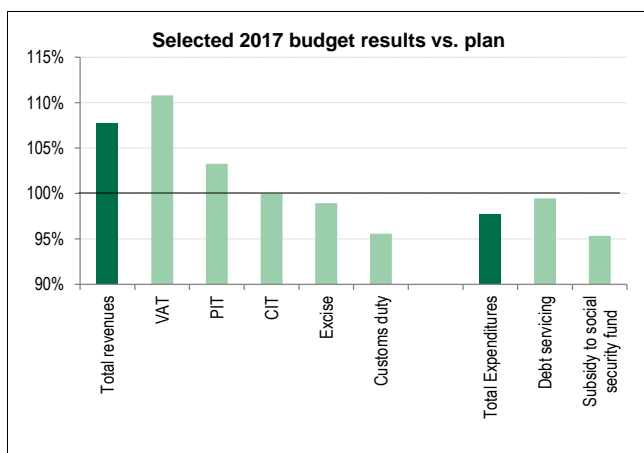
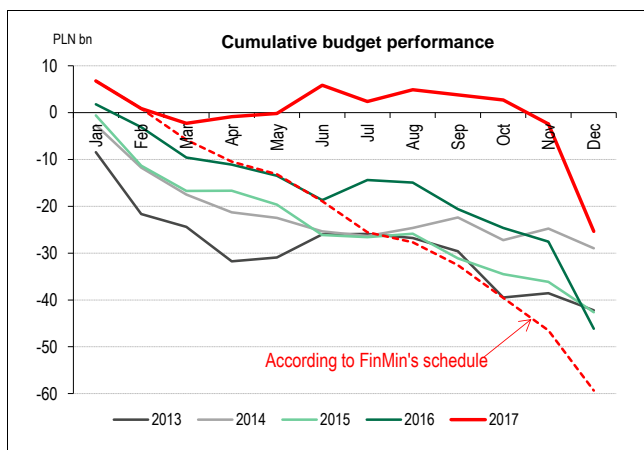


PLN, real effective exchange rate



Sources: GUS, NBP, BIS, BZ WBK.

Fiscal policy watch



2017 central deficit in line with our forecast

- In 2017, the budget deficit was PLN25.4bn, in line with our call, and below the plan at PLN59.3bn. Revenues reached PLN350.5bn (107.7% of the plan). VAT revenues were c24% higher than in 2016, while the revenues from CIT and PIT recorded a growth of 13% and 9.2%, respectively. In December alone, VAT revenues rose by more than 100% due to a different timeline of additional VAT returns. In 2016, most of the advance returns had been paid in December and last year the process started earlier. Expenditures in the whole 2017 were at PLN375.9bn (97.7% of the plan). In December, they rose by PLN50.2bn due to the budget amendment, which increased limits of expenditures in several categories. We think that the general government deficit in 2017 was below 2% of GDP (our forecast is 1.9%; while the European Commission quoted 1.7% in its autumn forecast).

- Our economic outlook for 2018 suggests that the start of the fiscal year may be quite optimistic. Advance VAT returns took place in both late 2016 and late 2017, which suggests we will not see a drastic decline in the y/y growth of VAT revenues in the months of 1Q (in 1Q17 the average rate of growth was c50% y/y).

