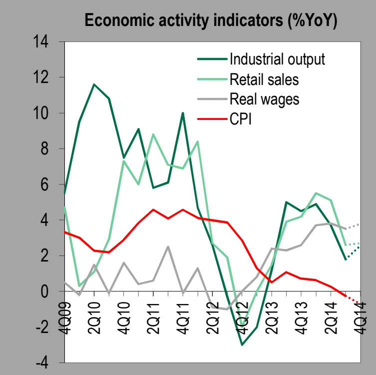
Bank Zachodni WBK
Grupa Santander

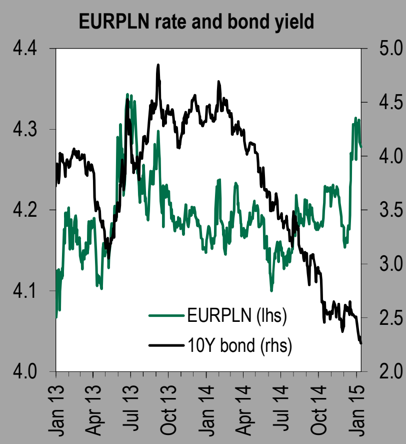
MACROscope

Polish Economy and Financial Markets

January 2015

Economy growing, prices falling





Recent data releases from Poland suggested, in our view, that the GDP growth slowdown in the final quarter of 2014 was still relatively mild. We have raised our GDP forecasts slightly, to 3.1%YoY in 4Q14 and 3.3% on average for the full year (from 2.9% and 3.2%, respectively). We expect the growth slowdown to be temporary. Most of the risks continue to be external, with a number of question marks hanging over the Euro zone economy and considerable difficulty in forecasting further developments in Ukraine. Domestic demand became an important driver of GDP growth last year and is likely to remain so in 2015, offsetting a large part of the negative impact of faltering external demand. The improvement in the labour market should continue, with job creation and notable growth in real wages (supported by productivity increases).

Inflation has dropped further and further below zero. According to our forecast, CPI fell to nearly -1%YoY in December and may fall even more at the start of 2015, dragged down mainly by plummeting fuel prices and cheap food. We think inflation will remain in sub-zero territory until the end of 3Q15. While we see lower prices of basic goods as strongly supportive for private consumption, as they leave a substantial amount of money in households' pockets for purchases of discretionary goods and services, the idea that headline CPI could be deflationary for more than a year, and may not return to the 2.5% target before 2H16, will create pressure for the central bank to ease again.

The Monetary Policy Council (MPC) kept interest rates on hold in November and December. However, given the inflation outlook, we think additional easing is quite possible. This looks unlikely to be at the start of the year, as recent economic data (still quite decent) and the year-end zloty depreciation offer little to help convince the majority that additional easing is needed. The Council is deeply divided, but we think the scale and the length of deflation will surprise the central bankers and may tip the balance towards more easing, probably in March, when the new NBP projections are due to be released. We expect a 25bp cut. There is a downside risk to this scenario, but we do not see easing of more than 50bp in 2015E.

The short end of the yield curve should remain quite stable in the near term, as deeper deflation should be offset by steady interest rates and still-solid economic data. Meanwhile, the belly and long end may drop further, on anticipation of quantitative easing by the ECB. Assuming the ECB launches its additional stimulus in January, a correction is possible at the end of the month. The zloty's depreciation at the end of December was excessive, in our view, exacerbated by extremely low liquidity. Quite decent macro data and no rate cut in January, plus hopes of QE, should support the zloty versus the euro. Meanwhile, USDPLN may increase further as the downward trend in EURUSD is probably not over yet.

In this issue:

Financial market on 13 January 2015:

NBP deposit rate	1.00	WIBOR 3M	2.04	EURPLN	4.2802
NBP reference rate	2.00	Yield on 2-year T-bond	1.66	USDPLN	3.6252
NBP lombard rate	3.00	Yield on 5-year T-bond	1.89	CHFPLN	3.5639

This report is based on information available up to 13.01.2015.

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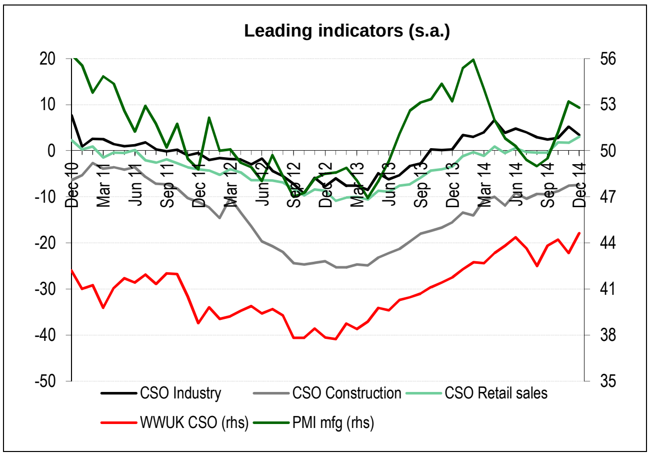
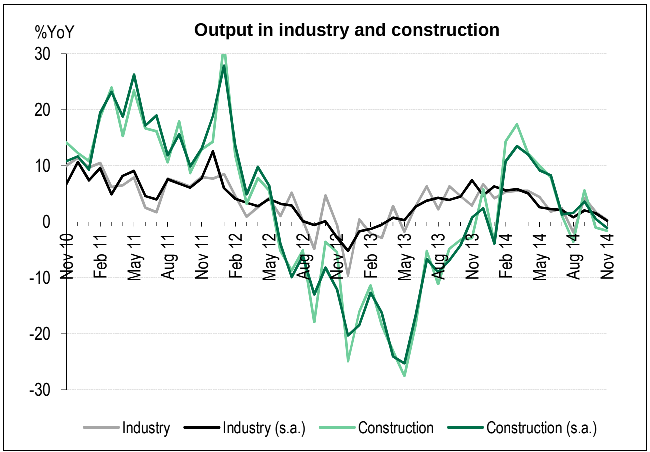
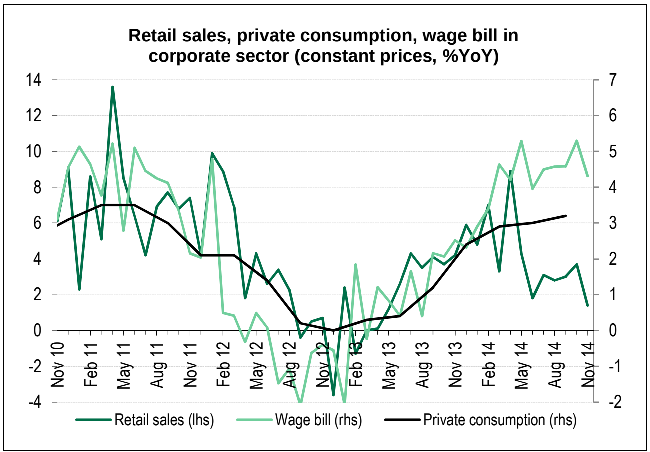
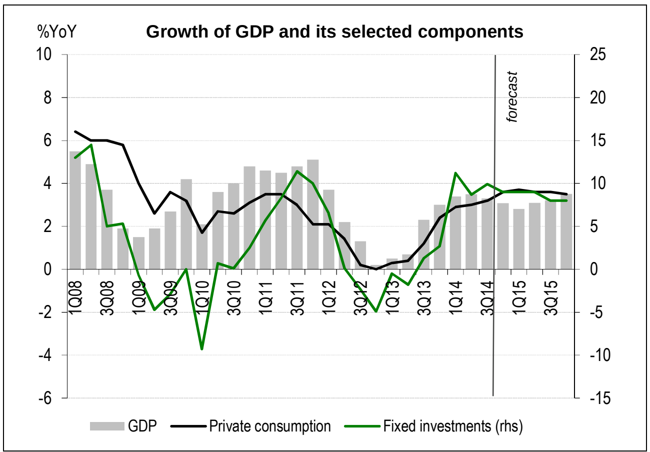
Economic update









Source: CSO, Markit, BZ WBK.

