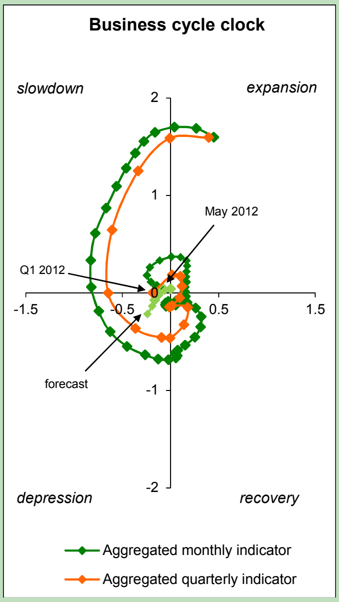
Bank Zachodni WBK

MACROscope

Polish Economy and Financial Markets

July-August 2012



Note: construction of business cycle clock, including concepts and methodology used for its creation was presented in MACROscope in November 2009

In this issue:

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Another hot summer

- **Our bi-monthly report released last summer was titled "Tense summer season". And indeed, there was an intensification of market turmoil in the euro zone soon afterwards. We think that this time around we may see a similar scenario and the summer will be hot not only in terms of weather outside, but also taking into account situation in the financial markets. T**he EU summit in June brought some relief for the market, although it must be admitted there were little grounds for it. Main problems still remain unresolved (fiscal union, banking union, or political union are still distant projects), while poor economic outlook (continuing fall of leading indicators) will cause accumulation of public debt. Considering the above, in the horizon of next few week we expect that higher uncertainty may be back in the financial markets, which would trigger another wave of zloty depreciation.
- **Monetary Policy Council's meeting in July brought no change in the official rates, although if it ended up with another rate hike it would look even odder than the one in May, taking into account that one day later the European Central Bank has cut rates in the euro zone.** The MPC once again has not excluded further monetary adjustment "should the outlook for inflation returning to the target deteriorate", however we do expect this to happen. Especially that the new NBP's projection does not justify monetary tightening, showing deeper than earlier predicted slowdown in economic growth and fall of inflation to the target in the medium run. Our forecasts are close to NBP's predictions. At the end of this report we present a table with detailed quarterly forecasts, also for the next year. As regards NBP interest rates, we assume that they will remain unchanged until the end of this year. We think that next year rate cuts would be possible if economic growth slows to ca. 2%. For the interest rate market the next inflation data may be crucial, as they may show a "hawkish" surprise, triggering further correction in FRA rates. We predict a clear rise in CPI inflation to 4.4% (market consensus 4.1%). In August, there is no decision-making MPC meeting, so even if some Council members got scared again by higher inflation, they will have no opportunity for hasty response.
- **Despite lengthening debt crisis in the euro zone, the first half of 2012 saw a significant strengthening in the Polish debt market.** Polish government bonds remained immune to negative information from euro zone's peripheral countries. To assess which factors had the most significant impact on the shape of the yield curve, we decided to run more detailed analysis of situation in the domestic debt market, using econometric approach. Details are presented in the Special focus section "What drives Polish yields?" (pages 2-4).

Financial market on 10 July 2012:

NBP deposit rate	3.25	WIBOR 3M	5.13	EURPLN	4.2041
NBP reference rate	4.75	Yield on 2-year T-bond	4.59	USDPLN	3.4145
NBP lombard rate	6.25	Yield on 5-year T-bond	4.71	CHFPLN	3.5004

This report is based on information available until 10.07.201

Special focus

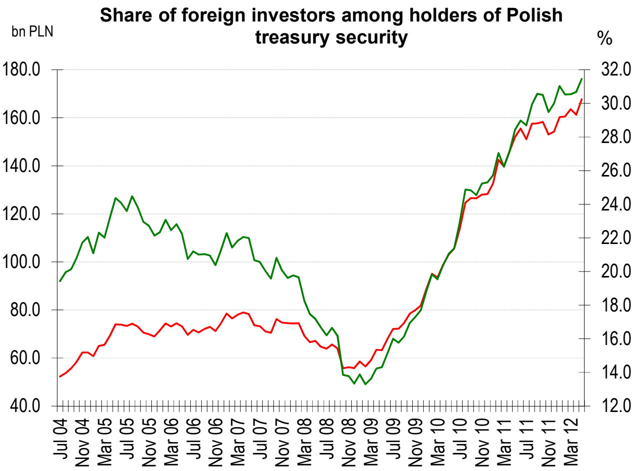
What drives Polish yields?

Which factors are important for the Polish yields?

Starting from the beginning of this year the Polish government securities have performed strongly despite Europe's debt problems. The unabated interest in the Polish bonds indicates that investors appreciate the very strong fundamentals of the Polish economy. Due to heavy demand on the Polish T-bonds, mainly from foreign investors, yield curve moved down by 17-74bps in comparison with the end of 2011, with the highest scope of fall in case of 10Y sector. One should notice that yield of 10Y benchmark fell at the end of June towards 5.10%, the lowest level since the beginning of 2007. Upward corrections in yields (caused mainly by global mood deterioration due to political instability in Greece after May's election, downgrade of credit rating for Spain and Spain's official request for financial help to support its banking sector) were used by investors to purchase bonds at more attractive prices.

It is interesting that the Polish government securities have outperformed bonds issued by some euro zone countries (especially peripheries) and have remained relatively resistant to negative news from peripheries. Taking into account the factors mentioned above and significant increase in non-residents holding, it seems that investors have treated the Polish assets as the region's "safe haven". Using an econometric analysis of bond yields we tried to find which factors were the most important for the fixed income market (technical details about models can be found in the annex on page 4). Results of estimations clearly show that FRA rates, which are representing expectations in monetary policy, strongly affected yields' changes at the short end and mid of the yield curve. The exchange rate also put some pressure on the yields, but its influence was higher for longer maturities. In the same vain, long term bonds are more vulnerable to foreign investors holding than to changes in monetary policy. One should notice that at the end of May foreign investors' exposure to the Polish assets increased significantly to PLN167.7bn, the highest level in history. Moreover, non-residents held over 31% of total Polish marketable Treasury Securities (vs 22% on average in 2009-2011 period).

As regards other variables affecting the yields, we found out that the Polish bond curve also strongly depends on PMI index, reflecting the economic activity perspectives and on German benchmarks, which are "safe haven" of the European market. The impact of domestic business cycle (PMI) on yields increases together with yield maturity, showing the strongest influence in case of 10Y benchmark. Mid and long end of the curve are also more sensitive to changes in German yields than the front end of the curve.



Source: MF, BZ WBK

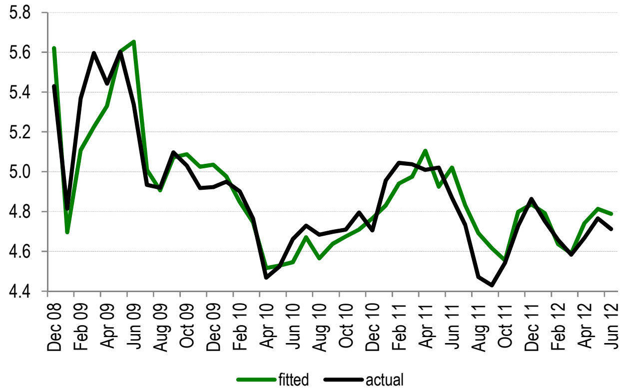
Apart from factors mentioned above, Polish yield curve is also strongly affected by the Ministry of Finance's policy in terms of supply. The first half of 2012 was favourable for the Ministry as an issuer. At the end of June it covered nearly 80% of this year's borrowing requirements, which allows the MF to reduce its issuance plan for Q3 (in line with expectations) and to refrain from offering T-bills until the year-end. Planned supply for July-September period amounts to PLN6-13bn vs T-bonds sale worth PLN22bn in Q2 (only regular and supplementary tenders). We believe that the Ministry could start pre-financing next year's borrowing needs in September (as in the previous year), provided that market conditions are favourable. This could happen through switch auctions, which extend debt duration and do not increase the overall debt.

Will the MPC unwind rate hike?

Starting from the beginning of this year the front end of the curve has been under pressure of the MPC's hawkish rhetoric, which had materialised in interest rate hike by 25bps at May's rate-setting meeting. But renewed cuts expectations after dovish statements by two MPC members (Chojna-Duch, Bratkowski) and weak data from the real economy (clear signals of slowdown in economic activity together with CPI inflation fall to 3.6%YoY in May) caused a sharp fall of 2Y yield.

The end of the first half of the year has brought significant changes in expectations about interest rate path later in the year. At the end of June market players have priced-in interest rate cuts in 9 months horizon, with the first cut in Q4 2012. Taking into account current MPC rhetoric, we think that it will be difficult to ease the monetary policy unless the economy slows significantly and CPI inflation returns to the downward trend towards NBP's target (i.e. 2.5%YoY). Our forecast suggests that inflation rate will remain at elevated level near 4%YoY till late autumn and as a consequence we expect interest rates to stay unchanged till year-end. Our baseline scenario assumes that yield of 2Y could anchor near 4.70%, with possibility of more significant downward move in last months of the year thanks to inflation's decline to tolerance band around NBP's target and strong signals of economic activity deterioration.

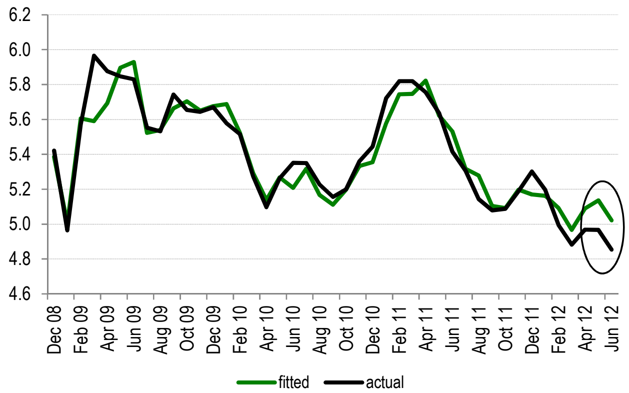
2Y bond yield



Source: BZ WBK

As for 5Y, generally the model properly showed trend on the market, but the model overshoots yields in last 3-4 months (see chart) – fitted value exceeded real yield by over 15bps (on average). It was caused mainly by introduction of a new 5Y benchmark, which attracted a fresh demand. Yield of 5Y benchmark, after increase at the beginning of May (due to political problems in Greece), has continued its downward trend to towards 4.70%, the lowest level since 2006.