The next EU budget and the conditionality issue

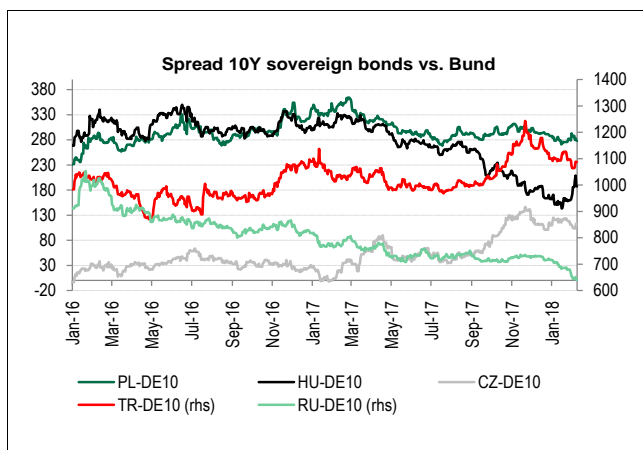
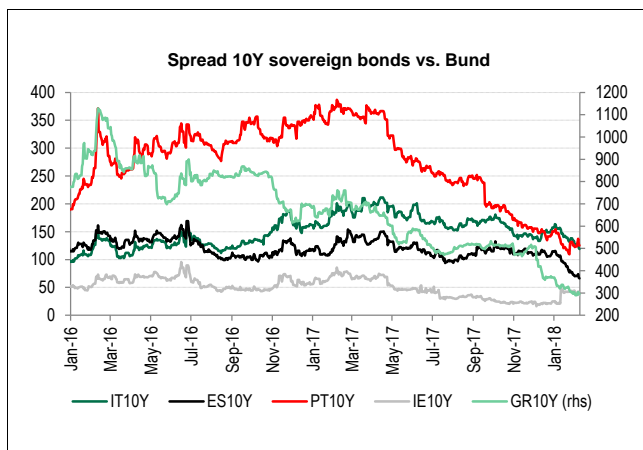
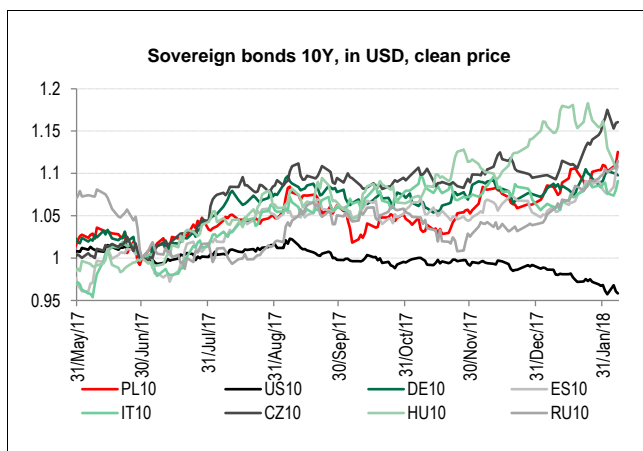
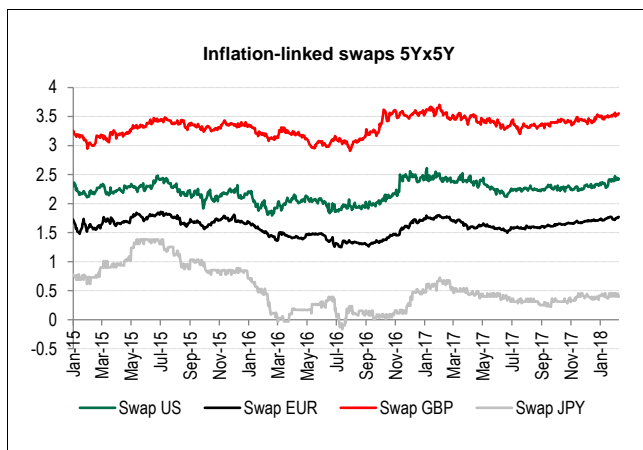
- In May, the European Commission will present the draft version of the next Multiannual EU Financial Framework. An important question for Poland is if the row with the EU about the rule of law could result in the introduction of conditionality clause in the next EU budget after 2020, so that countries that do not share common EU values and policies are to be deprived of the EU funds. It seems, however, that the conditionality issue is now considered a secondary problem and the focus is on how to fill in the gap to be caused by Brexit in the EU budget (where Poland supports Jean-Claude Juncker's view that contributions should be increased).

- The recent remarks from the EC officials about conditionality were mixed. EC President, Jean-Claude Juncker showed conciliatory approach and Budget Commissioner, Gunther Oettinger, mentioned legal obstacles questioning the feasibility of the concept and considered positive budgetary incentives for compliant countries instead of punishment of those who break the rules. On the other hand, Martin Schulz, the leader of German SPD, likely to make part of a coalition government, sticks to the view that Germany should limit its contribution to the EU budget if Poland does not adhere to the refugee quotas policy. What is more, EC Justice Commissioner, Vera Jourova, admitted there are works in the EC to link all EU funds, not only cohesion funds, to the rule of law and she has been tasked with developing criteria to assess members' compliance by May. Currently, the process of stating the rule of law breaches is lengthy, multi-step and requires a vote in the European Council, and it seems a different procedure needs to be created for the purpose of banning a country's claims on EU budget resources. In case of Poland, a vote on a 'clear risk of a serious breach of rule of law' (under Article 7.1 of the Treaty of EU, still not the end of the process) will most likely come this month, two years since the European Commission launched the rule of law dialogue on the situation in the country, following four EC Recommendations, a Formal Opinion plus updates for the Council and a Reasoned Proposal to the Council and an exchange of more than 25 letters with the Polish authorities.

- Fitch Analyst, Arnaud Louis, said that looking at the Poland-EU tensions the agency wants to tell apart political and diplomatic issues from what matters for rating-relevant metrics. From this angle, the potential cuts in the next EU budget are considered a risk to Polish growth and public finances beyond 2021. In a shorter timeframe Poland could see a positive rating action, if GDP growth remains high enough to grant income convergence with other grade A countries. Fitch is to review the rating on 8 Jun and 12 Oct.

Source: Finance Ministry, Stats Office, Fitch, IMF, BZ WBK.

Interest rate market



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

Central banks sent bonds rates higher

Over the last month, the domestic yield curve has been climbing by 30, 25 and 15 bp for 10Y, 5Y and 2Y, respectively (which partly results from benchmark changes, which “added” to the yield of benchmarks between 8bp and 20 bp). Simultaneously the IRS curve moved up by 25, 25 and 5 bp (for the 10Y, 5Y, and 2Y). The sell-off was accompanied by a little more aggressive upward move on the long end and the short end of the US and German yield curve. The trigger for this was not enough dovish, in the investors' perception, press conference (in the case of ECB) and a too hawkish communiqué (in the case of Fed). Even the BoJ decision to start buying long end bonds (to lower the longer rates) was not enough to neutralize global yield upward move. The negative attitude to debt was reflected in late January and early February bond auctions results. At the auctions, the bid/cover ratio was between 1.5 and 1.7 (despite the supply cut) vs. the 2.1 average for 2017 and 2.3 at the first January's auction.