Leading indicators point to a recovery . . .

- Polish manufacturing PMI fell to 52.8 in December from 53.2 in November. Despite the decline, the index remained above the neutral level for the third month in a row, with its sub-indices for output, new orders and employment remaining stable compared with the previous month. This means that second-tier indices accounted for the decline in the headline indicator last month. The average PMI in 4Q14 rose to 52.4 from 49.3 in 3Q, which is a good harbinger of economic growth in the coming quarters.
- Other leading indicators (EC economic sentiment index, BIEC leading indicator, CSO business climate survey) also showed relatively good results, suggesting improving economic activity.
- Interestingly, foreign trade data showed some rebound in Polish export growth in October-November 2014, with the most significant improvement in exports to selected EU countries (Germany, Italy, Netherlands, Spain). Import growth accelerated even more, which seems to reflect robust growth in domestic demand.

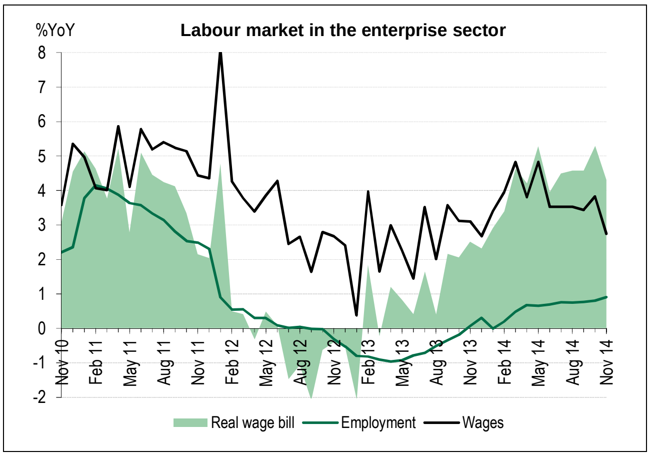
. . . but industry, construction and retail sales are still weak

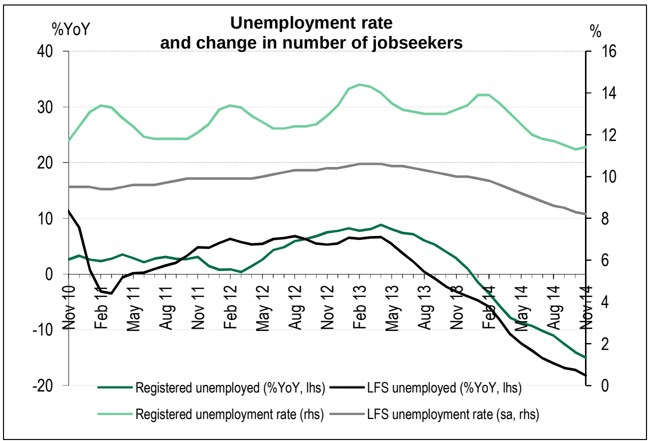
- November brought a deceleration of industrial output growth to 0.3%YoY (after adding 1.6%YoY in October). Seasonally-adjusted numbers rose 0.2%YoY. This was the weakest growth since May 2013. The sharpest increase was recorded in industrial branches strongly dependent on exports, such as computers, electronic and optical devices (13%YoY) or furniture (11.1%YoY).
- Construction and assembly output contracted 1.6%YoY in November (after a 1%YoY drop the previous month). Seasonally-adjusted output declined by 1.1%YoY.
- November retail sales decreased 0.2%YoY in nominal terms, while in real terms they grew 1.4%YoY. The result was well below readings from previous months. The biggest falls in nominal sales were in fuels (-8.4%YoY), vehicles and parts (-7.6%YoY) and in the "others" category (-7.5%).

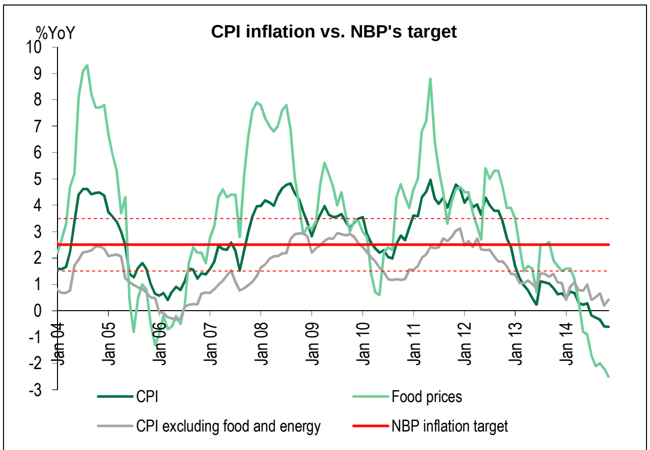
GDP growth looks likely to decelerate (temporarily)

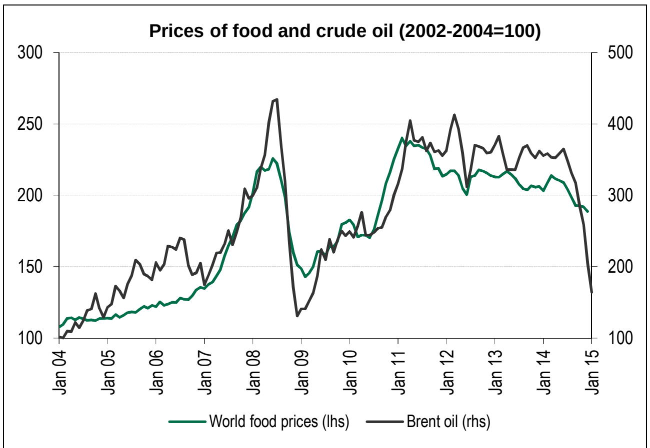
- To sum up, high-frequency data suggest some slowdown of economic activity in 4Q14 vs. the previous quarter. We estimate that GDP growth in the final quarter of 2014 reached 3.1%YoY and predict that it may decelerate further in 1Q15, sliding below 3%YoY, mainly on the back of a weaker contribution from net exports, while private consumption growth should continue to accelerate, as it has since the start of 2013, and investment growth should remain quite strong. This forecast is not in line with retail sales data, but we should recall that retail sales were not the best proxy for private consumption in 3Q14 either, as the data covers only large shops and excludes spending on services. Other data from the consumer sector, like the wage bill (see next page) or consumer confidence, were optimistic.
- As all main leading indicators are drawing a fairly optimistic picture, we expect to see a gradual acceleration of GDP growth soon. A recovery in the Euro zone would provide a strong boost and the foreign trade numbers have already shown a slight improvement in demand for Polish products in Euro zone countries. In the past, Polish exports to the Euro zone have grown even when the bloc is in recession and this may also be the case now.

