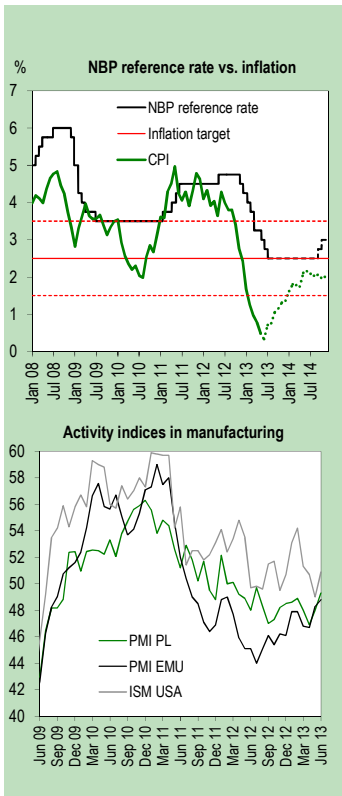


# MACROscope

## Polish Economy and Financial Markets

July-August 2013



## Hot summer ahead?

▪ **Both last year and two years ago, the titles of our bi-monthly (July-August) reports were suggesting a possibility of many interesting developments from the financial markets' perspective, that could have made the summer really hot, not only in terms of temperature outside. It may be similar also this year.**

▪ **First of all**, in the nearest two months, ahead of the Fed's September meeting, the markets will be impatiently waiting for signals/data that may guide on future monetary policy in the US. In the last two weeks we saw some stabilisation of moods after May-June's sell-off - yields of Polish (and not only) bonds decreased, and zloty exchange rate stabilised at ca. 4.30. We think, however, that we may still witness increased volatility and we expect zloty exchange rate to remain at the elevated level, with a strengthening to ca. 4.20 only in the final quarter of the year.

▪ **Second**, we are still looking forward to see some more convincing signals of economic revival and any disappointing news from the world economy (apart from the US, where it could be perceived as lowering chances for QE3 tapering) may deteriorate market moods. We have been signalling for some time that exports will be the main driver of economic growth in Poland in the nearest future. Recent data seem to confirm such presumption. At the same time, the theme of exports' diversification and gaining new market shares by Polish products is becoming increasingly present in the public discussion about the Polish economic outlook. In this month's *Special topic* we are focusing on this issue once again, showing, that the structure of the Polish exports is diversifying, especially as regards geographical breakdown. In our view, this will reduce exports' volatility and will trim the risk of sudden downturn in foreign trade (decreasing elasticity of Polish exports versus demand from the euro area).

▪ **Third**, in the holiday period the debate about changes in pension system is about to intensify (government's decision expected at the end of August), and additionally the government will announce changes concerning this year's budget. As we wrote last month, this year's budget amendment is problematic from a technical (legal) point of view, due to the fact that public debt exceeded 50% of GDP in 2011. Nevertheless, government's officials are repeating that budget amendment increasing the level of deficit is possible. At the same time, the draft amendment of the public finance act, introducing the new spending rule, also assumes abolition of sanctions when debt exceeds 50% of GDP. In our view, it is not clear whether the amended public finance act could be applied to this year's ratio of budget deficit / budget revenue (although it will be crucial for the finance minister for planning next year's budget). And even if it was possible, the problem of the order of changes remains – first the full amendment of public finance bill, and only then amendment of this year's budget?

▪ **Fourth**, after the MPC announced the end of the easing cycle in July, expectations of market participants on further actions in monetary policy show clear divergences – some do not believe the MPC and anticipate 50bps cuts more, while others forecast rate hikes already in early 2014. Such visible differences originate probably from various economic expectations – materialisation of the scenario of gradual acceleration of economic growth as well as inflation increase in 2H will likely lead to an unification of expectations of further actions of the MPC. Our forecasts of GDP growth are roughly in line with NBP's projection but less optimistic regarding inflation. Our expectations about changes in the monetary policy are close to current market pricing – first hike of rates in one year's time at earliest.

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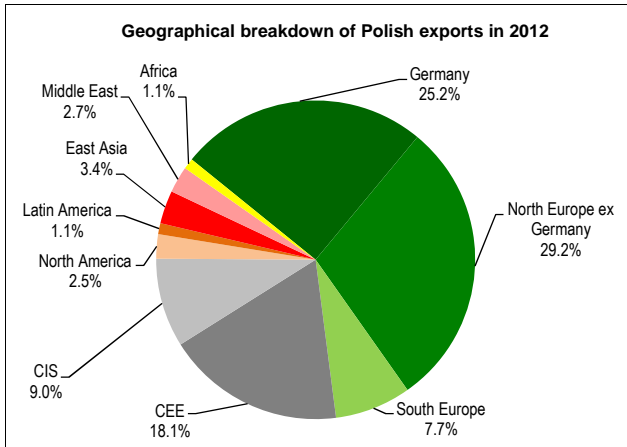
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### Financial market on 10 July 2013:

NBP deposit rate	1.00	WIBOR 3M	2.69	EURPLN	4.3240
NBP reference rate	2.50	Yield on 2-year T-bond	2.90	USDPLN	3.3724
NBP lombard rate	4.00	Yield on 5-year T-bond	3.37	CHFPLN	3.4811

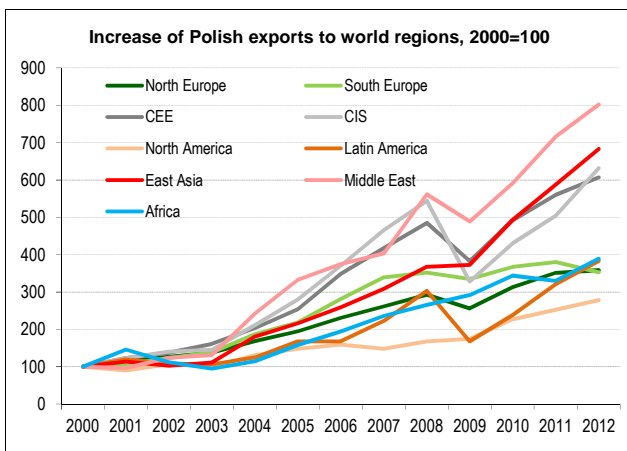
This report is based on information available until 10.07.2013

# Special focus: Diversity (of exports) is strength



We have been suggesting for some time already, that according to exports will remain the main driver of economic growth this year. We are estimating that net exports will contribute 1.8pp to GDP, as compared to total GDP growth at 1%YoY in 2013. We argued that this will be possible, among other factors, due to the fact that Polish entrepreneurs, confronted with weak demand in Poland and in main trade partners, began to look for new sale opportunities. This translated into rising geographical and product diversification of Polish exports, making them more resistant to swings in demand. It seems that recent data are confirming our presumptions, and the issue of diversification and exploration of new markets by Polish products is increasingly more present in discussion about prospects of the domestic economy.

In this issue of MACROscope we are taking a deeper insight into changes in structure of Polish exports during recent years, paying a special attention to its geographical and product diversification. We also tried to estimate the elasticity of Polish exports versus external demand and vs. real effective exchange rate of the zloty.



### Rising geographical diversification

- Currently the lion share of Polish exports (more than 60%) goes to North and South Europe (note: explanation of our definitions of geographical regions can be found in the technical annex) and Germany alone accounts for 25%. Other important trading partners of Poland are CEE countries (mostly Czech Republic, Slovakia, Hungary) and CIS countries (mostly Russia and Ukraine).

- Data in geographical breakdown show that in 2000-2012 period the most considerable increase was posted by the Polish exports to Middle East (700%), East Asia (580%), CIS (530%) and CEE (510%). It is worth noting that Polish exports to East Asia accelerated markedly after 2008. In 2008 exports to this region accounted for 2.2% of total volume, while increase in 2009-2012 accounted for 4.9% of total increase. For comparison: pickup of exports to South Europe accounted for a mere 1.3% of total increase despite share in volume at 9.5% in 2008.

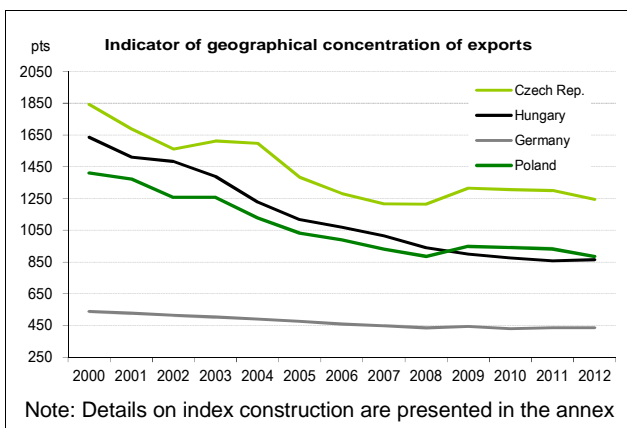
- As regards changes of Polish export in 2009-2012, among 30 countries with strongest nominal gain there are 18 non North or South Europe countries. For 2012 alone this number jumped to 24, and the most marked increases were posted by exports to: Russia (€1.65bn), Ukraine (€777m), Czech Rep. (€501m), Lithuania (€343m), Slovakia (€331m), Belarus (€245m), USA (€168m), Hong Kong (€164m), Canada (€164m) and India (€145m). In 2012 increase of exports to East Asia (€674m) was comparable to total increase to North and South Europe (€682m) and in 1Q2013 it was higher than for all other regions.

- Africa and Latin America still remain rather distant for Poland – not only is their share in Polish exports low (ca. 2%), but also growth of exports to these countries in 2000-2012 was less spectacular (ca. 300%). However, it is worth noting that pace of growth of exports to these countries began accelerating after 2008.

- In 2000-2008 period the geographical breakdown of Polish exports was diversifying on a steady basis. However, this tendency was reversed during the crisis in 2009, when exports to emerging economies, with relatively low share in Polish foreign trade, fell more considerably than exports to developed markets, especially the European Union. In 2009-2011 the indicator of diversification was more or less stable and returned to earlier trend more considerably in 2012.

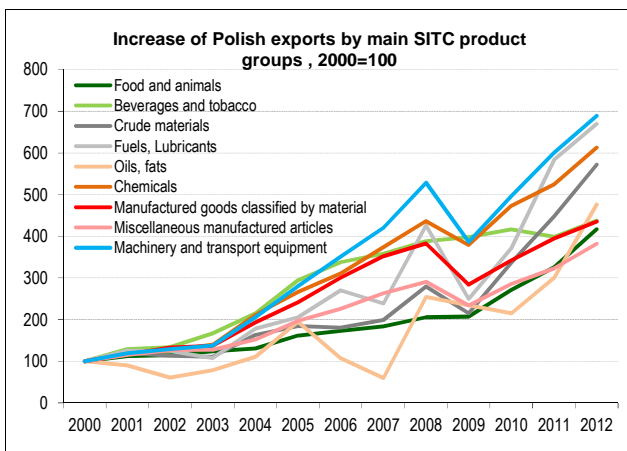
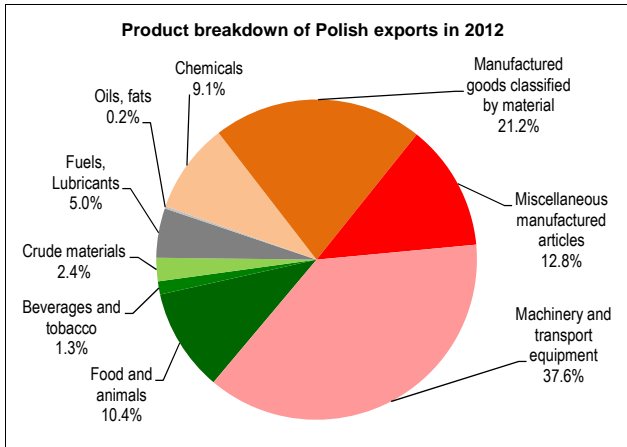
- As compared with other CEE countries, Poland is in quite favourable position: Polish exports are less concentrated geographically than Czech and similarly as Hungarian. During last dozen of years Poland diminished the distance to the German level of (low) concentration, but Hungary was a bit more successful in diversifying its exports.