5Y bond yield



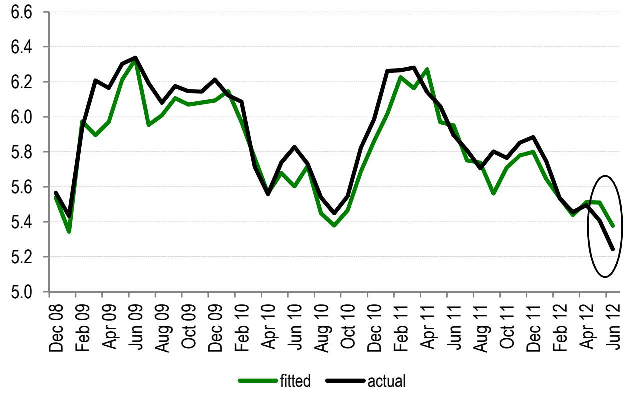
Source: BZ WBK

In coming months we expect yield of 5Y to remain between 4.70-4.80%, with possibility of testing both the bottom and the upper limit of the channel. However, if risk aversion increases, it will cause a sell-off in 5Y sector and yields growth towards even 5.00%.

Long-term bonds still strong

In the first half of this year long term bonds have performed much better than other sectors. They were supported by strong economic fundamentals, limited supply and global mood improvement. In our opinion, all these facts caused the model to overshoot the actual ones by more than 10bps on average in last 3-4 months (see chart below).

10Y bond yield



Source: BZ WBK

The results of June's EU summit surprised on the positive side, thus increasing appetite for risky assets, including the Polish ones. We think that observed market enthusiasm could be only temporary, especially taking into account that some investors decided to take profit after information that some countries could block the euro zone's permanent bailout fund (EFSF/ESM) from buying bonds in secondary markets. We expect that the Polish bonds will remain relatively resistant (at least as compared to EURPLN). We expect yield of 10Y benchmark to be traded horizontally between 5.10 and 5.35% till year-end (with possibility of testing both the bottom and the upper bound).

Technical annex

According to the financial and economic theory, bond yields depend upon several factors:

(1) Interest rates expectations
(2) Inflation expectations
(3) Domestic fiscal risk
(4) Exchange rate risk
(5) Bond supply
(6) Interbank liquidity
(7) Expected gains from alternative investments
(8) Cost of money on international market and global risk aversion

Taking into account these factors, we have chosen macroeconomic and financial variables which can serve as proxies for them. These variables were regressed against yields of 2, 5 and 10Y Polish bonds in order to choose these, which are statistically relevant. These are:

- Polish FRA3x6 and 6x9 rates (FRA3x6, FRA6x9), which reflect factor (1)
- CPI inflation (CPI), which reflects factor (2)
- Percentage share of foreign investors' holding in Polish bonds (FOREIGN_HOLDING), reflecting factor (3)
- Polish PMI index for manufacturing (PMI), which reflects factor (3)
- EURPLN exchange rate, which reflects factor (4)
- WIG20 index (WIG20), which reflects factor (7)
- Yields of 2, 5 and 10Y German bonds (DE2Y, DE5Y, DE10Y), which reflect factor (8)
- VIX index (VIX), which stands for factor (8)

We failed to capture factors (5) and (6), but they surely remain important for Polish bond yields.

Bond yields were modelled using the error correction model framework, which is typical for this kind of problem. A typical error correction model consists of two equations: one describing the long-term equilibrium level of the endogenous variable and the other one describing the short-term volatility around the equilibrium. The estimated parameters of models are given in table 1. (all are statistically significant at 5% significance level, constants are omitted, D(.) operator stands for the first difference). All variables were standardised, so value of coefficient cannot be interpreted in an usual manner, but they can be compared with each other.

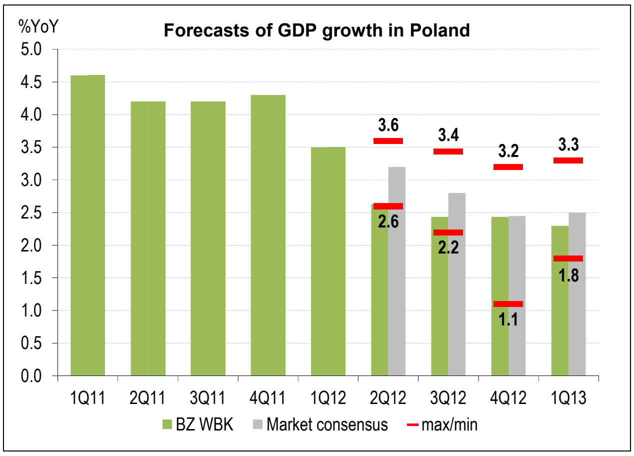
The estimated coefficients have expected signs (yields rise due to higher interest rates and inflation expectations, depreciation of the zloty, higher German yields, higher risk aversion and lower demand of foreign investors), except for PMI and WIG20. The former reflects current business climate. High economic activity is favourable for tax receipts, so should exert a downward pressure on yields. On the other hand, the latter stands for expected gains from alternative investments so flourishing stock market should deliver an upward impulse for yields. Still, these two variables are both treated as leading indicators of the economy and carry a similar message, so it is possible that they managed to capture opposite signals, with WIG20 promising high tax receipts and PMI showing good business climate with other investment prospects.

Moreover, our models captured an important theoretical relation: yields for longer tenors are less vulnerable to expected interest rate path, but depend more on global and risk aversion and foreign exchange developments.

Table 1. Estimated coefficients

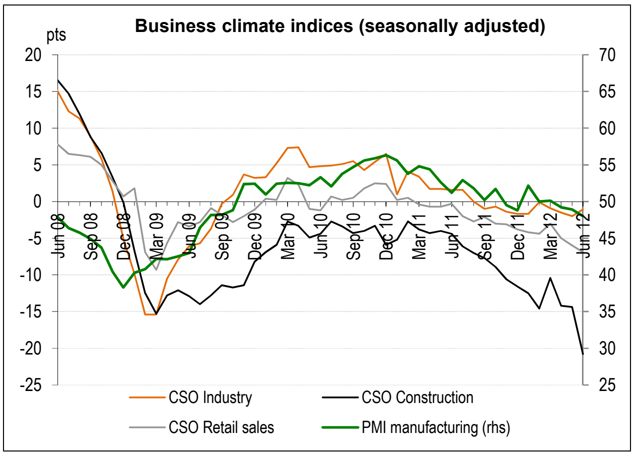
	Endogenous variable		
Exogenous variable	**PL2Y**	**PL5Y**	**PL10Y**
LONG-TERM EQUATION			
FRA3x6/6x9	0.9379	0.8951	0.3499
CPI			0.6276
FOREIGN_HOLDING	-0.4156	-0.3577	-0.4500
PMI	0.2061	0.1617	0.3578
EURPLN	0.2448	0.3081	0.4387
WIG20	-0.1273	-0.1625	
DE2Y/5Y/10Y	0.1098	0.2532	0.2422
SHORT-TERM EQUATION			
ERROR TERM	-0.3018	-0.1782	-0.1252
D(FRA3x6/6x9)	1.0561	0.9025	0.7127
D(FOREIGN_HOLDING)	-0.1829	-0.2853	-0.4443
D(EURPLN)	0.2439	0.2473	0.3322
D(DE2Y/5Y/10Y)		0.2292	0.4564
D(VIX)		0.1888	0.2246

Economic update



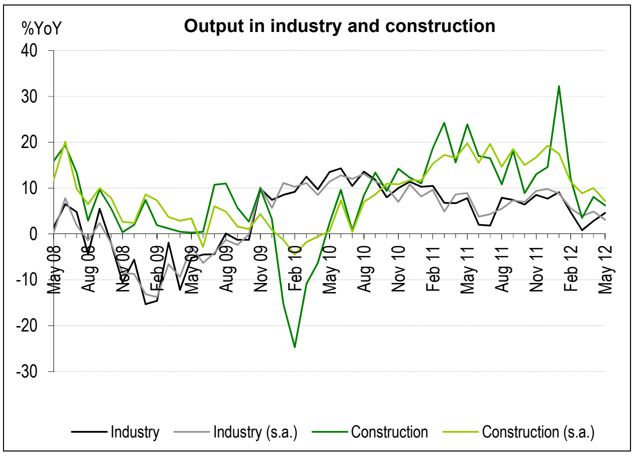
Large range of economic growth forecasts

- The market forecasts concerning prospects of economic growth for following quarters are characterized by a wide range. Some analysts assume strong GDP's slowdown already this year.
- It is worth mentioning that the number of optimists, who assume the GDP growth acceleration in 2013 has significantly decreased in the recent time, supposedly as a result of inflowing information from the world economy. Consequently, the median of GDP forecasts for 2013 (2.75%) has clearly approached our prediction, which, however, is still less optimistic than the market consensus.
- It seems likely that the upcoming forecasts' updates for world economy, which are released by key international institutions (IMF, EC, OECD), will also bring downward revisions. It has recently been suggested by the IMF managing director.



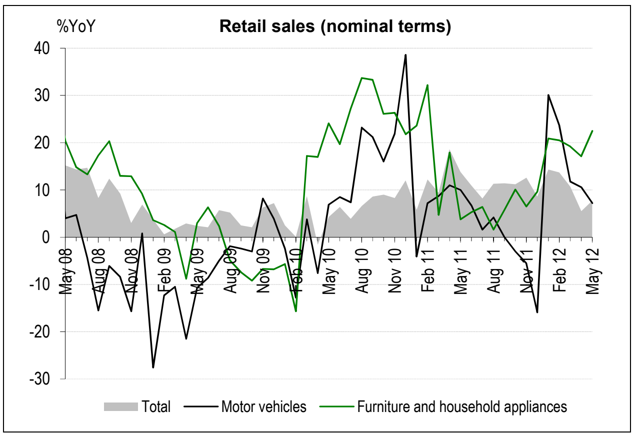
The economic activity indicators are falling

- The leading indicators clearly point out that H2 will be a period of declining economic activity in key sectors of domestic economy.
- The PMI for Polish manufacturing decreased in June to the lowest level in last three years, among others because of the continuation of deterioration of new orders. Not only the export orders are falling (according to respondents "especially from the western countries"), but also the domestic ones, what is indicating a deteriorating situation of the domestic demand.
- This is also supported by business climate indicators released by the CSO, which show a gradual deterioration of the situation in retail trade and a very rapid collapse in construction sector (the seasonally adjusted index is the weakest since the comparable data is available, i.e. since the middle of 90.)



