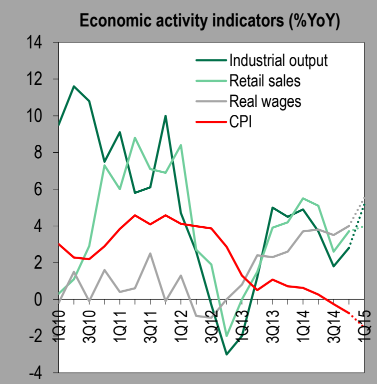
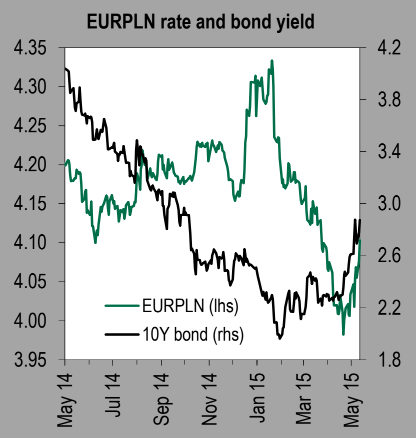
MACROscope

Polish Economy and Financial Markets

May 2015

Political question marks on the horizon





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- **Recent data releases confirmed, in our view, that economic growth in Poland started accelerating at the beginning of 2015 and that our call last month to upgrade the GDP forecast for 2015 to 3.6% was right.** We think the acceleration started in 1Q15, driven by strong consumption, investment and renewed strength in exports. Rising uncertainty about the extension of Greece's bailout has started weighing on business sentiment in Europe in recent weeks. However, we expect the Euro zone economy to perform very well this year, helped by the euro's depreciation, ECB QE, oil prices and softer fiscal policy.

- **Poland's Monetary Policy Council (MPC) is unlikely to change its monetary policy anytime soon, since the macro data are strong, deflation has started bottoming out and the appreciation of the zloty has stalled.** Recent comments by MPC members and NBP officials clearly confirmed that the central bank was still far from mulling any action aimed at limiting the strengthening of the zloty, especially now that the trend has lost momentum.

- **While the economic and official interest rate outlook for the nearest quarters seems clear, the political scenario is definitely less so.** The first round of the presidential election in Poland was a major surprise as it showed that the incumbent President Bronisław Komorowski's chance of re-election is smaller than had been assumed. The result of the second round may affect investors' expectations about the result of the autumn parliamentary election. Meanwhile, there is no end in sight to the talks between Greece and its creditors on a bailout extension and the Greek government's coffers are running low. We are wondering whether a Greek default should still be seen as a risk factor or, rather, a base-case scenario. These two issues may have a negative impact on market sentiment in the next few weeks.

- Polish bond yields have surged in recent weeks, following the global debt market rout. **We believe that the supply/demand imbalance may take Euro zone bond yields lower again, which is likely to trigger strengthening on the Polish market in the near term.** However, the room for recovery will be limited by greater political uncertainty, strong domestic macroeconomic data, and (potentially) an approaching interest rate hike in the US.

- While the ECB's QE has failed to provide support for Polish government bonds (so far), it does seem to have helped the zloty to appreciate, with the EUR/PLN falling temporarily below 4.00 at the end of April. **We believe there are fundamental arguments for the zloty to appreciate further in the medium term. However, in the short run we see a growing risk of a further EUR/PLN correction**, amid concern about Greece, a changing political outlook in Poland, and technical signals suggesting a possible stronger move (even to 4.30).

ECONOMIC ANALYSIS DEPARTMENT:

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

email: ekonomia@bzwbk.pl Website: skarb.bzwbk.pl

Maciej Reluga (chief economist) +48 22 534 18 88

Piotr Bielski +48 22 534 18 87

Agnieszka Decewicz +48 22 534 18 86

Marcin Luziński +48 22 534 18 85

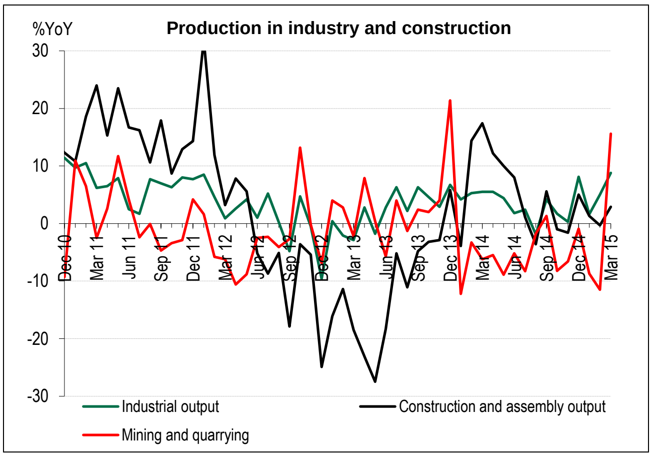
Marcin Sulewski +48 22 534 18 84

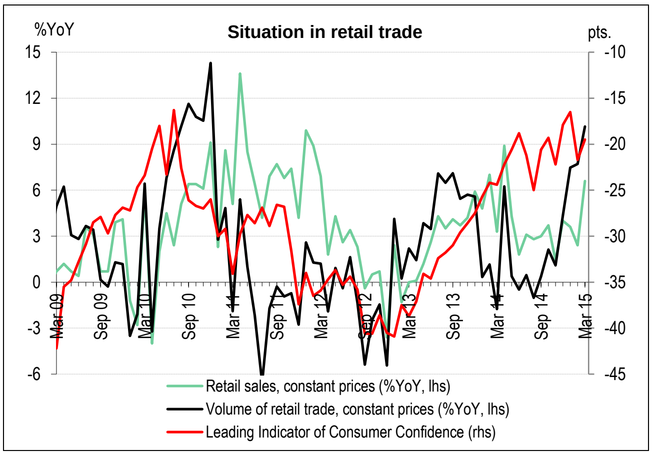
Financial market on May 12 2015:

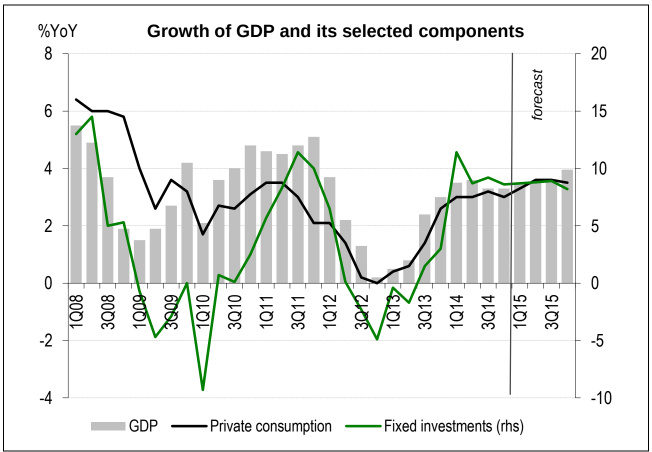
NBP deposit rate	0.50	WIBOR 3M	1.67	EURPLN	4.1030
NBP reference rate	1.50	Yield on 2-year T-bond	1.75	USDPLN	3.6447
NBP lombard rate	2.50	Yield on 5-year T-bond	2.40	CHFPLN	3.9399

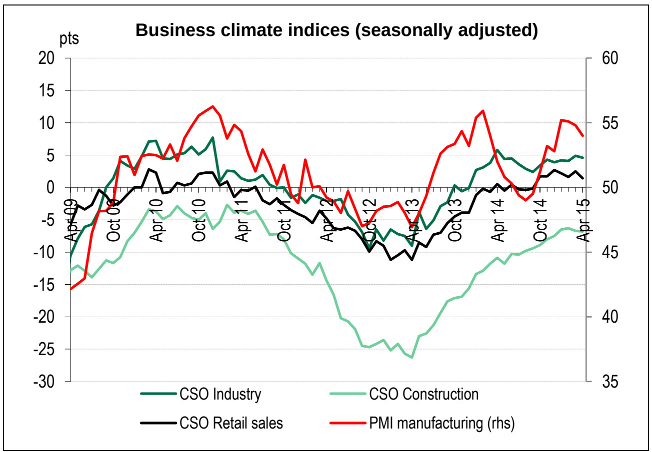
This report is based on information available until 12.05.2015.