	Nominal increase of exports in €m, YoY		Change of export share 2009-2012, pp
	2012	1Q2013	
North Europe	1526	225	-2.2
South Europe	-844	-247	-2.9
CEE	1983	272	1.5
CIS	2579	184	2.2
North America	331	218	0.2
Latin America	254	101	0.4
East Asia	674	399	0.7
Middle East	411	112	0.3
Africa	235	70	-0.1

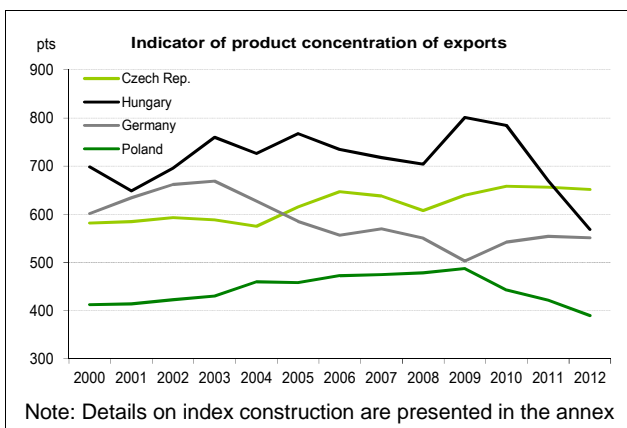


Source: Eurostat, BZ WBK

# Special focus: Diversity (of exports) is strength



	Nominal increase of exports in €m, YoY	
	2012	1Q2013
Food and animals	2180	415
Beverages and tobacco	211	36
Crude materials	149	123
Fuels, lubricants	479	197
Oils, fats	53	20
Chemicals	865	208
Manufactured goods class. by material	1269	-21
Misc. manufactured articles	810	238
Machinery, transport	874	170



- Decline of trade concentration indicator in last dozen of years was mainly due to declining dependency of Polish exports on Germany – in 2000 35% of goods were sent to this country, in 2012 – 25%. However, if we look at breakdown of Polish exports excluding Germany, we will see a **rising** concentration in 2000-2008, which means that exports to more important trade partners were increasing at a higher growth rate. Since 2009 we are observing a declining concentration – among other factors thanks to strong rise in exports to Latin America, CIS countries and East Asia. **Hence, we can conclude that crisis invigorated Polish companies to look for new markets.**

- Trade with North America, East Asia and Africa was most immune to crisis – nominal value of exports to these countries rose in 2009. However, due to low share of these countries in total exports this did not bring much relief for the domestic exporters.

### Product diversification with no major changes

- As regards product breakdown of Polish exports (SITC classification), the first place is occupied by machinery and transport equipment (37%) and manufactured goods (34%). Poland exports also much food (10%) and chemicals (9%). In BEC classification, capital goods account for 15%, transport equipment for 20%, intermediate foods for 29%, consumer goods for 21% and food for 10% (processed food accounts for 8%).

- In 2000-2012 period the most considerable rise of exports was recorded in categories: machinery and transport (590%), fuels and lubricants (570%), chemicals (510%). Food and animals as well as beverages and tobacco proved to be the most crisis-proof categories, showing a slight increase, while value of exports in other categories was declining. In 2012 and at the beginning of 2013 food is the Polish export hit.

- Polish exports are more diversified in product terms than Czech, Hungarian or even German (both in SITC and BEC classifications). We think that this may be due, among others, to higher share of food (as compared to 3% in Czech Republic and 7.5% in Hungary). In 2000-2009 period the indicator of product concentration for Poland was moving upwards but then fell rapidly. Road vehicles are the main culprit of this trend – if we exclude this category, we will see a gradual, yet slow diversification in 2000-2012 period – with no major changes after the financial crisis.

### Lower demand elasticity vs. euro zone

- According to our estimates, decline of external demand (from the euro zone) by 1% causes a decline of domestic exports by ca. 2-4%, while depreciation of the real exchange rate by 1% causes rise of exports by 0.3-0.5%. This means that a decline of external demand by 1% can be offset by real depreciation of the zloty by ca. 7-8%. **We can conclude that due to the geographical diversification the elasticity of exports in regard to demand from the euro zone has declined (our earlier estimates showed ca. 5%).**

- Our analysis shows also that foreign exchange elasticity of exports is related, among others, to the level of exchange rate. If this level is close to long-term average, then exports do not react to its changes (zero elasticity). However, after diverging by ca. 8% from the average, the elasticity increases to ca. 0.6-0.8%. This means that companies tend to explore foreign markets if the zloty depreciates significantly and exporting becomes more profitable. However, if the zloty becomes too strong – they are reducing their foreign exposure. Our results are also suggesting that foreign exchange elasticity shrinks to zero given good economic climate in Poland – probably firms focus on satiating the high domestic demand so issues of exchange rate and profitability of exports become less important.

Source: Eurostat, BZ WBK

## Special focus: Diversity (of exports) is strength

### Summary

- As we have shown above, the structure of Polish export is diversifying, especially geographically, which in our view will limit its volatility and reduce the risk of a major plunge in foreign trade. This is reflected in results of our econometric analysis, which showed that elasticity of Polish exports in regard to demand from the euro zone has declined. Recently we have also observed a strong expansion of Polish food exports. As demand for food is relatively more stable than demand for other goods, this factor will be also stabilizing for the domestic foreign trade.
- Moreover, recent years witnessed a rising importance of emerging economies, especially CEE, CIS and Asia, which should positively affect the growth rate of Polish exports, given higher long-term economic growth in these countries as compared to developed economies. In the nearest months Polish export will be also underpinned by depreciation of the zloty, observed recently. Our analysis shows that the exchange rate is positively affecting exports only after more considerable deviation from the long-term average – like the one we see currently.
- In general, tendencies observed in the course of last few years should positively affect the growth rate of Polish exports and limit its volatility.**

## Special focus: Technical annex

### Definitions of the geographic regions names used in the text

CEE	European countries of the former Eastern Bloc, excluding CIS members (Moldova, Ukraine, Belarus, Russia)
South Europe	Portugal, Spain, Andorra, Italy, San Marino, Greece, Cyprus, Malta
CIS	Countries belonging to Commonwealth of Independent States plus Georgia
North Europe	European countries not falling into other categories
North America	USA and Canada
Latin America	Countries of the South and Middle America, Caribbean and Mexico.
Africa	African states
Middle East	Asian states of the Middle East together with Pakistan and Afghanistan
East Asia	Asia states not falling into other categories plus Australia and Oceania

### Construction of geographical and product concentration indicators

Our indicators of geographical and product concentration are simply Herfindahl-Hirschman concentration indexes. Value of the index is equal to sum of squared percentage shares of particular countries/products. Index ranges between  $10000/n$  and 10000, where  $n$  stands for the number of countries/products. As regards product indicator, we calculated it with use of second disaggregation level of SITC classification (71 product groups).

### Export elasticity

According to imperfect substitutes theory, volume of exports depends on external demand and price competitiveness of goods. In relation to this theory, we constructed a model, where Polish exports were explained by GDP of the euro zone (accounting for external demand, abbr. EA\_GDP) and real effective exchange rate of the Polish zloty (accounting for price competitiveness, abbr. REER). Moreover, we also used other independent variables: Polish domestic demand, (accounting for development of domestic economy, abbr. DOMESTIC) and share of global international trade in global GDP (accounting for changes in intensity of global trade, abbr. SHARE). Models were estimated with use of

seasonally adjusted quarterly data covering period 1Q1995-4Q2012 (data on global trade are given in yearly frequency, so we interpolated them). All variables are in logarithms, so the estimated parameters can be interpreted as elasticity. Our models were estimated with different methods and with use of different sets of independent variables.

Below we show results of model with lowest values of information criteria.

Variable	Parameter (p-value)
C	-8,77 (0,00)
REER	-0,41 (0,03)
EA_GDP	2,53 (0,00)
DOMESTIC	0,91 (0,00)
SHARE	0,53 (0,04)

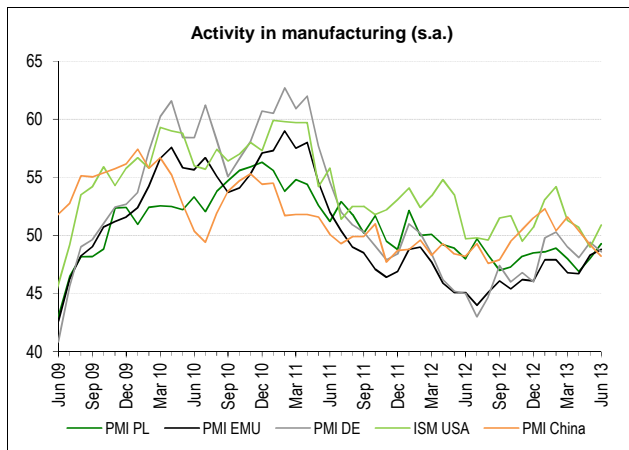
Note: The above equation reflects the long-term relations. It is worth noting that short-term equation (we do not show results here) indicates a negative relation between export and domestic demand (this result is in line with our previous estimates).

Apart from the baseline model, we also estimated non-linear models with switching regimes, assuming that model parameters may change, dependent on level of some other variable. According to our results, foreign exchange elasticity of exports depends on a) level of exchange rate, b) output gap. Estimates of parameters are given in the table below.