Economic update









Source: CSO, NBP, FAO, Reuters, BZ WBK.

Labour market still strong

- In November average employment in the corporate sector increased by 0.9%YoY (0.1%MoM). On monthly basis, the number of jobs increased by 24k – quite a good result. At the same time, average wages increased by 2.7%YoY, noticeably less than in October (+3.8%YoY). The deceleration was mainly due to the mining sector, which is currently in rather bad shape.
- We estimate that the wage bill increased by 3.7%YoY in nominal terms and 4.3%YoY in real terms. This is a significant deceleration vs. October, yet still a decent pace and consistent with private consumption growth above 3.5%YoY in 4Q14.
- The registered unemployment rate climbed to 11.4% in November from 11.3% in October and was 1.8 percentage points lower than one year ago. This is the biggest decline in annual terms since 2008. In monthly terms, the number of jobseekers increased by 14.7k, which is the lowest November reading since 2007 (there is typically a seasonal increase in the number of jobseekers in November). The total number of unemployed reached 1,799.5k, i.e. 15% less than a year before. Flash data from the Labour Ministry showed the registered unemployment rate inched up to 11.5% in December (down 1.9 percentage points YoY). The Labour Force Survey seasonally-adjusted jobless rate fell to 8.2% in November, the lowest level since 2009.
- The labour market situation is clearly positive. The weakness of mining may be dampening data from the enterprise sector, but mining is only a small part of the economy as a whole. We expect the average nominal pace of wage growth to stay at 3%-4%YoY and this, together with deflation (which we expect to stay with us at least until 3Q15), should lead to an increase in households' real purchasing power and support private consumption in the coming quarters.

Cheap oil pushing the CPI lower

- Inflation came in at -0.6%YoY in November, unchanged versus October and below expectations. The surprise came mainly from lower communication prices (-0.7%MoM, helped by the fall in the prices of internet and phone services), transport (-2%MoM, with fuels down 3%MoM) and lower healthcare costs (-0.1%MoM). Food and non-alcoholic beverages declined only 0.1%MoM.
- Lower food and fuel prices are still pushing headline CPI downwards and, in our opinion, this trend will intensify in the nearest months because of the recent slump in world crude prices (as shown in the bottom-left chart, oil prices are positively correlated with global food prices). Our estimates show that in December the average fuel price at Polish pumps fell 5%MoM and the drop may be even bigger in January. For 2015 as a whole, we are expecting fuel prices to be at least 10% on average below 2014. This should cut at least 0.5 pp from headline CPI in 2015 (even disregarding indirect effects).
- In November core inflation excluding food and energy increased to 0.4%YoY, from 0.2%YoY the previous month. Other measures of core inflation continued the downward trend, with the '15% trimmed mean' falling below zero for the first time ever.
- November producer prices fell 1.6%YoY and 0.5%MoM. In annual terms with the largest decline posted by manufacturing (-2%), in particular the prices of coke and refined petroleum products. This was mainly a result of the fall in commodity prices on international markets.
- In our view, we have not yet reached the 'deflation trough' and the annual CPI may fall further below -1% in 1Q15. Furthermore, deflation may last longer than assumed so far. We currently think it may persist until the end of 3Q15.

Monetary policy watch

Excerpts from the MPC's communiqué after its December meeting

Global economic activity remains moderate, although the situation varies across countries. In the United States, economic growth in 2014 Q3 stayed relatively robust. In the euro area, in turn, GDP growth – notwithstanding slight acceleration – remained weak, and business climate indicators point to low activity growth probably continuing in the following quarters. This is accompanied by relatively slow GDP growth in the largest emerging economies, with a recent weakening observed in Russia and China.

In the past month, oil prices continued to decline. Along with moderate global economic growth, this contributes to very low inflation in many countries. In Poland's immediate environment – including the euro area and the Central and Eastern Europe – inflation remains close to zero.

Major central banks continue their expansionary monetary policy, with interest rates at historically low levels, while the ECB and the Bank of Japan run asset purchase programmes.

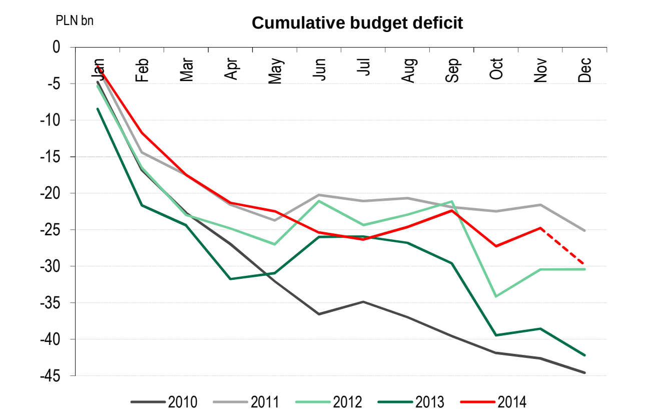
In October, CPI inflation declined to -0.6% y/y. This was accompanied by a decrease in core inflation indices, which confirms the absence of demand pressure in the economy. The continued decline in producer prices points, in turn, to a lack of cost pressure. This is accompanied by very low inflation expectations of enterprises and households.

Therefore, the Council decided to keep the NBP interest rates unchanged. However, the Council highlights that uncertainty regarding the economic conditions in the environment of the Polish economy persists. If the incoming data confirm a slowdown in economic activity, and weak growth in the environment of the Polish economy persists, the Council does not rule out further adjustment of monetary policy.

Interest rates still on hold

- The Monetary Policy Council kept interest rates unchanged in December, which was no surprise at all. Nevertheless, an interesting change took place in the final, key paragraph of the official statement. The MPC suggested in November that more rate cuts could follow if future data pointed to risks of a deterioration in the economic outlook, but subsequent data releases not only did not point to further deterioration, but in fact offered an improved outlook for growth. Meanwhile, the December the statement's final sentence said that more monetary policy easing was not ruled out should incoming data confirm economic growth was weakening and economic activity abroad remained subdued. This means that the prerequisite for a rate cut in Poland is no longer a deterioration in the outlook, but confirmation that domestic economic growth is decelerating and growth abroad remains weak.
- This is exactly what we expect, since we forecast a slowdown of GDP growth in Poland to 2.9% YoY at the start of 2015. We also expect economic activity in the Euro zone to remain weak in the next two quarters. Additionally, deflation in Poland will probably be deeper and last longer than the central bank anticipates (Governor Marek Belka said in December that deflation may last until February-March, while we think it will be until September).
- That said, we expect the MPC to keep rates on hold again in January as recent economic data (still quite decent) and the year-end zloty depreciation offered little to help convince the majority that additional easing is needed. However, the Council is deeply divided and we think that the length and depth of deflation may tip the balance towards more easing in the coming months, probably in March, when the new NBP projections are due to be released. We expect a 25bp cut. There is downside risk to this scenario, but we do not see easing of more than 50bp in 2015E.