Economic update









Source: CSO, Eurostat, Markit, BZ WBK.

Strong output

- Industrial production growth accelerated in March to 8.8%YoY, exceeding forecasts and showing the strongest result since January 2011. Output was supported by more working days, but the seasonally-adjusted data also showed a decent rise of 6%YoY, the highest since January 2014. Total output growth in 1Q amounted to 5.2%YoY, the best result since 4Q11.
- Production grew in YoY terms in 30 of 34 industrial branches, with the strongest gains in export-oriented areas, such as production of computers, cars, or electrical equipment. The biggest contribution to overall output growth came from food and car manufacturing.
- Production in manufacturing rose 9.6%YoY in March, the highest since January 2012. Mining and quarrying posted 15.6%YoY growth, a major change versus February's -11.5%YoY, which added as much as 1.0pp to the headline figure. The result was probably due to the fact that coal output was disrupted in January and February by strikes at one of the major mining companies. In March the company was working at full capacity and even using overtime. Thus, the coming months may show better results than January and February but worse than March.
- Construction and assembly output also surprised to the upside, rising 2.9%YoY, but the seasonally-adjusted data declined 0.5%YoY, so it is hard to call it a revival. Construction results were negatively affected by a downturn in building (-3.5%YoY). Specialized construction activities and civil engineering, i.e. sectors more closely connected with public investment, surged 8.7%YoY and 6.0%YoY, respectively. Total output growth in 1Q amounted to 1.4%YoY.

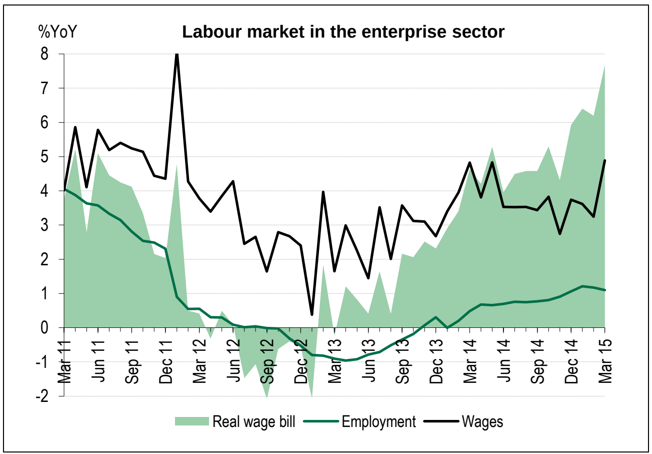
Higher wages drive retail sales

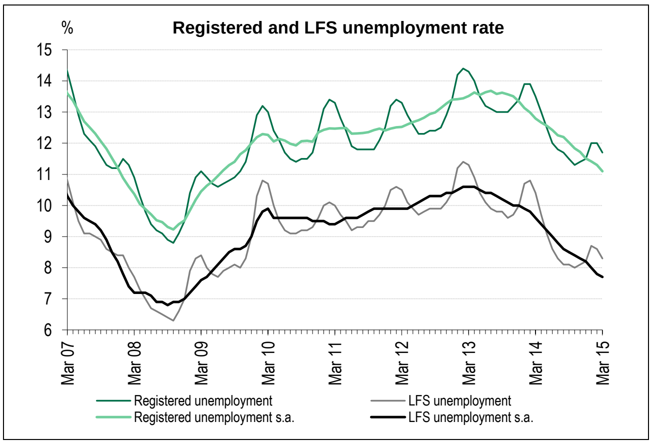
- The pace of growth in real retail sales accelerated in March to 6.6% YoY (the fastest since April 2014), beating expectations. Some support came from the timing of Easter (which fell right at the beginning of April this year, instead of later in the month, so some holiday-related purchases were done in March). Thus, food and beverage sales jumped in real terms to 14.1% vs. 4.8% in February. At the same time, there was a significant acceleration in other categories, including clothing and footwear (13% in real terms vs 8.5% in February) and household appliances (10% YoY from 3.9% YoY). This was probably the effect of stronger domestic demand, on the back of fast-rising incomes, improving consumer confidence, low interest rates and lower prices of basic goods (food, fuel).
- We estimate real retail sales grew 4.0% in 1Q vs 3.1% in 4Q14. Eurostat data for retail trade (also in constant prices) showed growth at c8% YoY in 1Q.

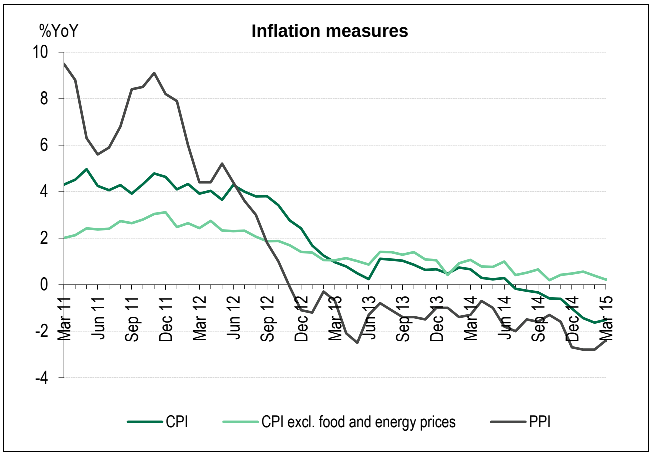
Further acceleration of growth expected

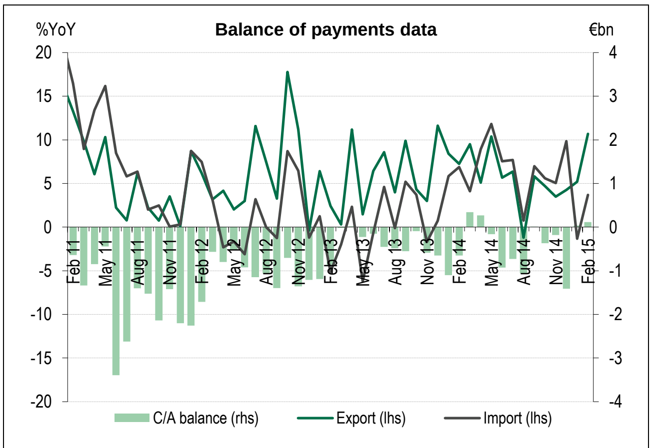
- The 1Q output and retail sales data confirm that the Polish economy is reviving and solid output growth in export sectors and in retail sales show that growth is being fuelled by both internal and external demand. Recent decent Euro zone and German data suggest that foreign demand for the Polish goods is strengthening, while the buoyant labour market supports the outlook for the domestic consumption. This makes us optimistic as regards GDP. According to our estimates, economic growth accelerated to 3.4%YoY in 1Q15E from 3.3%YoY in 4Q14. We are expecting a further acceleration, perhaps to as much as 4.0%, in 4Q15E.
- Manufacturing PMI fell for the third month in a row in April, to 54.0, but we do not think it represents a significant risk to our forecast, particularly when other indicators, like the CSO business climate in manufacturing or the ESI, which are more strongly correlated with GDP growth, are optimistic. Nevertheless, further strong declines in the PMI could be a negative signal.