Variable	Parameter (p-value)			
	Dependent on output gap		Dependent on exchange rate	
REER	Weak business climate	-0,22 (0,04)	Weak zloty	-0,86 (0,01)
			Average zloty	-0,03 (0,88)
	Strong business climate	-0,02 (0,86)	Strong zloty	-0,61 (0,03)
EA_GDP	1,99 (0,00)		1,37 (0,00)	
DOMESTIC	0,95 (0,00)		1,03 (0,00)	
SHARE	0,69 (0,00)		0,81 (0,00)	

Source: Eurostat, IMF, CSO, BZ WBK

# Economic update



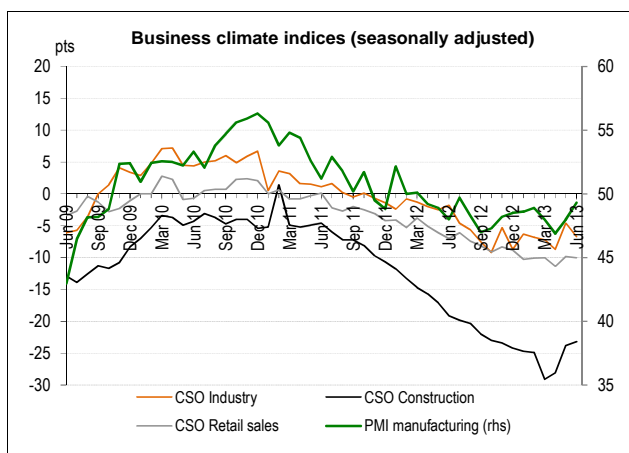
## Looking for recovery

Recent macroeconomic data from the world economy suggest a gradual improvement of economic activity, although trends are still far from unanimous and there are many question marks. While a rise in most of PMI indices in the euro area (especially in the peripheral countries) makes us believe that the worst for the European economy is over, the data from Germany disappointed, which is a reason for concern. Clear recovery in the USA is coupled with slowdown in China. Also, IMF lowered global growth forecasts again.

PMI index for the Polish manufacturing increased in June for the second time in a row, beating expectations and reaching the highest level for almost a year. Sub-index of production approached and of new orders topped the level of 50, which divides between contraction and recovery. Firms justified improvement in new orders by higher export demand. It seems to confirm the scenario of export-led recovery that we are betting on for some time.

At the same time, it is worth noting that a part of improvement in total PMI for Poland (ca. 0.3-0.4 pts in our view) resulted from change in suppliers' delivery times index, which was due to flood, so this was a one-off factor rather than persistent improvement in business climate.

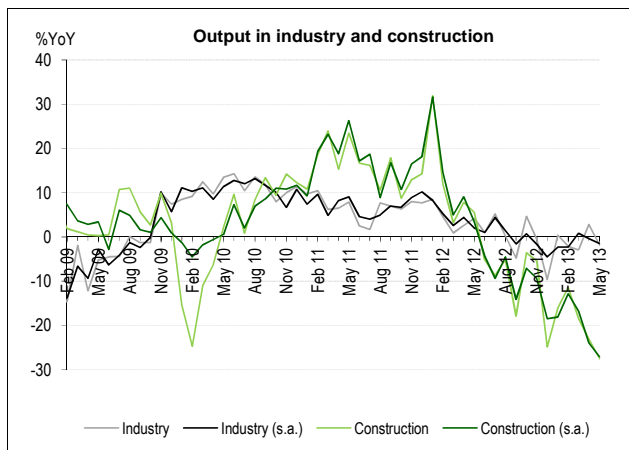
Moreover, other surveys of economic activity were not as optimistic as PMI report. CSO's index of business climate in industry deteriorated in June, among others due to clear drop in current production and slight decrease in new orders. Index in trade and services stabilised at low level in recent months, while in construction, despite some improvement in June, index is still very negative, close to all-time lows. Meanwhile, surveys of consumer confidence recorded slight improvement of moods in recent few months.



## Industry still in stagnation, construction seeking a bottom

Industrial output fell in May by 1.8%YoY, among others due to calendar effects. The annual production growth has been hovering around zero for several quarters, as the sector still remains in stagnation. A positive feature in May was a rise in some export-oriented branches, like production of furniture (6.7%YoY) or motor vehicles (4.3%YoY). If signals from business climate surveys prove right, in the second year-half we should see production growth clearly above zero.

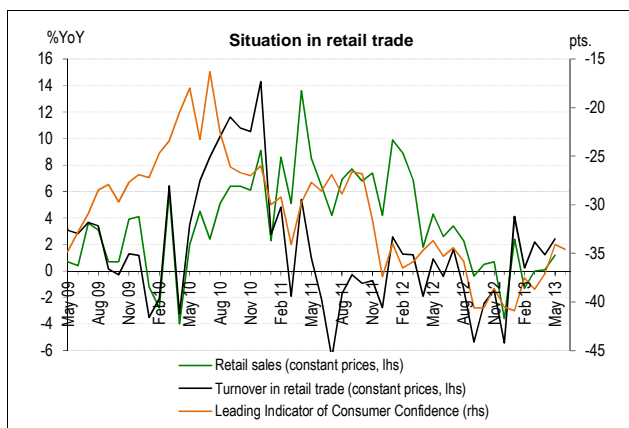
Meanwhile, the crisis in the construction sector is deepening – after a fall in output in May by 27.5%YoY, the volume of production moved back to level from late 2007. Nevertheless, in next months the annual output dynamics should start bottoming out under influence of decreasing base effect (last year the activity in construction collapsed after completing projects for Euro 2012).



## Slightly higher consumer spending

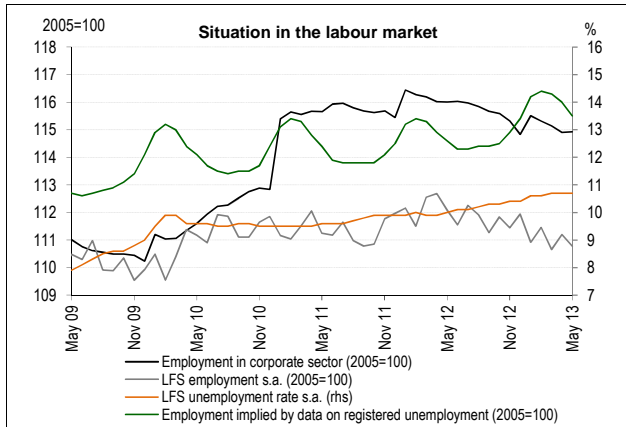
May saw some rebound in consumer spending. Retail sales increased 0.5%YoY in nominal terms and 1.2%YoY in real terms. Acceleration took place mainly in car sales, but good results were recorded also in sales of furniture, household appliances, clothing and footwear, drugs and cosmetics. Also, the index of turnover in retail trade (which – in contrast to retail sales data – covers also information from small-sized shops) recorded acceleration of growth. The data confirmed our expectations that consumer spending should be gradually accelerating since 2Q2013.

Still, the negative deflator in retail trade shows that retailers are fighting for customers mainly by cutting prices, which suggests that in general the consumption demand is still weak.



Source: CSO, NBP, Markit, BZ WBK

# Economic update



## Unemployment lower, but only registered one

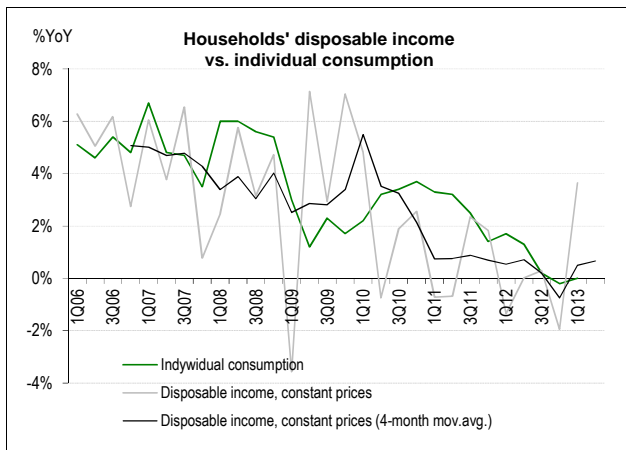
■ May saw a couple of data from the labour market that looked quite optimistic (at least at first sight) – registered unemployment rate fell more significantly than usually in this part of the year, to 13.5%, while average employment in corporate sector broke the long-lasting downward trend and inched up by 1 thousand jobs.

■ Nevertheless, in our view more detailed analysis of data does not confirm a recovery in the labour market yet. Notable drop of registered unemployment rate was to large extent connected with interventionist policy of the Labour Ministry, which sent ca. 50 thousand unemployed people for training in May. LFS unemployment rate (seasonally-adjusted) remained stable in May for the third straight month, at 10.7%, highest level in the last seven years. Moreover, LFS data show a continuation of downward trend in total employment (ca. -1%YoY), so if not the slight decrease in labour activity, we could have witnessed a further rise in seasonally adjusted unemployment rate according to LFS.

## Income growth should gradually support consumption

■ Wage growth in corporate sector reached 2.3%YoY in May and was smaller than expected. However – as we wrote last month – it seems that the average real growth of households' revenues will accelerate clearly in Q2 due to sharp inflation fall.

■ According to non-financial quarterly accounts released by the stats office, already in Q1 the households' disposable income growth rose sharply (to 3.6%YoY from -1.9%YoY in 4Q12). At the same time, the households' saving rate decreased slightly. Improvement of households' revenue growth predicted in the following quarters will keep supporting a gradual revival of consumption demand in the remainder of the year.



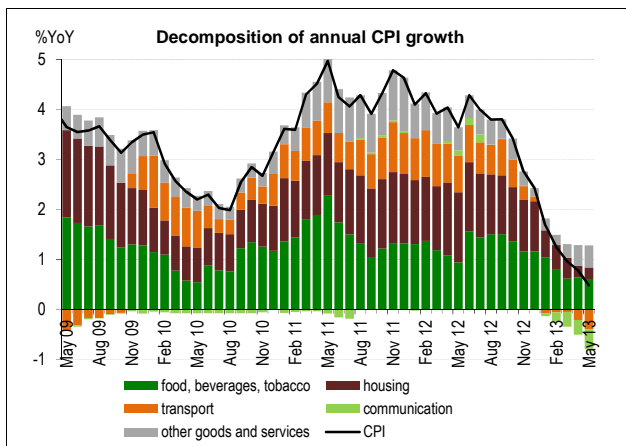
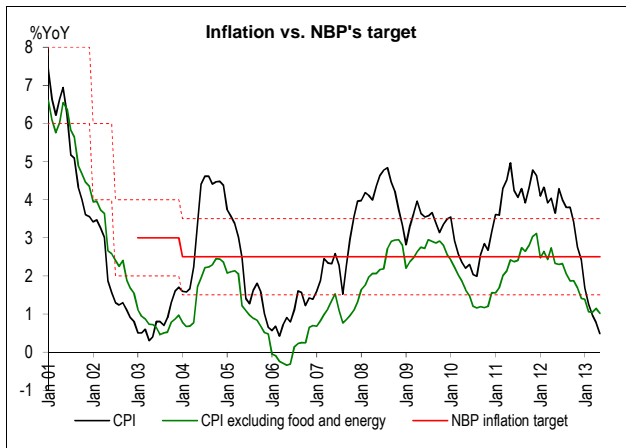
## Inflation near bottom, upward trend will start in July

■ In line with our forecast, CPI inflation rate fell in May to 0.5%YoY, the lowest level since March 2006. Since April, prices fell significantly in transport (effect of cheaper fuel by 4%MoM), communication (new tariffs entering phone services market), and recreation (cancelling price hikes by TV operators). All measures of core inflation decreased (including core inflation excluding prices of food and energy to 1%YoY), while PPI growth remained deep below zero (-2.5%YoY), confirming complete lack of cost pressure faced by producers.

■ Inflation in Poland is currently among the lowest in the European Union (after Greece, Latvia, Cyprus and Sweden).

