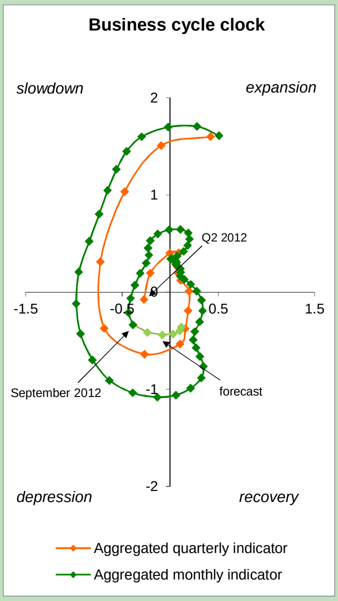
Bank Zachodni WBK

MACROscope

Polish Economy and Financial Markets

November 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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Better late than later

- **The Monetary Policy Council cut interest rates by 25 bps, and thus most likely started the cycle of monetary easing.** Apparently the last series of negative news coming from the economy and the results of NBP projection finally convinced the majority of MPC members to what we argued for a long time – that the development of the economic situation in the coming quarters will be less optimistic than the MPC members previously assumed. The total amount of interest rate cuts in the cycle is not clearly specified, the statements of MPC members suggest quite a wide range of 50-125 bps. Certainly the clear decline of inflation, which will take place soon, will be helpful in further reductions of interest rates. In October the CPI rate was lower than expected and amounted to 3.8%YoY, and we predict that this downward trend will be continued and will bring inflation down to target within a few months. We are anticipating that the Council will cut rates by a total of 75 bps by the end of Q1 (two more cuts of 25 bps in December and January), though the scale of the reduction can be as much as 100 bps.
- **Last projections of inflation and GDP prepared by the NBP's Economic Institute showed a significant slowdown in both economic and price growth.** According to the projections, the Polish economy will grow this year by 2.2%, and in 2013 only by a mere 1.5%. In 2014 the growth will recover to 2.3%. Throughout the forecast horizon the GDP growth stays below potential, so the output gap will be increasing. This is conducive to falling inflation, which is expected to reach an average of 2.5% in 2013, 1.5% in 2014 and to fall to only 1% at the end of the forecast horizon. European Commission's forecasts for Poland were also revised downwards. The growth projections are less pessimistic than those of the NBP (in the years 2012-14 2.4%, 1.8% and 2.6%, respectively), but we should bear in mind that Poland belongs to a small group of countries in Europe, which will record a slowdown in 2013. A similar picture is drawn by the IMF forecasts.
- **September's economic data confirmed a further deceleration of domestic economy.** As we expected, the situation is particularly weak in industry and construction. Growth rate of output in these sectors in Q3 was the weakest in several years. After receiving the whole set of monthly data from third quarter, we estimate that GDP grew by only 1.7%YoY in this period. Leading indicators are clearly not comforting and show that at the turn of 2012 and 2013 the economic growth is expected to slow to about 1%. Our Business cycle clock (chart) shows that the Polish economy is and will be in the phase of depression in the near future.
- **Worse economic outlook is a risk factor for the realization of the 2013 budget, but in our opinion there will be no significant problems with financing next year's borrowing needs.** The Finance Ministry has already financed about 10% of gross needs for 2013, it disposes of a sizeable liquidity surplus, while market conditions, including the easing of monetary policy by the MPC, are favourable for the Polish debt (bond yields fell to the lowest levels in history). We wrote more about borrowing requirements for 2013 in the *Special focus*.

Financial market on 12 November 2012:

NBP deposit rate	3.00	WIBOR 3M	4.65	EURPLN	4.1667
NBP reference rate	4.50	Yield on 2-year T-bond	3.72	USDPLN	3.2803
NBP lombard rate	6.00	Yield on 5-year T-bond	3.74	CHFPLN	3.4565

This report is based on information available until 12.11.2012

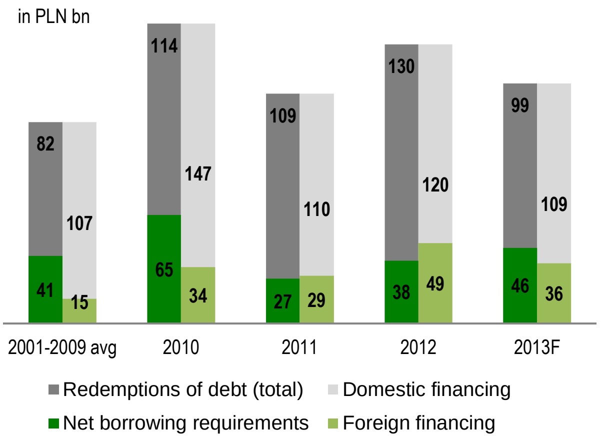
Special focus

Financing the 2013 gross borrowing requirements

Lower needs, lower redemptions in 2013

In early October Poland's Ministry of Finance has completed its 2012 borrowing target at PLN168.5bn (according to assumptions set in the draft Budget Act for 2013). In 2013 the gross borrowing requirements will amount to ca. PLN145bn, which stands for a decline by ca. 14% compared to the 2012 level. This results primarily from lower next year's total redemptions, which will reach PLN99.3bn (both domestic and foreign), down from PLN130.6bn this year.

Chart 1. Gross borrowing needs and their financing



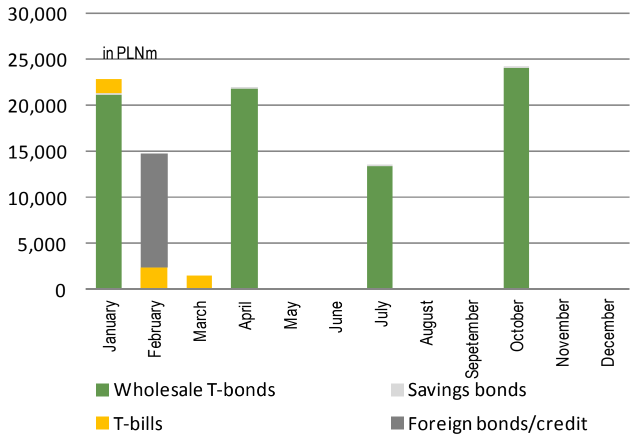
Source: Ministry of Finance, BZ WBK

On the other hand net borrowing needs will increase to ca. PLN45.7bn, up from PLN38bn this year. This comes from several factors, in which the most important are: higher budget deficit (PLN35.6bn vs ca. PLN32bn expected for this year) and lower privatisation inflows (PLN5bn vs PLN10bn this year). The next year's privatisation receipts, in our opinion, are realistic to achieve. Bigger concerns refer to achievement of the next year's budget deficit due to the possibility of a slower economic growth than projected in the budget draft for 2013. Already this year tax revenues, especially from VAT, are significantly lower due to the slowdown in economic activity and the change in the GDP breakdown. The same situation might be observed also in the next year (the Ministry of Finance expects growth by 2.2%, while our projections indicate 1.9% with downward risk). In our opinion, it is a major risk factor, and its materialization will require additional action from the Ministry. This shortfall may be potentially offset by the non-tax revenues i.e. from the NBP's profit or dividend payments combined with spending discipline.

The effective liquidity management of the public debt might help to cut the net borrowing requirements. At the end of September it reached the level of slightly above PLN5bn against -PLN0.2bn assumed in this year's budget. This factor is very difficult to estimate, but it might surprise on the upside.

As we mentioned earlier, the 2013 domestic and foreign redemptions are significantly lower in comparison with this year's level. Most redemptions occur at the beginning of the next year (see chart below); in the first four months of the year domestic redemptions will amount to PLN43bn in total, while other substantial repurchases will take place in July and October worth PLN13.4bn and ca. PLN24bn, respectively. In the case of foreign debt, its redemption will concentrate in February (€3bn). It is worth noting that this year the Ministry secures the 2013 foreign redemptions by increasing liquid funds in foreign currency. At the end of October liquid funds in PLN and in foreign currency held by the Ministry of Finance reached level of PLN51.4bn and we expect these funds to stay above PLN50bn till year-end.

Chart 2. Debt redemptions in 2013 (monthly data)



Source: Ministry of Finance, BZ WBK

The MF has started to build a safety cushion…

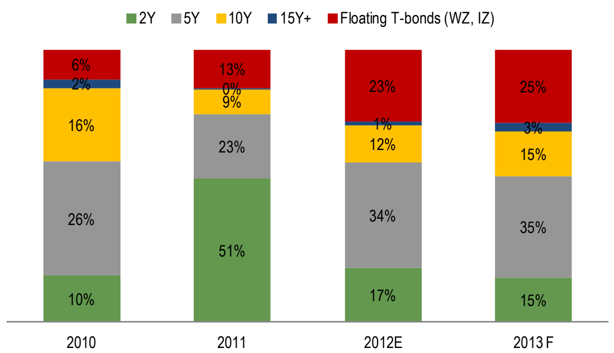
September's switch auction, at which the Ministry offered for redemption bonds maturing in January 2013 (OK0113) has started the pre-financing process of the 2013 borrowing requirements. This process takes place both through switch auctions, and by the regular tenders, as the latter are more effective taking into account the current market conditions. After October the Ministry has already pre-financed nearly 10% of the next year's target (nearly the half of 20% goal). Taking into account the issuance plans till the year-end, in our opinion, the target is realistic to achieve, and even we do not rule out that it may be surpassed – we expect it to reach ca. 25% of the next year's borrowing needs, thanks to very good results of the switch auctions in November and December. We believe that the Ministry of Finance may want to take advantage of favourable market conditions and decide to offer bonds through switch tender rather than a regular auction in December, in particular taking into account the breakdown of redemptions in 2013 (this matter will be discussed further below). Consequently, the Ministry will start the year 2013 with a solid safety cushion, which will secure substantial redemptions (both domestic and foreign) in the first months of 2013.

… with the supply concentration on the mid in 2013

We are expecting that, like in previous years, the Ministry of Finance will adopt a flexible approach towards offering the Treasury securities at individual auctions, making the supply (both in terms of the offer level and series of Treasury securities) dependent on market conditions and the reported demand of market players. This issue is also related to foreign markets, where the Ministry is likely to be very active also in the coming year. In our opinion, the 2013 gross borrowing requirements, as in previous years, will be mainly financed by issuance on the domestic market. Domestic market issuance share should be near 75% of total target (or PLN109bn), while 25% will come from foreign sources, including bonds and loans from the international financial institutions.