Economic update









Source: CSO, NBP, Eurostat, BZ WBK.

Wage data supported by mining

- Data from the corporate sector for March showed wage growth accelerating to 4.9%YoY (the fastest since January 2012), while employment growth edged down to 1.1%YoY.
- Strong wage growth was partly due to mining, as some mines were working overtime to make up for losses caused by strikes in January and February. However, other sectors also saw some acceleration, showing that the trend remains upbeat. We expect growth in April to be high because of an earlier bonus payment at miner KGHM.
- We estimate the total wage bill in the corporate sector increased 6%YoY in nominal terms in March, while the real increase was 7.7%YoY, the highest since 2008. Actual growth in households' labour income may be even faster, as the Labour Force Survey (LFS) data suggest that employment is rising twice as corporate sector data show. Labour income is thus advancing at the fastest pace since the pre-crisis boom, when private consumption was expanding by c6%YoY on average, i.e. twice as fast as recently.
- The registered unemployment rate fell to 11.7% in March. The monthly drop of the number of the unemployed was slightly lower than last year, but we note that, this time around, the impact of interventionist government policies was much smaller. We estimate Poland's seasonally-adjusted jobless rate fell to 11.1%, the lowest since July 2009. The LFS-estimated rate fell to 7.7%, the lowest level since April 2009.
- In our view, the strength of the labour market will support an acceleration of private consumption growth in the coming quarters, contributing to a revival of economic growth.

Inflation has troughed

- CPI inflation rate was -1.5%YoY in March vs February's -1.6%YoY, confirming that the rate has bottomed out. Fuel prices rebounded 3.7%MoM, due to higher oil prices and a weakening of the zloty versus the dollar. Core inflation, excluding food and energy prices, fell slightly to 0.2%YoY from 0.4%YoY.
- We continue to expect that in the coming months CPI inflation will rise gradually, firstly because of the extremely low base effect in food prices and, secondly, due to the impact of strong domestic demand on service prices. However, it will take quite a long time for the CPI to start approaching the NBP's target. In our view, inflation will remain below zero at least until the end of 3Q15 and, at the end of this year, it will be in the range of 0.6%-0.7%YoY.

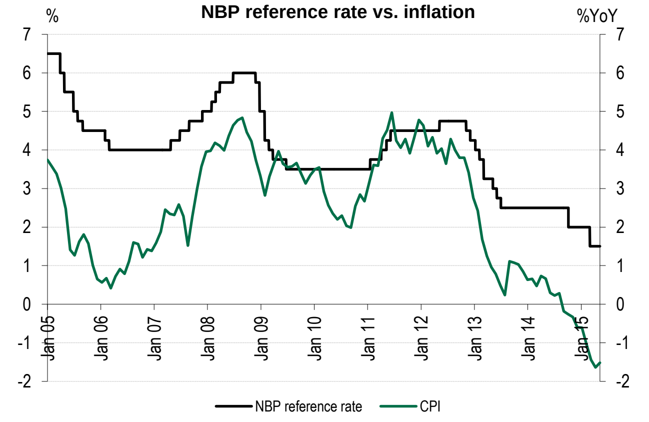
Recovery in Europe fuels Polish exports

- In February, the current account surplus reached €116mn. The 12-month current account balance was -€4.1bn, which we estimate to be -1% of GDP (the smallest deficit since the mid-90s).
- The favourable balance of payments result is largely caused by strong export growth. In February exports rose 10.7%YoY, the fastest since December 2013. Imports accelerated moderately (to 3.7%YoY), lagging exports despite decent growth in domestic demand. This is probably due to the fall in imported commodity prices (including crude oil), among other things.
- We expect the positive trend in Polish foreign trade to continue. In our view, a further acceleration of exports due to faster economic growth in the Euro zone, and Germany in particular, will contribute to an acceleration of economic growth in Poland in the coming quarters.

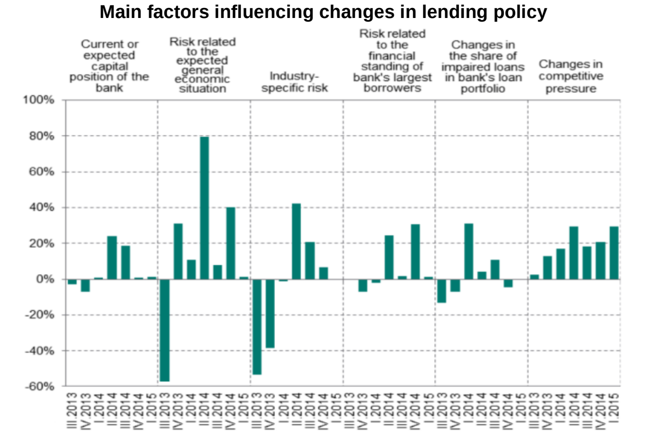
Monetary policy watch

Excerpts from the MPC's communiqué after its May meeting
Growth of global economic activity remains moderate, with a slight acceleration expected in 2015. In the euro area economic growth remains relatively low, although incoming information signals a gradual improvement of economic conditions.
After a sharp and long-lasting fall, global oil prices have risen slightly recently. This has weakened disinflationary forces in many countries. However, global price growth remains very low, and in many European economies it is negative. In these conditions, major central banks are keeping interest rates close to zero and the ECB is continuing its asset purchase programme, which is contributing to higher financial asset prices in many European countries.
In Poland, economic activity remains stable, with GDP growth in 2015 Q1 probably slightly higher than in 2014 Q4. Rising domestic demand fuelled by an improving labour market situation, good financial condition of enterprises and stable expansion in lending, remains the main driver of economic growth. In turn, the low, although accelerating, growth in demand from Poland's main trading partners drags down economic activity in Poland.
Due to the moderate growth in demand and the continuing negative output gap, there is no demand pressure in the economy. At the same time, low commodity prices and moderate nominal wage growth are contributing to the continued lack of cost pressure. As a result, the annual growth rate of consumer and producer prices remains negative, and inflation expectations are very low.
In the opinion of the Council, the annual price growth will remain negative in the coming quarters, mainly due to the previously observed sharp fall in commodity prices. At the same time, the expected gradual acceleration of economic growth, amidst recovery in the euro area and good situation in the domestic labour market, reduce the risk of inflation remaining below the target in the medium term. Therefore, the Council decided to keep NBP interest rates unchanged.