The seasonally adjusted output slowed down

- Industrial output growth amounted to 4.6%YoY in May, more than expected. Although the annual growth rate accelerated in comparison with two previous months, it resulted mainly from the calendar effects (the timing of holidays). The growth of seasonally adjusted output according to the CSO slowed down in May to 3.1%YoY (the lowest since October 2009).
- Construction and assembly output also clearly slows (seasonally adjusted growth in May is the lowest since August 2010).
- An improvement of the situation in the domestic industry shouldn't be expected in the upcoming months as already poor economic situation in the euro zone is still deteriorating. On the other hand, the construction output will be undermined by the finalisation of works connected with EURO 2012 and financial problems of construction companies.

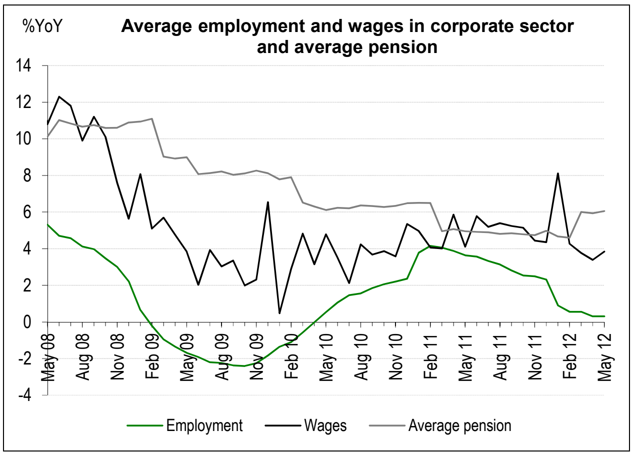


Source: CSO, Reuters, BZ WBK

EURO 2012 (temporarily) supported the retail trade

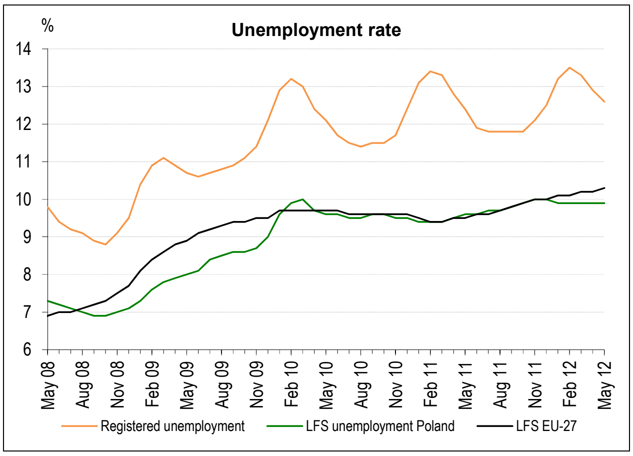
- Retail sales increased in May by 7.7%YoY (in real terms by 4.3%YoY), slightly more than in April. Moderate acceleration may be partially connected with the effect of EURO 2012 (among others the radio and TV sales increased), what will be probably also visible in June's data, as well as with "the normalisation" of dynamics after distortions in previous months caused by the calendar effects. However, the trade dynamics, although it was slightly higher than in April, was clearly lower than the Q1 average, what proves the weakening of the consumer demand.
- The June's retail sales data will not be an adequate measure of underlying trend in consumer demand because of the football championship and the related touristic activity. The car market data, which are indicating strong sales' deterioration in June, do not give many reasons to be optimistic.

Economic update



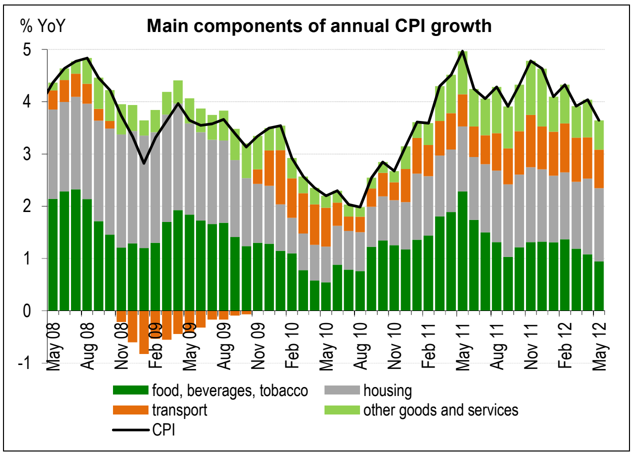
Weak demand for labour, small increase of real wages

- The pace of employment growth in enterprise sector remained in May at the level from April (0.3%YoY), what was in line with consensus and slightly higher than our expectations (0.2%YoY). In monthly terms, the number of employees fell by almost one thousand. Since January the number of jobs has decreased by over 21 thousand. Domestic demand for labour is very weak, what in our opinion is influenced by the slowdown abroad and by poor situation in the construction sector.
- Wages increased by 3.8%YoY, more or less in line with our and market expectations (3.9%YoY). For the first time since February we observed a positive real increase of wages (0.2%YoY), what was influenced by fall of CPI inflation rate. However, the increase of wages in real terms was paltry, what supports our forecast of further slowdown of private consumption in Q2.



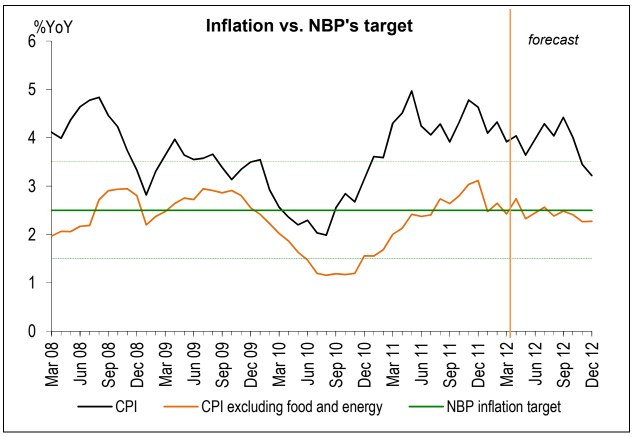
Unemployment lower due to seasonal effects

- The registered unemployment rate fell in May to 12.6% and in opinion of the Ministry of Labour and Social Policy it can decrease in June to 12.4%. However, it is mainly an effect of seasonal factors as well as – to a lesser extent – of EURO 2012. We expect that at the end of the year the unemployment rate will increase again over 13%.
- The seasonally adjusted LFS unemployment rate remained unchanged for the fifth month in a row, at the level of 9.9%. It is worth mentioning that since the beginning of the year the differences between the Polish and EU labour markets are increasing. In the EU the unemployment has increased faster mainly because of the euro zone peripheries' countries.



CPI inflation is (temporarily) over 4%

- The May's inflation rate decreased to 3.6%YoY (from 4.0%YoY) and was lower than forecast. The food prices' increase was not as fast as one year before, but it was still quite high. Especially, the prices of vegetables and fruits were increased, while eggs prices fell. Decrease of fuel prices (by 0.2%YoY), clothes prices (0.5%YoY) as well as prices of recreation and culture (by 1%; the prices of digital and cable television fell the most – by 8% – as a result of promotions on the market of digital TV operators) were other factors which caused significant inflation rate's drop.
- In May all measures of core inflation also fell, among them CPI inflation excluding food and energy prices decreased to 2.3% (the lowest level in a year).
- Our estimations indicate that, after May's significant fall of inflation, in June the even stronger rebound in opposite direction occurred. The CPI increased in our opinion to 4.4%YoY (with upward risk), clearly exceeding the market consensus at the level of 4.1% (the range of analysts' forecasts is quite wide: 3.7-4.6%). Food prices were the main factor which pushed the CPI upward – the data about agricultural products prices released by the Ministry of Agriculture, show that in June strong increase of fruits, vegetables and meat prices occurred, what caused increases of food prices instead of a seasonal fall. Growth of services prices connected with EURO 2012 and last year's low base effect were additional factors increasing (temporarily) the inflation rate. On the other hand, fuel at gas stations became cheaper.
- We still forecast that the headline inflation indicator will remain close to 4% (or over) until late autumn. At the same time the core inflation should oscillate around the inflation target of 2.5%.



Source: CSO, NBP, Reuters, BZ WBK

Monetary policy watch

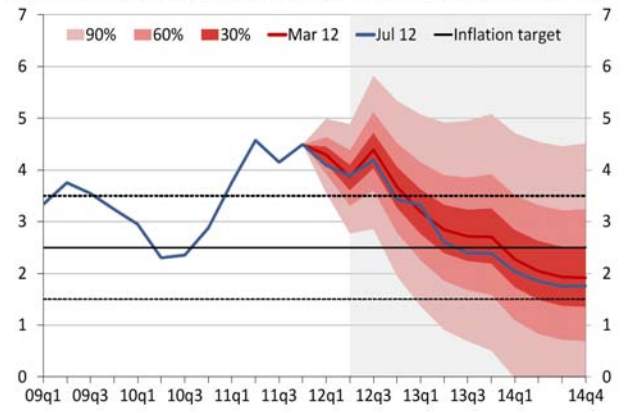
Fragments of MPC communiqué in July:

In Poland, data on output and retail sales in May were better than expected. However, the total growth in output and sales in the first months of Q2 decelerated as compared to the previous quarter, which, amidst leading business indicators persisting at relatively low levels, confirms further gradual slowdown in economic growth.

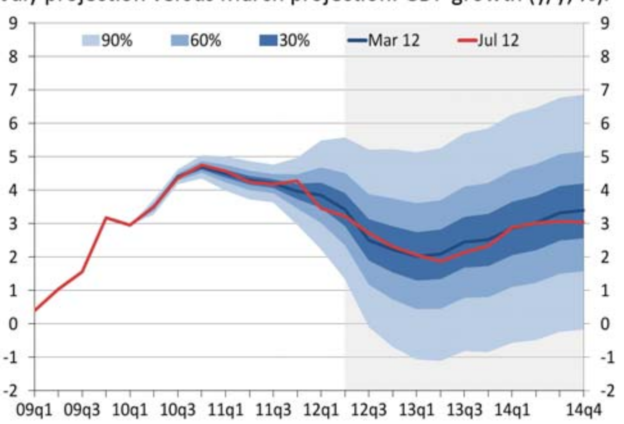
In the opinion of the Council, in the coming months inflation is likely to increase temporarily and remain above the upper limit of deviations from the inflation target. However, in the medium term, economic slowdown amidst fiscal tightening and interest rates increases implemented in 2011 and 2012 will be conducive to inflation returning to the target. This assessment is also supported by the July projection of inflation and GDP. Therefore, the Council decided to keep the NBP interest rates unchanged.