Global sell-off will still negatively affect domestic market

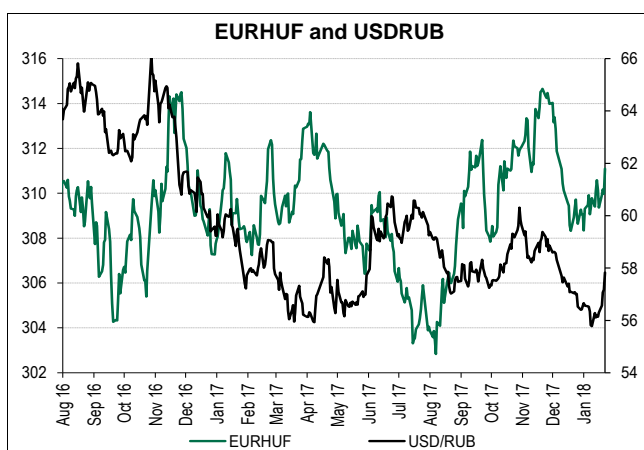
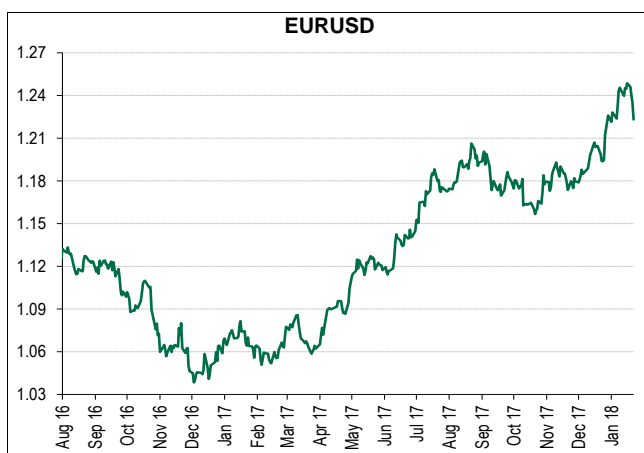
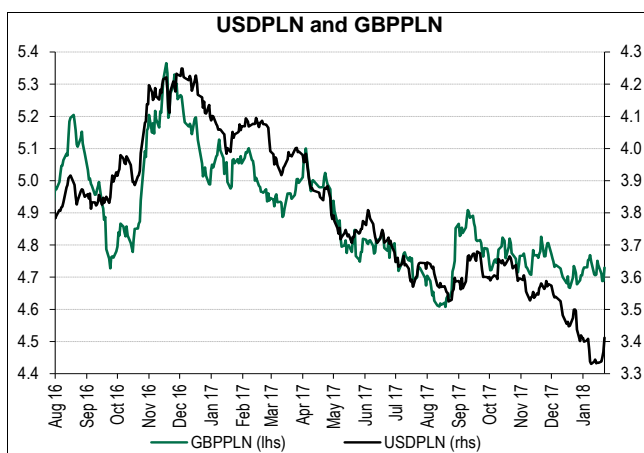
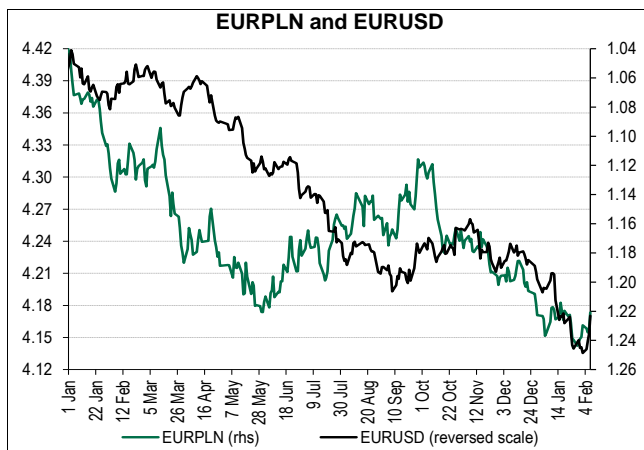
We still think that yields of domestic bonds will remain under the upward pressure in February. In our opinion, the belly and the long end could be affected by core markets sell-off, while the short end will likely remain on the current level. At the same time, we think that the IRS curve (especially in the 5-10Y segment) will remain more sensitive to the upward pressure from the core markets, compared to the yield curve of bonds, which will lead to the asset swap spread compression. We believe that lower sensitivity of the yield curve is a consequence of lower supply of domestic bonds. In the case of the short end of the curve, the MPC rhetoric will be more important.

In our view, the long end of the curve will stay under the core markets sell-off pressure for some time (2-3 weeks). Simultaneously, higher level of rates so far was justified by the investors who were convinced that high wages dynamics (reported over the last months) will translate into inflation increase. This, in consequence, was to force the MPC into faster and more aggressive hikes in the future. However, the significance of the last of the above-mentioned factors will likely gradually decrease along with the release of inflation data in Poland (for January and February, we expect a 1.7-1.8% y/y).

Global markets will be key

In the months to come, we forecast slight strengthening on the bond market across the yield curve. In the front end, the price rebound will be fuelled by expected buyback of the PS0418 bonds. This used to be reflected in prices a few weeks before the buyback (current outstanding debt at the end of April was PLN14.6bn). The belly and the long end of the curve will be positively impacted by expected good domestic fiscal data. We still hope for some improvement on the global bond market in the longer horizon (1-2 months), which should help domestic curve to flatten. We believe that the last weeks global bonds market sell-off was not, in fact, driven by rising inflation expectations of market participants. That narration is incoherent with the stock market sell-off (companies usually are beneficiaries of higher inflation) as well as relatively low increase in prices of inflation-linked financial instruments on the global markets (see the first chart). At the same time, we believe that much lower price drop in the treasuries of the CEE countries and the Euro periphery bonds visible over the last sale-off shows that investors changed their attitude to bonds classified in recent years as more risky (see two lower charts).