As regards the domestic market, we expect the 5Y papers to be the most important security, but the Ministry might gradually increase its offer of 10Y bonds in order to be compliant with the medium-term strategy, which assumes an increase of average debt duration (at the end of August it was 4.31 years, up from 4.25 years at the end of 2011, including index-linked bonds). Floating rate and indexed bonds will be a good supplement of the auctions' supply, in particular as these instruments attract solid demand from domestic investors (mainly commercial banks).

Chart 3. Structure of T-securities offer on domestic market



Source: Ministry of Finance, BZ WBK

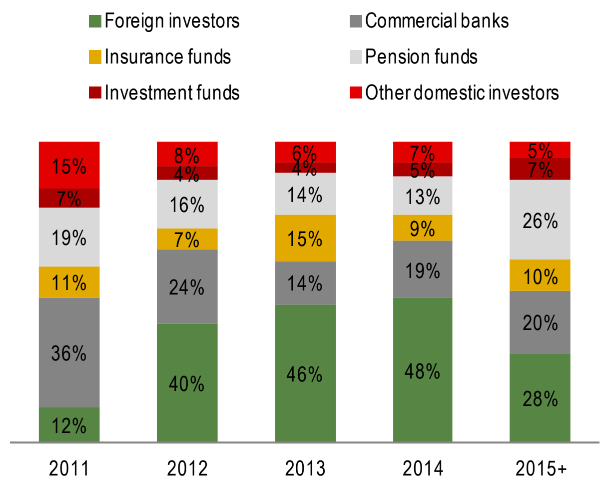
Issuance on the short end of the curve (2Y benchmarks and Treasury bills) may be limited. These instruments will be used to manage the current budget liquidity, and their issuance, similarly to 2012, might concentrate in the first part of the year mainly due to the upcoming interest rate cuts and debt redemption taking place in the first months of the year. The Ministry may decide to increase debt issuance on the short end of the curve in case of a remarkable deterioration of market sentiment particularly following any external shocks (increase of risk aversion, intensified crisis in the EU peripheral countries). Details of the debt instruments offer next year is presented on Chart 3.

Distribution of debt securities sales next year will be highly dependent on the market situation, investors' demand, auction results and redemption schedules. As long as the situation on the debt market is favourable in 2013, the Ministry will aim at selling the bulk of debt in the first half of the year. Nevertheless, big debt offers should be expected in the months of high redemptions, similarly is it happened took this year and in previous years (Chart 2).

Non-residents will play a main role on the market.

2012 brought a remarkable increase of portfolio capital flows from foreign investors. As a consequence, at the end of September 2012 non-residents held almost PLN185bn (most in the history) in Polish domestic bonds, which makes 35% of total domestic marketable debt. Next year will be even more interesting, as 46% of maturing debt is in hands of foreign investors (worth PLN37.2bn based on September data, while including the interest payments this sum grows slightly above PLN44bn). For a comparison, in September 2011 non-residents held PLN41bn, or only 39.4% of the debt securities repurchased in 2012. We expect that foreign investors will decide to stay on the Polish market, namely to roll-over their position in Polish T-bonds, maintaining their dominating role in financing Poland's gross borrowing needs.

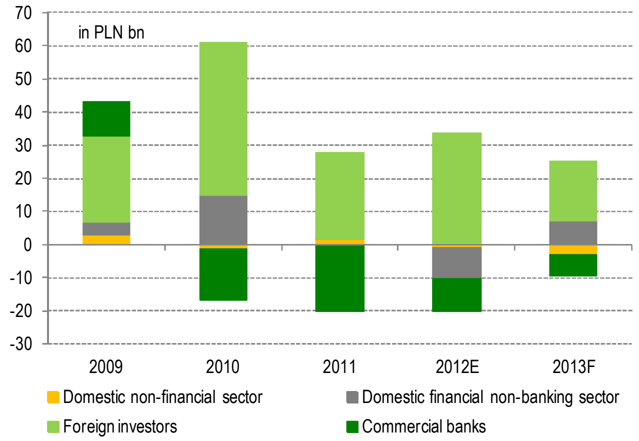
Chart 4. Redemptions of T-bonds in 2011-15+ period by holders



**/ Data at the end of September 2012*
Source: Ministry of Finance, BZ WBK

However, on the other side, the sizeable dependence on foreign investors in covering financing needs poses a significant risk for the debt market in the mid-term. In our opinion, the risk of outflow of the foreign capital in response to a substantial deterioration of moods on global market should remain rather limited. Firstly, Polish bonds still offer an attractive rate of return (including the availability of cheap financing for the foreign investors). Secondly, the breakdown of the foreign investors' base seems to be relatively stable, as mid-term and long-term investors remain a dominating force (international buyers base was enriched this year by a few central banks).

Chart 5. Domestic financing – demand side (in PLN bn)



Source: Ministry of Finance, BZ WBK

In case of domestic investors, non-banking sector remains the biggest holder of Polish debt securities. We believe that domestic banks will continue to limit their engagement, holding no more than the minimum required to fulfil the conditions necessary to play role of Primary Dealers on the Polish debt market.

Polish T-bonds are still in fashion

Last two weeks showed that expectations for interest rate reductions, combined with a strong interest from the foreign investors, added to a sizeable reduction of benchmark interest rate yields to the lowest levels in the history. The continuation of the easing cycle next year should support the short end of the curve. In our opinion, the market-expected scale of interest rates reduction (by 125-150bps) might prove to be slightly exaggerated. Thus a change of MPC's stance from dovish to neutral might lead to increase in Polish yields. We believe, however, that this might happen not sooner than in the second half of the year. In case of the mid- and long end of the curve, the influence of the global market situation and strategies of foreign investors will be crucial for the shape of the Polish curve. We still believe that the Polish debt remains attractive for the foreign investors so that the non-residents' demand from will stay strong in 2013 (Polish assets, like Czech ones, are considered to be relatively safe among the CEE bonds). This factor should add to a further, stable fall in yields or its stabilization at lower volatility levels along the entire Polish curve. The impact of the situation on the core fixed income markets proves to be strong – in recent weeks we could observe strong correlation between Polish and German bonds in the 10Y sector. Expected gradual growth of the German 10Y yields might trigger some negative pressure on the Polish instruments of the same maturity.

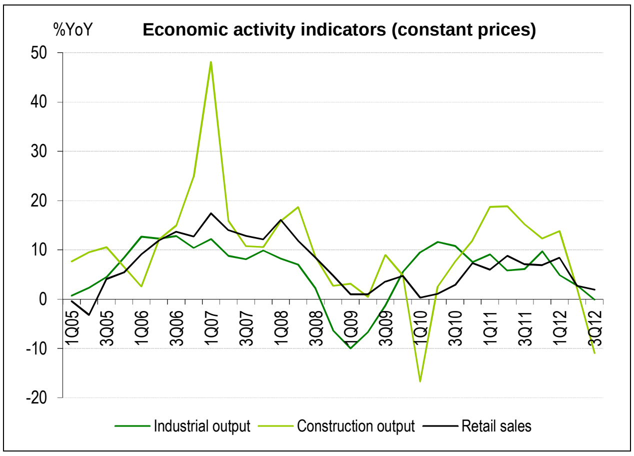
Conclusions

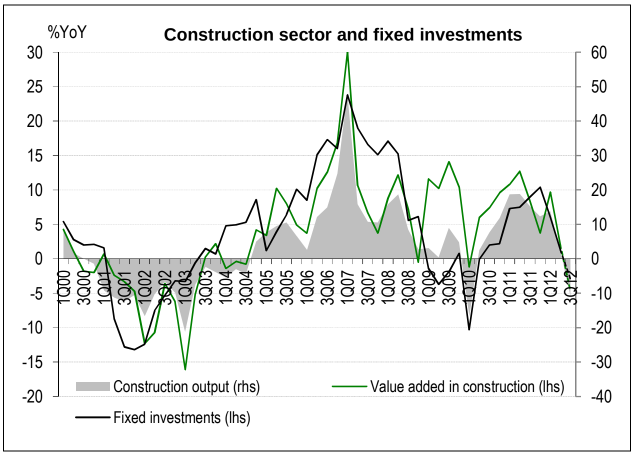
Our estimation regarding the supply and expected behaviour of the specific group of investors on the T-bonds market next year supports the general assumption of rather smooth conditions for financing 2013 borrowing needs. The flexible response of the Finance Ministry's monthly issuance schedule (including the switch tenders and the standard auctions) to the specific market conditions should enhance the effectiveness of debt sales and attract market funds. We expect rather a limited offer on the short end of the curve compared to other curve segments. The supply of the instruments with maturity up to 2Y will depend strongly on the market sentiment.

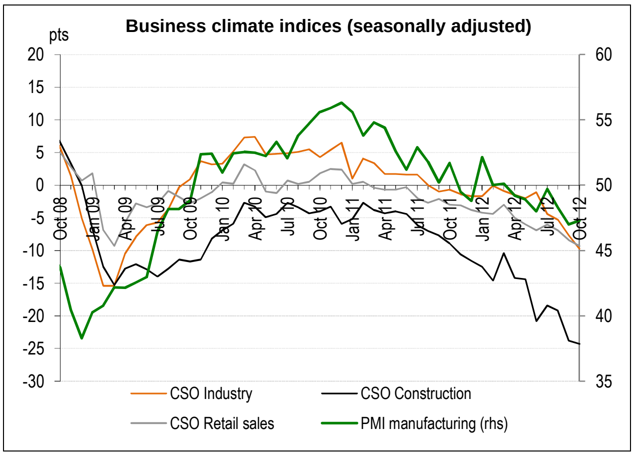
We assume that financing of 2013 borrowing needs, similarly to the previous years' pattern, will engage mainly foreign investors' capital (mainly non-banking sector). However, strong dependence on non-resident financing is one of the most important risks for the Polish bond market. On the other hand, it is the broad-based and diversified foreign investors' structure that limits the risk of the sudden outflow of the foreign capital. Liquidity buffer accumulated by the Ministry of Finance this year (PLN and FX denominated funds worth slightly more than PLN50bn at the end of October) and a Flexible Credit Line (FCL) from the IMF worth USD30bn are an important insurance for the next year's perspectives.