Fiscal policy watch



	Spread vs. Bunds (10Y) in bp			CDS (5Y USD)		
	13.01	change since 12.12.14	change since 31.12.14	13.01	change since 12.12.14	change since 31.12.14
Poland	183	-11	-13	69	3	-2
Czech	7	-12	-14	53	4	-1
Hungary	301	8	-14	179	6	1
Greece	869	9	-37	181	6	2
Spain	113	-10	5	88	-7	1
Ireland	87	21	16	46	-6	-5
Portugal	216	-17	1	183	-32	-17
Italy	129	-11	-6	125	-26	-13
France	26	-1	-3	43	1	-3
Germany	-	-	-	16	1	-1

Sources: NBP, Ministry of Finance, Reuters, BZ WBK.

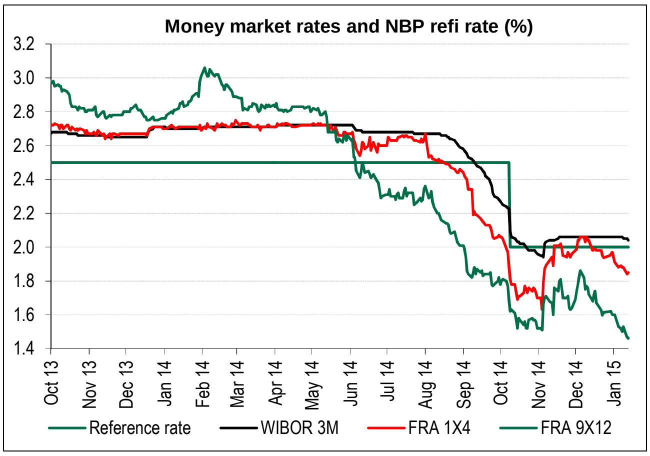
Fiscal deficit below 3% of GDP in 2014?

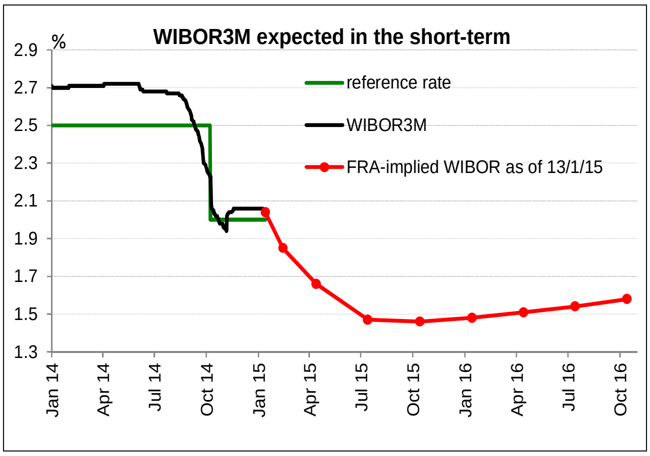
- The state budget deficit stood at PLN24.7bn after the first 11 months of 2014, i.e. 52.1% of the annual plan. Revenues reached 93.7% of the plan and spending 87.6%. Tax revenues gave a quite decent performance, with VAT growing c.10%YoY, which suggests that domestic economic activity remains strong.
- According to Finance Ministry officials, the budget deficit at the end of the year should not exceed PLN30bn, which means it should be c.PLN17bn lower than initially planned.
- Given the central government deficit is so low (1.7% of GDP), we would not rule out the balance of the entire public sector in 2014 may be below 3% of GDP. Local governments recorded a surplus of over PLN10bn in the first three quarters of 2014 and, although their balance might have deteriorated in 4Q, it seems unlikely that they swung to a large deficit. The social security system should show a surplus of 0.5% of GDP in 2014, according to last Convergence Programme.

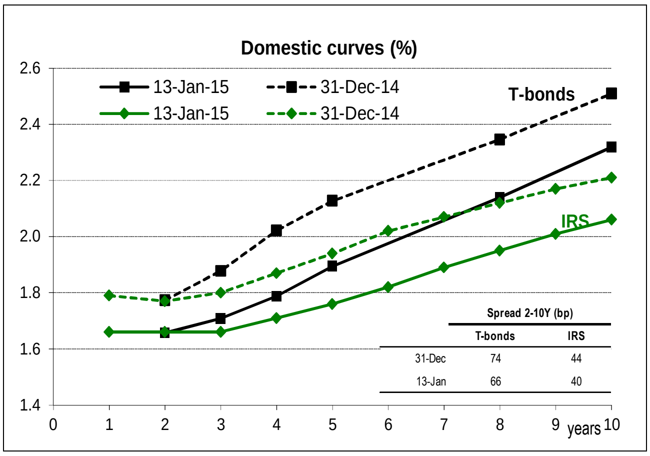
Geopolitical risks and low oil prices favour lower-risk assets

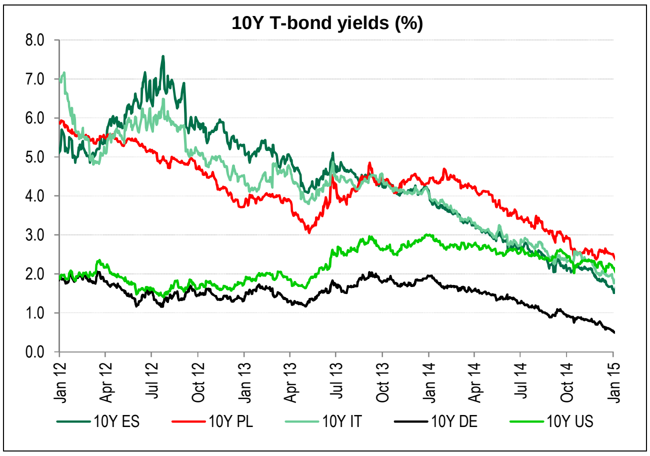
- December saw the core market rally again as capital shifted to lower risk assets due to higher risk aversion. Yields of US Treasuries fell quite significantly and German benchmarks hit fresh record lows. In mid-December peripheral debt took some losses, due to the uncertain political situation in Greece and renewed talks about it leaving the euro. However, increased probability of QE by the ECB supported both core and peripheral debt at the beginning of the new year.
- In our view, core debt should remain strong in the short term, supported by factors including increased expectations for further ECB monetary easing, geopolitical risks and low oil prices. However, in the medium to long run, we still foresee a gradual increase in yields as monetary tightening in the US comes closer.

Interest rate market









Source: Reuters, Bloomberg, BZ WBK.

Excessive expectations for rate cuts this year

▪ December was mixed for money market rates. While WIBOR rates remained stable (only the 12M rate increased, by 1bp in monthly terms), FRAs were vulnerable to macro data releases and to IRS market trends. FRAs rose significantly at the beginning of December, due to the MPC's decision to keep rates on hold and to IRS market weakening. However, they then resumed their downward trend as macro data confirmed a further slowdown in economic activity. The beginning of 2015 brought more significant changes, especially on the FRA market. While WIBOR rates fell 1-2bp, FRAs dropped 12-18bp across the curve compared with the end of 2014.

▪ The market is currently pricing-in rate cut of nearly 50bp in the next three months and almost 75bp in total monetary easing in the next 6-9 months, which we think is excessive.