Foreign exchange market



Sources: Reuters, Bloomberg, BZ WBK.

Zloty stable at strong level

- In January, the zloty remained strong vs main currencies amid still positive global market sentiment and weak dollar. We think the zloty may give up some of its gains due to local and global factors.
- As we write below, we expect some down correction of EURUSD to take place in the short term. EURPLN has been trending lower as the euro was gaining versus the dollar and if the US currency starts to recover, this may generate upside pressure on EURPLN.
- In our view, local factors will also prove material. The MPC rhetoric at the press conference after the February meeting was dovish which already had some negative impact on the zloty. We forecast January inflation at 1.8% y/y and such release could even strengthen the dovish message sent by the MPC.
- Early February saw a sharp plunge on the equity market globally. So far, the zloty proved surprisingly resilient to jump in risk aversion but we do not expect the Polish currency to stay firm if stocks continue to fall.

▪ Similarly to the previous months, technical analysis indicators show EURPLN is oversold and implied volatilities are trading at their multi-year lows making us cautious about expecting further zloty appreciation in the short term.

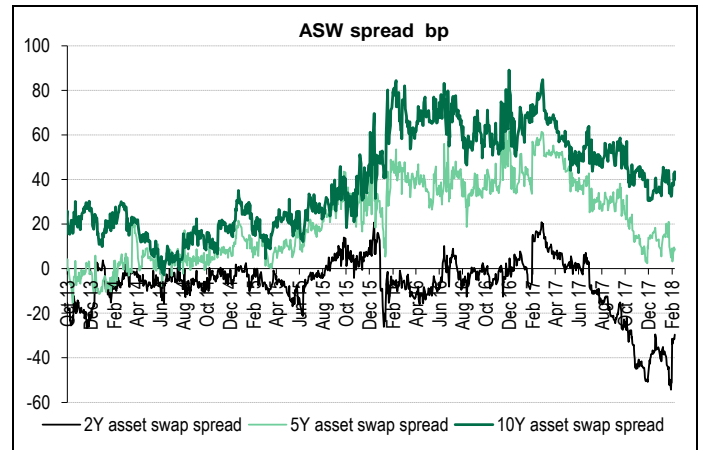
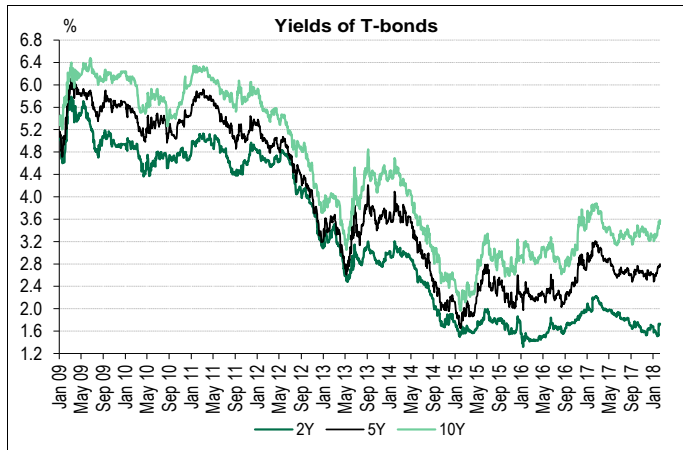
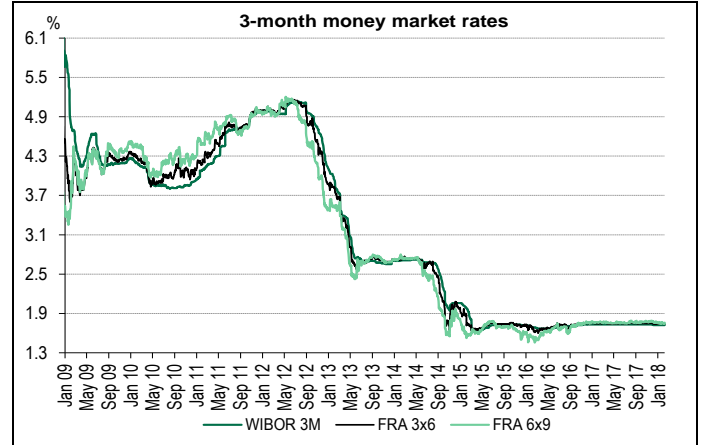
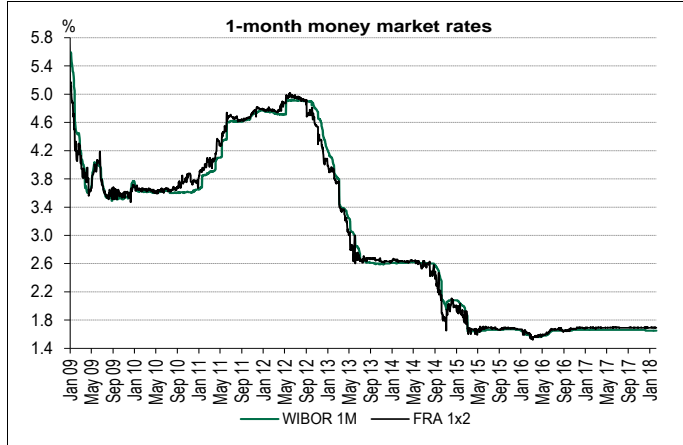
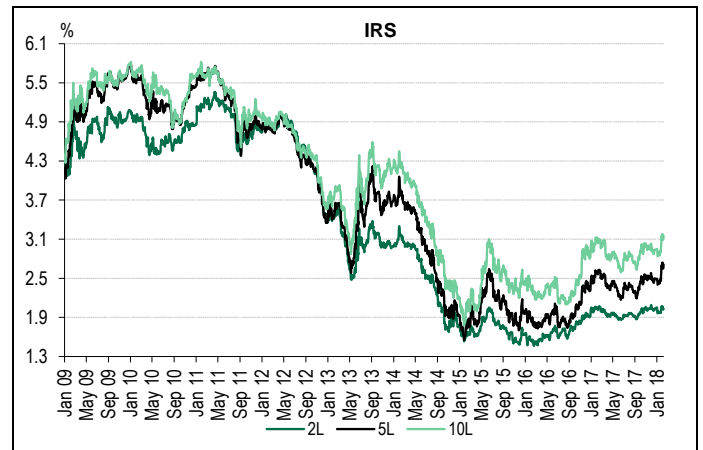
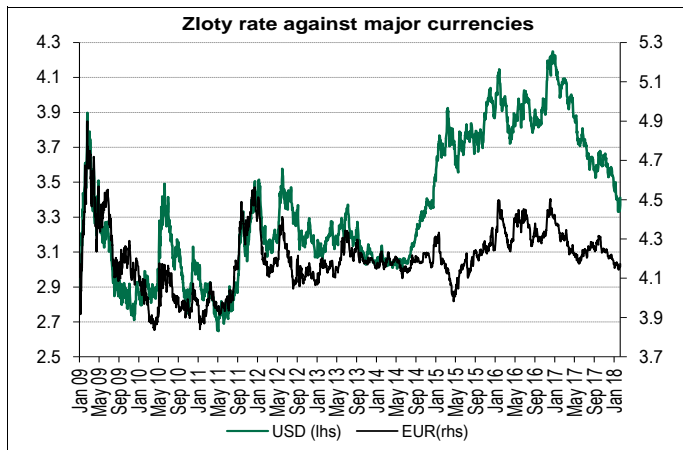
Euro correction has likely started