NBP reference rate vs. inflation



Main factors influencing changes in lending policy



Sources: NBP, Reuters, BZ WBK

Monetary policy on hold

▪ As expected, Poland's Monetary Policy Council left National Bank of Poland (NBP) rates unchanged at its May meeting. The reference rate remains 1.50%.

▪ The MPC decision was no surprise at all. Recent macro data confirmed the acceleration of economic growth and a rebound of inflation, while the zloty appreciation has stalled since the council's last meeting. Therefore, the MPC did not have any reason to change its stance.

▪ In its statement, the council pointed out that growth in economic activity is steady. It highlighted an improvement in the labour market and an increase in lending, but also stressed the lack of demand and cost pressure. On the other hand, the MPC noted that accelerating economic growth and the situation in the labour market limit the risk of inflation being below the NBP's target in the medium term.

▪ In general, the MPC meeting did not change our expectations for monetary policy and it seems likely that, at least in the next few months, the central bank's meetings will be equally unexciting. We expect no changes in the main interest rates, not only until the end of the current MPC term but even after that. We see a possibility of the first rate hikes only at the end of 2016, when rates should normalise in response to a gradual rise in inflation.

MPC members unanimous that no rate changes are necessary

▪ Comments from the last few weeks show that the MPC members are surprisingly unanimous in their opinion that no changes in monetary policy parameters are needed until the end of the current Council's tenure.

▪ Similar opinions were expressed recently by Jerzy Osiatyński, Adam Glapiński, Jerzy Hausner, Elżbieta Chojna-Duch, Marek Belka and Anna Zielińska-Głębocka. However, as Governor Marek Belka said during the last press conference, this is not any kind of forward guidance, but rather a projection based on current and expected economic conditions, while a sudden, strong shift in market or economic prospects could encourage the MPC to consider changes to its monetary policy parameters, both cuts or hikes. This clearly suggests a neutral bias.

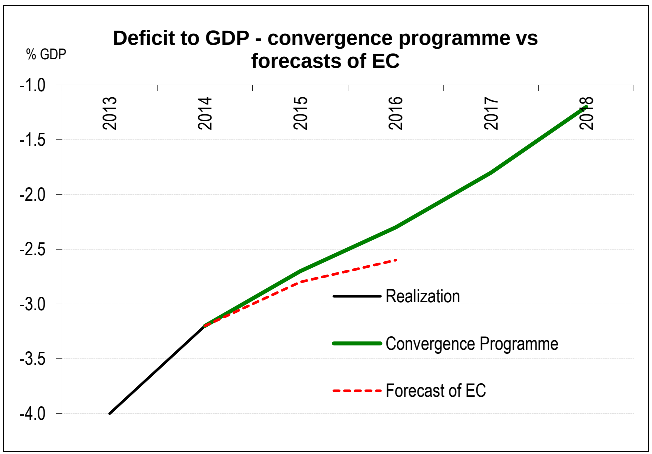
▪ Pressure for rate cuts could increase if the zloty appreciated strongly and quickly in the nearest months. However, concern about Greece is effectively preventing this. Moreover, in our view, the stronger macro data appear in the economy, the greater the zloty strengthening that would be needed to provoke a central bank reaction. Meanwhile, we are expecting an improvement in macro indicators and an acceleration of economic growth (to c4%YoY in 4Q) amid a gradual rebound in the CPI (yet annual CPI growth will most probably remain negative until the end of 3Q).

Banks expect higher demand for loans

▪ Results of the 2Q15 survey of credit officers showed that credit criteria for companies did not change much in 1Q, but margins fell due to competition among banks. Still, some easing is expected in 2Q. Banks recorded higher corporate demand for long-term loans, mainly due to investment plans, and expect this to continue.

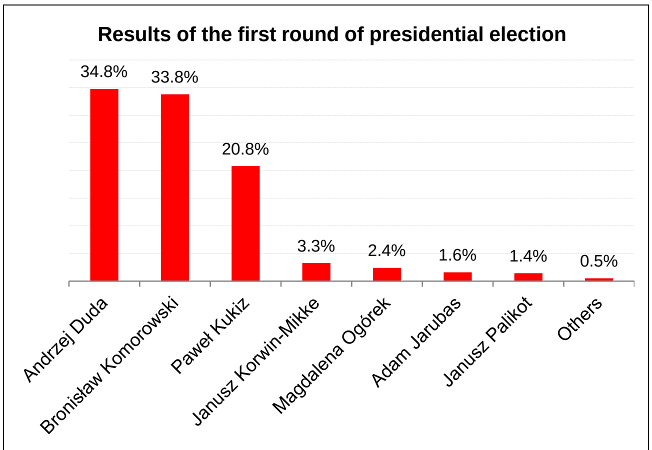
▪ The household sector also showed a decent rise in demand, but only as regards consumer loans, where margins also fell and non-interest costs rose. The mortgage loan market saw a considerable tightening of lending criteria, due to lower maximum loan-to-value ratio after the introduction of Recommendation S, which weighed on demand. Still, banks expect a considerable rise in demand for household loans and looser criteria in the current quarter.

Fiscal policy watch



Main assumptions of the Multi-Year Financial Plan 2015-18

	2015	2016	2017	2018
Real GDP (%YoY)	3.4	3.8	3.9	4.0
Potential GDP (%YoY)	3.3	3.4	3.7	4.0
Private consumption (%YoY)	3.4	3.7	3.8	3.8
Fixed investments (%YoY)	6.9	6.1	6.5	6.9
Unemployment rate (%)	8.2	7.6	7.0	6.5
GG deficit (% GDP)	2.7	2.3	1.8	1.2
GG debt (% GDP)	51.7	51.6	50.7	49.1



	Spread vs. Bunds (10Y) in bp			CDS (5Y USD)		
	12.05	change since 10.04.15	change since 31.12.14	12.05	change since 10.04.15	change since 31.12.14
Poland	219	6	22	59	-1	-11
Czech	9	-21	-12	48	0	-7
Hungary	319	0	5	139	7	-39
Greece	1028	-82	122	224	3	45
Spain	116	8	8	75	1	-11
Ireland	71	15	0	48	4	-3
Portugal	175	28	-40	129	10	-71
Italy	116	8	-18	106	11	-32
France	30	1	1	30	-3	-16
Germany				15	0	-3

Source: Finance Ministry, European Commission, National Electoral Committee, BZ WBK.

Government plans to continue fiscal consolidation

- In 2014 Poland reduced its general government deficit to 3.2% of GDP from 4.0% in the previous year.
- The government approved the Multi-Year Financial Plan for 2015-18. The plan assumes a gradual acceleration of GDP growth from 3.4% in 2015 to 4.0% in 2018, mainly on the back of strong private consumption and exports, with the trade deficit shrinking to almost zero. In our view, these assumptions are a bit too optimistic as they imply an unusually long cycle of economic expansion.
- The government deficit is expected to fall consistently below 3%, starting with 2.7% in 2015. Considering that excluding costs of pension reform the general government deficit was already below the 3% target in 2014 and that there are credible plans to reduce it further, we see a strong possibility that the European Commission (EC) could lift the excessive deficit procedure for Poland as soon as June 19, which would surely be credit-positive. Moreover, this could be followed by an improvement of Poland's rating outlook by some credit agencies, although we do not expect to see an upgrade any time soon.
- The EC's latest forecasts point to Poland's deficit/GDP ratio will drop to 2.8% this year (from 3.2% in 2014) and to 2.6% in 2016.