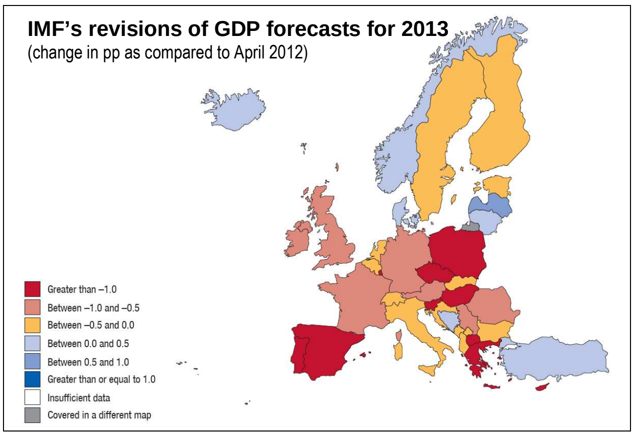
Apart of the issuance details and the effectiveness of financing borrowing needs, market sentiment will remain a crucial factor for the Polish bonds next year. Expectations for forthcoming interest rate reductions and maintained strong demand from foreign investors may trigger a further, stable fall in yields or its stabilization at lower volatility levels along the entire Polish curve in the first half of the year. In consecutive months we expect that improving economic data and projected upward move of yields on core market might negatively affect the Polish yield curve.

Economic update









Source: CSO, Reuters, Markit, IMF, BZ WBK

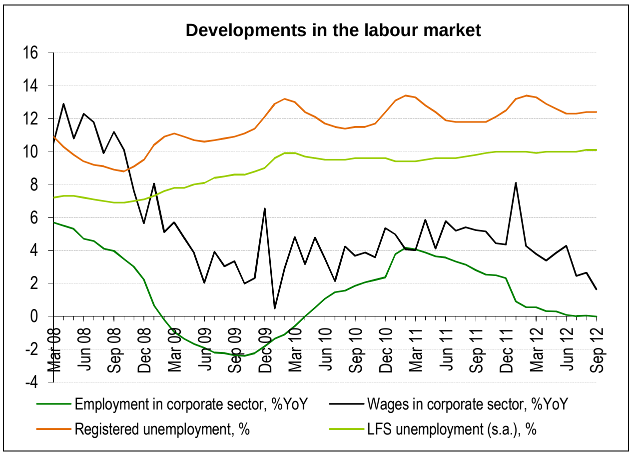
The weakest third quarter in three years

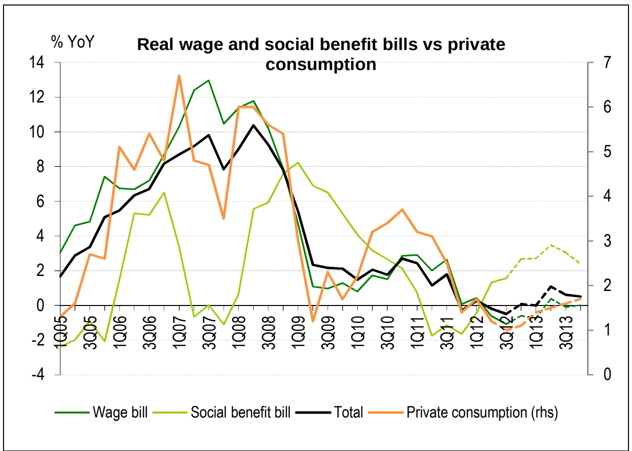
- In line with our forecasts, economic data for September confirmed further deceleration of economic activity in industry, construction and trade.
- The September's data were biased down by the effect of two working days less than in September 2011. However, also the seasonally adjusted data show a further deterioration – output in industry fell by 1.6%YoY (a first drop since end of 2009), while construction and assembly output contracted by 9.5%YoY (the strongest decline since April 2005).
- Throughout Q3, industrial production growth was the lowest in three years, and in the construction the lowest since Q1 of 2010 (due to the unusual weather disturbances).
- Strong declines in construction indicate a marked reduction in the growth rate of gross investment in Q3 (see chart). The outlook for the construction sector for the next quarter is negative due to the strong decline in infrastructure investments financed by the public sector, and the financial problems of construction companies.
- Retail sales growth also strongly slowed in September (real -0.4%YoY, the first decline since 2.5 years), reflecting the weakness of consumer demand given the difficult situation on the labour market and the decline in real income. The data indicate that consumption growth is still weakening.
- The CSO revised the GDP data slightly, raising the growth in Q1 (from 3.5% to 3.6%YoY) and lowering in Q2 (from 2.4% to 2.3%YoY). It is worth noting that growth rate of individual consumption was revised downward to 1.2%YoY in Q2 (from 1.5%), being the lowest reading in three years.

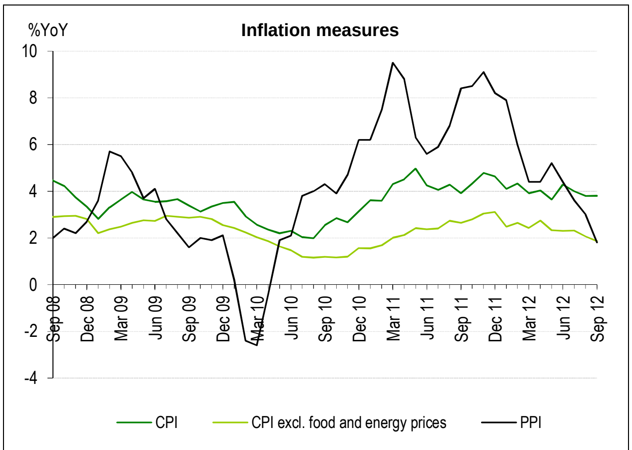
Outlook for the next quarters is deteriorating

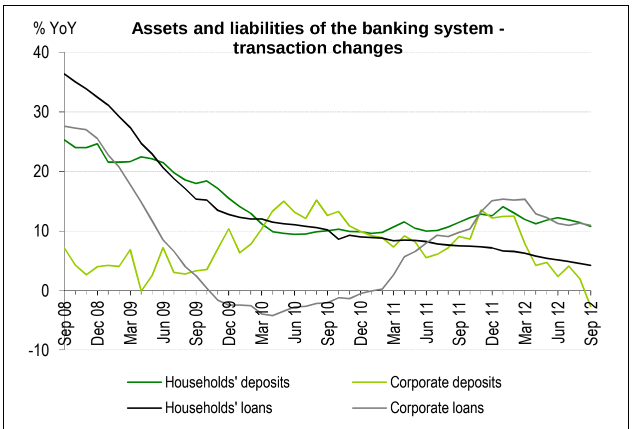
- Leading indicators suggest that economic activity is continuing to weaken at the beginning of the fourth quarter. CSO indicators of economic climate (seasonally adjusted) declined strongly again in October across the board of economic sectors, reaching a new all-time low in the construction industry, reaching the bottom from the 2009 in trade, and the lowest level since mid-2009 in the industry. It is worth noting that the economic climate indicator for industry recorded a second consecutive sharp drop
- Slightly less pessimistic tone was provided by results of the Markit/HSBC PMI report, showing that Polish manufacturing PMI increased in October to 47.3, beating expectations. However, the index remains well below neutral level of 50 for the seventh month in a row. Slightly smaller decrease than in August was recorded in production and in new orders subindices (except export orders!). At the same time, subindex for employment dropped sharply, showing fastest job reduction in companies in three years. Interestingly, once again Polish PMI contrasted with analogous indices for Germany and euro zone, where declines were recorded after two months of improvement.
- Many institutions (including the IMF, EC, EBRD) recently lowered economic growth forecasts for Poland. It is worth noting that in a recent report of the IMF Poland found itself in a rather not elite group of countries for which the reduction of estimates for 2013 was the highest (see chart) and is one of the very few countries in Europe where GDP growth in 2013 is expected to be lower than in 2012.
- According to our forecasts GDP growth slowed in 3Q2012 to 1.7% YoY, and in early 2013 will slow to approximately 1%. In the whole 2012 GDP growth will amount to 2.2%, in 2013 to ca. 1.9%.

Economic update









Source: CSO, NBP, Reuters, BZ WBK

The labour market situation undermines consumption

- In September there was a marked weakening of the growth of wages in the enterprise sector - to 1.6%YoY from 2.7% in August. Although some effect on this result could have been exerted by a smaller number of working days (in some companies wage depends on the number of hours actual worked), the trend of deceleration of wage growth is visible for some time already.
- Apparently Polish companies - like in 2009 - react on downturn differently than in the early years of economic transition: the scale of job losses is rather limited, since entrepreneurs are aware that the recapture of skilled workers at the end of the slowdown phase can be difficult, so instead of the more job shedding, payroll costs are strongly cut down and working time is reduced.
- The average number of employed in manufacturing sector reached fell by 8k in August MoM, and by 37k since the beginning of the year (compared to an increase of 14k in the same period of 2012). For the first time in 2.5 years the number of employees was slightly lower than one year before (although with an accuracy of one decimal place the annual growth rate of employment remained at zero level for the third month in a row).
- Registered unemployment rate stayed in September at 12.4%. Still, number of jobseekers rose by 6.3%YoY, by most in two years.
- The wage bill in manufacturing sector increased by 1.6%YoY in nominal terms (weakest growth since January 2010) and declined by 2.1%YoY in real terms. Data for the third quarter on personal incomes from wages and social benefits suggest a further slowdown in consumer demand. Weak consumption outlook is confirmed by a further deterioration of consumer moods – current confidence indicator fell in October below trough from 2009.

Inflation may fall faster than it seemed

- In September CPI inflation was unchanged as compared to August at the level of 3.8%YoY (an increase was expected), mainly due to lower food prices and lower-than-expected seasonal price hikes. Core inflation excluding food and energy prices fell in September from 2.1% to 1.9%, the lowest level in 18 months. In turn PPI inflation eased in September to 1.8%YoY from 3.0%YoY in August and is the lowest since April 2010.
- The coming months will bring a rapid decline in inflation. This will be due to lower fuel prices (in early November Brent crude became firmly cheaper and there was a significant drop in prices on the domestic gas stations) and gas (as a result of the agreement with Gazprom, PGNiG will cut tariffs in January), but above all it will be the effect of weak demand. As a result the CPI may fall to 2.5% at the start of 2013.