- In January, EURUSD remained in the upward trend amid still strong European economic activity data, low demand for safe assets amid gaining stocks, less-dovish-than-expected ECB rhetoric and progress in German coalition talks. As a result, the exchange rate jumped temporarily 1.25, reaching its highest level since late 2014.
- We still view EURUSD as overbought and we think the market has priced in economic recovery in the euro zone too aggressively and put not enough attention to the divergence in the Fed and ECB monetary policy. Still, given the recent developments we revised our EURUSD path up for this year, particularly to 1.21 from 1.15 for 1Q and to 1.26 from 1.20 for 4Q. We stick to our view that the upside trend will hold in 2018 as the global market sentiment will be positive implying low demand for safe assets like the dollar.

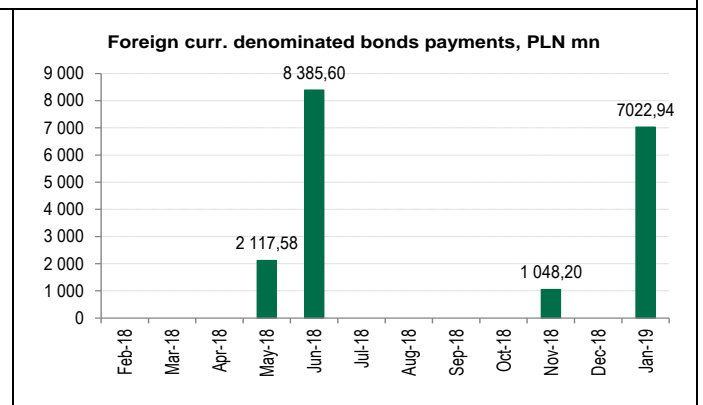
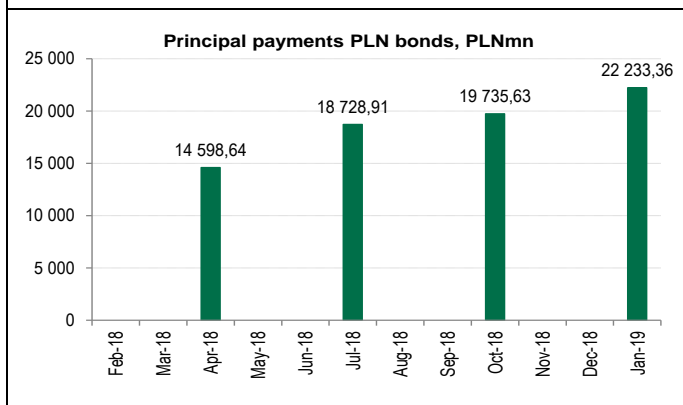
Politics may weigh on koruna

- EURCZK stayed in the down trend as the Czech central bank raised interest rates by 25bp, main refi rate to 0.75%. The Czech central bank head, Jiri Rusnok, said after the meeting that one more hike this year is likely which looked fairly dovish given the FRA market pricing one 25bp hike in the next three months and a total of 75bp in the next 12 months. It seems there is little room for stronger koruna in the short term, particularly given the political deadlock.
- President Milos Zeman was elected for the second term and he said yet before the elections that he would give Andrej Babis a second chance to build a government. In mid-January Czech PM Babis and his minority government lost a confidence vote and now they will continue as an acting government while they try to find a coalition partner, which could take at least several weeks. Although Babis is accused of a subsidy fraud, his ANO movement has still high public support and so the eight remaining parliamentary parties may not be willing to force an election and could try to form a coalition instead.