The Council does not rule out the possibility of further monetary policy adjustment, should the outlook for inflation returning to the target deteriorate.

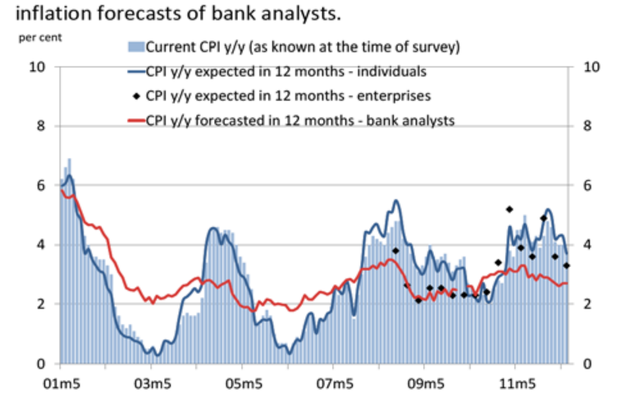
July projection versus March projection: CPI inflation (y/y, %).



July projection versus March projection: GDP growth (y/y, %).



Inflation expectations of individuals and enterprises and inflation forecasts of bank analysts.



Source: NBP, Reuters, BZ WBK

Interest rates unchanged again

- The Monetary Policy Council kept interest rates unchanged in July, in line with expectations. In the information from the meeting, the MPC brought further slowdown of economic growth into focus. New GDP and CPI inflation projections showed slightly lower trajectory of economic growth (deeper slowdown in 2013) and fall of CPI inflation to the target in medium term (details below). Under these circumstances it is difficult to expect tightening of monetary policy. What's more, the NBP President confirmed that other forecasts prepared by the NBP's experts show similar scenario to the new projection.
- The Monetary Policy Council still "does not rule out the possibility of further monetary policy adjustment, should the outlook for inflation returning to the target deteriorate", but in our opinion, despite still „hawkish" signals from the MPC, the interest rates will remain unchanged in the remainder of the year. A more significant GDP slowdown in the Polish economy and stagnation of the labour market make the second round effects unlikely while the risk of materialisation of more pessimistic forecasts of global growth is increasing. We think that there would be a room for a rate cut in next year if the pace of economic growth decelerates to ca. 2%.
- As usual, the MPC scheduled a pause in August so there is no rate-setting meeting in that month. Due to this fact, even if June's inflation reading proves to be higher than expected, which can possibly scare some of the members (i.e.: deteriorate the prospects of inflation's return to target), there will be no possibility to react with a (too) hasty decision.

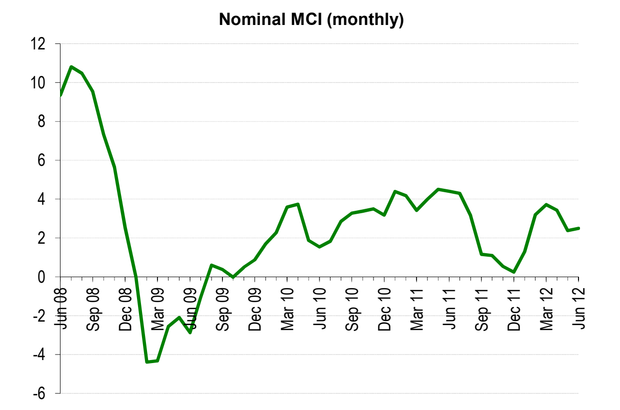
NBP projection sees the inflation's to return to target in 2013

- New NBP projection sees a slower economic growth and a lower inflation path than forecast in the last edition of the projection.
- According to the projection, the inflation will decline below 2.5% in mid-2013 with a 50%-probability and may be below 2% at the end of forecast horizon. This will be influenced by economic slowdown, appreciation of Polish currency, fall of commodities' prices and decrease of VAT in 2014. Introduction of climate and energy package will have opposite impact on inflation (the NBP analysts estimate its influence on inflation at the level of 0.3pp in 2013 and 0.1pp in 2014).
- The NBP's analysts expect a significant slowdown of investment, mainly as a result of decreasing public investments (their value will fall starting from Q4 2012) and weakening of private consumption. According to the NBP's forecasts, the Polish GDP's growth will be the weakest in Q2 2013 (ca. 2%), then some acceleration will occur (to 3%).

A gradual improvement of inflation expectations

- The households' inflation expectations measure declined in June to 3.7%, which is the lowest level in 17 months. The decline was partially due to lower headline inflation reading for May, which was a base for calculations, but the breakdown of answers also improved – share of respondents expecting that the price growth will not slow down in future declined and is at the lowest level in three quarters.
- The companies' inflation expectations also declined (to 3.3% in Q2) after an earlier considerable increase (to 4.9% in 2011Q4). According to the newest *Inflation report,* "the decrease in expectations (of enterprises) – like their prior increase – resulted to a larger degree from changes in the structure of answers to the survey questions than from changes in current inflation".

Restrictiveness of the Monetary Policy (Council)



A slight increase of monetary policy restrictiveness index

- Contrary to our fears, the nominal index of monetary policy restrictiveness did not decline in June, but recorded a slight increase. This was due to the fact that – in spite of a temporary rise in global risk aversion – the monthly average EURPLN exchange rate remained at a similar level as in May, while average three-month WIBOR rate was slightly higher than one month before.
- We see a risk of zloty weakening in the summer months due to return of global risk aversion. However, if the scale of sell-off will not be too excess the monetary policy restrictiveness index should stabilize close to level observed currently.

Index is between 0 and 2. A vote for the majority view is given a score of 1. A vote for a more hawkish (less dovish) decision than the majority view has a score of 2 and a vote for a less hawkish (more dovish) decision than the majority view has a score of 0. Average of points for all votes is the value of the index for a given MPC member.

Numbers directly by the name are values of the index for period since the beginning of current term of office of the current MPC and NBP governor.

Direction of the restrictiveness axis reflects our expectations regarding direction of interest rate changes in the nearest 12 months.

Too early for a neutral bias…

Both the official MPC communiqué and the post-meeting press conference included some "hawkish" elements, which indicate that the monetary policy easing is currently not on cards. The NBP President said during press conference that it is too early to talk about neutral policy stance. Belka added even that it is still some way to go to have full normalisation of interest rates (read: possible next rate hike), but the macroeconomic situation requires to wait some time with this normalisation.

… but concerns about GDP rose, concerns about inflation diminished

Well, we still think that it was possible (desirable) to wait even with the last step towards rates' normalisation that took place in May. Still, even despite still "hawkish" rhetoric, it seems that the news upcoming recently from the domestic and global economy are gradually affecting the Monetary Policy Council point of view. This was reflected in NBP President's comment at the press conference, saying that "if we compare situation today and two months ago, currently we have higher concerns about economic growth, and lower fears over inflation". In our view, the economic environment in the upcoming quarters will justify an interest rate cut. However, it is difficult to say if the Council will opt for such a move, or will stick to its opinion that interest rate normalisation was a good idea. One cannot expect a soon interest rate cut, as this would be admitting that the May's decision was a mistake.

Two most "dovish" members are already speaking about cuts…

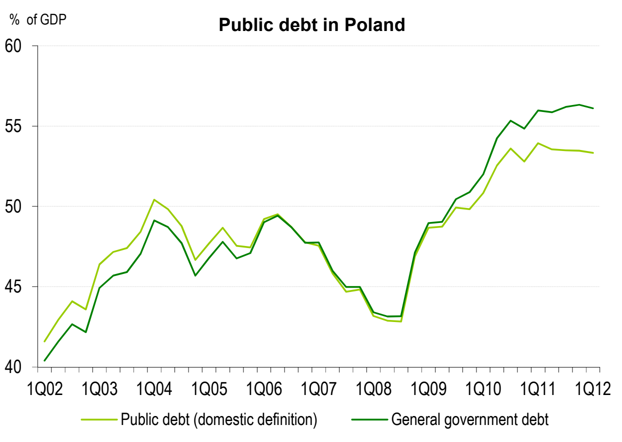
The fact that two MPC members mentioned a possibility of monetary easing one week ahead of the Council meeting has encouraged the market to price-in interest rate cuts in 2-3 quarters' horizon more aggressively. However, it is worth noting that these are the two MPC members, who are sitting at the "dovish" end of our restrictiveness index and who were the only ones not supporting interest rate hike motion in May. Their views did not affect the Council's decision two months ago and a similar situation can occur in the future, unless views of other MPC members fluctuate towards more dovish under influence of incoming data and GDP/CPI projection.

… while others need a persistent decline of inflation

This evolution of other MPC members' view has already begun. We have mentioned NBP President's comment about his concerns about growth and inflation above. Andrzej Kaźmierczak, who was present at the press conference after June meeting, said that the Council should not think about interest rate cuts unless the MPC is confident about persistence of inflation's downward trend. This can mean that the CPI inflation figure has to decline for a couple of consecutive months. Taking into account our inflation projections (a more visible drop only at the year-end), an interest rate cut is possible (depending on GDP growth prospects) only in 2013Q1 or in 2013Q2. On the other hand, the Kaźmierczak's comment suggests that some MPC members are using a backward-looking strategy. If they were more focused on future and expected economic scenarios (e.g. outlined in the inflation projection, in May's edition already), cuts would be implemented now. And there would be no interest rate hike in May.