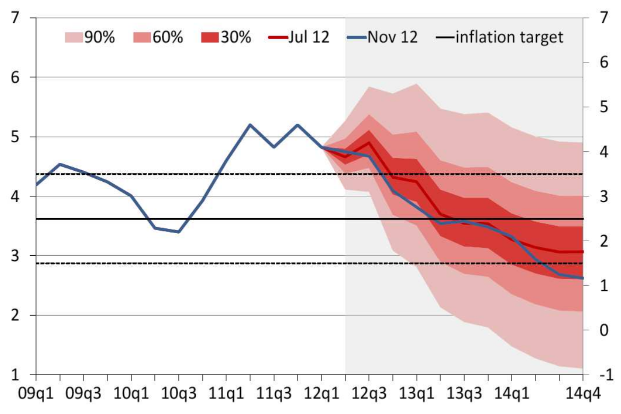
New money supply statistics

- In October the NBP for the first time published statistics on transaction changes in money creation factors. Earlier statistics covered only the overall change resulting from both new transactions and changes in value of the existing assets and liabilities, for example due to changes in foreign exchange rates. So far we have tried to clear changes in the money supply from changes in valuation on our own.
- New statistics enable to better capture the trends taking place in the deposit and loan markets. We are observing a downturn in the credit market, loans to households slowed in September to 4.2%YoY. Loans to businesses grew by a decent 11.0%, but they also slow down. The increase in household deposits is quite stable at around 10%YoY, but the deposits of the companies recorded a decrease.

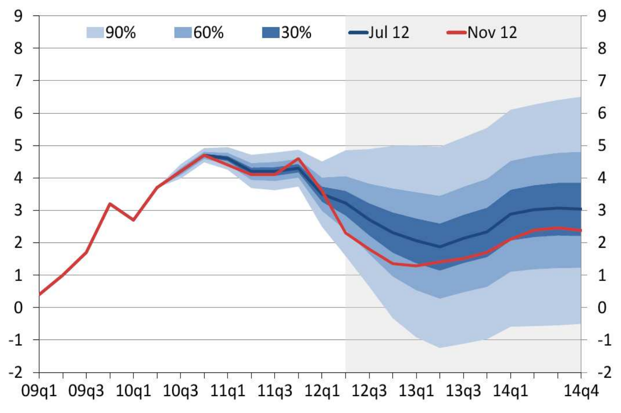
Monetary policy watch

Fragments of MPC communiqué in November:
Economic activity data were worse than expected and reflected further economic slowdown in 2012 Q3. Furthermore, labour market figures, including continued decline in employment, slower wage growth in the enterprise sector and gradually rising unemployment rate, point to a lack of wage pressure and likely further weakening in private demand.
In the opinion of the Council, incoming data confirm a considerable economic slowdown in Poland, which contains wage and inflationary pressure. At the same time, in line with the November projection prepared under the assumption of constant NBP interest rates, GDP growth will remain below potential in the coming years. According to the projection, inflation will return to the target in the coming quarters, and might fall below the target in the medium term.
Should the incoming information confirm a protracted economic slowdown, and should the risk of increase in inflationary pressure remain limited, the Council will further ease monetary policy.

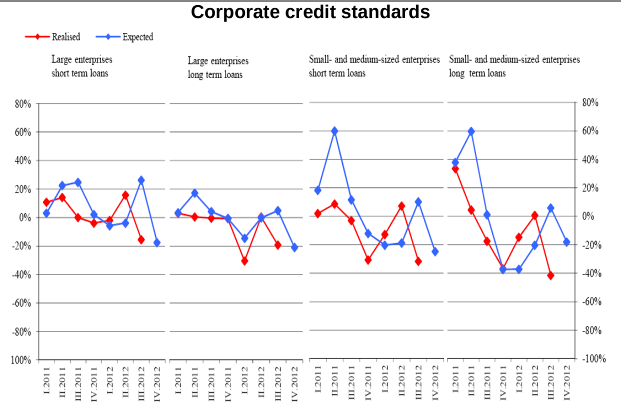
November projection vs July projection – CPI (% YoY)



November projection vs July projection – GDP (% YoY)



Corporate credit standards



Source: NBP, Reuters, BZ WBK

Easing cycle has been started

- At its meeting in November the Monetary Policy Council trimmed interest rates by 25bps, bringing the reference rate to 4.50%.
- Tone of the MPC's statement is currently more dovish in comparison with the previous months. Apparently, last series of negative macroeconomic data and the new NBP's projection have convinced the majority of the MPC members that – as we have been suggesting for a while – the economic scenario for coming quarters will be much less optimistic than the Council predicted thus far. The statement also includes a clear signal that November's rate cut is probably the beginning of the monetary easing cycle (if further macro data confirm a protracted economic slowdown, and should the risk of increase in inflationary pressure remain limited, which is in our opinion very likely). The NBP's governor M. Belka said that probability of interest rate cut in December is relatively high. The change of the MPC's stance is showed by the sentence that rate reduction "should support economic activity and thus reduces the risk of inflation falling below the target in the medium term." So far a major concern for the MPC was risk of inflation running persistently above the NBP's target, now the Council is trying to lower the risk of CPI falling inflation below the reference level.
- MPC members' comments during the press conference clearly show that high inflation is still an obstacle against cutting rate more markedly. In our view CPI will be falling quickly in the upcoming months, so the Council's approach may become more dovish and the scale of total rate cuts may be slightly bigger than we currently expect. If MPC cuts rates in December, the next one may take place in January, and then the Council will wait for the next March update of the NBP projections, which will determine future moves. If our scenario materialises, assuming GDP growth bottoming out in Q1-2013, then more monetary easing than three more rate cuts by 25bps (total of 100bp in cycle) seems unlikely.

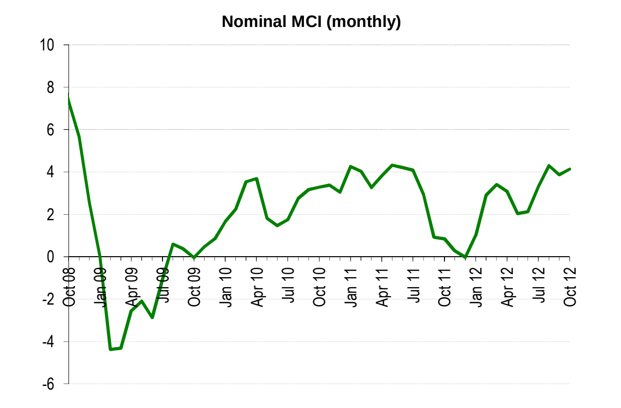
The lower projection of inflation and GDP

- The new NBP projection assumes significantly lower path of inflation and GDP growth than in previous editions.
- In 2013 inflation will be on average lower than 2.5% with more than 50-percent probability and at the end of the forecast horizon is expected to drop to 1%. Reduction in inflationary pressure will be an effect of weakening domestic economic growth, waning adverse price shocks and drop in oil prices and agricultural commodities on global markets.
- NBP analysts expect GDP growth to slow to 2.3% in 2012 and to 1.5% in 2013. Downward revision of GDP growth forecast as compared to the July forecast stem mainly from a strong decline in investment, both private and public. According to NBP, a rebound in investment outlays can be expected in 3Q2014.

Tightening of lending criteria in the third quarter

- Results of NBP survey among the credit officers showed that in Q3 banks tightened their lending criteria for companies in all segments, particularly in SME. All conditions were tightened, especially these relevant to margins and collateral requirements. Deterioration of the economic outlook and increased risk of particular branches were mentioned as the main reasons for changes of lending criteria.
- Banks have also observed a decrease in demand for corporate loans. Lower demand for investment financing was an important reason for this decline.
- The criteria for granting loans to households have also been tightened, especially in the mortgage segment. This was a result of, among others, necessary adjustments to the S and T recommendations.

Restrictiveness of the Monetary Policy (Council)



A slight increase in MCI

▪ In line with our expectations in October the MCI nominal monetary restrictiveness index posted a slight increase. The main reason for this change was the MPC's decision to keep NBP interest rates unchanged at its October meeting. This has supported zloty (which on average appreciated against the euro by 0.6%) and slightly reduced decreases of money market rates (three-month average WIBOR fell over the month by about 13bps on average).

▪ We are expecting a decline of MCI in November, which will be a result of the weakening of the zloty and a decrease in market interest rates due to cut of the interest rates by the MPC by 25 bps and announcement of easing cycle.

Gilowska (1.09)

Rzońca (1.08)

Winiecki (1.07)

Hausner (1.06)

Kaźmierczak (1.06)

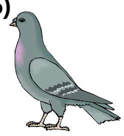
Zielińska-Głębocka (1.06)

Glapiński (1.04)

Belka (1.00)

Bratkowski (0.27)

Chojna-Duch (0.25)



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. Value of the index for a given MPC member is a weighted average of points for all votes. Recent votes have higher weights, more distant – lower.

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.

The NBP projection confirms: inflation will decline

In November we have finally seen the long-awaited NBP interest rates cut. This means that the MPC fulfilled its conditional pledge from the October's statement. Let us remind that at that time the cut was made conditional on confirmation of persistence of economic slowdown and limited risk of higher risk pressure. Even though signals of a marked economic slowdown have been visible for some time, most MPC members still needed a confirmation of inflation trends. A. Bratkowski and E. Chojna-Duch have been convinced about downward outlook for inflation for some time already, which is proved by results of their votes in July and September – both backed cuts during these meetings. In our view they also voted for cuts during meeting in October and November. We also think that M. Belka is supporting monetary easing (vide interview about easing cycle from 26 September), but he tried to adjust his comments and actions to opinion of the MPC's majority. Other MPC members still did not believe in a marked drop of inflation (A. Rzońca said for example that economic slowdown is not strong enough to bring inflation back to target), hence the expectations about the NBP projection, which were reiterated in their comments. Projection showed that in 2013 inflation will be on average below 2.5% with more than 50% probability, which enabled the Council to cut rates. It is worth reiterating that previous projections were also justifying monetary policy easing.

Is MPC finally following a forward-looking rule?