Market monitor



Principal and interest payments



Source: Finance Ministry, Reuters, BZ WBK.

Economic calendar

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
12 February	13 <i>PL: Balance of payments (Nov)</i> HU: CPI (Jan)	14 <i>PL, DE, EZ, HU: Flash GDP (Q4)</i> US: CPI (Jan) US: Retail sales (Jan) EZ: Industrial output (Dec) CZ: CPI (Jan)	15 <i>PL: CPI (Jan)</i> US: Philly Fed index (Feb) US: Industrial output (Jan)	16 <i>PL: Wages and employment (Jan)</i> CZ: Flash GDP (Q4) US: House starts (Jan) US: Building permits (Jan) US: Flash Michigan (Feb)
19	20 <i>PL: Industrial output (Jan)</i> <i>PL: PPI (Jan)</i> <i>PL: Retail sales (Jan)</i> DE: ZEW index (Feb)	21 DE: Flash PMI – services (Feb) DE: Flash PMI – manufacturing (Feb) EZ: Flash PMI – manufacturing (Feb) EZ: Flash PMI – services (Feb) US: Home sales (Jan) US: FOMC minutes	22 <i>PL: Money supply (Jan)</i> DE: Ifo index (Feb)	23 DE: GDP (Q4) EZ: CPI (Jan)
26 US: New home sales (Jan)	27 HU: Central bank decision US: Durable goods orders (Jan) US: Consumer confidence index (Feb)	28 <i>PL: GDP (Q4)</i> EZ: Flash CPI (Feb) US: Preliminary GDP (Q4) US: Pending home sales (Jan)	1 March <i>PL: PMI – manufacturing (Feb)</i> EZ: PMI – manufacturing (Feb) DE: PMI – manufacturing (Feb) US: ISM – manufacturing (Feb) US: Personal income (Jan) US: Consumer spending (Jan)	2 CZ: GDP (Q4) US: Michigan index (Feb)
5 DE: PMI – services (Feb) EZ: PMI – services (Feb) EZ: Retail sales (Jan) US: ISM – services (Feb)	6 HU: GDP (Q4) US: Industrial orders (Jan)	7 <i>PL: MPC decision</i> EZ: GDP (Q4) US: ADP report (Feb) US: Fed Beige Book	8 EZ: ECB decision DE: Industrial orders (Jan) HU: CPI (Feb)	9 DE: Exports (Jan) DE: Industrial output (Jan) CZ: CPI (Feb) US: Non-farm payrolls (Feb) US: Unemployment rate (Feb)
12	13 US: CPI (Feb)	14 EZ: Industrial output (Jan) US: Retail sales (Feb)	15 <i>PL: CPI (Feb)</i> CZ: Industrial output (Jan) US: Philly Fed index (Mar)	16 <i>PL: Wages and employment (Feb)</i> <i>PL: Balance of payments (Jan)</i> <i>PL: Core inflation (Feb)</i> US: House starts (Feb) US: Building permits (Feb) US: Industrial output (Feb) US: Flash Michigan (Mar)

Source: GUS, NBP, Bloomberg.

Calendar of MPC meetings and data releases for 2018

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
ECB decision	25	-	8	26	-	14	26	-	13	25	-	13
MPC decision	10	7	7	11	16	6	11	-	5	3	7	5
MPC minutes	-	22	29	27	-	21	-	23	20	25	22	20
Flash GDP*	30	14	-	-	15	-	-	14	-	-	14	-
GDP*	-	28	-	-	30	-	-	31	-	-	30	-
CPI	15	15	15	12	11	11	12	10	11	12	12	11
Core inflation	16	-	16	13	14	12	13	13	12	15	13	12
PPI	19	20	19	19	21	19	18	20	19	17	20	19
Industrial output	19	20	19	19	21	19	18	20	19	17	20	19
Retail sales	19	20	20	20	22	20	19	21	20	18	21	20
Gross wages, employment	17	16	16	18	18	18	17	17	18	16	19	18
Foreign trade												
Balance of payments*	-	-	30									
Balance of payments	15	13	16	13								
Money supply	23	22	22	24								

* Quarterly data. a preliminary data for January. b January and February.

Source: GUS, NBP.