■ Low and falling inflation is to a large extent a product of weak domestic demand. However, one should keep in mind that apart from that, also a number of one-off factors contributed to the reduction of CPI growth this year – cuts in prices of gas and electricity, price war in telecommunication market, EU-wide reduction of phone services charges. If only we assume that this year's price cuts in telecommunication will not repeat in 2014, the "base effect" alone will push inflation rate up by 0.54pp and core inflation rate by 0.94pp. If cuts in prices of gas and electricity would not repeat, this will lift CPI growth by another 0.23pp next year.

■ We think that the inflation rate will reach the bottom in June, when it will drop to 0.3%YoY, equalling the record-low level from April 2003. Next months will probably see a gradual acceleration of price growth. This will be caused, among others, by a rise in housing-related costs after introduction of the so-called "rubbish segregation act", but mainly by the effect of extremely low statistical base from the second half of 2012. CPI growth and core inflation will be gradually increasing in subsequent quarters, however according to our forecasts they should remain below the inflation target (2.5%) until the end of 2014.



Source: CSO, NBP, BZ WBK

# Monetary policy watch

## Fragments of MPC communiqué after July's meeting

Available data indicate that global economic activity in the first half of 2013 remained low. However, economic growth continued to differ significantly across economies. A markedly better situation in the United States is accompanied by probably on-going recession in the euro area and the lack of visible rebound in some major developing countries, including China. Low global economic activity as well as the previously observed fall in commodity prices are conducive to low inflation in many countries. Signals of a possible tapering of monetary expansion by the Federal Reserve have recently led to a deterioration of sentiment in financial markets. This, in turn, resulted in some outflow of capital from emerging markets and depreciation of their currencies, including the zloty.

In Poland, data (...) indicate that growth in economic activity in Q2 remained weak. This development is also suggested by a number of economic climate indicators, though some of them have improved lately. The continuing low economic activity supports weak wage growth. At the same time, May 2013 saw a halt in the decline of employment in the corporate sector (...) Growth in loans to both households and enterprises continued to be low.

In the opinion of the Council, the incoming data confirm continued low economic growth in Poland accompanied by lack of wage and inflation pressures. The July projection, however, indicates that from the second half of 2013 – together with the expected improvement of global economic activity – a gradual acceleration of GDP growth can be expected, which will be conducive to rising inflation in the coming years. However, despite this, a risk of inflation running below the target in the medium term persists. Taking this into consideration, the Council decided to lower the NBP interest rates again.

The Council assesses that the significant reduction of NBP interest rates implemented since November 2012 supports economic recovery and limits the risk of inflation running below the NBP target in the medium term. The decision to lower NBP interest rates made at the current meeting **ends the loosening cycle of monetary policy**.

## This is the end...

- In July Poland's Monetary Policy Council cut interest rates by 25bps and declared that it has ended the monetary policy easing cycle. The Council assessed that "the significant reduction of NBP interest rates implemented since November 2012 supports economic recovery and limits the risk of inflation running below the NBP target in the medium term".
- Even though we were expecting July's cut to be the last in the cycle, we thought that the Council will keep the door ajar for further adjustment in autumn, acknowledging the scale of economic uncertainty. In our view such a stance would be supported by the new projection of inflation and GDP. The projection suggested that paths of both CPI and GDP will be lower (slightly, but still) than in March's projection (details below). Apparently, most MPC members decided that the total scale of rate cuts brought the official rates to adequate level, given current and expected economic situation. It seems that most MPC members are assessing the economic situation more optimistically, which was confirmed by their statements during the press conference (details on the next page).
- We hope that it will not turn out, like after March decision, that the cycle has to be reopened, if the upcoming data confirm the scenario from the NBP projection or even a worse one. However, this is not our baseline scenario, so we are expecting that we will see no more rate cuts this year. Next move will be a rate hike... at some point in the next year.
- In contrast to the MPC's optimism, the ECB and the Bank of England are more cautious. The Governors of both central banks highlighted asymmetric risk for GDP growth and unexpectedly declared that official rates will remain at ultra-low levels for "an extended period of time".

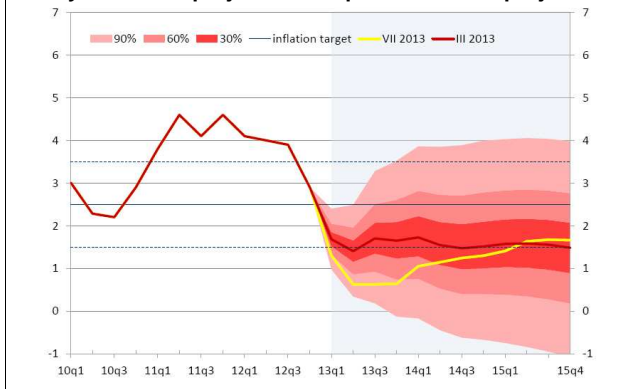
## NBP's projections in the subsequent Inflation reports

	GDP growth			
	Jul 12	Nov 12	Mar 13	Jul 13
2013	1.0-3.2	0.5-2.5	0.6-2.0	0.5-1.7
2014	1.7-4.2	1.1-3.5	1.4-3.7	1.2-3.5
2015	x	x	1.9-4.4	1.6-4.2
	CPI inflation			
	Jul 12	Nov 12	Mar 13	Jul 13
2013	2.0-3.4	1.8-3.1	1.3-1.9	0.6-1.1
2014	1.0-2.7	0.7-2.4	0.8-2.4	0.4-2.0
2015	x	x	0.7-2.4	0.7-2.4

## ... despite (optimistic) downward revision of CPI projection

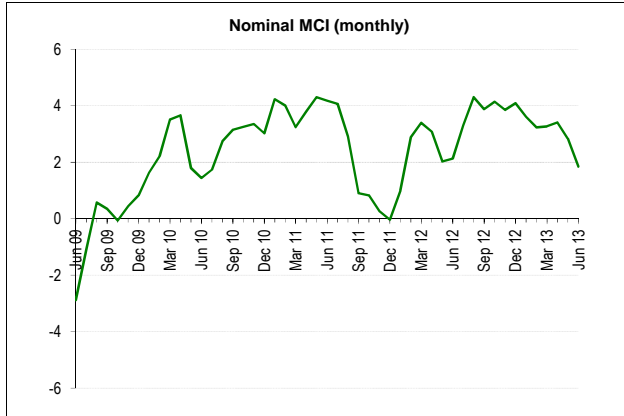
- The table beside is showing results of the July projection - according to the NBP GDP and CPI growth rates will fall in the given ranges with 50%-probability. As it can be seen, the projected economic growth is lower for 2013-15 (with mean of the range at 1.1%, 2.35%, 2.9%) and CPI inflation path shifted down for 2014-15 (with means of the range at 1.2% and 1.55%).
- As for the economic growth, our forecasts are similar, both as regards the trend (1.0%, 2.6%, 2.9%) and the breakdown – slow recovery of consumption and even slower recovery of investment.
- NBP's staff once again revised downward its prediction of potential GDP – to 2.6-2.7% from 2.8% in March's report (2.9-3.0% in the report one year ago). What is more, NAWRU rate also declined – from above 10% to ca. 9.5% for 2013-15.
- As regards inflation outlook, one should notice that CPI inflation path was lowered despite the fact that NBP assumed no VAT cut in 2014 (the government announced this in the updated Convergence Programme). The NBP assumes that core CPI excluding food and energy prices will remain at a very low level (ca. 1% or even below in 2014), which is due to low demand pressure and stable (but stronger than in March's projection) zloty exchange rate. The descriptive part of the *Inflation Report* clearly showed that decline in core CPI came from reduction in telecommunication prices, while the projection part did not focus on this factor. Still, if telecommunication price war ends in 2013, then this would markedly affect CPI in 2014 via base effects (details on page 6).
- Additionally, the projection of CPI inflation assumes a rather low growth of food prices (below 2%) till 2015. In general, we think (and we are not surprised that the MPC expressed similar view) that the inflation path shown by the NBP is overly optimistic.

## July's inflation projection compared to March projection



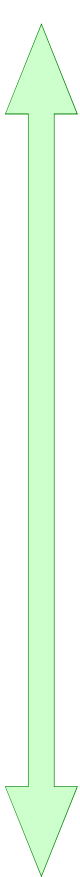
Source: CSO, Reuters, BZ WBK

# Restrictiveness of the Monetary Policy (Council)



## Zloty weakness relaxed monetary policy conditions

- As we expected, the nominal Monetary Conditions Index (MCI) recorded a clear drop in June, deepening the downward trend lasting since late 2012.
- A drop was caused mainly by a clear weakening of the Polish currency, which caused that EURPLN rate moved from below to above the long-term trend line. At the same time, a decrease of MCI was still supported by slight drop of WIBOR rates in anticipation of MPC's decision to cut NBP reference rate.
- The end of monetary easing cycle by the MPC will imply the end of WIBOR's downward trend, so changes in MCI will depend mainly on developments in FX market. Slight appreciation of the zloty at the end of the year should push the index upwards.



**Rzońca (1.32)**

**Winiecki (1.32)**

**Gilowska (1.36)**

**Każmierczak (1.28)**

**Głapiński (1.24)**

**Hausner (1.03)**

**Belka (0.95)**

**Zielińska-Głębocka (0.76)**

**Chojna-Duch (0.66)**

**Bratkowski (0.48)**

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.

## Ending the easing cycle as a sign of optimism

The shift to neutral mode in monetary policy was justified by the NBP Governor Marek Belka during the press conference with a number of factors: improvement of outlook for the Polish economy (“the worst is already behind us”), expected growth of CPI inflation (the low level of CPI inflation is caused by one-off factors – to large extent we agree with this statement) and the fact that the MPC already made considerable reductions in rates in this cycle and there is no room for further rate cuts taking into account current level of real interest rates. According to Belka, the official rates should remain unchanged “for a couple of months”, “at least till year-end”.

During the press conference, the NBP President Marek Belka said that “conclusion of monetary easing cycle is the exhibit of some optimism of the MPC and I would like it to be treated as a signal sent to the economy that the door to recovery is open”. Apparently, members of the MPC are more optimistic about path of the GDP growth presented in the latest projection and more pessimistic (they see more risk factors) about inflation.

During the July’s press conference it was stressed that by announcing the end of the easing cycle the Council aimed at „putting the expectations in order”. It seems that (at least lately) there has been some stabilisation of expectations observed (market was expecting that the Council will actually end the cycle at ca. 2.5%), but July’s decision and the statement triggered some volatility on the market – the zloty strengthened vs. the euro while FRA and short-term IRS (1-2Y) climbed temporarily by ca. 10bps. As regards the analysts’ expectations, extreme opinions may be found – further rate cuts by 50bps during next 6 months or quite fast hike (already in 1Q 2014).

## There is no need and no room for further easing

For already some time we have argued that comments of most hawkish MPC members (details on the axis to the left) do not shed any new light on the outlook for the monetary policy. Currently the opinions of most dovish members are of particular importance. If they talk about the end of the easing cycle, then gathering the majority for more rate cuts will be difficult in coming months (there even seems to be nobody to file in such a motion).