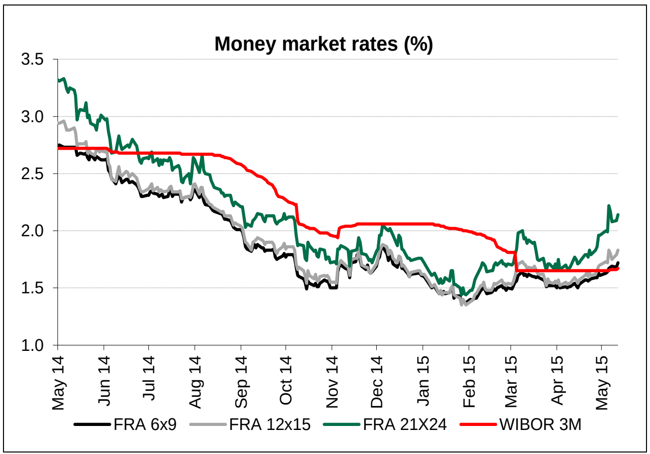
Presidential race will continue

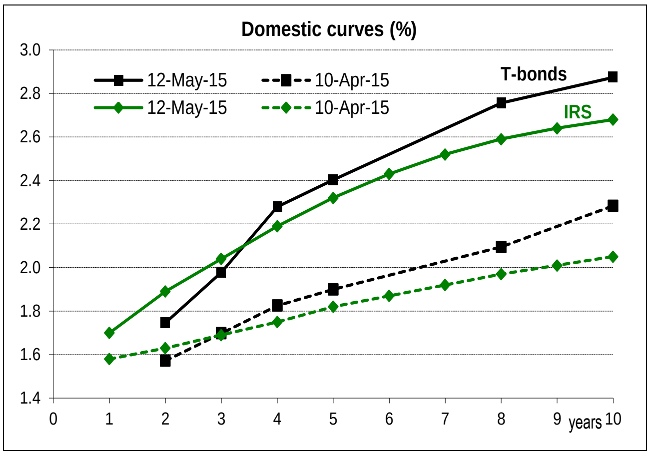
- Unexpectedly, the PiS candidate Andrzej Duda won the first round of presidential elections, with 34.76% of votes, while the incumbent President Bronisław Komorowski came second (with 33.77%). The second round of election will take place on May 24.
- In our view, the results of the first round increase uncertainty about the final outcome. The big question mark is how the supporters (mainly young people) of anti-establishment Paweł Kukiz will vote in the second round. Kukiz ranked third in the first round with nearly 21% of the votes. He refused to endorse either of the two remaining contenders.
- The president does not have significant power in Poland, but he can veto parliament's proposals and thus complicate the functioning of the government. In addition, the president will pick two new MPC members at the start of next year and choose a new NBP governor around mid-2016. This election is perceived as a test ahead of the parliamentary election in the autumn. Therefore, we think the uncertainty may weigh on the markets' mood in the next two weeks.

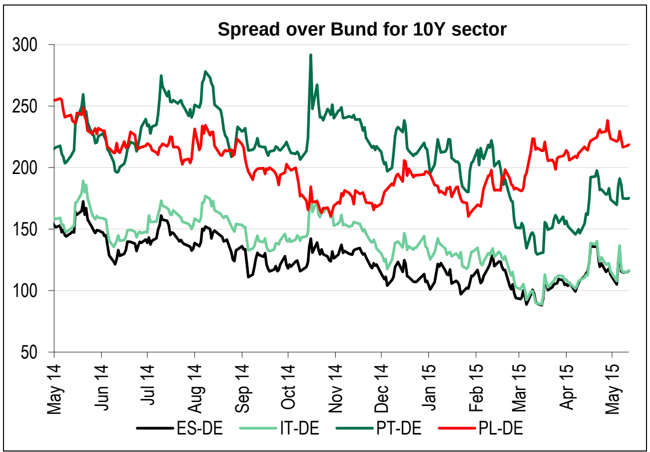
Greek drama still centre stage

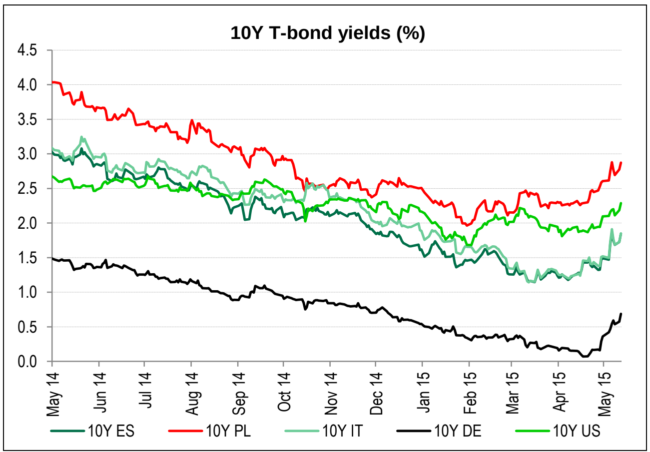
- Core and peripheral bonds lost ground in the second half of April, and the sell-off intensified in early May as expectations of a faster recovery in the Euro zone and a lower risk of longer deflation caused a surge of profit taking. As a result, the 10Y Bund yield reached c0.8% (its highest since December 2014), while the 10Y UST rose slightly above 2.30% (the highest since the end of November 2014). Consequently, the peripheral spread over Bund also widened considerably, compared with the end of March, as fears over Greece weighed on the values of peripheral debt.
- We believe the recent surge in yields was too fast and furious to be sustainable. Recent signals from China, Europe and the US are weakening optimism about the performance of the global economy and should warrant no immediate changes in the monetary policy run by the biggest central banks. Thus European yields could turn lower again, but returning to the record low levels reached in April will be difficult.

Interest rate market









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

Higher odds of earlier monetary tightening by the MPC

- The end of April/beginning of May brought significant changes in investors' mood. A sharp sell-off on the IRS market, together with stronger-than-expected domestic macro data, resulted in a marked rise in FRAs, in particular for longer tenors (starting from 9M). What is more, FRAs rose above current 3M WIBOR rate for the first time since mid-May 2014, indicating that investors are now pricing in a scenario in which the NBP is more likely to raise rates earlier than previously expected (in 12 months' rather than 18 months' time). This led to a gradual increase in WIBORs (of 1-7bp compared with the end of April), after a long period of stable money market rates.
- The market is now pricing in monetary tightening in 2H16 of nearly 50bp (FRA18x21 is close to 2%), which is our baseline scenario. Despite a strong declaration from the NBP governor that official rates should remain unchanged until the end of the MPC's term, WIBORs may continue a gradual increase in the coming months. As in previous months, FRA rates should be more vulnerable, depending on upcoming macro data releases and IRS moves. We think data for April should confirm a further improvement in the Polish economy and this, together with a gradual increase in the headline CPI, might translate into further increases in FRA rates, in particular for longer tenors (12M and longer).