Source: CSO, NBP, Reuters, BZ WBK

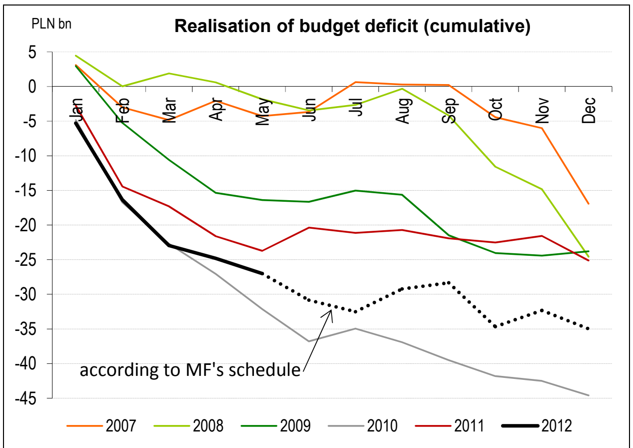
Fiscal policy watch



Fragments of draft amendment to public finance law and tax law

In case of exceeding by relation of public debt to GDP the level of 50% or 55%, the public debt would be calculated in zloty by the Minister of Finance by using arithmetic mean of exchange rates announced by the NBP and binding in working days of the year for which the relation is being announced. Subsequently, the amount calculated this way would be reduced by the amount of free financial resources of the Ministry of Finance at the end of budget year aimed at pre-financing the borrowing needs of the state budget in the next budget year.

If, as a result of above-mentioned calculation, the value of the estimated amount would be lower than correspondingly 50% or 55%, the restrictions mentioned in article 86, paragraph 1, point 1 or 2 of the public finance bill of 27 August 2009 would not be implemented. Thus, the new relation would not substitute the relation of public debt to GDP announced in line with article 83 of the public finance bill, but only would be an additional measure if the thresholds of 50% or 55% would be breached by the relation of public debt to GDP.



	Spread vs Bunds (10Y) in bps			CDS (5Y. USD)		
	10.07	change since 11.06.12	change since 30.12.11	10.07	change since 11.06.12	change since 30.12.11
Poland	378	-18	-26	214	-31	-65
Czech	147	-38	-29	134	-6	-39
Hangary	669	-53	-138	508	-66	-102
Grece	2456	-273	-910	37030	0	26799
Spain	546	37	219	581	-7	205
Ireland	499	-105	-168	544	-133	-191
Portugal	919	-28	-253	851	-245	-319
Italy	458	-8	-60	518	-31	33
Germany	-	-	-	98	-8	-2

Source: Finance Ministry, CSO, NBP, Reuters, BZ WBK

Changes in the methodology of public debt calculation

- The Ministry of Finance proposed changes in public finance bill, concerning the methodology of public debt calculation. According to earlier announcements the debt-to-GDP ratio will be counted using yearly averages of exchange rates instead of fixing exchange rate from the end of December. However, what is interesting, a complete replacement of end-of-the-year rate by average rate will not occur – the new methodology will be used, only when the debt-to-GDP ratio will exceed the safety thresholds of 50% and 55%.
- Put forward changes concern only the safety thresholds of 50% and 55%. It means that in a radical scenario, when a really strong depreciation of the zloty takes place, increasing the risk of exceeding of constitutional threshold of 60%, new rules will not apply and will not limit the speculation on the FX market at the year's end.
- Another proposal is to exclude “free financial assets of the Ministry of Finance which are used to finance the credit needs of state's budget in following budgetary year” from the new measure of public debt.
- On one hand, the changes in the definition concerning exchange rate can be understood (lower risk of speculation at the year's end), but the other hand we will have three different measures of debt-to-GDP ratio now: 1. Eurostat's measure (general government), internationally comparable, 2. Calculated using current domestic methodology, 3. New measure which would be calculated when the second one exceeds 50% and/or 55%. It seems that there is some risk that investors will begin to interpret those changes as used for current need of the Ministry of Finance instead of providing transparency and stability of public finance.

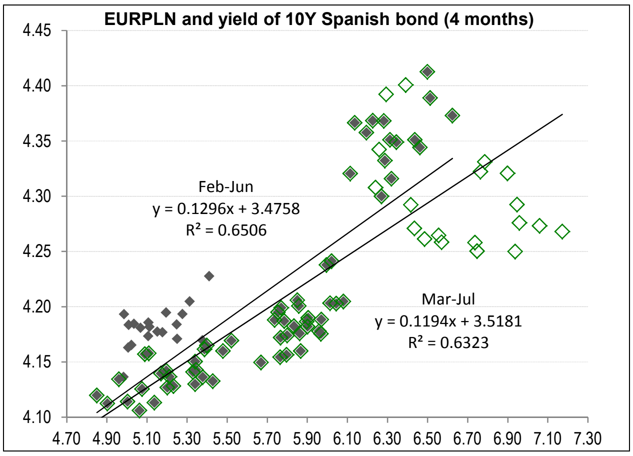
Liquidity situation of the budget supports the domestic debt

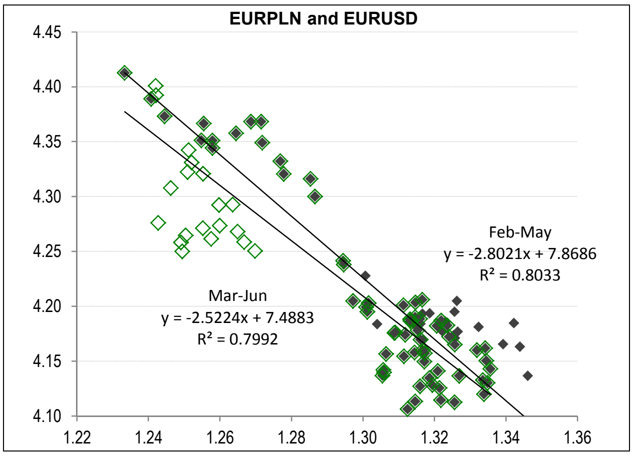
- After May the budgetary deficit amounted to ca. PLN27bn, what makes 77.1% of yearly plan. In June the NBP's profit of PLN8.2bn came in the budget. It allowed limiting the deficit after H1 to ca. PLN21.2bn (below PLN 30.8bn assumed in the schedule).
- The dividend inflows are close to this year's plan at the level of ca. PLN8.2bn. It results from the fact that companies are paying higher dividends than they assumed earlier.
- The liquidity situation of the budget after H1 is very favourable. The MinFin covered ca. 80% of this year's borrowing needs (after including the NBP's profit). In H2 the Ministry have to raise ca. PLN27bn, while a sum of PLN53bn will appear on the market (including the repurchase of domestic and foreign bonds and loans' repayments).

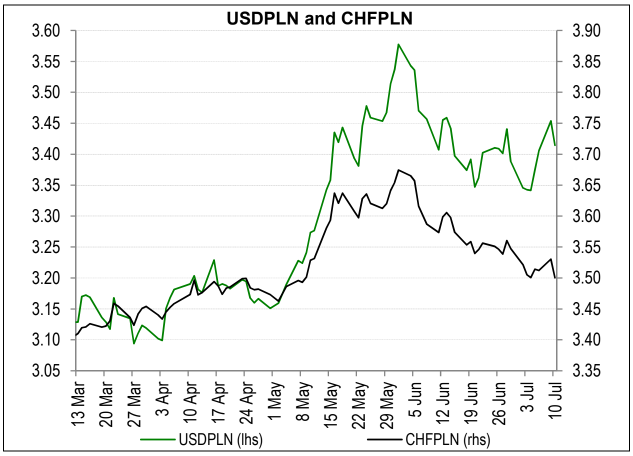
The EU and ECB decisions are supporting peripheries' debt

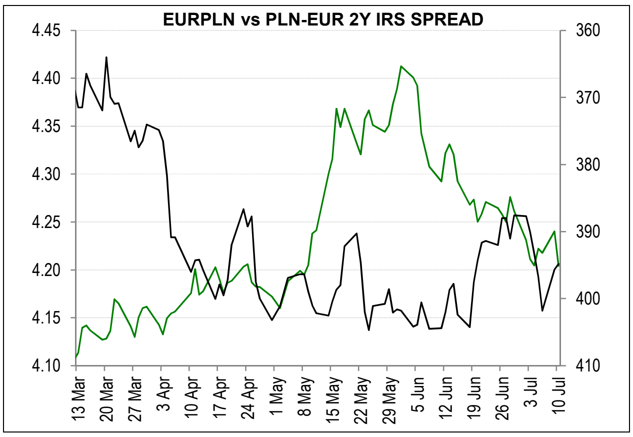
- In June the investors paid attention to Spain. The rating downgrade, but especially the official request for help for Spanish banks, caused that Spanish bonds were under pressure (the increase of 10Y bonds yield over 7%). The Italian debt yields also increased significantly.
- The decisions of June's EU summit supported the debt of euro zone peripheral countries (the yields of Spanish and Italian 10Y bonds fell by 80 and 40bp respectively), but also other risky assets. The optimism after June's EU summit and after the ECB's decision about rate cut was short-lasting.
- The yields of German bonds slightly increased in June (form 1.17% at the beginning of the month to 1.60% at the end). On the other hand US 10Y bonds were quoted in narrow range of 1.48-1-66%.

Foreign exchange market









Source: Reuters, BZ WBK

EURPLN gradually lower and lower

▪ Despite intensified pressure from the euro zone peripheries, the zloty appreciated versus main currencies in June. Domestic currency gained 3.4% versus the euro, 5.3% versus the dollar and 3.5% versus the Swiss franc.

▪ During the past month the zloty was less dependent on what was happening on the euro zone peripheral debt market (EURUSD and Spanish yields), though its relationship with these indicators remained relatively high (see charts). In early June the number of short euro bets reached all-time high at 214k. A rebound of the EURUSD from 1.23 to 1.275 was not driven by any new positive factor. As investors started to adjust their positions before the Greek election in mid-June, the euro regained ground versus the dollar and that provided support for the zloty. Also due to expectations for central banks' actions, the domestic currency resisted negative pressure from surging yields of Spanish and Italian bonds and the EURPLN retreated back from 4.36 to nearly 4.22.

▪ Just before the EU summit the trading range of the EURPLN narrowed considerably, temporarily even to ca. 0.02PLN (4.24-4.26) and in case of the USDPLN intraday changes hardly exceeded 0.03PLN. That was accompanied by relatively stable EURUSD. During the EU summit volatility on the global market clearly increased. First, the EURPLN surged to 4.29, but as it occurred that European leaders reached an agreement on supporting Spanish and Italian bonds and direct recapitalization of banks via the ESM, so the zloty recovered fast. At the end of the month the EURPLN was close to 4.26, well below 4.40 seen at the beginning of June.