Andrzej Bratkowski said recently that the situation is ripe enough that we can say we are more optimistic about economic conditions. What is important, he added that a continuation of loosening cycle (cutting rates) might prove pro-cyclical.

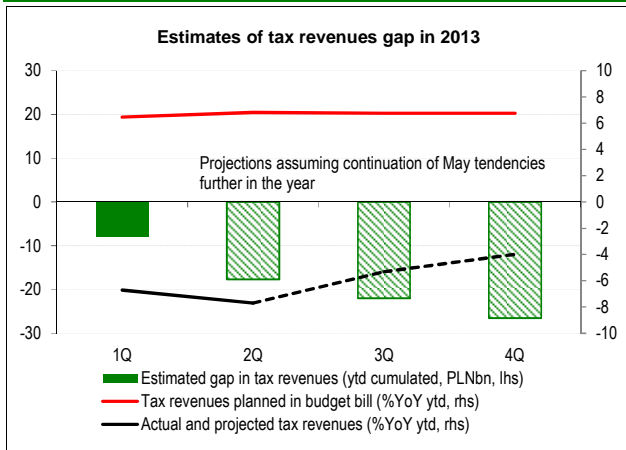
Elżbieta Chojna-Duch, who has until recently been the most dovish MPC member (until she did not support Bratkowski and Anna Zielińska-Głębocka voting for a 50bps rate cut in May) said after the July’s meeting straight: I see no chances for gathering a majority for more rate cuts. Though she is not too optimistic regarding the Polish economy (“the outlook for is not too good”), she is of the opinion that the MPC should now assess the effects of its earlier actions.

We share the opinion of the majority of the MPC that the Polish economy has probably passed the trough of the slowdown. Still, one should be aware that the scale of uncertainty regarding performance in coming quarters is very high (this was stressed recently by ECB and BoE). Thus, the announcement of the neutral stance by the MPC may be slightly premature. However, if the situation in the economy evolves in line with our forecasts, then the MPC should not have a reason to quit the commitment made in July.

Source: NBP, BZ WBK



## Fiscal policy watch

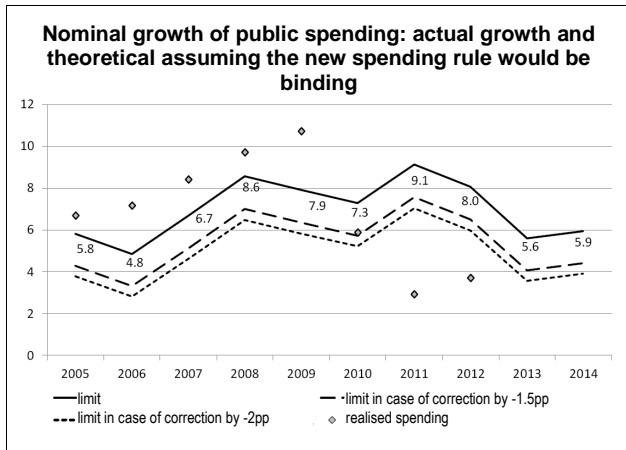


### Is government closer to budget amendment?

According to our estimates, assuming growth rate of tax revenues at the same level as in May, the shortfall in tax revenues might amount to PLN25bn. It might be partly balanced by non-tax revenues (profit from the central bank, higher level of revenues from dividends) and lower spending. It seems that general government deficit will be higher, but the main question is if the central budget deficit will also widen. As we highlighted in June's MACROscope, there is a technical (legal) difficulty to amend the budget this year, as the Polish debt/GDP ratio was above 50% in 2011. However, the government officials have been recently repeating that the budget amendment is quite possible.

Moreover, the amendment to the Public Finance Act, which will implement the new spending rule (see details below), would also introduce changes to austerity measures, which in some way will replace mandatory limits on spending if debt/GDP ratio exceeds the safety level of 50%. Safety limits at 55% and 60% of GDP will remain valid. For us, it is still unclear whether such a change in the Public Finance Act would work for deficit/revenues limit already in 2013. Even if the answer is yes, there is still problem with the timetable – firstly the full amendment of the Public Finance Act and then budget amendment?

The main goal of the new spending rule is to smooth the path of public spending over the economic cycle, i.e. make limit of budget spending of the whole public finance conditional on the medium term path of economic growth. Ultimately, the spending rule is supposed to be anti-cyclical, i.e. it should prevent public spending from growing too quickly in the years of economic booms and prevent too severe cuts in spending during economic slowdowns. According to the Ministry "the purpose of the proposed fiscal rule is to provide more stability in public finances in Poland" as current system does not guarantee sufficient fiscal discipline.



### Changes in pension system

Two ministries (of Finance and Labour) presented three recommendations for changes in the structure of the Polish pension system, in particular in the capital pillar. The first recommendation assumes transfer of Treasury portfolio held by pension funds (OFE) to the public sector. As a result, liquidity of bond market would decrease significantly, as the second biggest investor on the debt market (with portfolio of PLN117bn at the end of May – see table for more details) would disappear. It will also cause a significant change in Polish debt ownership structure, increasing the role of non-residents. As a result it would increase the dependence of the Polish bond market on changes in global sentiment.

Two other options of the ministries propose a free choice for people (public or private pillar) and the effect on bond/equity would depend on how many people move to the public system. In all recommendations it is planned to decrease debt-to-GDP ratio by the value of transferred assets from OFE to public sector.

**Pension funds' T-bonds portfolio (in PLN m, end of May)**

	OK	PS	DS	WS & other	WZ & IZ	Total
2013	127		295	405		826
2014	1,332	1,696				3,028
2015	223	4,776	2,018		5,614	12,630
2016		14,332			6,001	20,333
2017		4,606	2,233		6,893	13,732
2018		15,604			9,466	25,071
2019			7,881			7,881
2020			4,779			4,779
2021			5,868		8,407	14,274
2022				2,025		2,025
2023			2,080		3,903	5,983
2024+				2,890	3,296	6,186
<b>Total</b>	<b>1,682</b>	<b>41,014</b>	<b>25,152</b>	<b>5,321</b>	<b>43,580</b>	<b>116,748</b>

### Eyes on future Fed's monetary policy

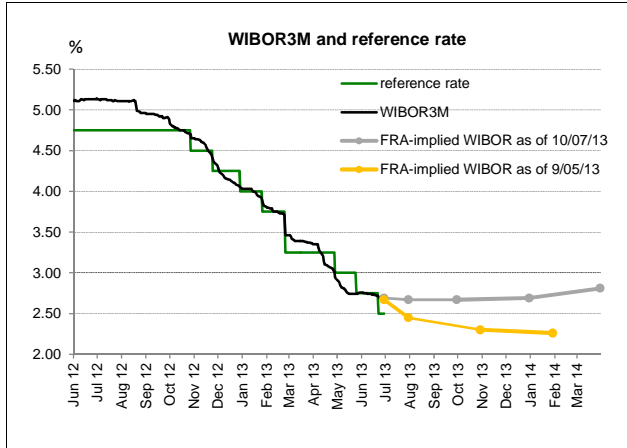
In June the key event for global financial market was FOMC meeting. The Fed's announcement of the 'tapering' of its monetary stimulus later this year, with possible exit in mid-2014 caused a significant sell-off across the global debt markets. It also fuelled increase in CDS. What is more, peripheral debt markets were under pressure of unstable political situation in Portugal. However, the end of June brought some rebound after the sell-off.

Situation on core market will remain strongly dependent on future Fed's monetary policy outlook (market is pricing-in that Fed starts tapering in September). In coming weeks we expect relatively high volatility on the market, in particular in the time of macro data releases. However, the ECB's accommodative monetary policy should cause that yield's increase will be moderate.

	Spread vs Bunds (10Y) in bps			CDS (5Y USD)		
	10.07	change since 10.06.13	change since 31.12.12	10.07	change since 10.06.13	change since 31.12.12
Poland	227	-6	-14	94	17	15
Czech	47	-7	-7	66	3	3
Hungary	407	-41	-84	305	-2	36
Greece	947	138	-106	0	0	0
Spain	318	19	-81	267	23	-21
Ireland	230	-19	-89	162	6	-54
Portugal	512	55	-57	460	111	23
Italy	281	11	-41	263	7	-11
Germany	-	-	-	32	4	-7

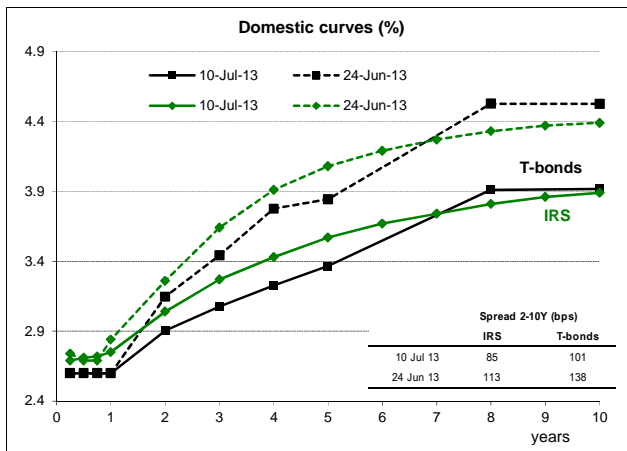
Source: CSO, NBP, MF, Reuters, BZ WBK

# Interest rate market



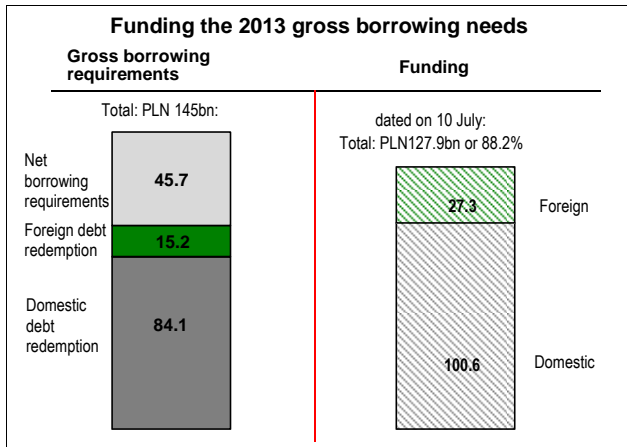
## Longer FRAs pricing-in future rate hikes

- Last month the June's rate cut by the MPC and still weak macro data have supported downward trend of WIBOR rates with maturities up to 3M. The scope of decline was significantly lower in comparison with previous months. What is more, June brought a gradual increase of WIBOR rates between 6M and 12M (by 5-6bps in monthly terms).
- Changes in expectations on future interest rate path were more visible on the FRA market. While FRA rates on the short term were still pricing-in rate cut in July, rates for longer tenors (starting from 9x12) were discounting hikes. This tendency has intensified after rates reduction in July due to the MPC's announcement that the Council ended the easing cycle and switched to (informal) neutral bias. Currently FRA curve shows that the first rate hike might take place at the turn Q1 and Q2 2014.
- We expect WIBOR rates to stabilise near current levels, with possibility of further decline in WIBOR 1M. The June CPI reading (our forecast at 0.3%YoY) and data from real economy should support such a scenario.