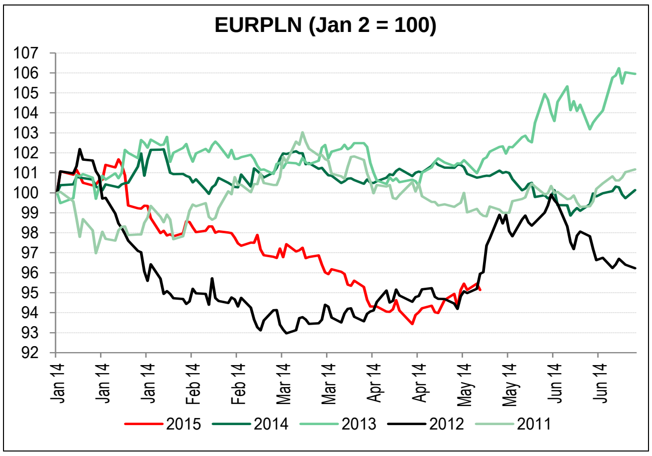
Yields up due to sell-off on core markets and better macro data

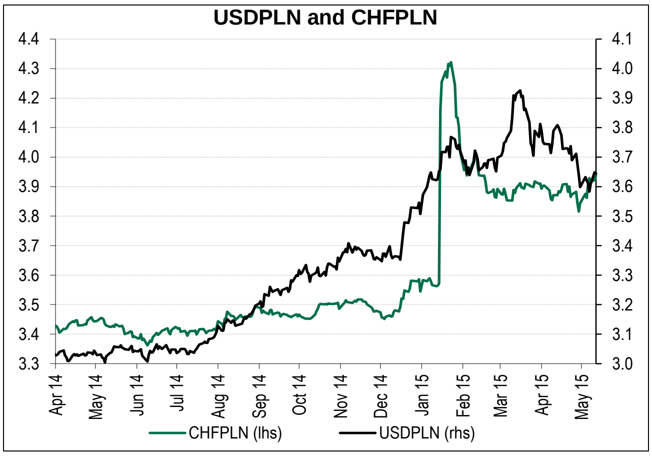
- Yields and IRS rates increased significantly over the last three weeks. This was due to much better-than-expected domestic data (strong industrial output and retail sales, in particular) and adverse global market conditions as growing uncertainty over Greece and less-supportive inflation data caused a sharp sell-off on both core and peripheral Euro zone debt markets. The move seems to have been exaggerated by poor liquidity and stop-losses. As a result, the domestic 10Y benchmark temporarily rose above 3%, the highest level since September 2014.
- Polish curves steepened noticeably, with the long end performing worst. However, it is worth noting that the bear steepener strategy is intact in all major CEE sovereign bond markets. The spread over Bunds also widened significantly, rising to nearly 240bp for 10Y, the highest since May 2014. The T-bond market lost more than IRS, and, as a consequence, the asset swap spread widened visibly, in particularly for 10Y sector.

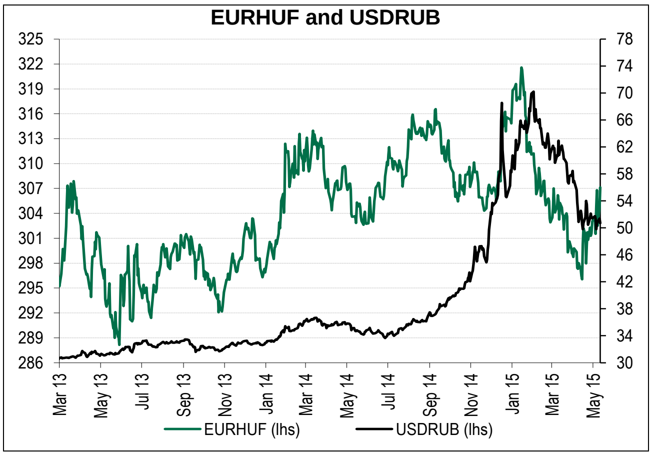
Global sentiment will continue to be a major driver

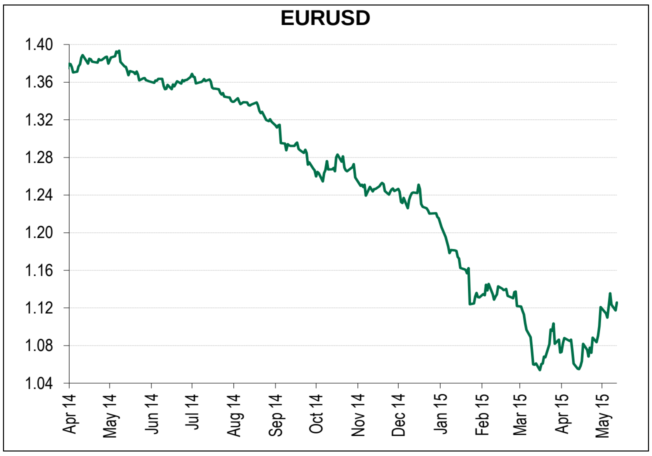
- This month, global sentiment will continue to be a major driver for Polish T-bonds and IRS. The ongoing negotiations with Greece are likely to stay centre stage, as reaching an agreement with creditors, in our view, will not happen quickly. The Greek saga will, therefore, weigh on domestic asset valuations, keeping yields/rates high (in particular at the long end).
- We believe the recent surge in yields/IRS was overdone and think that a lack of immediate changes in the monetary policy run by the biggest central banks should result in some improvement in investors' mood on core markets, which should bring relief to domestic assets.
- On the domestic side, upcoming macro data should confirm strong economic growth and the bottoming out of inflation, which is likely to weigh on Polish assets and limit potential for a sustained recovery. We expect domestic IRS and bond yields to rise in the course of 2015, amid strengthening economic growth and rising inflation as the ECB's QE programme proves successful and attains its objective.

Foreign exchange market









Sources: Reuters, Bloomberg, BZ WBK.

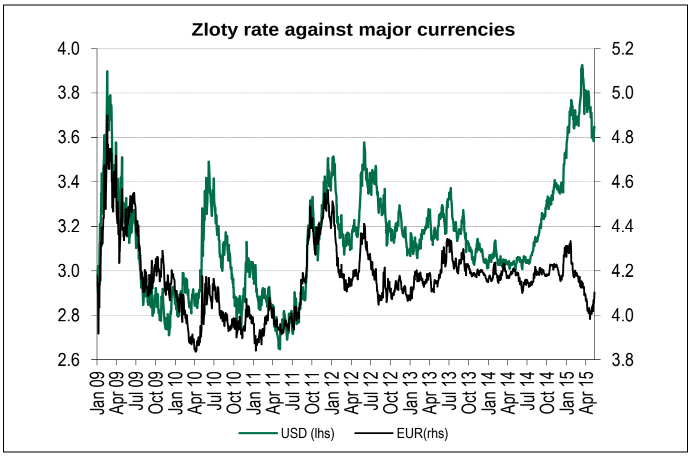
Little room for the zloty to rise in the short term