Beware of high volatility in July

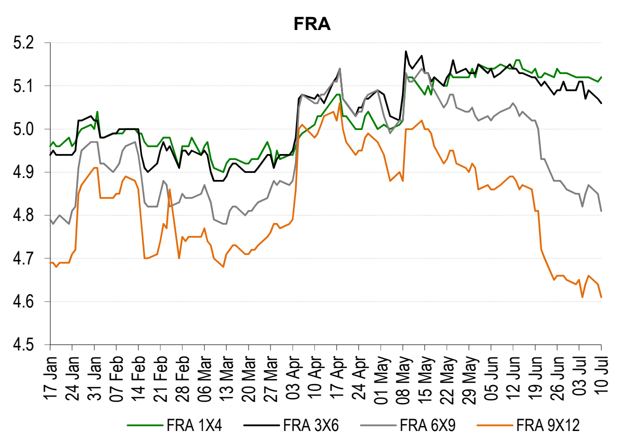
▪ Monthly data since 1999 indicate that in July average trading range of the EURPLN is the highest in year (PLN0.22 versus the annual average of PLN0.19). Having said that, it is worth to notice that economic calendar is not full of many breaking events as it was the case in June. In the first July's week zloty, as a result of optimism after the EU summit, appreciated to 4.18 against the euro.

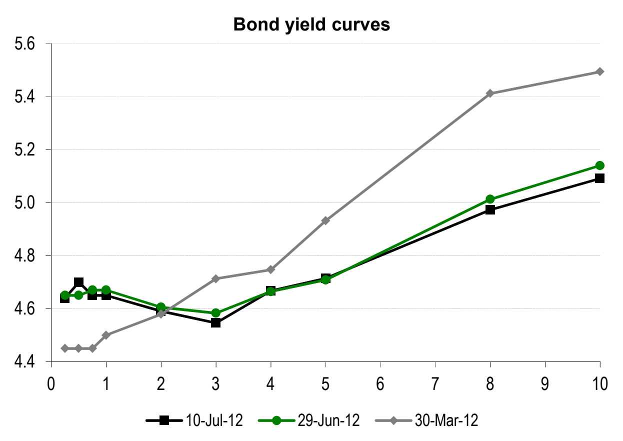
▪ Dynamic increases of EURUSD as a result of the EU summit's results (from 1.24 to 1.27) halted after two days. Even better than anticipated final PMI indexes for German and euro zone's manufacturing did not trigger its continuation. The combination of negative economic data from the euro zone and monetary policy easing by the ECB accompanied by the relatively neutral US data caused the fall of EURUSD form 1.27 to the levels below 1.23.

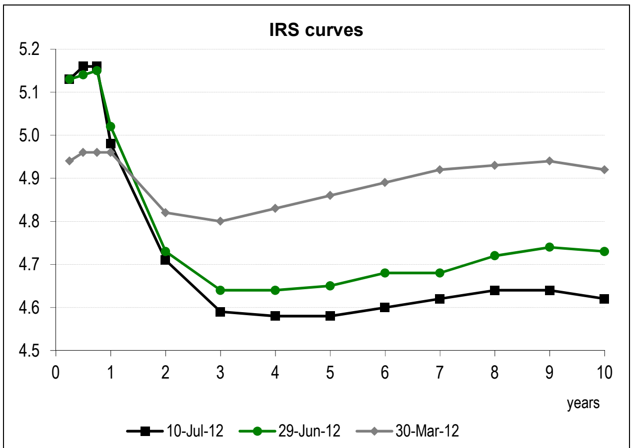
▪ The uncertainty if the decisions from last EU summit are implemented remains on the market (after statements of Dutch and Finnish representatives concerning the possibility of using the ESM to purchase the endangered countries' bonds on the secondary market). It can influence the euro negatively. Technical analysis indicates that in following weeks EURUSD may fall in direction of 1.215 and, taking remaining dependence of zloty on the situation on the EURUSD market into consideration, it is not a positive harbinger for Polish currency.

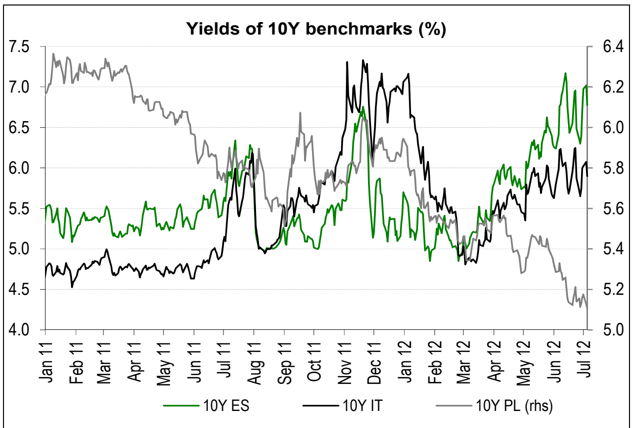
▪ In summer months we expect higher volatility on the market. In our opinion, the zloty's depreciation's risk in upcoming two months is quite high, although the scale of zloty's weakening may be limited by the expectations for further action of the central banks (August's meeting of the FOMC may be especially significant for the market) if the moods deteriorate. In horizon to the end of August we expect zloty's depreciation against two main currencies. We expect the EURPLN's increase to 4.28 at the July's end and further over 4.30 at the August end.

Interest rate market









Source: Reuters, BZ WBK

Expectations for this year's interest rate cut diminish

- WIBOR rates with maturity of 3M and more remained at increased levels. However, in monthly terms their increase was limited (by 1-2bps). Nevertheless, WIBOR rates did not react to the changes of expectations about monetary policy.
- Change of expectations about interest rates was clearly seen in the FRA quotations. Although the changes of FRA 1x4 and 3x6 rates were rather insignificant (by 1-4bps in monthly terms), FRA 6x9 and 9x12 decreased by 17-26bps, and are now pricing-in 2 NBP rate cuts in the horizon of 9 months (by 50bps), with the first monetary policy easing in Q4 2012.
- July's statement from the MPC's meeting cooled slightly the expectations for rates' cuts this year. It caused an upward correction of FRA rates (mainly 6x9 and 9x12). The expectations were shifted to the early 2013 with unchanged scale of expected cuts.
- In horizon of 2-3 upcoming months we expect slight changes of WIBOR rates. FRA rates will be characterized by higher volatility. Their quotations will be dependent on the inflation releases. Next increase of inflation indicator above 4%YoY may generate a strong impulse to growth of FRA rates, especially 6x9 and 9x12.

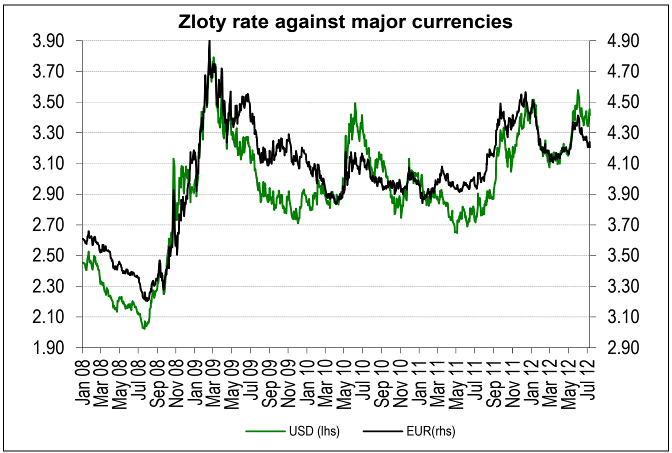
This year's lows were reached

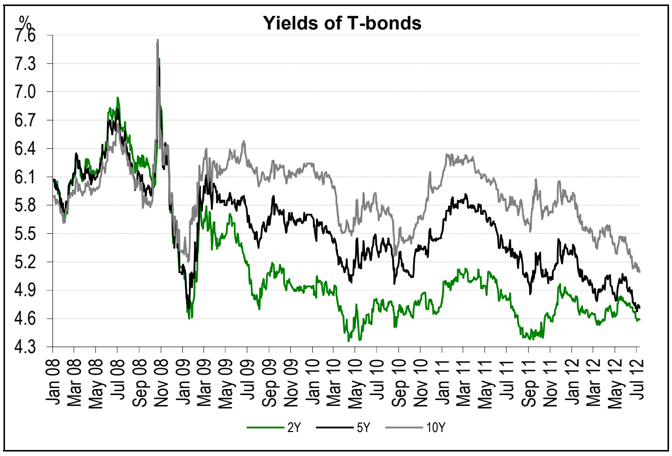
- In June demand of foreign investors for domestic debt remained quite strong. In monthly terms the yield curve moved down by 17-31bps. The middle and the long-end of the curve gained the most.
- Issuance plans for Q3 were a support for the market. The plans were in line with the expectations and brought a quite significant limitation of the offer in the July-September period. This generated an additional demand impulse along the curve at the June's end and in early July. The 10Y bonds' yields reached new year's low under 5.10%. However, the relatively hawkish rhetoric of the MPC on the July's meeting induced some investors to take their profit.
- June brought also a decrease of IRS rates, mainly as a result of strong expectations for rate cuts. IRS curve moved down by 7-16bps, especially at the short-end and in the middle of the curve. This, together with decline of yields by 17-31bps, caused a narrowing of asset swap' spreads in this period, in particular to 40bps in 10Y sector.