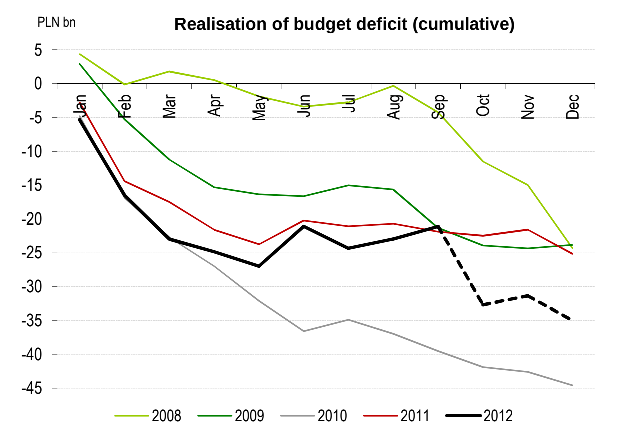
As we noted on the previous page, the MPC comments expressed during the post-meeting conference (and during the month) show that elevated current inflation reading is a major obstacle to cut rates more significantly, e.g. like demanded by A. Bratkowski and E. Chojna-Duch. Let us remind that we are already in the middle of November and CPI inflation of 3.8%YoY, to which A. Kaźmierczak referred during the press conference is a September's reading (we are expecting CPI at 2.9% in November). J. Winiecki suggested at the end of October that he would like to see GDP data for Q3 before taking any decision on rates. This is surely a very important information, but in the moment of its release (30 November), the third quarter will be a rather distant memory. Take into account the simple fact that influence of the November's rate cut on the real economy will be most considerable at the end of 2013 and you will see that the Council is taking its decisions clearly too late (this comes as no surprise as we have already seen that during policy tightening cycle in 2011).

What will be the total scale of rate reductions?

The MPC suggested that November's cut can be a beginning of an easing cycle. However, the total scale of cuts is still an open question. J. Winiecki thinks that one more cut by 25bps is enough (meaning a total of 50bps in the cycle), A. Glapiński said that two more cuts by 25bps are most probable (75bps in total), while A. Bratkowski suggested reduction by 100-125bps already prior to November's cut. E. Chojna-Duch confirmed recently that she is supporting "deeper and more decisive" cut (suggesting a cut by at least 50bps in December), but she did not approve that rates should be reduced by 175bps in total. We are expecting 75bps (including the November's move) until the end of Q1, but we cannot rule out that the Council will cut rates more considerably, when it will see inflation in target (or even below) in the first months of 2013, as it will follow its favourite backward-looking rule.

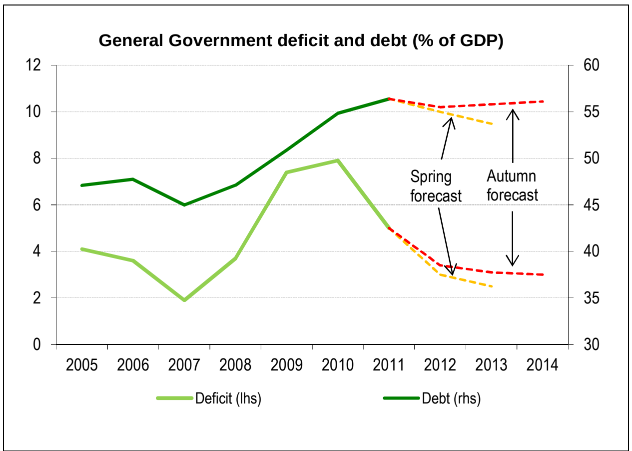
Source: CSO, NBP, Reuters, BZ WBK

Fiscal policy watch



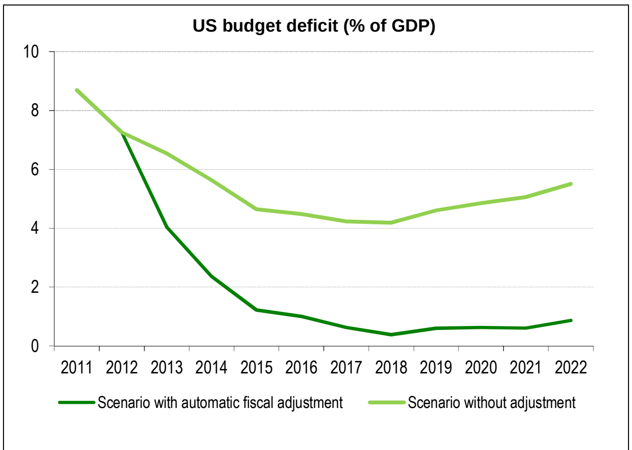
Costs of debt servicing increased the deficit in October

- The Ministry of Finance estimates that at the end of the October budget deficit amounted to about PLN34bn (i.e. 97% of the annual plan). The monthly increase of the deficit (almost PLN13bn, the highest this year) was the result of increased expenditure on debt servicing (including PLN9.3bn from interest payments) and other expenditures made by some disposers (the result of delays in tenders). It is worth noting that the deficit was still slightly below the plan established in the schedule of revenue and expenditure for this year (PLN37bn).
- We expect that the next months will bring a gradual reduction of the budget deficit, mainly as a result of spending discipline. Implementation of the plan for this year (a deficit of PLN35bn) seems to be unthreatened. We still see a chance that the year-end deficit will amount to PLN32bn.



The abolition of the excessive deficit procedure in 2013?

- The European Commission has presented its latest macroeconomic forecasts. As regards the Polish economy, the Commission expects a further reduction of the general government deficit and debt, but the rate of decline is slower than previously forecast (see chart). This is partly an effect of downward revision of GDP growth forecasts. Projections made by the Commission do not differ significantly from the expectations of the Ministry of Finance.
- In the opinion of the representatives of the government, Commission's anticipations about the deficit open the way for an abolition of the excessive deficit procedure for Poland in the summer of 2013. Such a scenario seems realistic, especially after taking into account the cost of pension reform the deficit could be reduced to about 3% of GDP.



Obama re-elected, focus on the fiscal cliff

- Elections in the United States did not produce a significant change in the political arena - Barack Obama is still President, Democrats retained control of the Senate, and the Republicans in the House of Representatives.
- Right after the election the attention of the focused on the risk of so-called fiscal cliff - if the US parliament does not agree quickly on changes in the law, then a termination of temporary tax cuts, launch of semi-automatic spending cuts and increasing costs of social programs will result in tightening of fiscal policy in the US by about 4% of GDP at the start of 2013. This will push economy back into recession. Meanwhile, the distribution of votes in the parliament does not indicate a good chance of a quick agreement.
- The scale of fiscal tightening in the US will be closely watched by the rating agencies because of debt approaching the level of 100% of GDP.

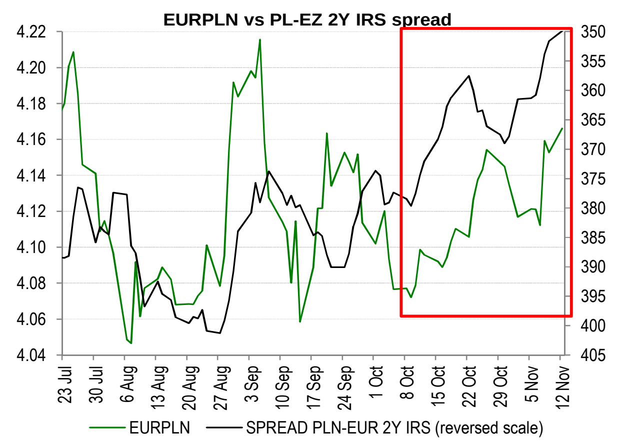
	Spread vs Bunds (10Y) in bps			CDS (5Y USD)		
	12.11	change since 10.10.12	change since 30.12.11	12.11	change since 10.10.12	change since 30.12.11
Poland	283	-30	-121	88	-9	-191
Czech	49	-34	-127	78	-7	-95
Hungary	562	-16	-245	292	-36	-319
Greece	1674	-13	-1692	37030	0	26799
Spain	454	24	127	337	-24	-39
Ireland	349	-4	-317	201	-86	-533
Portugal	753	66	-419	591	121	-579
Italy	367	7	-151	307	-7	-179
Germany	-	-	-	32	-18	-67

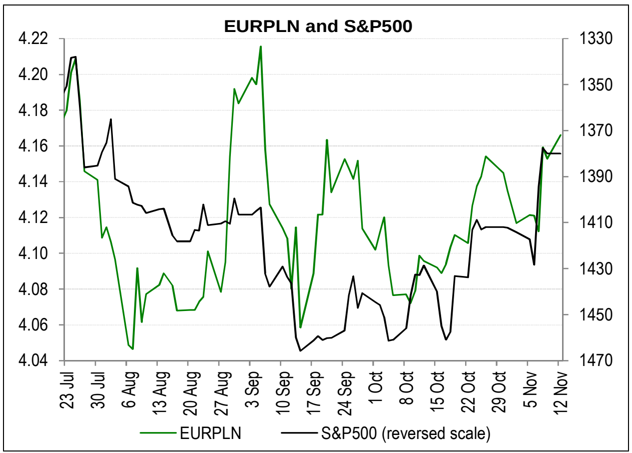
Greece and Spain stay in the spotlight

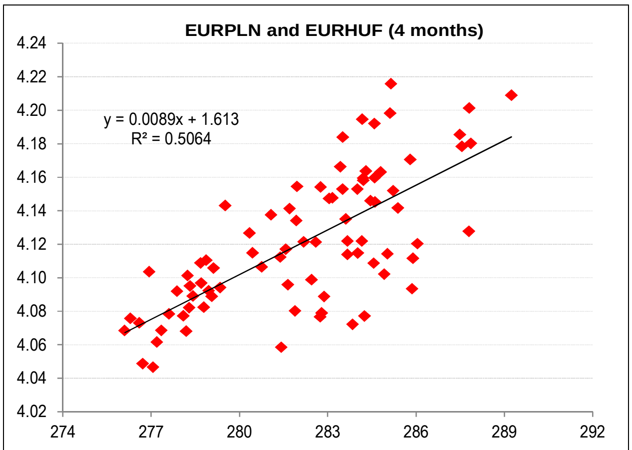
- Expectations that Spain will ask for financial support and speculations about changes in the conditions of the aid for Greece supported the bond yields of the peripheral countries. The market reaction to the information on downgrade of Spain by S&P and of its regions by Moody's was very moderate. Possibility of ECB intervention in the euro zone peripheral debt market is halting any sell-off of bonds, especially short-term.
- Early November brought a slight weakening of the peripheral debt and an increase in demand for safe securities. This was the result of uncertainty whether Greece will receive the next tranche of financial aid. This decision is only a matter of time - European policymakers are waiting for the Troika report. At the start of November, Greece agreed on another austerity package, which should stabilise the market sentiment.