Economic data and forecasts for Poland

Monthly economic indicators

		Jan 17	Feb 17	Mar 17	Apr 17	May 17	Jun 17	Jul 17	Aug 17	Sep 17	Oct 17	Nov 17	Dec 17	Jan 18E	Feb 18E
PMI	pts	54.8	54.2	53.5	54.1	52.7	53.1	52.3	52.5	53.7	53.4	54.2	55.0	54.6	55.2
Industrial production	% YoY	9.1	1.1	11.1	-0.6	9.2	4.4	6.2	8.7	4.2	12.3	9.1	2.7	9.3	7.1
Construction production	% YoY	2.1	-5.3	17.2	4.3	8.4	11.6	19.8	23.5	15.3	20.3	19.8	12.7	22.8	24.4
Retail sales ^a	% YoY	11.4	7.3	9.7	8.1	8.4	6.0	7.1	7.6	8.6	8.0	10.2	6.0	7.7	7.4
Unemployment rate	%	8.5	8.4	8.0	7.6	7.3	7.0	7.0	7.0	6.8	6.6	6.5	6.6	6.9	6.9
Gross wages in corporate sector	% YoY	4.3	4.0	5.2	4.1	5.4	6.0	4.9	6.6	6.0	7.4	6.5	7.3	7.3	7.7
Employment in corporate sector	% YoY	4.5	4.6	4.5	4.6	4.5	4.3	4.5	4.6	4.5	4.4	4.5	4.6	3.7	3.4
Exports (€)	% YoY	15.1	6.4	19.7	3.2	19.2	7.2	13.3	11.5	10.0	15.5	14.8	5.9	15.0	11.0
Imports (€)	% YoY	16.0	10.5	19.8	4.6	21.7	14.5	13.2	7.8	7.5	14.8	15.9	7.6	15.0	12.0
Trade balance	EUR mn	477	-169	330	519	-83	-235	-172	162	466	321	109	-200.0	551	-343
Current account balance	EUR mn	2,548	-514	-405	350	-264	-892	-203	189	120	297	233	15	623	-834
Current account balance	% GDP	0.1	0.1	0.1	0.0	-0.1	-0.5	-0.3	-0.1	0.2	0.2	0.3	0.3	-0.1	-0.2
Budget deficit (cumulative)	PLN bn	6.7	0.9	-2.3	-0.9	-0.2	5.9	2.4	4.9	3.8	2.7	-2.4	-25.4	3.0	-1.5
Budget deficit (cumulative)	% of FY plan	-11.4	-1.4	3.8	1.5	0.3	-9.9	-4.0	-8.2	-6.4	-4.5	4.1	42.7	-7.1	3.6
CPI	% YoY	1.7	2.2	2.0	2.0	1.9	1.5	1.7	1.8	2.2	2.1	2.5	2.1	1.8	1.7
CPI excluding food and energy	% YoY	0.2	0.3	0.6	0.9	0.8	0.8	0.8	0.7	1.0	0.8	0.9	0.9	1.2	1.2
PPI	% YoY	4.0	4.5	4.8	4.2	2.4	1.8	2.2	3.0	3.2	3.0	1.8	0.3	-0.2	-0.4
Broad money (M3)	% YoY	8.5	8.2	7.8	6.7	6.3	5.0	5.0	5.4	5.4	5.7	4.5	4.6	4.8	5.0
Deposits	%YoY	8.3	7.7	7.3	6.1	5.7	4.5	4.6	5.0	5.0	5.3	4.2	4.1	4.5	4.6
Loans	%YoY	3.5	4.8	5.3	4.5	4.8	4.5	4.5	5.0	5.1	4.7	3.7	3.6	3.8	3.9
EUR/PLN	PLN	4.37	4.31	4.29	4.24	4.20	4.21	4.24	4.26	4.27	4.26	4.23	4.20	4.16	4.18
USD/PLN	PLN	4.11	4.05	4.02	3.96	3.80	3.75	3.68	3.61	3.59	3.63	3.60	3.55	3.41	3.41
CHF/PLN	PLN	4.08	4.04	4.01	3.95	3.85	3.87	3.83	3.74	3.73	3.69	3.63	3.60	3.55	3.61
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	%	1.73	1.73	1.73	1.73	1.73	1.73	1.73	1.73	1.73	1.73	1.73	1.72	1.72	1.73
Yield on 2-year T-bonds	%	2.01	2.20	2.08	1.98	1.95	1.94	1.89	1.80	1.73	1.71	1.60	1.66	1.63	1.66
Yield on 5-year T-bonds	%	2.94	3.15	3.02	2.87	2.79	2.61	2.65	2.65	2.61	2.69	2.62	2.63	2.68	2.72
Yield on 10-year T-bonds	%	3.69	3.82	3.66	3.42	3.35	3.19	3.30	3.33	3.27	3.39	3.40	3.27	3.25	3.40

Note: ^a in nominal terms, ^b at the end of the period.