▪ We expect WIBOR to resume its marked downward path in 1Q15, due to hopes of further monetary policy easing. Still, this may not happen in January as we think the MPC is likely to keep rates unchanged again at its first meeting this year and most of macro data releases this month will be relatively strong (we predict healthy growth in industrial and construction output and retail sales). On the other hand, the CPI, due the day after the MPC decision, should fall significantly further below zero (to almost -1%YoY), which should support a money market decline.

Domestic debt reaches fresh lows

▪ Domestic T-bonds and IRS weakened sharply in the first half of December due to the sell-off in emerging markets. However, the correction was relatively short-lived and T-bonds and IRS strengthened slightly at the end of 2014. The Polish fixed income market firmed significantly at the beginning of the year, thanks to the sharp plunge in yields on the core debt markets, caused by hopes that the ECB would expand its asset purchase programme as soon as in January. Consequently, yields of the Polish 2Y, 5Y and 10Y bond benchmarks reached fresh all-time lows of 1.64%, 1.84% and 2.26%, respectively (13-29bp lower than at the end of 2014). The same thing happened in the IRS market, where the 10Y rate reached a new record low of c2%.

▪ The long ends of the curves benefited most from the strengthening of the core debt markets and, as a result, 2-10Y spreads narrowed considerably, in line with global trends.

Correction possible after the ECB starts QE

▪ A strong call for QE by the ECB (after December's negative flash HICP reading for the Euro zone) should support EM debt, including Poland's, in the coming weeks. Therefore, we do not rule out a further gradual decline across domestic curves, with the mid and long ends performing better than the front ends, leading to a short-term flattening. However, we think a correction in European debt markets is possible when the ECB eventually starts QE (as was the case in the US), with the biggest moves in the belly and long end of the curves.

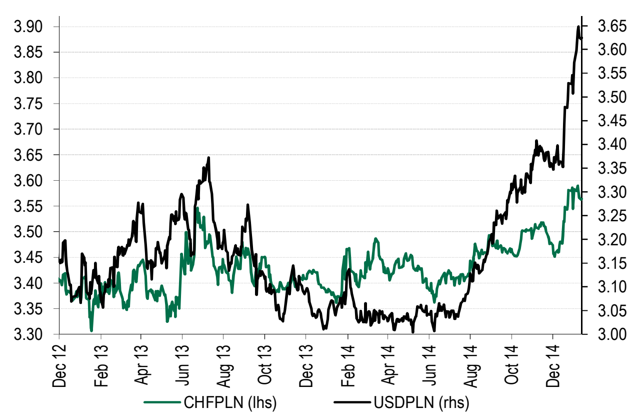
▪ A sharp drop in December's CPI could anchor the front end of the domestic curves near current levels, ahead of further monetary easing by the MPC later in the first quarter.

▪ In mid-January the Finance Ministry is due to offer long-term T-bonds, i.e. WZ0124, DS0725 and WS0428, worth PLN3.0-5.0bn, followed by double that amount (PLN5.0-9.0bn) at a second auction this month. We think the WZ0115 redemption and coupon payments (cPLN7.5bn) should support the January issue plans. In our opinion, the environment for bonds remains favourable, thanks to further likely ECB easing and amid calls for the MPC to cut rates. Therefore, we do not expect demand to be a problem at the auction, even though yields are already close to record lows.

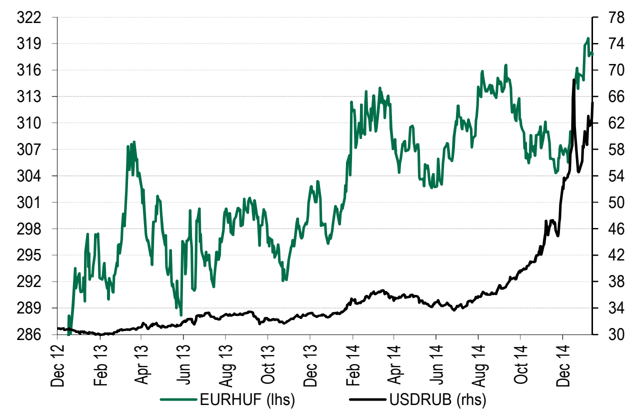
Foreign exchange market

EUR/PLN

USD/PLN and CHF/PLN



USD/RUB an EUR/HUF



EUR/USD

Sources: CSO, Reuters, Bloomberg, Santander, BZ WBK.

Zloty should recover gradually vs. the euro . . .

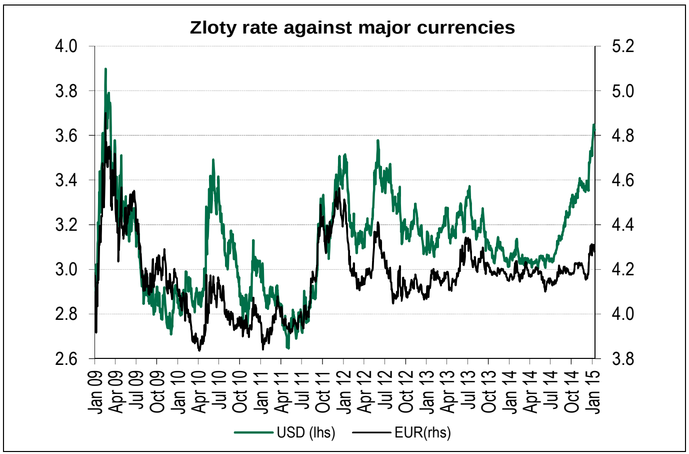
The Polish FX market was very volatile in late 2014. The zloty depreciated sharply vs. the main currencies as disappointing Polish retail sales data and a further drop in oil prices fuelled expectations for more rate cuts by the MPC. We think that the core factor that pushed EUR/PLN above 4.30 was extremely low liquidity at year-end. Poland's FX reserves rose by nearly €2bn in December, which suggests that the Ministry of Finance possibly stopped exchanging EU funding on the market and instead converted it into domestic currency via the NBP, which was another factor limiting scope for the zloty to appreciate at the end of 2014.