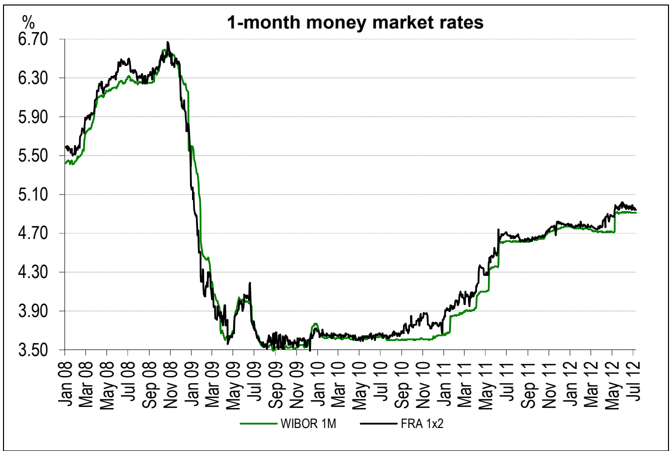
Polish debt is relatively resistant to global turmoil

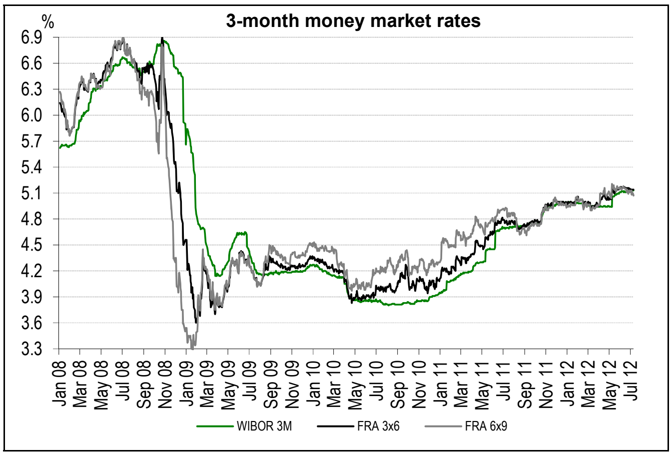
- The behaviour of debt market in June shows that Polish debt remains quite resistant to moods' changes on the global markets. The upward corrections are less and less considerable and the yields' increases are used to purchase bonds. This fact, accompanied by the increasing interest of foreign investors (in May the monthly growth of their portfolio is the highest this year), clearly indicates that domestic bonds are considered as "safe haven" in the region.
- Short-end of the curve will remain under influence of released macro data (mainly the CPI inflation) and the expectations regarding prospects of interest rates. The inflation's growth to 4.4% YoY in June which is expected by us, and its further presence above 4% in the upcoming months should anchor the 2Y bonds' yields close to 4.70%. The inflation data may generate an upward move in the middle of the curve to the levels near 4.80%.
- Long-end of the curve will remain under influence of the global factors. Fears about economic growth in euro zone and general moods' deterioration on the global markets may cause an increase of 10Y bonds, yields should stabilize in the range of 5.10-5.25% in horizon of 2 months.

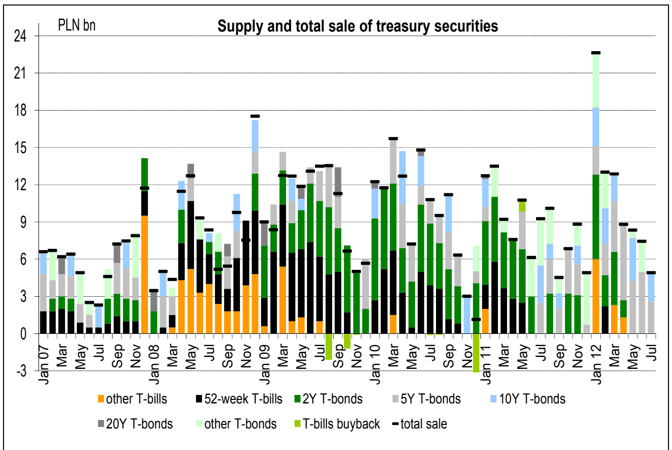
Market monitor











Treasury bill auctions in 2011/2012 (PLNm)

Auction date	OFFER	DEMAND/SALE
26.05.2011	*Repurchase tender*	1444/940
30.05.2011	*52-week.: 500-600*	2667/505
20.06.2011	*Repurchase tender*	356/256
11.07.2011	*Repurchase tender*	2498/724
19.12.2011	*Repurchase tender*	4331/2247
27.12.2011	*Repurchase tender*	2939/2486
09.01.2012	*49-week: 1000-2000*	5402/2223
30.01.2012	*30-week: 1000-2000*	3249/1997
30.01.2012	*51-week: 1000-2000*	4225/1592
27.02.2012	*52-week: 1000-2000*	6711/2190
26.03.2012	*52-week: 1000-3000*	5402/2223
23.04.2012	*31-week*	3116,5/1332,1

* based on data of the Ministry of Finance

Treasury bond auctions in 2011/2012 (PLNm)

month	First auction				Second auction				Switch auction		
	date	T-bonds	offer		date	T-bonds	offer		date	T-bonds	offer
August '11	10.08	OK/PS/OK	2000-3000	6008,7	-	-	-	-	3.08	WZ/DZ	WZ/DS
September	22.09	WZ0115/WZ0121	1000-3000	1273,5	-	-	-	-	8.09	WZ/DZ/OK	PS0416/DS1021
October	19.10	PS1016	1000-3500	3638	-	-	-	-	2.10	OK/PS/DZ	OK0114
November	16.11	PS1016	1000-2500	2500	-	-	-	-	10.11	DZ/OK/PS	OK/WZ/DS/WS
December	-	-	-	-	-	-	-	-	14.12	OK/PS	WZ/IZ/PS
January '12	12.01	IZ/PS/WS	1000-4000	4067	19.01	OK0114	3000-6000	6753	4.01	OK/PS/OK	WZ/WZ/DS
February	09.02	OK0114/PS1016	3500-5500	5049	16.02	WZ0117	1000-3000	3518	1.02	DS1021: 1000-3000	2937
March	14.03	OK0114	1500-3500		21.03	DS1021/WS0429	1000-2500		08.03	PS1016: 1500-3000	4080
April	19.04	OK0714/PS1016	5000-9000		-	-	-	-	5.04	PS/OK	WZ
May	10.05	DS1021/WS0429	2000-4000	4092.3	16.05	PS0417	2000-4000	-			
June	20.06	PS0417	2000-4000						14.06	OK0712/OK1012	WZ/IZ
July	19.07	OK0714	2000-5000						05.07	OK0712/OK1012	PS0417/DS1021
August	01.08	PS0417	2000-4000								

** with supplementary auction, ** primary auction, *** demand/sale, **** in February and March 2012 the MF refrained from switch tenders*

Source: MF, Reuters, BZ WBK

Economic calendar

Monday	Tuesday	Wednesday	Thursday	Fridy
16 July EZ: HICP (Jun) US: Retail sales (Jun)	**17** ***PL: Wages and employment (Jun)*** DE: ZEW index (Jul) US: Core CPI (Jun) US: Industrial output (Jun)	**18** ***PL: Industrial output (Jun)*** ***PL: PPI inflation (Jun)*** US: Houses starts (Jun) US: Building permits (Jun)	**19** US: Home sales (Jun) US: Leading indicators (Jun)	**20** ***PL: Core inflation (Jun)***
23 EZ: Consumer confidence index (Jul)	**24** CN: Flash PMI-industry(Jul) DE: Flash PMI-industry (Jul) EZ: Flash PMI-industry (Jul)	**25** DE: Ifo index (Jul) US: New home sales (Jun)	**26** DE: GfK index (Aug) US: Durable goods orders (Jun) US: Pending home sales (Jun)	**27** US: Advance GDP (Q2) US: Michigan index (Jul)
30 EZ: Consumer confidence index (Jul)	**31** ***PL: Inflation expectations(Jul)*** EZ: Flash HICP (Jul) US: Consumer spending (Jun) US: Personal income (Jun) US: Core PCE (Jun) US: S&P/Case-Shiller home price index (May) US: Chicago PMI index (Jul) US: Consumer confidence index (Jul)	**1 August** ***PL: PMI-industry (Jul)*** DE: PMI-industry (Jul) EZ: PMI-industry (Jul) CN: PMI-industry (Jul) US: ISM-industry (Jul) US: Fed decision	**2** GB: BoE decision EZ: EBC decision US: Industrial orders (Jun)	**3** DE: PMI-services (Jul) EZ: PMI-services (Jul) EZ: Retail sales (Jun) US: Non-farm payrolls (Jul) US: Unemployment rate (Jul)
6 EZ: Sentix index (Aug)	**7** DE: Industrial orders (Jun)	**8** DE: Exports (Jun) DE: Industrial output (Jun)	**9** US: Balance of payments (Jun)	**10** US: Import prices (Jul)
13 ***PL: Balance of payments (Jun)***	**14** ***PL: CPI inflation (Jul)*** ***PL: Money supply (Jul)*** DE: ZEW index (Aug) DE: Flash GDP (Q2) EZ: Flash GDP (Q2) EZ: Industrial output (Jun) US: Retail sales (Jul)	**15** ***PL: Public Holiday*** US: Core CPI (Jul) US: Industrial output (Jul)	**16** EZ: HICP (Jul) US: Houses starts(Jul) US: Building permits (Jul)	**17** ***PL: Wages and employment (Jul)*** US: Flash Michigan index (Aug) US: Leading indicators (Jul)
20 ***PL: Industrial output (Jul)*** ***PL: PPI inflation (Jul)***	**21** ***PL: Core inflation (Jul)***	**22** US: Home sales (Jul)	**23** ***PL: MPC minutes*** CN: Flash PMI-industry (Aug) DE: Flash PMI-industry (Aug) EZ: Flash PMI-industry (Aug) US: New home sales(Jul)	**24** US: Durable goods orders (Jul)
27 DE: Ifo index (Aug)	**28** DE: GfK index (Sep) US: S&P/Case-Shiller home price index (Jun)	**29** US: Preliminary GDP (Q2) US: Pending home sales (Jun)	**30** ***PL: GDP (Q2)*** US: Consumer spending(Jul) US: Personal income (Jul) US: Core PCE (Jul)	**31** ***PL: Inflation expectations (Aug)*** EZ: FlashHICP (Aug) US: Chicago PMI index (Aug) US: Michigan index (Aug)
3 September ***PL: PMI-industry(Aug)*** DE: PMI-industry (Aug) EZ: PMI-industry (Aug) CN: PMI-industry(Aug)	**4** US: ISM-industry (Aug)	**5** ***PL: MPC decision*** DE: PMI-services (Aug) EZ: PMI-services (Aug) EZ: Retail sales(Jul)	**6** GB: BoE decision EZ: EBC decision EZ: GDP revision (Q2)	**7** DE: Exports (Jul) DE: Industrial output (Jul) US: Non-farm payrolls (Aug) US: Unemployment rate (Aug)
10 EZ: Sentix index (Sep)	**11** ***PL: Balance of payments (Jul)*** US: Trade balance (Jul)	**12** EZ: Industrial output (Jul) US: Import prices (Aug)	**13** ***PL: CPI inflation (Aug)***	**14** ***PL: Money supply (Jul)*** EZ: HICP (Aug) US: Core CPI (Aug) US: Retail sales (Aug) US: Industrial output (Aug) US: Flash Michigan index (Sep)