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

Quarterly and annual economic indicators

		2015	2016	2017	2018E	1Q17	2Q17	3Q17	4Q17	1Q18E	2Q18E	3Q18E	4Q18E
GDP	PLN bn	1,798.3	1,858.6	1,984.7	2,109.3	456.0	476.2	487.4	565.1	488.1	506.5	517.1	597.6
GDP	% YoY	3.8	2.9	4.6	4.3	4.1	4.0	4.9	5.1	4.9	4.3	4.0	3.9
Domestic demand	% YoY	3.3	2.2	4.7	4.4	3.9	5.5	3.9	5.2	5.1	4.4	4.2	4.0
Private consumption	% YoY	3.0	3.9	4.8	4.9	4.7	4.9	4.8	5.0	5.0	4.9	4.8	4.7
Fixed investments	% YoY	6.1	-7.9	5.4	6.6	-0.5	0.9	3.3	11.8	10.1	7.9	6.4	4.8
Industrial production	% YoY	4.8	2.9	6.5	6.8	7.3	4.2	6.3	8.4	6.4	7.0	8.2	5.7
Construction production	% YoY	0.3	-14.6	13.7	14.4	5.6	8.4	19.3	17.1	19.7	20.6	14.3	8.2
Retail sales ^a	% YoY	1.5	3.9	8.3	7.9	9.6	7.6	7.9	8.1	8.1	8.6	9.1	5.8
Unemployment rate ^b	%	9.7	8.2	6.6	5.7	8.0	7.0	6.8	6.6	6.6	5.8	5.6	5.7
Gross wages in the national economy ^a	% YoY	3.3	3.8	5.7	7.9	4.1	5.0	4.9	7.1	7.2	7.5	7.6	9.0
Employment in the national economy	% YoY	0.9	2.3	3.7	2.4	3.2	3.0	3.6	3.4	2.6	2.3	2.0	1.8
Exports (€)	% YoY	8.5	3.1	11.8	10.8	13.8	9.6	11.6	12.2	10.4	11.6	12.1	9.1
Imports (€)	% YoY	5.0	2.7	12.8	11.5	15.5	13.5	9.4	12.8	10.6	12.7	13.4	9.6
Trade balance	EUR mn	2,213	2,935	1,535	195	641	204	460	230	608	-322	-91	0
Current account balance	EUR mn	-2,405	-1,254	1,517	940	1,659	-799	112	545	-39	355	-701	1,325
Current account balance	% GDP	-0.6	-0.3	0.3	0.2	0.1	-0.4	0.2	0.3	0.0	0.2	0.0	0.2
General government balance	% GDP	-2.6	-2.5	-1.9	-2.2	-	-	-	-	-	-	-	-
CPI	% YoY	-0.9	-0.6	2.0	2.0	2.0	1.8	1.9	2.2	1.8	2.2	2.2	1.9
CPI ^b	% YoY	-0.5	0.8	2.1	1.9	2.0	1.5	2.2	2.1	1.8	2.2	2.2	1.9
CPI excluding food and energy	% YoY	0.3	-0.2	0.7	1.7	0.3	0.8	0.8	0.9	1.2	1.5	1.9	2.2
PPI	% YoY	-2.2	-0.2	2.9	0.8	4.4	2.8	2.8	1.7	-0.3	1.0	1.5	1.1
Broad money (M3) ^b	% oY	9.1	9.6	4.6	8.7	7.8	5.0	5.4	4.6	5.6	6.7	7.7	8.7
Deposits ^b	%YoY	9.0	9.1	4.1	8.5	7.3	4.5	5.0	4.1	5.2	6.3	7.4	8.5
Loans ^b	%YoY	6.9	4.7	3.6	6.3	5.3	4.5	5.1	3.6	4.3	5.0	5.7	6.3
EUR/PLN	PLN	4.18	4.36	4.26	4.21	4.32	4.22	4.26	4.23	4.18	4.21	4.24	4.22
USD/PLN	PLN	3.77	3.95	3.78	3.43	4.06	3.83	3.63	3.59	3.41	3.47	3.45	3.38
CHF/PLN	PLN	3.92	4.00	3.84	3.59	4.04	3.89	3.77	3.64	3.59	3.62	3.61	3.54
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
3M WIBOR	%	1.75	1.70	1.73	1.73	1.73	1.73	1.73	1.73	1.73	1.73	1.73	1.74
Yield on 2-year T-bonds	%	1.70	1.63	1.88	1.77	2.10	1.96	1.81	1.66	1.66	1.66	1.81	1.95
Yield on 5-year T-bonds	%	2.21	2.35	2.77	2.88	3.03	2.76	2.64	2.65	2.71	2.81	2.91	3.08
Yield on 10-year T-bonds	%	2.69	3.04	3.42	3.44	3.72	3.32	3.30	3.35	3.37	3.42	3.47	3.50

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

This analysis is based on information available until 08.02.2018 has been prepared by:

ECONOMIC ANALYSIS DEPARTMENT

al. Jana Pawła II 17, 00-854 Warszawa fax (+48) 22 586 8340

Email: ekonomia@bzwbk.pl Web site (including Economic Service page): <http://www.skarb.bzwbk.pl>

Maciej Reluga* – Chief Economist

tel. (+48) 22 534 1888. Email: maciej.reluga@bzwbk.pl

Piotr Bielski*	– Director	(+48) 22 534 1887
Marcin Luzziński*	– Economist	(+48) 22 534 1885
Grzegorz Ogonek*	– Economist	(+48) 22 534 1923
Konrad Soszyński*	– Economist	(+48) 22 534 1886
Marcin Sulewski*	– Economist	(+48) 22 534 1884

TREASURY SERVICES DEPARTMENT

Poznań

pl. Gen. W. Andersa 5
61-894 Poznań

tel. (+48) 61 856 58 14/30

fax (+48) 61 856 4456

Warszawa

al. Jana Pawła II 17
00-854 Warszawa

tel. (+48) 22 586 83 20/38

fax (+48) 22 586 8340

Wrocław

ul. Rynek 9/11
50-950 Wrocław

tel. (+48) 71 369 9400

fax (+48) 71 370 2622

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