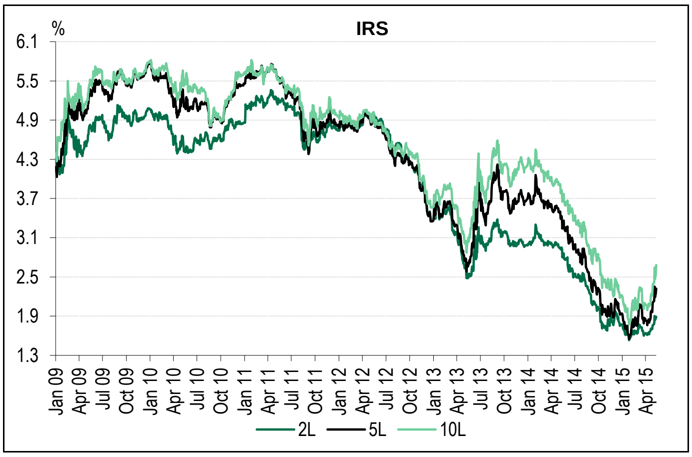
- In April EUR/PLN tested the 4.0 support several times, but failed to stay below this level more than briefly and remained above it in the following weeks. Given the scale of turmoil in the global market (that shocked the Polish bond market) in early May, the domestic currency remained surprisingly stable vs the euro, in our opinion. The zloty depreciated to c4.10 per euro, the weakest since mid-March. However, please mind that earlier this year we had the opposite situation, i.e. the EUR/PLN was declining quickly, while yields of the Polish bonds remained relatively stable.
- We still believe there are fundamental arguments for the zloty to appreciate further as, in the medium run, it should be supported by high real interest rates, accelerating economic growth, a low C/A deficit, the improving fiscal position and the ECB's QE. In the short run we think the EUR/PLN will not decrease further and it could even rebound from the current 4.09. The top chart shows how, three years ago, the market mood deteriorated, also on the back of worries over Greece, which faced difficulty in forming a new government after a parliamentary election. We also see solid technical factors that suggest upside potential.
- The main reason for investors' caution is probably geopolitical risk, as concern about Greece's future is growing and this may weigh heavily on the market until some kind of solution emerges. Note also that 1Q15 was the best first quarter for the zloty vs the euro since 2012, when the Polish currency was recovering after the debt crisis. Any profit taking after the recent significant appreciation would not be a surprise, as much of the positive news (faster growth, QE, no more rate cuts in Poland) has already been priced in. Another factor that may limit scope for the zloty to rise could be uncertainty about the Fed's monetary policy, especially if the next data releases in the US prove to be relatively strong. The recent sharp weakening of Poland's domestic bonds seems, to some extent, to have been driven by foreign capital outflows, despite the ECB's QE programme. Thus, we see some upside risk to our short-term forecasts.
- Andrzej Duda's surprising victory in Poland's presidential elections could weigh slightly on the market in the next two weeks. Still, it is the parliamentary election in autumn that is more important. Also, as we wrote in our 2015 Outlook: Poland (page 31), analysis of market reaction to the 2005/2006 parliamentary election, when the Law and Justice party won and was forced to form a coalition with populist parties, does not prove that politics had a decisive impact on the zloty at that time.

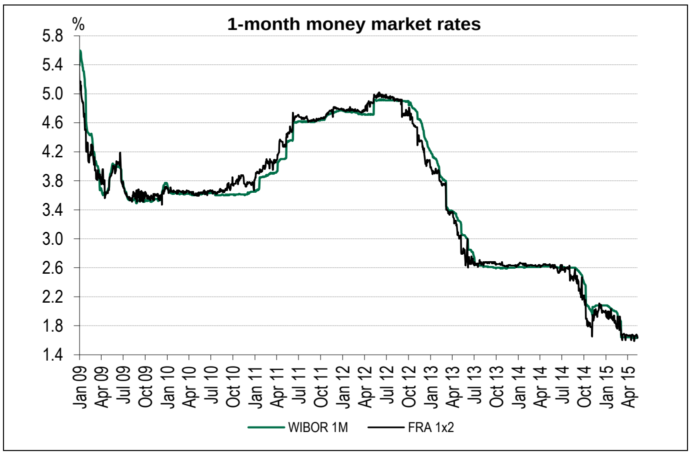
Upside bias remains in the EUR/USD market

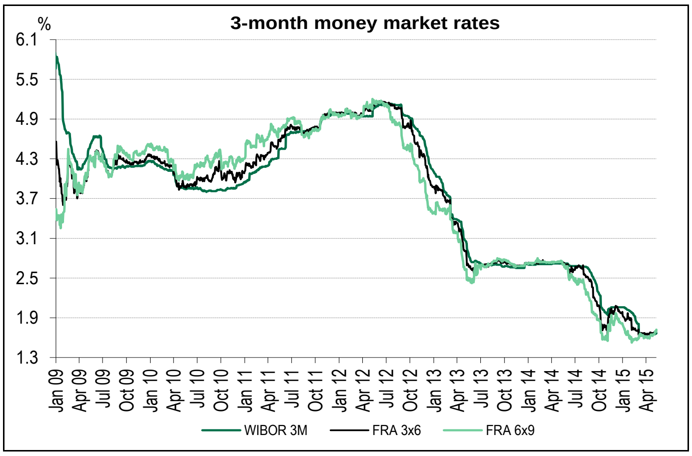
- EUR/USD reached 1.14 in early May after three consecutive weeks of gains due to poor US macro data (particularly 1Q GDP) that have pushed back market expectations of the first Fed rate hike until after the summer.
- As we have said last month, the ongoing rebound in the EUR/USD market is the longest since the downtrend started in mid-2014. This generates an upside bias for the exchange rate. However, the still unsolved case of financial aid for Greece is likely to limit the room for any noticeable and sustainable increase in EUR/USD. We think that, in the short term, this could overshadow the recent positive changes that appeared in the Euro zone economy, like the rebound in inflation or reasonable activity data.
- We maintain our forecast of a rise in EURUSD in the course of 2015 (to 1.16 at year-end) on the back of accelerating economic growth and a rebound in inflation in the Euro zone. We think that much of the US rate hike is already priced-in and monetary policy tightening – whenever it starts – is likely to be careful and gradual.

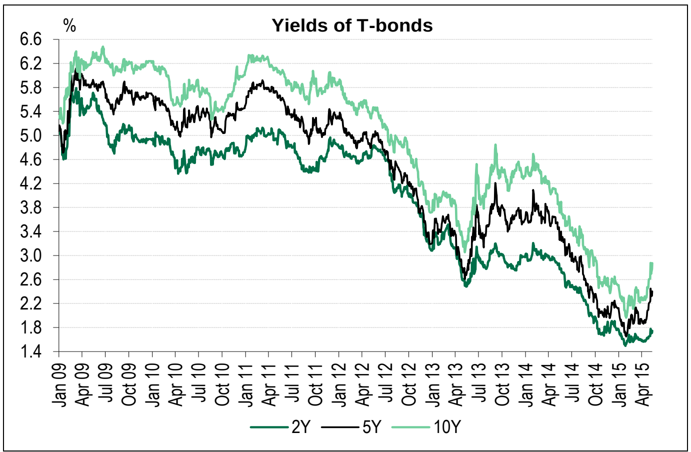
Market monitor

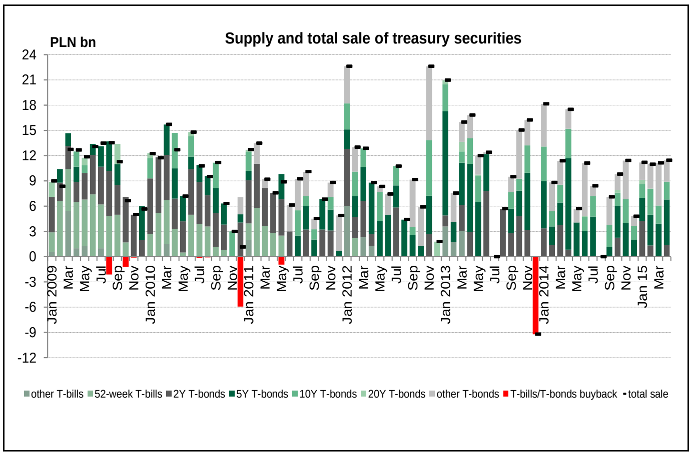












Treasury bond auctions in 2014/2015 (PLN mn)