Source: CSO, NBP, Ministry of Finance, Reuters, Bloomberg

Economic data and forecasts

Monthly economic indicators

		Jun 11	Jul 11	Aug 11	Sep 11	Oct 11	Nov 11	Dec 11	Jan 12	Feb 12	Mar 12	Apr 12	May 12	Jun 12	Jul 12
PMI	pts	51.2	52.9	51.8	50.2	51.7	49.5	48.8	52.2	50.0	50.1	49.2	48.9	48.0	47.7
Industrial production	%YoY	2.0	1.8	7.9	7.4	6.4	8.5	7.7	9.1	4.8	0.8	2.8	4.6	1.9	8.5
Construction production	%YoY	17.0	16.5	10.8	18.1	8.9	13.0	14.6	32.2	12.0	3.5	8.1	6.2	2.9	6.6
Retail sales [a]	%YoY	10.9	8.2	11.3	11.4	11.2	12.6	8.6	14.3	13.7	10.7	5.5	7.7	9.0	8.3
Unemployment rate	%	11.9	11.8	11.8	11.8	11.8	12.1	12.5	13.2	13.5	13.3	12.9	12.6	12.3	12.3
Gross wages in enterprises sector [a]	%YoY	5.8	5.2	5.4	5.2	5.1	4.4	4.4	8.1	4.3	3.8	3.4	3.8	3.8	3.4
Employment in enterprises sector	%YoY	3.6	3.3	3.1	2.8	2.5	2.5	2.3	0.9	0.6	0.6	0.3	0.3	0.1	0.1
Export (€)	%YoY	7.2	6.0	15.9	7.5	8.6	8.4	4.7	6.8	6.2	5.9	0.9	0.5	0.1	1.5
Import (€)	%YoY	12.9	9.1	12.0	4.5	7.8	5.0	2.4	9.5	6.9	3.3	-3.9	-1.7	-4.7	-3.8
Trade balance	EURm	-1 203	-1 189	-903	-211	-722	-964	-1 122	-844	-830	-399	-419	-642	-596	-566
Current account balance	EURm	-2 023	-1 865	-1 382	-1 241	-1 779	-1 436	-1 744	-1 879	-1 516	-228	-573	-246	-846	-1 114
Current account balance	% GDP	-4.9	-4.9	-4.7	-4.6	-4.7	-4.3	-4.3	-4.5	-4.7	-4.5	-4.3	-4.3	-4.0	-3.8
Budget deficit (cumulative)	PLNbn	-20.4	-21.1	-20.7	-21.9	-22.5	-21.6	-25.1	-5.3	-16.4	-23.0	-24.8	-27.0	-30.8	-32.5
Budget deficit (cumulative)	% of FY plan	50.7	52.5	51.6	54.5	56.1	53.6	62.5	15.1	46.8	65.6	70.9	77.2	88.1	92.9
CPI	%YoY	4.2	4.1	4.3	3.9	4.3	4.8	4.6	4.1	4.3	3.9	4.0	3.6	4.4	4.3
CPI excluding prices of food and energy	%YoY	2.4	2.4	2.7	2.6	2.8	3.0	3.1	2.5	2.6	2.4	2.7	2.3	2.7	2.6
PPI	%YoY	5.6	5.9	6.8	8.4	8.5	9.1	8.2	7.9	6.0	4.4	4.4	5.0	4.8	4.4
Broad money (M3)	%YoY	7.2	7.4	8.8	10.2	10.5	11.8	12.5	13.7	12.5	9.3	10.3	11.4	11.6	12.0
Deposits	%YoY	7.7	7.7	8.8	9.5	9.4	11.2	11.7	12.8	12.5	8.5	10.0	11.0	11.0	11.9
Loans	%YoY	9.9	13.9	13.2	14.7	14.8	14.6	14.4	14.5	13.0	12.8	13.4	13.0	12.3	10.9
EUR/PLN	PLN	3.97	3.99	4.12	4.33	4.35	4.43	4.48	4.37	4.18	4.14	4.18	4.30	4.30	4.28
USD/PLN	PLN	2.76	2.80	2.87	3.15	3.18	3.27	3.40	3.39	3.16	3.13	3.17	3.36	3.43	3.41
CHF/PLN	PLN	3.28	3.39	3.68	3.61	3.54	3.60	3.65	3.61	3.47	3.43	3.47	3.58	3.58	3.56
Reference rate [b]	%	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.75	4.75	4.75
WIBOR 3M	%	4.61	4.70	4.72	4.75	4.80	4.94	4.98	4.99	4.97	4.95	4.94	5.05	5.12	5.13
Yield on 52-week T-bills	%	4.63	4.61	4.53	4.48	4.48	4.48	4.55	4.51	4.50	4.48	4.58	4.75	4.75	4.70
Yield on 2-year T-bonds	%	4.87	4.72	4.47	4.43	4.54	4.73	4.86	4.75	4.66	4.58	4.67	4.77	4.71	4.65
Yield on 5-year T-bonds	%	5.42	5.30	5.14	5.08	5.09	5.19	5.30	5.20	5.00	4.88	4.97	4.97	4.85	4.75
Yield on 10-year T-bonds	%	5.90	5.81	5.71	5.80	5.76	5.85	5.88	5.74	5.53	5.45	5.50	5.41	5.24	5.15

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

Quarterly and annual economic indicators

		2010	2011	2012	2013	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13
GDP	PLNbn	1 416.4	1 524.7	1 614.7	1 690.3	370.5	392.2	399.2	452.9	389.6	409.4	417.5	473.8
GDP	%YoY	3.9	4.3	2.7	2.5	3.5	2.6	2.4	2.4	2.3	2.4	2.6	2.6
Domestic demand	%YoY	4.6	3.7	1.2	1.3	2.7	0.7	0.8	0.9	1.3	1.3	1.2	1.3
Private consumption	%YoY	3.2	3.1	1.9	2.3	2.1	1.7	1.8	2.0	2.0	2.2	2.4	2.6
Fixed investments	%YoY	-0.2	8.3	4.9	-1.8	6.7	7.0	5.0	3.0	1.0	-1.0	-4.0	-2.0
Industrial production	%YoY	9.0	7.7	3.4	2.8	4.9	3.1	3.3	2.7	1.1	3.5	3.7	2.6
Construction production	%YoY	4.6	16.3	5.8	-2.6	13.8	5.4	3.8	4.6	2.1	-3.0	-2.1	-4.7
Retail sales [a]	%YoY	6.1	11.2	7.9	6.8	12.6	7.3	6.9	5.7	6.1	5.5	7.5	7.8
Unemployment rate [b]	%	12.4	12.5	13.4	13.4	13.3	12.3	12.5	13.4	13.8	12.5	12.8	13.4
Gross wages in enterprise sector [a]	%YoY	3.3	5.0	3.8	4.0	5.3	3.7	3.2	3.1	1.7	4.3	4.9	4.9
Employment in enterprise sector	%YoY	0.8	3.2	0.4	0.1	0.6	0.3	0.2	0.4	0.2	0.2	0.1	0.1
Export (€)	%YoY	22.8	11.4	3.4	6.6	5.7	0.5	3.0	4.5	4.5	5.0	8.0	9.0
Import (€)	%YoY	24.9	11.5	1.2	4.0	6.2	-3.4	0.5	2.0	2.5	2.5	5.0	5.8
Trade balance	EURm	-8 893	-10 112	-7 212	-3 634	-2 165	-1 657	-1 399	-1 991	-1 505	-812	-386	-931
Current account balance	EURm	-16 493	-15 974	-12 206	-7 703	-4 344	-1 665	-2 663	-3 534	-3 073	-970	-1 407	-2 253
Current account balance	% GDP	-4.7	-4.3	-3.2	-1.9	-4.7	-4.2	-3.7	-3.2	-2.8	-2.6	-2.3	-1.9
General government balance	% GDP	-7.8	-5.1	-3.0	-3.0	-	-	-	-	-	-	-	-
CPI	%YoY	2.6	4.3	4.0	2.6	4.1	4.0	4.2	3.6	2.9	2.3	2.4	2.6
CPI [b]	%YoY	3.1	4.6	3.2	2.6	3.9	4.4	4.4	3.2	2.7	2.2	2.5	2.6
CPI excluding food and energy prices	%YoY	1.6	2.4	2.5	2.2	2.5	2.6	2.5	2.3	2.4	2.1	2.2	2.2
PPI	%YoY	2.1	7.6	4.1	2.3	6.1	4.7	3.8	1.9	2.2	2.2	2.3	2.7
Broad money (M3) [b]	%YoY	8.8	12.5	7.5	5.2	9.3	11.6	9.8	7.5	8.4	8.2	6.6	5.2
Deposits [b]	%YoY	9.1	11.7	7.9	5.3	8.5	11.0	10.3	7.9	8.1	8.5	6.8	5.3
Loans [b]	%YoY	9.2	14.4	3.8	4.2	12.8	12.3	9.0	3.8	5.1	4.4	3.4	3.8
EUR/PLN	PLN	3.99	4.12	4.26	4.15	4.23	4.26	4.31	4.24	4.20	4.15	4.15	4.10
USD/PLN	PLN	3.02	2.96	3.37	3.38	3.23	3.32	3.45	3.48	3.47	3.39	3.36	3.29
CHF/PLN	PLN	2.90	3.34	3.54	3.34	3.50	3.55	3.59	3.53	3.43	3.32	3.32	3.28
Reference rate [b]	%	3.50	4.50	4.75	4.75	4.50	4.75	4.75	4.75	4.75	4.75	4.75	4.75
WIBOR 3M	%	3.94	4.54	5.07	5.05	4.97	5.04	5.14	5.15	5.08	5.02	5.02	5.07
Yield on 52-week T-bills	%	3.96	4.51	4.61	4.49	4.50	4.69	4.68	4.57	4.57	4.52	4.47	4.42
Yield on 2-year T-bonds	%	4.72	4.81	4.67	4.54	4.66	4.71	4.70	4.62	4.62	4.57	4.52	4.47
Yield on 5-year T-bonds	%	5.31	5.44	4.86	4.64	5.02	4.93	4.77	4.73	4.72	4.67	4.62	4.57
Yield on 10-year T-bonds	%	5.74	5.98	5.35	5.18	5.58	5.38	5.21	5.22	5.22	5.19	5.15	5.15

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

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