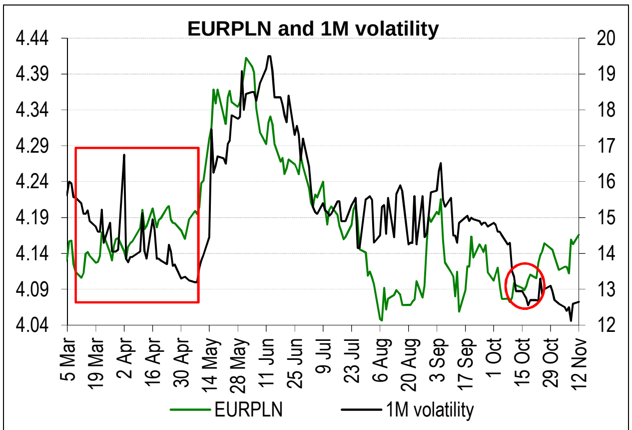
Source: Finance Ministry, CSO, Reuters, Congressional Budget Office, European Commission, BZ WBK

Foreign exchange market









Source: Reuters, BZ WBK

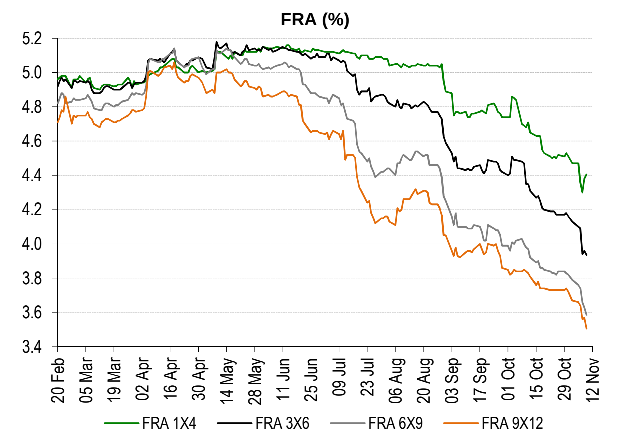
Zloty under pressure of monetary policy outlook …

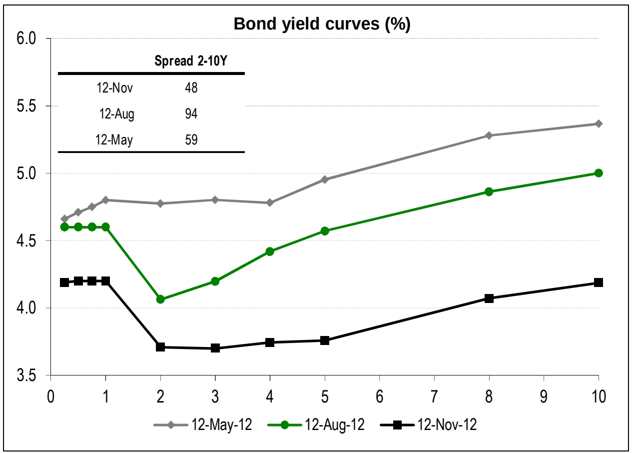
- Just as we suggested last month, the biggest impact on the zloty was put by the assessment of Polish monetary policy. When in late October the weaker-than-expected figure on domestic retail sales was released and global risk aversion strengthened, the upward trend of the EURPLN gained steam and consequently the exchange rate broke the upper band of consolidation in which it stayed since the beginning of September. In the following days the EURPLN reached nearly 4.16 (highest in a month). The zloty managed to pare some losses – mainly amid low liquidity at closed market in Poland in early November due to better-than-expected data from the US labour market – but the outcome of the MPC meeting initiated a restart of the upward move. As the rate cut was said to be a beginning of a cycle of easing, the EURPLN surged from 4.11 to 4.17 and USDPLN from 3.19 to 3.28.
- The market sentiment was quite shaky during the past month as investors were much concerned about 3Q earnings of the US companies and disappointed that Spain so far did not ask for help.

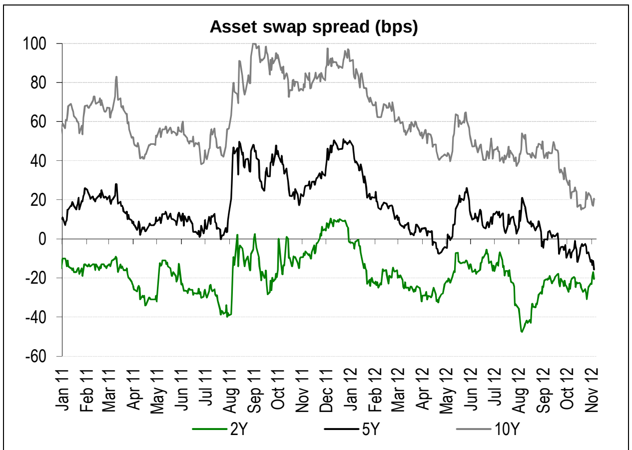
… and there is little room for recovery in November

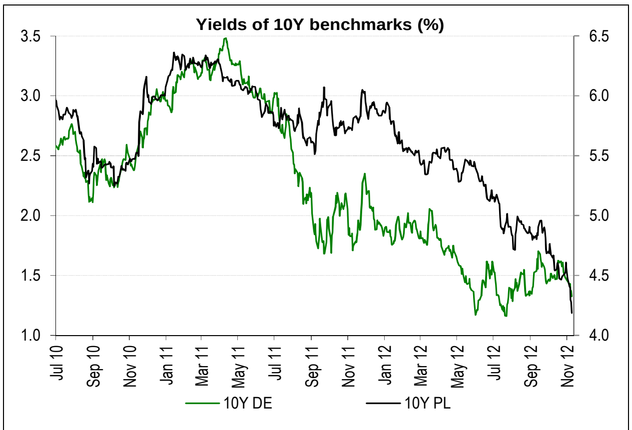
- We expect the domestic currency to remain under moderate pressure from NBP rate cuts. This may be the case also regarding other CEE countries, where easing of monetary policy has started a few months ago. The Hungarian and Czech central banks have reduced rates already three times since July (by total 75bps to 6.25% and by total 70bps to 0.05%, respectively). Furthermore, as negotiations between Hungarian government and the IMF are in progress, any depreciation of the forint may have a negative impact on the zloty.
- The key issue for global investors for November is the case of disbursement of next tranche of aid for Greece. Currently there is no agreement among European policymakers on how to deal with the fact that the path of debt reduction in this country goes above the planned one. The longer there is no decision made, the more elevated worries over the outlook for the euro zone will be present on the market. Additionally, negative pressure on the risky assets may be put by status quo in US parliament after elections. The correlation of the EURPLN with the S&P500 declined, but these two instrument still follow the same direction. Further decline of US stock prices may keep the EURPLN high. It is worth to notice, that the correlation of the EURUSD with 10Y Spanish bond increased to a very high level (0.93) and the relationship of the EURPLN with the EURUSD is gradually gaining strength (though currently is rather low). In October yield of long term Spanish debt increased to nearly 6% and market worries over the euro zone's peripheries may put additional pressure on the domestic currency.
- Interestingly, when the EURPLN broke the upper band of the consolidation (ca. 4.06-4.11), the 1M volatility remained stable and when the zloty restarted the depreciation momentum the volatility declined. Similar divergence – though at clearly smaller scale – was observed in March and April '12 and in the following months the EURPLN surged to nearly 4.45. Although we do not expect such a strong depreciation of the zloty this time, such an analogy is in line with our view of more depreciation of the domestic currency to come.
- To sum up, in our view the EURPLN has still some potential to increase in the remainder of the year and in first months of 2013. Even though the technical analysis suggests the exchange rate may head even towards 4.28, we anticipate clearly smaller scale of zloty's depreciation. This month the EURPLN shall be at 4.15 on average (with risk to the upwards). We keep our end-year forecast at 4.20.

Interest rate market









Source: Reuters, BZ WBK

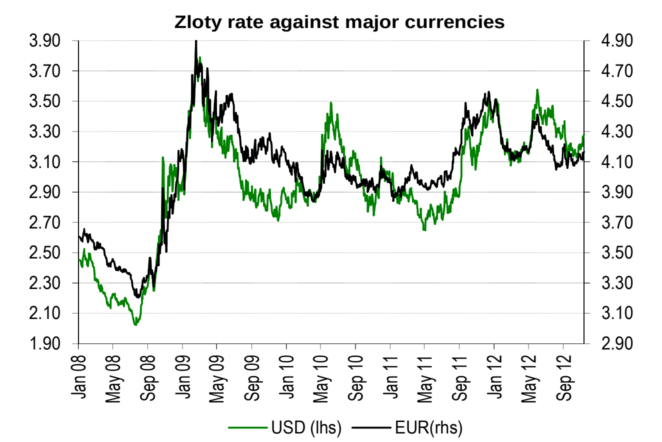
Continuation of yields' decline after NBP rate reduction

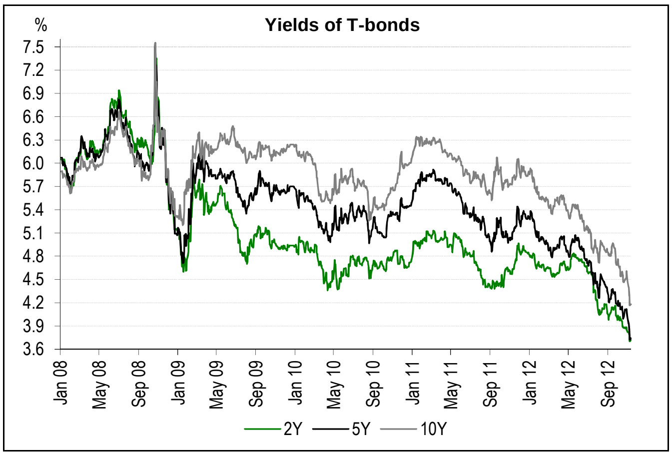
- Just like we expected, the correction after October's decision to keep interest rates unchanged by the MPC proved short-lived. The weaker-than-expected September's data from the real economy and clearly more dovish tone of the "hawkish" MPC members have supported the market expectations for November's interest rate cut. As a result, money market rates (WIBOR, FRA) and yields of instruments with maturities up to 2 years continued the downward trend. It is worth noting that 3-12M WIBOR rates were quoted below NBP refinance rate.
- Rate cut in November together with announcement of the easing cycle in next months have triggered further decline of money market rates to levels seen many years ago. FRA3x6 is below 4% and this indicates that the market expects further easing of monetary policy in a very short term.
- The past month brought the materialization of our scenario of a decline of 2Y bond yield to 3.90% and even a very fast break of this level. After the decision of the MPC the yield of 2Y benchmark declined to 3.70%
- We expect that during the upcoming weeks the short end of the bond curve will continue to decline, though gradually. Data on 3Q GDP may be crucial (due for release at the end of the month). Reading below 2% (which is our scenario) may generate a strong impulse for the market.