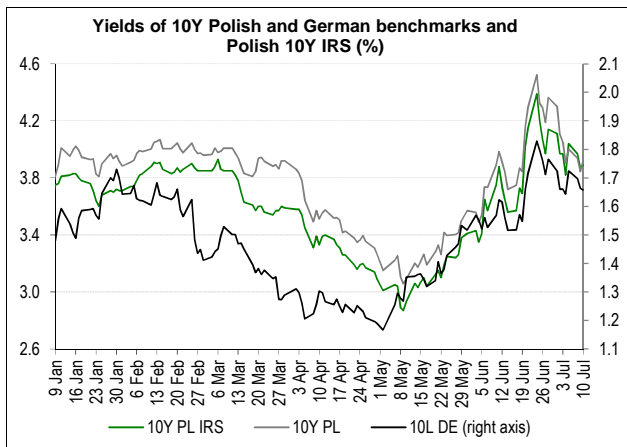


## Some rebound after significant sell-off

- In June the abrupt upward adjustment seen on the IRS and bond yield curve was a response to global trends. As a consequence, yield of 10Y benchmark increased temporarily to 4.60%, while IRS 10Y to ca. 4.40%. It came from foreign capital outflows due to worries that Fed might start tapering very quickly. Consequently, the domestic curves (both IRS and T-bond) became even more steep, with the short-end relatively well supported by rate cut expectations and longer-dated maturities under heavy selling pressure, coming mostly from off-shore accounts. 2-10Y spread widened to 138bps for T-bonds and to 113bps for IRS. Poland's Ministry of Finance predicts that in June foreign investors holdings decreased by ca. 2% (or PLN4bn). It is not a significant outflow, which suggests that non-residents used the sell-off as an opportunity to accumulate Polish assets at favourable prices.
- While waiting for the July's MPC outcome, the interest rate market rebounded after earlier significant weakening. Negative reaction to the statement that the MPC ended its easing cycle was only short-lived. Market sentiment improved thanks to more dovish than expected ECB's rhetoric. The ECB said that monetary policy will remain accommodative for "as long as needed" (with possibility of decline in deposit rate below zero). As a result both rate of IRS 10Y and yield of 10Y benchmark declined below 4%. Notwithstanding, yields on the long end have stayed well above levels before June's meeting.



- In line with earlier announcement, the Ministry of Finance significantly limited issuance plan for Q3 to three regular auctions, with conditional auction in July-August period (depending on further market stabilisation and declared high demand by investors). In September the Ministry does not exclude offering T-bonds on switch tender. As for the foreign financing, the Ministry of Finance plans to be more active on international market, receiving loans from international financial institutions worth up to €2.0bn.

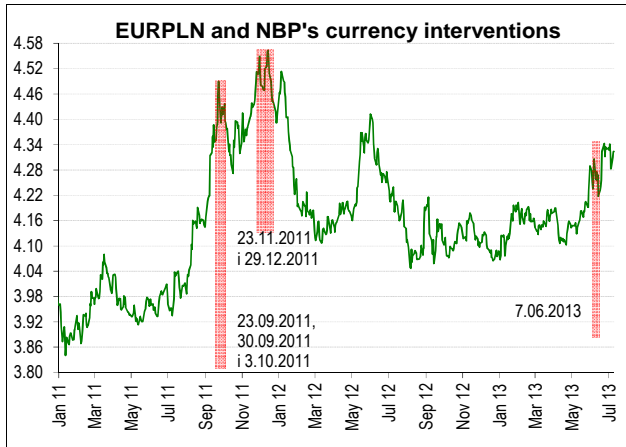


## Macro data and central banks in the centre of attention

- The interest rate market will remain strongly vulnerable to external factors as market has been trading on news about QE3 tapering. If global bonds sell-off stops, we expect consolidation at the elevated level in 5Y and 10Y sectors, or even some rebound. We expect increase in volatility on the market during macro data releases. Lack of Treasury Securities supply on the primary market will be additional supporting factor – in July ca. PLN10bn will be transferred to the market due to OK0713 redemptions and coupon payments from WZ series.
- The front end of curves should be relatively stable, supported by carry trade. The CPI inflation data for June might bring additional impulse to strengthen debt securities up to 3Y.

Source: NBP, Reuters, BZ WBK

# Foreign exchange market

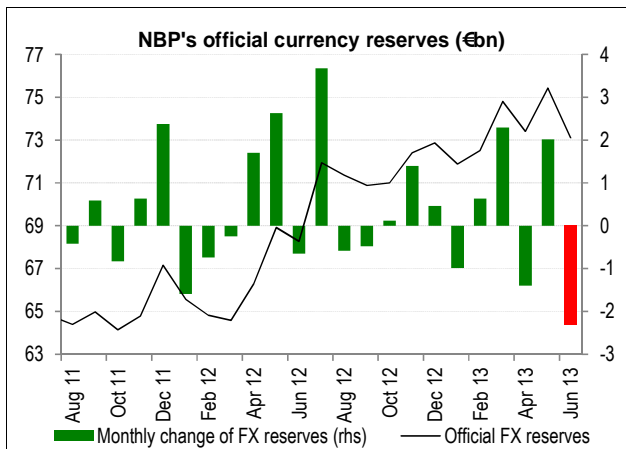


## Next wave of zloty's weakening driven by global factors...

Just like at the turn of May and June, also the following weeks of the past month and early July brought sudden changes on the Polish FX market. Depreciation of the domestic currency was again fuelled by rhetoric of the Fed. The US central bank signalled after the June's meeting that if the economy picks up gradually in line with Fed's forecasts, then the QE3 may be terminated until mid-2014 and trimmed already this year. This statement triggered a sudden and deep correction on the global market (prices of stock, bonds and commodities plunged) and this had also clear impact on the zloty. The EURPLN easily broke previous peak at 4.32 and reached nearly 4.37. Since mid-June the domestic currency lost 0.2-0.25PLN vs. the dollar, the British pound and the Swiss franc. After the MPC announced the end of the easing cycle, the zloty recovered slightly, the EURPLN reached 4.26 temporarily.

## ... saw a reaction of Polish authorities

The increase of the EURPLN above 4.30 was followed by an intervention of the central bank, for the first time since late 2011 (chart shows the last few interventions of the NBP). In 2011, after the central bank first entered the market the zloty started to depreciate again. Restart of the upward trend of the EURPLN prompted the NBP to take further actions. However, it is worth to notice that two years ago other factors could have been more important (willingness to achieve more convenient exchange rate at the end of the year used to calculate the value of foreign debt). This was also a reason for the state-owned BGK bank to be active on the market – it was selling euros held by the state. BGK was again seen on the market also in June this year when the Ministry of Finance decided to exchange euros on the market in order to stabilise the zloty after significant weakening. It has to be admitted, that so far this works, EURPLN hovers around 4.30. The second chart shows that NBP's currency reserves declined by €2.3bn in June vs. May – to large extent this could have been due to intervention carried last month.

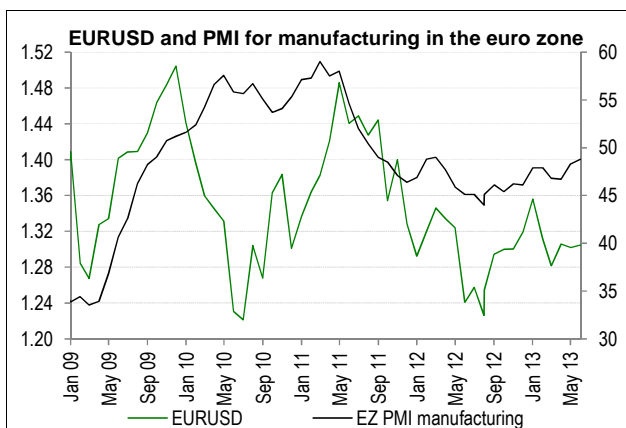
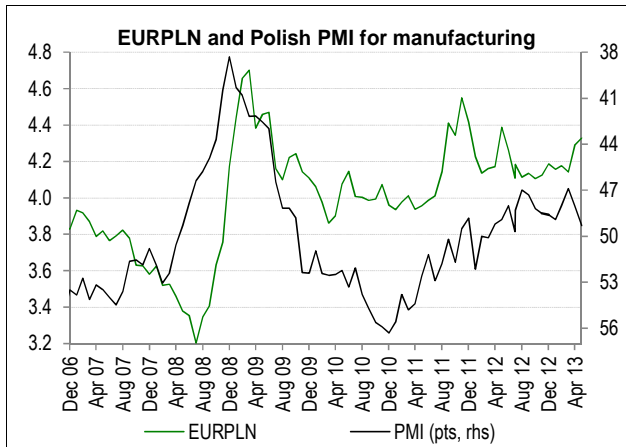


We expect the EURPLN to remain at elevated level during the summer months, around 4.30. The outlook of termination of the QE3 will constrain the room for zloty's appreciation. On the other hand, the potential for more weakening is likely to be constrained by possibility of more NBP interventions (or suggestions of such an option), likely activity of BGK and the fact that the MPC ended the easing cycle. We still see room for zloty's appreciation in the next quarters amid gradual improvement in global and Polish economy (PMI for manufacturing in Poland and the euro zone picked up again in June).