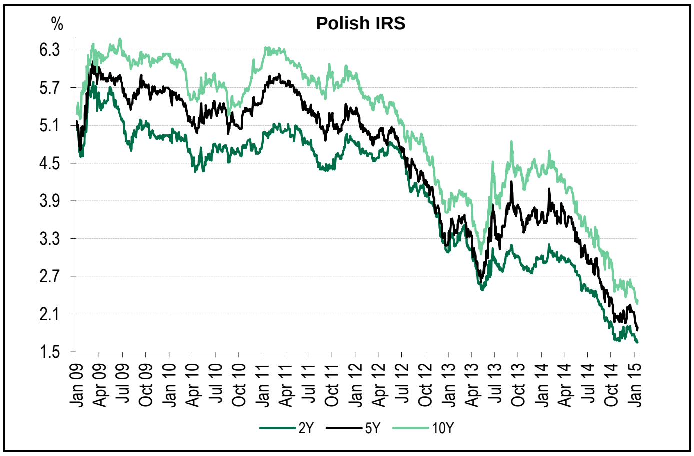
- We think the zloty's fall was excessive and expect it to recover gradually in the coming months as investors return to their normal activity levels, with fundamental factors also offering support. First, we do not expect the MPC to cut interest rates in January or to make its statement more dovish than the previous one. Second, our industrial output forecast for December (data are due the week after the Council's decision) is well above consensus and this should also work towards a stronger zloty. Third, one day after the output data release the ECB is likely to extend its asset purchase programme, supporting risky assets. Finally, we think recent developments in the EUR/PLN market resemble those of 1H13, when the zloty had also depreciated sharply. Back then, the following weeks saw a gradual recovery and we expect that to work this time as well. Also, since the 2008 financial crisis, there have been eight (including the last one) sharp upward moves when the EUR/PLN has increased by at least 6% over a few weeks (ranging from 6.1% in December 2014 to over 11% in early 2Q10). However, the recent wave was the fastest, as it took EUR/PLN only three weeks to beat the 6% mark (only in 4Q10 did the domestic currency record a change of similar size and timescale). After the last seven sudden increases, EUR/PLN retraced 50% of the up move (and often fell even below the starting level) in an average of 11 weeks (and 8 weeks if we exclude the 30-week outlier that followed the 2Q13 surge).
- However, there are some adverse factors that are likely to make the zloty's recovery sluggish. Falling oil prices fuel a risk of more prolonged deflation and this will put pressure on the MPC to cut rates. Also, low oil prices weigh on the Russian currency and a high USD/RUB does not work well for CEE assets.
- We expect an average EUR/PLN of 4.28 in January and 4.24 at the end of the month. Important levels to watch are 4.25 and 4.40.

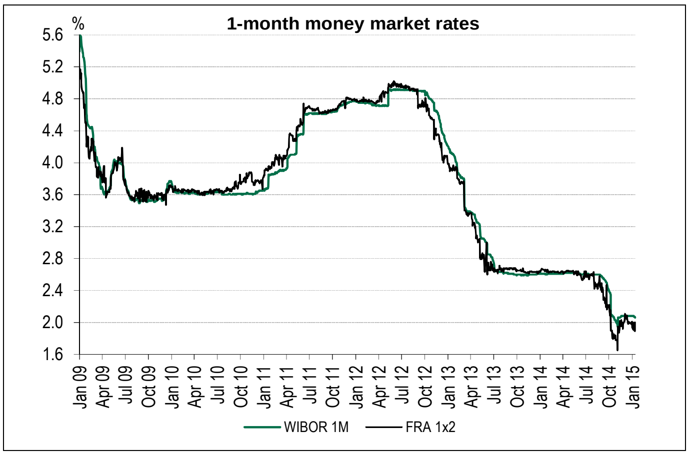
. . . but may remain under pressure vs. the dollar

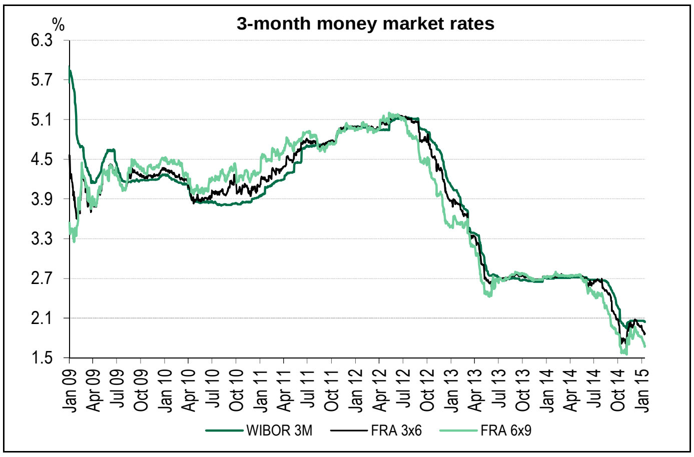
- The euro was under pressure vs. the dollar during last three quarters of last year and EUR/USD continued to fall in early 2015 as well. Consequently, it reached 1.175 on growing expectations for more easing to be announced by the ECB in January.
- The ECB's decision may determine the direction for EUR/USD for the coming weeks or even months. A lot of the additional easing has already been priced in and it seems the dollar could gain further only if the ECB delivers more than investors currently anticipate.
- We have cut our EUR/USD path and now expect 1.15 in May (vs. 1.20 previously) and 1.23 at the end of 2015 (vs. 1.28 expected until now). This implies a higher path for USDPLN for the current year (see forecasts on page 10).

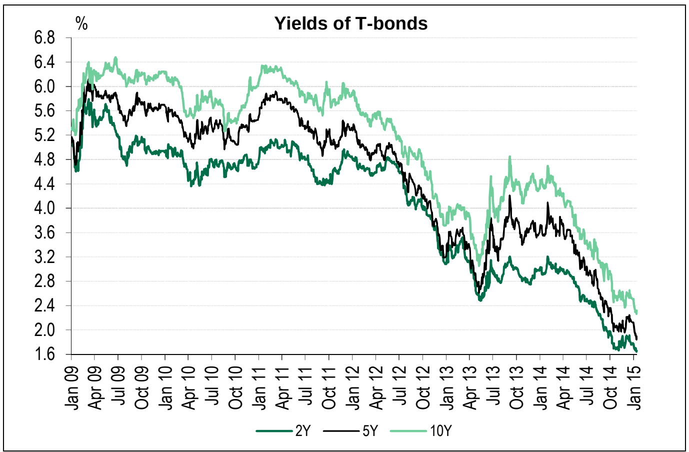
Market monitor

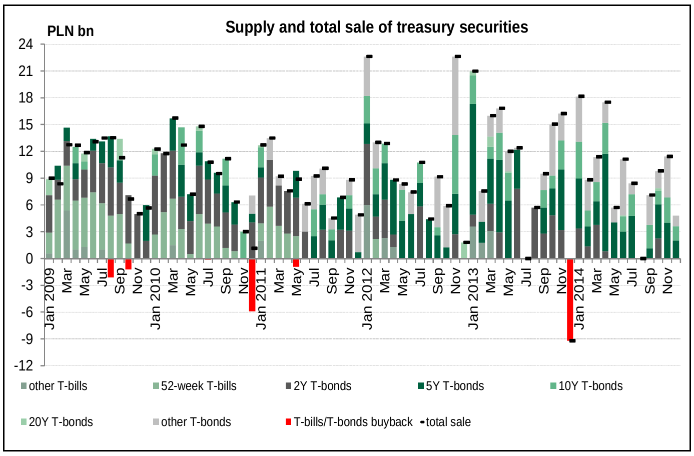












Treasury bond auctions in 2014/2015 (PLN mn)