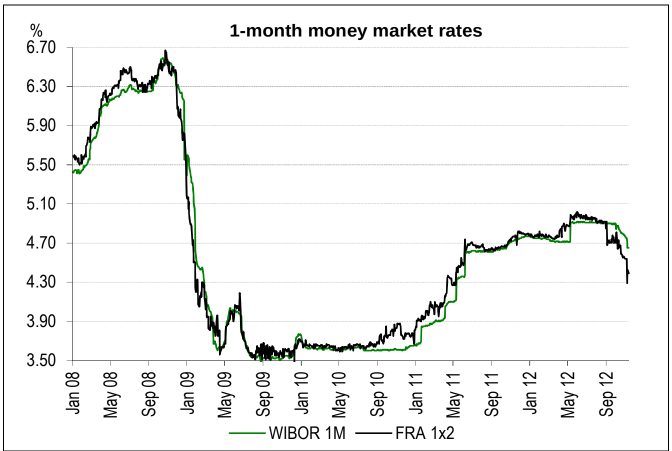
Decent inflow of foreign capital supports long-term bonds

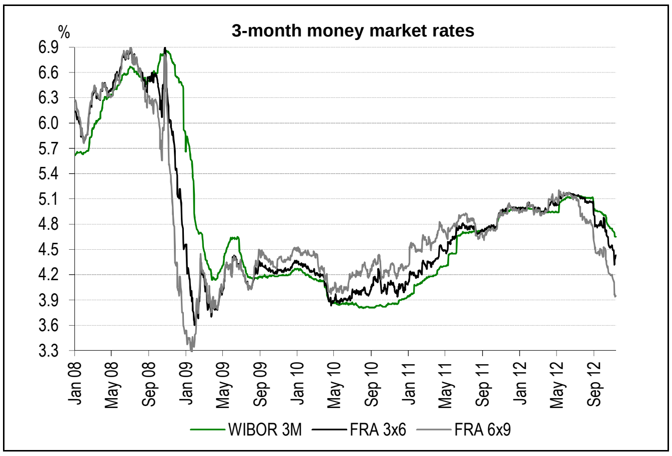
- Considerable decline of yields on the middle and long end of the curve was due to persisting strong demand from foreign investors (domestic investors probably followed this activity). The market was additionally supported by planned supply for November and higher-than-expected sale of yen-denominated bonds. As a result, it cannot be excluded that November's auction of new 5Y bond will be last regular auction this year. It is worth to remind here that December's auctions are conditional and they will depend on the market situation.
- The factors mentioned above dragged the yields of 5Y and 10Y bonds to the lowest levels in history in early November (to 3.71% and 4.17%, respectively. Due to this move, the domestic curve flattened markedly, becoming virtually flat in 2-5Y segment, while 2-10Y spread narrowed to ca. 45bps from ca. 70bps at the beginning of October.
- The considerable downward move of yields on the bond market fuelled a visible decline of IRS rates. Bullish flattener was also a relevant strategy in case of IRS curve (2-10Y spread narrowed to ca. 6bps from 20bps in mid-October. After the MPC's rate cut the IRS curve up to 5 years was nearly flat, similarly as the bond curve.
- Limited supply until the end of the year together with strong demand from foreign investors and expectations that monetary easing may be more aggressive, may push mid- and long-term yields further down. Additionally, 10Y benchmark will be probably affected by the situation on core debt markets. Any increase of yields of 10Y German bond may put a negative pressure on the domestic 10Y paper.
- We are expecting that in the upcoming weeks the bond yields will stay close to all-time lows, it cannot be excluded that before year-end we will see further declines in yields, especially if macroeconomic data will be confirming scenario of weal GDP growth and quickly falling inflation.

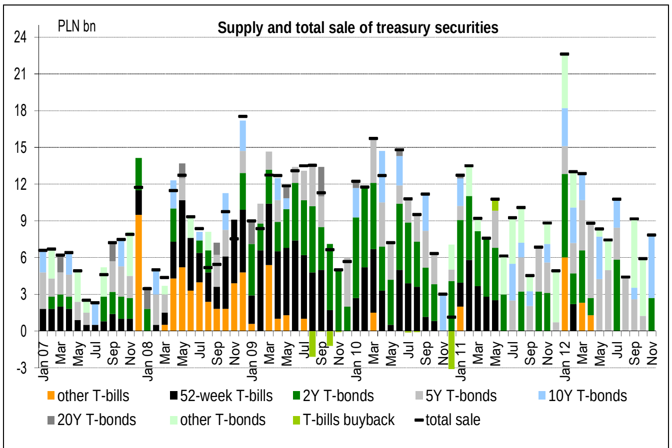
Market monitor











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
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	04.01	OK/PS/OK	WZ/WZ/DS
February	09.02	OK0114/PS1016	3500-5500	5049	16.02	WZ0117	1000-3000	3518	01.02	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		-	-	-	-	05.04	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								
September	19.09	WZ /DS /IZ	2000-4000	3458.8					05.09	OK1012/OK0113	WZ0117/PS0417
October	**4.10**	**WZ /PS**	**3000-5000**	**5900.9**	**23.10**	**OK0714/DS1023**	**5000-9000**	**7840.5**			
November	8.11	PS0418	2000-4000	4526.3					21.11	OK0113/PS0413	DS/WZ

** 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	FRIDAY
12 November ***PL: Balance of payments (Sep)***	**13** DE: ZEW index (Nov)	**14** ***PL: CPI (Oct)*** ***PL: Money supply (Oct)*** EZ: Industrial output (Sep) US: Retail sales (Oct)	**15** DE: Flash GDP (Q3) EZ: Flash GDP (Q3) EZ: HICP (Oct) US: Core CPI (Oct) US: Philly Fed index (Nov)	**16** US: Industrial output (Oct)
19 US: Home sales (Oct) ***PL: Wages and employment (Oct)***	**20** ***PL: Industrial output (Oct)*** ***PL: PPI (Oct)*** US: House starts (Oct) US: Building permits (Oct)	**21** ***PL: Core inflation (Oct)*** US: Michigan index (Nov) US: Leading indicators (Oct)	**22** ***PL: MPC minutes*** CN: Flash PMI-mfg (Nov) DE: Flash PMI-mfg (Nov) EZ: Flash PMI-mfg (Nov) EZ: Consumer confidence index (Nov)	**23** DE: Ifo index (Nov)
26 DE: GfK index (Dec)	**27** US: Durable goods orders (Oct) US: S&P/Case-Shiller home price index (Sep) US: Consumer confidence index (Nov)	**28** US: New home sales (Oct)	**29** US: Preliminary GDP (Q3) US: Pending home sales (Oct)	**30** ***PL: GDP (Q3)*** ***PL: Retail sales and Unemployment rate (Oct)*** ***PL: Inflation expectations (Nov)*** EZ: Flash HICP (Nov) US: Personal income (Oct) US: Consumer spending (Oct) US: Core PCE (Oct) US: Chicago PMI index (Nov)
3 December ***PL: PMI-manufacturing (Nov)*** DE: PMI-manufacturing (Nov) EZ: PMI-manufacturing (Nov) US: ISM-manufacturing (Nov)	**4**	**5** ***PL: MPC decision*** DE: PMI-services (Nov) EZ: PMI-services (Nov) EZ: Retail sales (Oct) US: ADP report (Nov) DE: Industrial orders (Oct) US: ISM-services (Nov)	**6** EZ: GDP revision (Q3) DE: Industrial orders (Oct) GB: BoE decision EZ: ECB decision	**7** DE: Industrial output (Oct) US: Non-farm payrolls (Nov) US: Unemployment rate (Nov) US: Flash Michigan index (Dec)
10 DE: Exports (Oct) EZ: Sentix index (Dec)	**11** DE: ZEW index (Dec) US: Trade balance (Oct)	**12** EZ: Industrial output (Oct) US: Fed decision	**13** ***PL: CPI (Nov)*** ***PL: Balance of payments (Oct)*** US: Retail sales (Nov)	**14** ***PL: Money supply (Nov)*** EZ: HICP (Nov) US: Industrial output (Nov) US: Core CPI (Nov)

MPC meetings and data release calendar for 2012

	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
ECB meeting	12	9	8	4	3	6	5	2	6	4	8	6
MPC meeting	10-11	7-8	6-7	3-4	8-9	5-6	3-4	21	4-5	2-3	6-7	4-5
MPC minutes	26	23	22	26	24	21	-	23	20	18	22	20
GDP*	-	-	1	-	31	-	-	30	-	-	30	-
CPI	13	15[a]	13[b]	13	15	13	13	14	13	15	14	13
Core inflation	20	-	20	20	22	20	20	21	20	22	21	20
PPI	19	17	19	19	21	20	18	20	19	17	20	19
Industrial output	19	17	19	19	21	20	18	20	19	17	20	19
Retail sales	27	23	26	25	31	26	26	30	25	23	30	-
Gross wages. employment	18	16	16	18	18	19	17	17	18	16	19	18
Foreign trade	about 50 working days after reported period											
Balance of payments*	-	-	30	-	-	29	-	-	28	-	-	-
Balance of payments	13	13	13	12	16	15	13	13	11	15	12	13
Money supply	13	14	13	13	14	14	13	14	14	12	14	14
Business climate indices	20	22	22	20	20	22	20	22	21	22	22	20

* quarterly data. [a] preliminary data for January. [b] January and February
Source: CSO, NBP, Ministry of Finance, Reuters, Bloomberg