## Euro under pressure

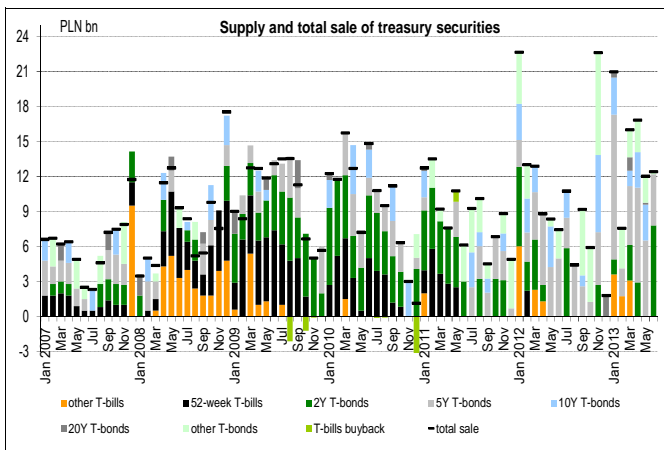
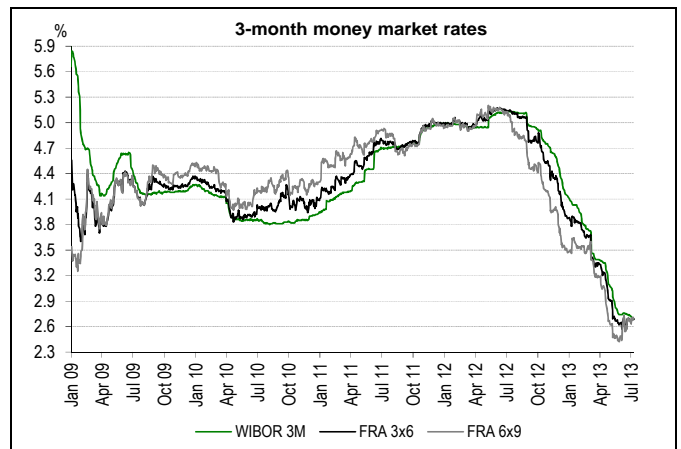
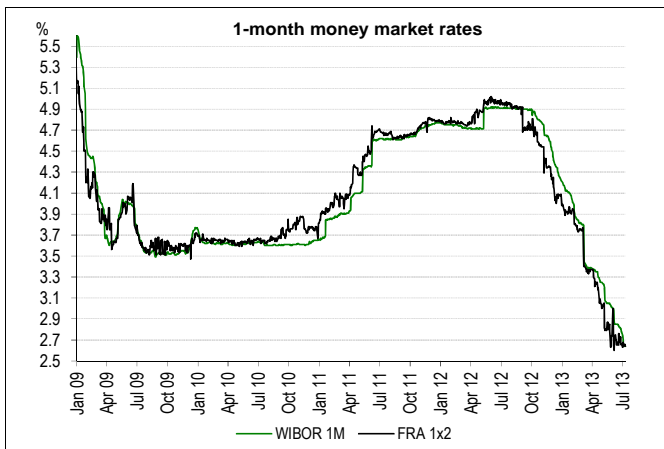
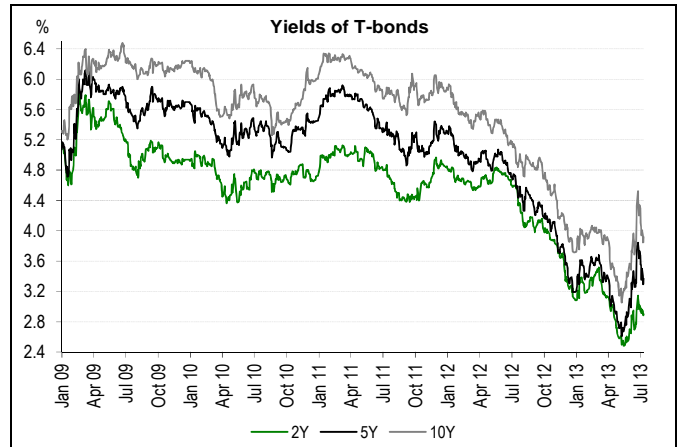
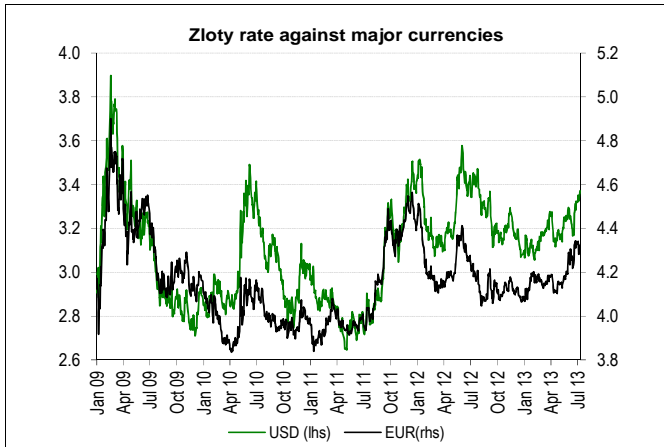
Since mid-June – that is since last Fed's meeting – the EURUSD has stayed in a very strong downward trend. The pressure on the single currency is put by investors' worries over termination of the QE3 and dovish signals from the ECB. Consequently, the EURUSD plunged to ca. 1.275 (vs. over 1.34 before Fed's meeting), only marginally above low from mid-May. Despite such a strong drop, the average EURUSD reached 1.32 in June – in line with our forecast.

We see a potential for at least partial recovery of the single currency vs. the dollar. PMI for the euro zone's manufacturing increased in June for the second month in a row and reached highest level since February 2012. Even if recent data disappoint, signals from other regions of the euro zone give hope that the euro zone has passed the worst period of the slowdown. Additionally, it is worth to notice that even after tapering the QE3, the Fed's balance sheet will continue to expand while in case of the ECB the opposite trend is likely to be observed and this should also support the euro vs. the dollar. In our opinion the EURUSD will be rising gradually during the summer months and will reach ca. 1.30 on average in this period.



Source: CSO, NBP, Reuters, Bloomberg, BZ WBK

# Market monitor



### Treasury bill auctions in 2012/2013 (PLNm)

Auction date	OFFER	DEMAND/SALE
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
07.01.2013	20-week: 2000-3000	10967/3602
04.02.2013	20-week: 1000-2000	7728/1747
04.03.2013	25-week: 2000-3000	7324/3084

\* based on data of the Ministry of Finance

### Treasury bond auctions in 2012/2013 (PLNm)

month	date	First auction			Second auction			Switch auction		
		T-bonds	offer		date	T-bonds	offer	date	T-bonds	offer
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
December								6.12	OK0113/PS0413	WS
January '13	3.01	DS1023/WS0429	3000-5000	3664.3	23.01	OK0715/PS0418	6000-9000 13693.8			
February	7.02	PS0418/WZ0117	4000-6000	5806.5	13.02	OK0715/WZ0124	3000-5000 4584.7			
March	20.03	OK/PS/WZ	2000-6000					7.03	PS0413/OK0713/DS1013	DS/WS/WZ
April	11.04	DS1023/WZ0124	3000-5000	5029.1	23.04	OK/WZ/PS	5000-10000 11788.6			
May	9.05	PS0718	3500-5500	6498.0	16.05	DS/WZ/WS	2000-6000 5505.4			
June	6.06	PS0718/WZ0119	3000-5000	4606.5				19.06	OK0713	OK
July	23.07	conditional auction - offer depending on								
August	7.08	the market situation and demand								
September	5.09	offer depending on the market situation								

\* with supplementary auction, \*\* primary auction, \*\*\* demand/sale,

Source: MF, Reuters, BZ WBK

## Economic calendar

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
<b>8 July</b> DE: Exports (May) EZ: Sentix index (Jul) DE: Industrial output (May)	<b>9</b>	<b>10</b> CN: Trade balance (Jun) US: FOMC minutes	<b>11</b>	<b>12</b> <b>PL: Balance of payments (May)</b> <b>PL: Money supply (May)</b> EZ: Industrial output (May) US: Flash Michigan (Jul)
<b>15</b> <b>PL: CPI (Jun)</b> US: Retail sales (May)	<b>16</b> <b>PL: Core inflation (Jun)</b> <b>PL: Wages and employment (Jun)</b> DE: ZEW index (Jul) EZ: HICP (Jun) US: Core CPI (Jun) US: Industrial output (Jun)	<b>17</b> <b>PL: Industrial output (Jun)</b> <b>PL: PPI (Jun)</b> US: House starts (Jun) US: Building permits (Jun) US: Fed Beige Book	<b>18</b> US: Philly Fed index (Jul)	<b>19</b>
<b>22</b> US: Home sales (Jun)	<b>23</b> <b>PL: Retail sales and unemployment rate (Jun)</b>	<b>24</b> DE: Flash PMI - manufacturing (Jul) EZ: Flash PMI - manufacturing (Jul) CN: Flash PMI - manufacturing (Jul) US: New home sales (Jun)	<b>25</b> DE: Ifo index (Jul) GB: Flash GDP (Q2) US: Durable goods orders (Jun)	<b>26</b> US: Flash Michigan (Jul)
<b>29</b> US: Pending home sales (Jun)	<b>30</b> S&P/Case-Shiller (May) US: Consumer confidence index (Jul)	<b>31</b> <b>PL: Inflation expectations (Jul)</b> EZ: Flash HICP (Jul) US: ADP report (Jul) US: Advance GDP (Q2) US: Fed decision	<b>1 August</b> <b>PL: PMI – manufacturing (Jul)</b> DE: PMI – manufacturing (Jul) EZ: PMI – manufacturing (Jul) CN: PMI – manufacturing (Jul) US: ISM – manufacturing (Jul) EZ: ECB decision GB: BoE decision	<b>2</b> US: Personal income (Jun) US: Consumer spending (Jun) US: Non-farm payrolls (Jul) US: Unemployment rate (Jul) US: Industrial orders (Jun)
<b>5</b> DE: PMI – services (Jul) EZ: PMI – services (Jul) EZ: Retail sales (Jun) US: ISM – services (Jul)	<b>6</b> DE: Industrial orders (Jun)	<b>7</b> DE: Industrial output (Jun)	<b>8</b> DE: Exports (Jun)	<b>9</b> CZ: CPI (Jul)
<b>12</b> <b>PL: Balance of payments (Jun)</b>	<b>13</b> HU: CPI (Jul) DE: ZEW index (Aug) EZ: Industrial output (Jun) US: Retail sales (Jun)	<b>14</b> <b>PL: CPI (Jun)</b> <b>PL: Money supply (Jun)</b> <b>PL: Flash GDP (Q2)</b> DE: Flash GDP (Q2) EZ: Flash GDP (Q2) CZ: Flash GDP (Q2) HU: Flash GDP (Q2)	<b>15</b> <b>PL: Market holiday</b> US: CPI (Jul) US: Industrial output (Jul) US: Philly Fed index (Aug)	<b>16</b> <b>PL: Core inflation (Jul)</b> EZ: HICP (Jul) US: House starts (Jul) US: Building permits (Jul) US: Flash Michigan (Aug)
<b>19</b> <b>PL: Wages and employment (Jul)</b>	<b>20</b> <b>PL: Industrial output (Jul)</b> <b>PL: PPI (Jul)</b>	<b>21</b> US: Home sales (Jul) US: FOMC minutes	<b>22</b> <b>PL: MPC minutes</b> DE: Flash PMI - manufacturing (Aug) EZ: Flash PMI - manufacturing (Aug) CN: Flash PMI - manufacturing (Aug)	<b>23</b> US: New home sales (Jul)
<b>26</b> US: Durable goods orders (Jul)	<b>27</b> DE: Ifo index (Aug) HU: Central bank decision S&P/Case-Shiller (Jun) US: Consumer confidence index (Aug)	<b>28</b> US: Pending home sales (Jul)	<b>29</b> US: Preliminary GDP (Q2)	<b>30</b> <b>PL: GDP (Q2)</b> <b>PL: Inflation expectations (Aug)</b> EZ: Flash HICP (Aug) US: Personal income (Jul) US: Consumer spending (Jul) US: Michigan index (Aug)
<b>2 September</b> <b>PL: PMI – manufacturing (Aug)</b> DE: PMI – manufacturing (Aug) EZ: PMI – manufacturing (Aug) CN: PMI – manufacturing (Aug)	<b>3</b> US: ISM – manufacturing (Aug)	<b>4</b> <b>PL: MPC decision</b> DE: PMI – services (Aug) EZ: PMI – services (Aug) EZ: Preliminary GDP (Q2) EZ: Retail sales (Jul) US: Fed Beige Book	<b>5</b> EZ: ECB decision GB: BoE decision DE: Industrial orders (Jul) US: ADP report (Aug) US: Industrial orders (Jul)	<b>6</b> DE: Exports (Jul) DE: Industrial output (Jul) CZ: Industrial output (Jul) US: Non-farm payrolls (Aug) US: Unemployment rate (Aug)
<b>9</b> CZ: CPI (Aug)	<b>10</b>	<b>11</b> <b>PL: Balance of payments (Jul)</b>	<b>12</b> EZ: Industrial output (Jul)	<b>13</b> <b>PL: CPI (Aug)</b> <b>PL: Money supply (Aug)</b> US: Retail sales (Aug) US: Flash Michigan (Sep)