month	First auction				Second auction				Switch auction		
	date	T-bonds	offer		date	T-bonds	offer		date	T-bonds	offer
January '14	9.01	PS0718/WZ0124	3000-5000	6013.0	23.01	OK/PS/WZ/DS	6000-	12129.7			
February	6.02	OK0716/WZ0119	2000-4000	4810.0	13.02	PS0718/DS1013	3000-5000	4011.0			
March	6.03	OK0716/WZ0119	2500-5500	6573.0					20.03	PS0414/OK0714	PS0718/DS1023
April	3.04	DS1023/WZ0119	3000-5000	5781.0	23.04	OK0716/PS1016/PS0718	5000-	11722.3			
May	8.05	PS0719/WZ0119	3000-5000	5694.2	22.05	IDS1024	1000-2000	1270.0			
June	5.06	DS/WS/WZ	3000-5000	4989.7					18.06	OK0714/WZ0115	WZ0119/PS0719
July	3.07	DS0725/WS0428	1000-3000	2419.0	23.07	WZ0119/PS0719	2000-6000	5999.0			
August	-	-	-	-	-	-	-	-	-	-	-
September	4.09	DS0725/WS0124	2000-3000	3595.0	25.09	USD20150716**	Up to 400	354.4	18.09	WZ0115/PS0415	WZ0119/PS0719
October	23.10	OK0716/PS0719	2000-6000	6062.1					2.10	WZ0115/PS0415	WZ0124/DS0725/WS0428
November	6.11	WZ/DS/WS	2000-4000	4495.7					20.11	WZ0115/PS0415/OK0715	WZ0119/PS0719
December									18.12	WZ0115/PS0415/OK0715	PS0719/WZ0124/DS0725
January '15	15.01	WZ/DS/WS	3000-5000		22.01	To be chosen	5000-9000				

** with supplementary auction, ** buy-back auction, *** demand/sale.*

Source: MoF, Reuters, BZ WBK.

Economic calendar

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
12 January	**13** ***PL: Balance of payments (Nov)***	**14** ***PL: MPC decision*** ***PL: Money supply (Dec)*** HU: CPI (Dec) EZ: Industrial output (Nov) US: Retail sales (Dec) US: Fed Beige Book	**15** ***PL: CPI (Dec)*** US: Philly Fed index (Jan)	**16** ***PL: Core inflation (Dec)*** EZ: HICP (Dec) US: CPI (Dec) US: Industrial output (Dec) US: Flash Michigan (Jan)
19	**20** ***PL: Wages and employment (Dec)*** ***PL: MPC minutes*** DE: ZEW index (Jan)	**21** ***PL: Industrial output (Dec)*** ***PL: PPI (Dec)*** US: House starts (Dec) US: Building permits (Dec)	**22** EZ: ECB decision	**23** CN: Flash PMI – manufacturing (Jan) DE: Flash PMI – manufacturing (Jan) EZ: Flash PMI – manufacturing (Jan) US: Home sales (Dec)
26 DE: Ifo index (Jan)	**27** ***PL: GDP (2014)*** ***PL: Retail sales (Dec)*** ***PL: Unemployment rate (Dec)*** HU: Central bank decision US: Durable goods orders (Dec) US: New home sales (Dec) US: Consumer confidence index (Jan)	**28** US: FOMC decision	**29** US: Pending home sales (Dec)	**30** ***PL: Inflation expectations (Jan)*** EZ: Flash HICP (Jan) US: Advance GDP (Q4) US: Michigan index (Jan)
2 February ***PL: PMI – manufacturing (Jan)*** CN: PMI – manufacturing (Jan) DE: PMI – manufacturing (Jan) EZ: PMI – manufacturing (Jan) US: ISM – manufacturing (Jan) US: Personal income (Dec) US: Consumer spending (Dec)	**3** US: Industrial orders (Dec)	**4** ***PL: MPC decision*** DE: PMI – services (Jan) EZ: PMI – services (Jan) US: ADP report (Jan) US: ISM – services (Jan)	**5** DE: Industrial orders (Dec) CZ: Central bank decision	**6** DE: Industrial output (Dec) CZ: Industrial output (Dec) US: Non-farm payrolls (Jan) US: Unemployment rate (Jan)
9 DE: Exports (Dec) CZ: CPI (Jan)	**10**	**11** HU: CPI (Jan)	**12** EZ: Industrial output (Dec) US: Retail sales (Jan)	**13** ***PL: Money supply (Jan)*** ***PL: Balance of payments (Dec)*** PL. CZ. HU. DE. EZ: Advance GDP (Q4) US: Flash Michigan (Feb)
16	**17** ***PL: MPC minutes*** DE: ZEW index (Feb)	**18** US: House starts (Jan) US: Building permits (Jan) US: Industrial output (Jan)	**19** CN: Flash PMI – manufacturing (Feb) DE: Flash PMI – manufacturing (Feb) EZ: Flash PMI – manufacturing (Feb) US: Philly Fed index (II)	**20**

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

Economic data and forecasts for Poland

Monthly economic indicators

		Dec 13	Jan 14	Feb 14	Mar 14	Apr 14	May 14	Jun 14	Jul 14	Aug 14	Sep14	Oct14	Nov 14	Dec 14E	Jan 15E
PMI	pts	53.2	55.4	55.9	54.0	52.0	50.8	50.3	49.4	49.0	49.5	51.2	53.2	52.8	52.5
Industrial production	% YoY	6.7	4.2	5.3	5.5	5.5	4.4	1.8	2.4	-1.9	4.2	1.7	0.3	6.1	-3.2
Construction production	% YoY	5.8	-3.9	14.4	17.4	12.2	10.0	8.0	1.1	-3.6	5.6	-1.0	-1.6	10.1	3.8
Retail sales [a]	% YoY	5.8	4.8	7.0	3.1	8.4	3.8	1.2	2.1	1.7	1.6	2.3	-0.2	1.2	1.6
Unemployment rate	%	13.4	13.9	13.9	13.5	13.0	12.5	12.0	11.8	11.7	11.5	11.3	11.4	11.5	12.0
Gross wages in corporate sector	% YoY	2.7	3.4	4.0	4.8	3.8	4.8	3.5	3.5	3.5	3.4	3.8	2.7	2.6	3.1
Employment in corporate sector	% YoY	0.3	0.0	0.2	0.5	0.7	0.7	0.7	0.8	0.7	0.8	0.8	0.9	0.9	1.0
Exports (€)	% YoY	11.6	8.4	7.3	9.5	5.1	10.4	5.7	6.7	-0.9	6.1	4.1	2.3	5.1	3.6
Imports (€)	% YoY	0.7	5.8	6.9	4.1	8.9	11.8	7.5	7.2	0.1	6.1	4.7	4.7	10.7	7.6
Trade balance	EUR mn	-150	105	-79	132	39	-160	86	-167	-102	648	-8	-96	-800	-392
Current account balance	EUR mn	-652	-1,100	-651	345	269	-161	-927	-811	-987	18	-470	-268	-1,474	-1,445
Current account balance	% GDP	-1.3	-1.3	-1.2	-1.1	-1.1	-1.1	-1.2	-1.3	-1.4	-1.3	-1.4	-1.3	-1.5	-1.6
Budget deficit (cumulative)	PLN bn	-42.2	-2.6	-11.7	-17.5	-21.3	-22.5	-25.4	-26.4	-24.6	-22.4	-27.2	-24.8	-29.8	-
Budget deficit (cumulative)	% of FY plan	81.8	5.6	24.7	36.8	44.8	47.3	53.4	55.5	51.9	47.1	57.4	52.1	62.7	-
CPI	% YoY	0.7	0.5	0.7	0.7	0.3	0.2	0.3	-0.2	-0.3	-0.3	-0.6	-0.6	-0.9	-1.0
CPI excluding food and energy	% YoY	1.0	0.4	0.9	1.1	0.8	0.8	1.0	0.4	0.5	0.7	0.2	0.4	0.5	0.7
PPI	% YoY	-1.0	-1.0	-1.4	-1.3	-0.7	-1.0	-1.8	-2.0	-1.5	-1.6	-1.3	-1.6	-2.3	-1.4
Broad money (M3)	% YoY	6.2	5.4	5.2	5.2	5.4	5.2	5.2	6.0	7.4	7.9	7.7	8.4	8.2	8.5
Deposits	%YoY	6.0	4.9	4.7	4.7	5.4	5.5	5.5	6.7	7.8	7.5	7.8	8.4	8.1	8.5
Loans	%YoY	4.0	4.2	4.7	5.3	6.1	5.4	4.9	5.4	6.3	6.2	7.2	7.4	5.7	6.1
EUR/PLN	PLN	4.18	4.18	4.18	4.20	4.18	4.18	4.14	4.14	4.19	4.19	4.21	4.21	4.21	4.28
USD/PLN	PLN	3.05	3.07	3.06	3.04	3.03	3.04	3.04	3.06	3.15	3.25	3.32	3.38	3.42	3.63
CHF/PLN	PLN	3.41	3.39	3.42	3.45	3.43	3.42	3.39	3.41	3.46	3.47	3.48	3.50	3.50	3.56
Reference rate [b]	%	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.00	2.00	2.00	2.00
3M WIBOR	%	2.67	2.70	2.71	2.71	2.72	2.72	2.69	2.68	2.65	2.45	2.07	2.03	2.06	2.04
Yield on 2-year T-bonds	%	2.94	2.99	3.06	2.99	2.94	2.79	2.54	2.45	2.30	2.02	1.77	1.78	1.84	1.65
Yield on 5-year T-bonds	%	3.65	3.67	3.79	3.68	3.60	3.36	3.10	2.89	2.73	2.40	2.12	2.04	2.16	1.95
Yield on 10-year T-bonds	%	4.41	4.42	4.47	4.26	4.10	3.80	3.54	3.34	3.23	2.98	2.63	2.54	2.55	2.35