Economic data and forecasts

Monthly economic indicators

		Oct 11	Nov 11	Dec 11	Jan 12	Feb 12	Mar 12	Apr 12	May 12	Jun 12	Jul 12	Aug 12	Sep 12	Oct 12	Nov 12
PMI	pts	51.7	49.5	48.8	52.2	50.0	50.1	49.2	48.9	48.0	49.7	48.3	47.0	47.3	46.3
Industrial production	%YoY	6.4	8.5	7.7	9.1	4.8	0.8	2.8	4.3	1.2	5.4	0.6	-5.2	4.9	0.2
Construction production	%YoY	8.9	13.0	14.6	32.2	12.0	3.5	8.1	6.2	-5.2	-8.7	-5.0	-17.8	-5.6	-8.2
Retail sales [a]	%YoY	11.2	12.6	8.6	14.3	13.7	10.7	5.5	7.7	6.4	6.9	5.8	3.1	3.2	4.9
Unemployment rate	%	11.8	12.1	12.5	13.2	13.4	13.3	12.9	12.6	12.3	12.3	12.4	12.4	12.5	13.0
Gross wages in enterprises sector [a]	%YoY	5.1	4.4	4.4	8.1	4.3	3.8	3.4	3.8	4.3	2.4	2.7	1.6	1.7	2.4
Employment in enterprises sector	%YoY	2.5	2.5	2.3	0.9	0.6	0.6	0.3	0.3	0.1	0.0	0.0	0.0	-0.1	-0.1
Export (€)	%YoY	6.3	8.1	5.7	6.2	4.4	2.5	2.6	-1.6	0.4	10.9	3.9	-0.3	2.7	0.0
Import (€)	%YoY	5.4	3.2	3.5	6.9	5.6	1.5	-3.1	-2.1	-5.4	2.0	-3.3	-3.0	-2.5	-3.8
Trade balance	EURm	-695	-772	-1 139	-687	-883	-544	-421	-842	-376	-231	-63	84	-41	-292
Current account balance	EURm	-1 999	-1 294	-1 890	-1 994	-1 909	-585	-734	-403	-1 025	-711	-609	-1 137	-937	-902
Current account balance	% GDP	-5.3	-4.9	-4.9	-5.0	-5.3	-5.1	-4.9	-4.9	-4.6	-4.3	-4.0	-3.9	-3.5	-3.4
Budget deficit (cumulative)	PLNbn	-22.5	-21.6	-25.1	-5.3	-16.5	-23.0	-24.8	-27.0	-21.1	-24.3	-22.9	-21.1	-32.7	-31.3
Budget deficit (cumulative)	% of FY plan	55.9	53.7	62.5	15.1	47.2	65.6	70.9	77.1	60.2	69.6	65.5	60.4	93.4	89.5
CPI	%YoY	4.3	4.8	4.6	4.1	4.3	3.9	4.0	3.6	4.3	4.0	3.8	3.8	3.5	2.9
CPI excluding prices of food and energy	%YoY	2.8	3.0	3.1	2.5	2.6	2.4	2.7	2.3	2.3	2.3	2.1	1.9	1.9	1.7
PPI	%YoY	8.5	9.1	8.2	7.9	6.0	4.4	4.4	5.2	4.4	3.6	3.0	1.8	1.7	0.8
Broad money (M3)	%YoY	10.5	11.8	12.5	13.7	12.5	9.3	10.3	11.3	11.1	11.1	9.8	7.6	7.5	6.6
Deposits	%YoY	9.4	11.2	11.7	12.8	12.5	8.5	10.0	10.8	10.4	10.9	9.5	7.9	8.1	6.8
Loans	%YoY	14.8	14.6	14.4	14.5	13.0	12.8	13.4	13.1	10.7	7.5	7.1	5.4	6.2	4.3
EUR/PLN	PLN	4.35	4.43	4.48	4.37	4.18	4.14	4.18	4.30	4.30	4.19	4.09	4.14	4.11	4.15
USD/PLN	PLN	3.18	3.27	3.40	3.39	3.16	3.13	3.17	3.36	3.43	3.41	3.30	3.22	3.17	3.20
CHF/PLN	PLN	3.54	3.60	3.65	3.61	3.47	3.43	3.47	3.58	3.58	3.49	3.41	3.42	3.40	3.44
Reference rate [b]	%	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.75	4.75	4.75	4.75	4.75	4.75	4.50
WIBOR 3M	%	4.80	4.94	4.98	4.99	4.97	4.95	4.94	5.05	5.12	5.13	5.10	4.95	4.82	4.62
Yield on 52-week T-bills	%	4.48	4.48	4.55	4.51	4.50	4.48	4.58	4.75	4.75	4.64	4.58	4.53	4.42	4.15
Yield on 2-year T-bonds	%	4.54	4.73	4.86	4.75	4.66	4.58	4.67	4.77	4.71	4.46	4.12	4.09	3.94	3.70
Yield on 5-year T-bonds	%	5.09	5.19	5.30	5.20	5.00	4.88	4.97	4.97	4.85	4.58	4.43	4.28	4.12	3.80
Yield on 10-year T-bonds	%	5.76	5.85	5.88	5.74	5.53	5.45	5.50	5.41	5.24	4.99	4.88	4.85	4.59	4.25

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	1 416.6	1 523.2	1 596.0	1 656.4	370.7	388.3	392.6	444.4	383.7	401.5	406.4	464.9
GDP	%YoY	3.9	4.3	2.2	1.9	3.6	2.3	1.7	1.4	1.3	1.7	2.1	2.2
Domestic demand	%YoY	4.6	3.4	-0.4	0.9	2.5	-0.4	-1.8	-1.6	-0.5	0.3	1.7	1.8
Private consumption	%YoY	3.2	2.5	1.3	1.5	1.7	1.2	1.0	1.1	1.4	1.5	1.6	1.7
Fixed investments	%YoY	-0.4	9.0	-0.4	-2.7	6.0	1.3	-3.0	-2.0	-5.0	-4.0	-3.0	-1.0
Industrial production	%YoY	9.0	7.7	1.5	1.7	4.9	2.8	-0.1	-1.0	-0.9	1.8	1.6	4.2
Construction production	%YoY	4.6	16.3	-4.3	-8.5	13.8	2.2	-10.9	-10.4	-12.1	-8.9	-6.9	-7.7
Retail sales [a]	%YoY	6.1	11.2	7.0	4.4	12.6	6.5	5.3	4.5	4.2	3.3	5.4	4.4
Unemployment rate [b]	%	12.4	12.5	13.5	13.8	13.3	12.3	12.4	13.5	14.0	12.4	12.6	13.8
Gross wages in enterprise sector [a]	%YoY	3.3	5.0	3.3	1.6	5.3	3.0	2.7	1.9	1.2	1.6	1.8	2.0
Employment in enterprise sector	%YoY	0.8	3.2	0.2	-0.1	0.6	0.3	0.0	-0.1	-0.2	-0.3	-0.1	0.1
Export (€)	%YoY	22.8	12.1	2.6	4.3	4.1	0.4	4.3	1.6	2.0	4.0	5.0	6.0
Import (€)	%YoY	24.9	12.2	-1.1	2.3	4.3	-3.5	-1.6	-3.2	-1.2	1.1	5.5	4.0
Trade balance	EURm	-8 893	-10 059	-4 808	-2 139	-2 115	-1 641	-210	-842	-945	-623	-405	-166
Current account balance	EURm	-18 129	-17 977	-12 134	-5 743	-4 515	-2 164	-2 457	-2 998	-2 150	-769	-1 378	-1 446
Current account balance	% GDP	-5.1	-4.9	-3.2	-1.4	-5.1	-4.6	-3.9	-3.2	-2.5	-2.1	-1.9	-1.4
General government balance	% GDP	-7.9	-5.0	-3.5	-3.0	-	-	-	-	-	-	-	-
CPI	%YoY	2.6	4.3	3.7	2.2	4.1	4.0	3.9	3.0	2.3	1.8	2.2	2.5
CPI [b]	%YoY	3.1	4.6	2.6	2.5	3.9	4.3	3.8	2.6	2.2	1.7	2.4	2.5
CPI excluding food and energy prices	%YoY	1.6	2.4	2.2	2.0	2.5	2.5	2.1	1.8	2.0	1.8	2.1	2.3
PPI	%YoY	2.1	7.6	3.6	1.9	6.1	4.7	2.8	0.9	1.2	1.4	2.4	2.7
Broad money (M3) [b]	%YoY	8.8	12.5	6.3	4.3	9.3	11.1	7.6	6.3	7.2	7.5	7.5	4.3
Deposits [b]	%YoY	9.1	11.7	6.4	4.7	8.5	10.4	7.9	6.4	6.7	7.6	7.7	4.7
Loans [b]	%YoY	9.2	14.4	3.3	3.6	12.8	10.7	5.4	3.3	4.5	5.4	6.4	3.3
EUR/PLN	PLN	3.99	4.12	4.19	4.15	4.23	4.26	4.14	4.15	4.21	4.15	4.15	4.10
USD/PLN	PLN	3.02	2.96	3.27	3.21	3.23	3.32	3.31	3.20	3.33	3.26	3.17	3.08
CHF/PLN	PLN	2.90	3.34	3.48	3.37	3.50	3.55	3.44	3.44	3.51	3.39	3.32	3.28
Reference rate [b]	%	3.50	4.50	4.25	4.00	4.50	4.75	4.75	4.25	4.00	4.00	4.00	4.00
WIBOR 3M	%	3.94	4.54	4.91	4.13	4.97	5.04	5.06	4.58	4.15	4.06	4.12	4.19
Yield on 52-week T-bills	%	3.96	4.51	4.50	4.05	4.50	4.69	4.58	4.22	3.78	3.95	4.18	4.27
Yield on 2-year T-bonds	%	4.72	4.81	4.34	3.85	4.66	4.71	4.22	3.75	3.58	3.75	3.98	4.07
Yield on 5-year T-bonds	%	5.31	5.44	4.57	4.07	5.02	4.93	4.43	3.85	3.64	3.93	4.18	4.27
Yield on 10-year T-bonds	%	5.74	5.98	5.06	4.69	5.58	5.38	4.91	4.31	4.20	4.61	4.87	4.87

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

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