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

## Economic data and forecasts

### Monthly economic indicators

		Jun 12	Jul 12	Aug 12	Sep 12	Oct 12	Nov 12	Dec 12	Jan 13	Feb 13	Mar 13	Apr 13	May 13	Jun 13	Jul 13
PMI	pts	48.0	49.7	48.3	47.0	47.3	48.2	48.5	48.6	48.9	48.0	46.9	48.0	49.3	49.5
Industrial production	%YoY	1.0	5.2	0.2	-4.8	4.7	-0.5	-9.6	0.4	-2.1	-2.9	2.8	-1.8	1.2	5.2
Construction production	%YoY	-5.2	-8.7	-5.1	-17.9	-3.6	-5.4	-24.9	-16.1	-11.4	-18.5	-23.1	-27.5	-20.1	-11.4
Retail sales <sup>a</sup>	%YoY	6.4	6.9	5.8	3.1	3.3	2.4	-2.5	3.1	-0.8	0.1	-0.2	0.5	1.5	1.2
Unemployment rate	%	12.3	12.3	12.4	12.4	12.5	12.9	13.4	14.2	14.4	14.3	14.0	13.5	13.2	13.1
Gross wages in enterprises sector <sup>a</sup>	%YoY	4.3	2.4	2.7	1.6	2.8	2.7	2.4	0.4	4.0	1.6	3.0	2.3	2.0	2.4
Employment in enterprises sector	%YoY	0.1	0.0	0.0	0.0	0.0	-0.3	-0.5	-0.8	-0.8	-0.9	-1.0	-0.9	-0.9	-0.8
Export (€)	%YoY	0.6	10.9	4.8	0.7	17.7	9.2	-2.1	6.4	5.3	-1.2	12.3	6.1	7.2	7.0
Import (€)	%YoY	-5.3	3.3	-2.1	-1.8	9.2	4.6	-1.8	1.2	-5.7	-1.6	3.6	-2.0	1.6	1.0
Trade balance	EURm	-372	-389	-109	57	286	-249	-1 154	-108	452	-484	601	150	289	342
Current account balance	EURm	-1 092	-973	-868	-1 448	-729	-1 478	-1 120	-1 335	-620	-104	468	-145	19	-392
Current account balance	% GDP	-4.6	-4.4	-4.1	-4.1	-3.7	-3.7	-3.5	-3.3	-3.1	-2.9	-2.6	-2.6	-2.3	-2.1
Budget deficit (cumulative)	PLNbn	-21.1	-24.3	-22.9	-21.1	-34.1	-30.4	-30.4	-8.4	-21.7	-24.4	-31.7	-30.9	-26.0	-26.3
Budget deficit (cumulative)	% of FY plan	60.2	69.6	65.5	60.4	97.5	86.9	86.9	23.7	60.9	68.6	89.3	87.0	73.1	73.9
CPI	%YoY	4.3	4.0	3.8	3.8	3.4	2.8	2.4	1.7	1.3	1.0	0.8	0.5	0.3	0.7
CPI excluding prices of food and energy	%YoY	2.3	2.3	2.1	1.9	1.9	1.7	1.4	1.4	1.1	1.0	1.1	1.0	0.9	1.0
PPI	%YoY	4.4	3.6	3.0	1.8	1.0	-0.1	-1.1	-1.2	-0.3	-0.7	-2.1	-2.5	-1.6	-1.2
Broad money (M3)	%YoY	11.0	11.0	9.8	7.6	8.0	5.7	4.5	4.4	5.5	6.6	7.4	6.5	6.5	6.2
Deposits	%YoY	10.4	10.9	9.5	7.9	8.1	5.8	4.7	5.0	5.2	6.6	7.1	6.0	6.0	5.9
Loans	%YoY	10.7	7.5	7.1	5.4	5.4	2.3	2.3	3.6	3.7	3.5	2.3	1.4	2.3	3.0
EUR/PLN	PLN	4.30	4.19	4.09	4.14	4.11	4.13	4.10	4.14	4.17	4.16	4.14	4.18	4.28	4.33
USD/PLN	PLN	3.43	3.41	3.30	3.22	3.17	3.22	3.12	3.11	3.12	3.21	3.18	3.22	3.25	3.32
CHF/PLN	PLN	3.58	3.49	3.41	3.42	3.40	3.43	3.39	3.37	3.39	3.39	3.39	3.36	3.47	3.51
Reference rate <sup>b</sup>	%	4.75	4.75	4.75	4.75	4.75	4.50	4.25	4.00	3.75	3.25	3.25	3.00	2.75	2.50
WIBOR 3M	%	5.12	5.13	5.10	4.95	4.82	4.62	4.26	4.03	3.80	3.48	3.29	2.86	2.74	2.69
Yield on 52-week T-bills	%	4.75	4.64	4.58	4.53	4.42	4.14	3.94	3.62	3.56	3.30	3.06	2.64	2.60	2.95
Yield on 2-year T-bonds	%	4.71	4.46	4.12	4.09	3.94	3.66	3.23	3.25	3.36	3.26	2.89	2.55	2.86	2.90
Yield on 5-year T-bonds	%	4.85	4.58	4.43	4.28	4.12	3.78	3.35	3.46	3.56	3.46	3.03	2.80	3.43	3.45
Yield on 10-year T-bonds	%	5.24	4.99	4.88	4.85	4.59	4.21	3.87	3.91	4.00	3.93	3.50	3.28	3.95	4.00

Source: CSO, NBP, Finance Ministry, BZ WBK own estimates; <sup>a</sup> in nominal terms, <sup>b</sup> at the end of period

## Quarterly and annual economic indicators

		2011	2012	2013	2014	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14
GDP	PLNbn	1 523.2	1 595.3	1 628.4	1 697.6	377.8	396.6	401.2	452.9	392.5	414.2	419.2	471.7
GDP	%YoY	4.5	1.9	1.0	2.5	0.5	0.8	1.0	1.6	2.2	2.6	2.6	2.6
Domestic demand	%YoY	3.6	-0.2	-0.8	1.8	-0.9	-1.3	-0.4	-0.7	0.6	1.5	2.2	2.8
Private consumption	%YoY	2.6	0.8	0.6	1.9	0.0	0.5	0.9	1.2	1.5	1.8	2.0	2.2
Fixed investments	%YoY	8.5	-0.8	-3.5	3.0	-2.0	-5.0	-4.0	-3.0	-2.0	2.0	4.0	5.0
Industrial production	%YoY	7.7	1.0	1.7	5.0	-2.0	0.7	2.3	5.2	5.5	5.3	5.5	4.0
Construction production	%YoY	12.3	-1.0	-15.2	6.4	-15.6	-23.6	-12.8	-10.3	-3.0	6.8	9.9	7.8
Retail sales <sup>a</sup>	%YoY	11.2	6.0	1.4	5.8	0.9	0.7	1.7	2.4	4.6	5.9	5.3	7.2
Unemployment rate <sup>b</sup>	%	12.5	13.4	13.9	13.5	14.3	13.2	13.3	13.9	14.4	13.3	13.1	13.5
Gross wages in national economy <sup>a</sup>	%YoY	5.2	3.7	2.6	4.0	2.6	3.2	2.3	2.4	2.9	3.6	4.8	4.7
Employment in national economy	%YoY	0.6	0.0	-0.6	0.3	-0.7	-0.7	-0.6	-0.3	0.1	0.3	0.4	0.5
Export (€)	%YoY	12.1	4.6	7.0	11.0	3.5	8.5	6.0	10.0	11.0	11.0	11.0	11.0
Import (€)	%YoY	12.2	1.1	1.3	8.9	-1.9	1.0	2.0	4.0	7.0	8.0	9.5	11.0
Trade balance	EURm	-10 059	-5 313	3 054	6 581	-139	1 039	1 027	1 127	1 332	2 286	1 713	1 251
Current account balance	EURm	-17 977	-13 332	-4 035	-589	-2 055	342	-1 326	-997	12	916	-542	-974
Current account balance	% GDP	-4.9	-3.5	-1.0	-0.1	-2.8	-2.1	-1.6	-1.0	-0.5	-0.4	-0.2	-0.1
General government balance	% GDP	-5.0	-3.9	-3.9	-3.5	-	-	-	-	-	-	-	-
CPI	%YoY	4.3	3.7	1.0	1.9	1.3	0.5	0.9	1.3	1.7	2.0	2.0	2.0
CPI <sup>b</sup>	%YoY	4.6	2.4	1.4	2.0	1.0	0.3	1.1	1.4	1.8	2.2	2.0	2.0
CPI excluding food and energy prices	%YoY	2.4	2.2	1.2	1.8	1.2	1.0	1.1	1.4	1.8	1.8	1.9	1.9
PPI	%YoY	7.6	3.4	-1.4	1.0	-0.7	-2.1	-1.4	-1.3	-0.4	0.9	1.1	2.2
Broad money (M3) <sup>b</sup>	%YoY	12.5	4.5	6.0	5.1	6.6	6.5	6.3	6.0	5.4	5.2	6.1	5.1
Deposits <sup>b</sup>	%YoY	11.7	4.7	5.6	5.7	6.6	6.0	5.9	5.6	4.8	5.2	6.2	5.7
Loans <sup>b</sup>	%YoY	14.4	1.2	2.3	4.4	3.5	2.3	1.7	2.3	2.5	2.7	3.6	4.4
EUR/PLN	PLN	4.12	4.19	4.22	4.06	4.16	4.20	4.31	4.20	4.14	4.08	4.04	3.99
USD/PLN	PLN	2.96	3.26	3.19	2.96	3.15	3.22	3.28	3.11	3.04	2.97	2.93	2.89
CHF/PLN	PLN	3.34	3.47	3.42	3.28	3.38	3.41	3.48	3.39	3.34	3.29	3.26	3.22
Reference rate <sup>b</sup>	%	4.50	4.25	2.50	3.00	3.25	2.75	2.50	2.50	2.50	2.50	2.75	3.00
WIBOR 3M	%	4.54	4.91	3.05	2.89	3.77	2.96	2.70	2.74	2.75	2.75	2.82	3.24
Yield on 52-week T-bills	%	4.51	4.48	3.10	3.67	3.49	2.77	3.00	3.13	3.37	3.60	3.78	3.92
Yield on 2-year T-bonds	%	4.81	4.30	3.01	3.62	3.29	2.77	2.95	3.03	3.32	3.55	3.73	3.87
Yield on 5-year T-bonds	%	5.44	4.53	3.50	4.14	3.49	3.09	3.62	3.82	3.90	4.05	4.20	4.42
Yield on 10-year T-bonds	%	5.98	5.02	3.97	4.68	3.95	3.58	4.10	4.25	4.47	4.62	4.75	4.87

Source: CSO, NBP, Finance Ministry, BZ WBK own estimates; <sup>a</sup> in nominal terms, <sup>b</sup> at the end of period

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