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

Quarterly and annual economic indicators

		2012	2013	2014E	2015E	1Q14	2Q14	3Q14E	4Q14E	1Q15E	2Q15E	3Q15E	4Q15E
GDP	PLN bn	1,615.9	1,662.1	1,726.2	1,784.5	403.1	418.4	426.8	477.8	413.6	431.5	440.4	499.1
GDP	% YoY	1.8	1.7	3.3	3.2	3.4	3.5	3.3	3.1	2.8	3.1	3.2	3.5
Domestic demand	% YoY	-0.4	0.2	4.8	4.6	3.4	5.6	4.9	5.2	4.5	4.7	4.4	4.8
Private consumption	% YoY	1.0	1.1	3.2	3.6	2.9	3.0	3.2	3.6	3.7	3.6	3.6	3.5
Fixed investments	% YoY	-1.5	0.9	9.5	8.4	11.2	8.7	9.9	9.0	9.0	9.0	8.0	8.0
Industrial production	% YoY	1.0	2.3	3.2	2.7	4.9	3.7	1.8	2.6	1.5	2.8	3.2	3.3
Construction production	% YoY	-1.0	-10.3	5.0	8.5	9.8	9.9	1.1	2.9	5.4	9.8	10.4	7.6
Retail sales [a]	% YoY	6.0	2.6	3.1	4.8	5.1	4.6	1.9	1.2	1.9	2.8	5.7	8.2
Unemployment rate [b]	%	13.4	13.4	11.5	10.9	13.5	12.0	11.5	11.5	11.7	10.4	10.3	10.9
Gross wages in the national economy [a]	% YoY	3.7	3.4	3.5	3.8	4.2	3.5	3.5	2.8	3.3	3.4	4.0	4.7
Employment in the national economy	% YoY	0.0	-1.1	0.1	0.5	-0.3	0.1	0.3	0.5	0.5	0.5	0.4	0.3
Exports (€)	% YoY	6.5	5.7	5.8	5.8	8.4	7.0	4.1	3.8	3.0	4.8	6.8	8.5
Imports (€)	% YoY	2.2	0.2	6.5	7.4	5.6	9.4	4.6	6.5	4.6	6.5	8.5	10.0
Trade balance	EUR mn	-7,146	635	-399	-3,009	159	-35	381	-904	-452	-703	-257	-1,598
Current account balance	EUR mn	-13,697	-5,245	-6,200	-9,508	-1,403	-808	-1,777	-2,212	-2,410	-1,313	-2,810	-2,974
Current account balance	% GDP	-3.5	-1.3	-1.5	-2.2	-1.1	-1.2	-1.3	-1.5	-1.7	-1.9	-2.1	-2.2
General government balance	% GDP	-3.9	-4.3	-3.4	-2.9	-	-	-	-	-	-	-	-
CPI	% YoY	3.7	0.9	0.0	-0.4	0.6	0.3	-0.3	-0.7	-1.1	-0.7	-0.4	0.6
CPI [b]	% YoY	2.4	0.7	-0.9	0.9	0.7	0.3	-0.3	-0.9	-1.2	-0.5	-0.2	0.9
CPI excluding food and energy	% YoY	2.2	1.2	0.6	0.9	0.8	0.8	0.5	0.4	0.6	0.8	0.9	1.4
PPI	% YoY	3.4	-1.3	-1.5	-1.1	-1.2	-1.2	-1.7	-1.7	-1.3	-1.3	-1.4	-0.5
Broad money (M3) [b]	% oY	4.5	6.2	8.2	5.3	5.2	5.2	7.9	8.2	7.5	6.7	6.0	5.3
Deposits [b]	%YoY	4.7	6.0	8.1	5.8	4.7	5.5	7.5	8.1	7.5	6.9	6.3	5.8
Loans [b]	%YoY	1.2	3.6	5.7	5.7	5.3	4.9	6.2	5.7	5.7	5.7	5.7	5.7
EUR/PLN	PLN	4.19	4.20	4.18	4.15	4.19	4.17	4.18	4.21	4.26	4.17	4.11	4.06
USD/PLN	PLN	3.26	3.16	3.15	3.52	3.06	3.04	3.15	3.37	3.66	3.61	3.48	3.34
CHF/PLN	PLN	3.47	3.41	3.45	3.42	3.42	3.42	3.45	3.50	3.53	3.44	3.38	3.32
Reference rate [b]	%	4.25	2.50	2.00	1.75	2.50	2.50	2.50	2.00	1.75	1.75	1.75	1.75
3M WIBOR	%	4.91	3.02	2.52	1.94	2.71	2.71	2.59	2.06	1.99	1.91	1.92	1.94
Yield on 2-year T-bonds	%	4.30	2.98	2.46	1.85	3.01	2.76	2.26	1.80	1.67	1.75	1.93	2.07
Yield on 5-year T-bonds	%	4.53	3.46	2.96	2.15	3.71	3.35	2.67	2.11	1.95	2.07	2.23	2.37
Yield on 10-year T-bonds	%	5.02	4.04	3.49	2.75	4.38	3.82	3.18	2.58	2.38	2.63	2.92	3.07

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

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