month	First auction				Second auction				Switch auction		
	date	T-bonds	offer		date	T-bonds	offer		date	T-bonds	offer
May '14	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 $400m	$354.4m	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	4198.5	22.01	OK0717/PS0420	5000-7000	7005.2			
February	5.02	WZ/DS/WS	3000-5000	5980.0	12.02	OK0717/PS0420	3000-5000	5000.0			
March	5.03	USD20150716/ USD20151019**	up to $500m	$400.6m	12.03	WZ0124/DS0725/WS0428	3000-4000	4639.0	26.03	PS0415/OK0715/DS1015	WZ0120/PS0420
April	9.04	WZ0124/DS0725	2500-4500	3788.0	23.04	OK0717/WZ0120/PS0420	5000-7000	7654.3			
May	7.05	OK/WZ	3000-5000	Call off	21.05	to be announced	Up to 4000				

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

Source: MoF, Reuters, BZ WBK.

Economic calendar

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
11 May	**12** CZ: CPI (Apr)	**13** DE: Advance GDP (Q1) EZ: Advance GDP (Q1) EZ: Industrial output (Mar) HU: Advance GDP (Q1) US: Retail sales (Apr)	**14** ***PL: CPI (Apr)*** ***PL: Money supply (Apr)***	**15** ***PL: Balance of payments (Mar)*** ***PL: Core inflation (Apr)*** ***PL: Advance GDP (Q1)*** CZ: Advance GDP (Q1) US: Industrial output (Apr) US: Flash Michigan (May)
18	**19** ***PL: Wages and employment (Apr)*** DE: ZEW index (May) EZ: HICP (Apr) US: House starts (Apr) US: Building permits (Apr)	**20** ***PL: Industrial output (Apr)*** ***PL: Retail sales (Apr)*** ***PL: PPI (Apr)*** US: FOMC minutes	**21** ***PL: MPC minutes*** CN: Flash PMI – manufacturing (May) DE: Flash PMI – manufacturing (May) EZ: Flash PMI – manufacturing (May) US: Philly Fed index (May) US: Home sales (Apr)	**22** DE: GDP (Q1) DE: Ifo index (May) US: CPI (Apr)
25	**26** ***PL: Unemployment rate (Apr)*** HU: Central bank decision US: Durable goods orders (Apr) US: Consumer confidence index (May) US: New home sales (Apr)	**27**	**28** US: Pending home sales (Apr)	**29** ***PL: GDP (Q1)*** ***PL: Inflation expectations (May)*** US: Preliminary GDP (Q1) US: Michigan index (May)
1 June ***PL: PMI – manufacturing (May)*** CN: PMI – manufacturing (May) DE: PMI – manufacturing (May) EZ: PMI – manufacturing (May) US: ISM – manufacturing (May) US: Personal income (Apr) US: Consumer spending (Apr)	**2** EZ: Flash HICP (May) US: Industrial orders (Apr)	**3** ***PL: MPC decision*** EZ: ECB decision DE: PMI – services (May) EZ: PMI – services (May) US: ADP report (Apr) US: ISM – services (May)	**4**	**5** DE: Industrial orders (Apr) HU: GDP (Q1) US: Non-farm payrolls (May) US: Unemployment rate (May)
8 DE: Industrial output (Apr) DE: Exports (Apr) CZ: Industrial output (Apr)	**9** CZ: CPI (May) HU: CPI (May)	**10**	**11** US: Retail sales (May)	**12** EZ: Industrial output (Apr) US: Flash Michigan (Jun)
15 ***PL: CPI (Mar)*** ***PL: Balance of payments (Apr)*** US: Industrial output (May)	**16** ***PL: Core inflation (May)*** DE: ZEW index (Jun) US: House starts (May) US: Building permits (May)	**17** ***PL: Wages and employment (May)*** EZ: HICP (May) US: Decyzja FOMC	**18** ***PL: MPC minutes*** ***PL: Industrial output (May)*** ***PL: Retail sales (May)*** ***PL: PPI (May)*** US: CPI (May) US: Philly Fed index (Jun)	**19**

Calendar of MPC meetings and data releases for 2015

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
ECB meeting	22	-	5	15	-	3	16	-	3	22	-	3
MPC meeting	13-14	3-4	3-4	14-15	5-6	2-3	7-8	-	1-2	5-6	3-4	1-2
MPC minutes	22	19	19	23	21	18	-	20	17	22	19	17
Flash GDP*		13			15			14			13	
GDP*	-	27	-	-	29	-	-	28	-	-	30	-
CPI	15	13[a]	13[b]	15	14	15	15	13	15	15	13	15
Core inflation	16	-	16	16	15	16	16	14	16	16	16	16
PPI	21	18	18	20	20	18	17	19	17	19	19	17
Industrial output	21	18	18	20	20	18	17	19	17	19	19	17
Retail sales	27	18	18	20	20	18	17	19	17	19	19	17
Gross wages,employment	20	17	17	17	19	17	16	18	16	16	19	16
Foreign trade	about 50 working days after reported period											
Balance of payments*			31			30						
Balance of payments	13	13	16	13	15	15	14					
Money supply	14	13	13	14	14	12	14					

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

Economic data and forecasts for Poland

Monthly economic indicators

		Apr 14	May 14	Jun 14	Jul 14	Aug 14	Sep14	Oct14	Nov 14	Dec 14	Jan 15	Feb 15	Mar 15	Apr 15E	May 15E
PMI	pts	52.0	50.8	50.3	49.4	49.0	49.5	51.2	53.2	52.8	55.2	55.1	54.8	54.0	54.1
Industrial production	% YoY	5.5	4.4	1.8	2.4	-1.9	4.2	1.7	0.3	8.1	1.6	5.0	8.8	5.6	5.3
Construction production	% YoY	12.2	10.0	8.0	1.1	-3.6	5.6	-1.0	-1.6	5.0	1.3	-0.3	2.9	9.9	8.0
Retail sales [a]	% YoY	8.4	3.8	1.2	2.1	1.7	1.6	2.3	-0.2	1.8	0.1	-1.3	3.0	1.0	2.3
Unemployment rate	%	13.0	12.5	12.0	11.8	11.7	11.5	11.3	11.4	11.5	12.0	12.0	11.7	11.3	10.8
Gross wages in corporate sector	% YoY	3.8	4.8	3.5	3.5	3.5	3.4	3.8	2.7	3.7	3.6	3.2	4.9	5.0	4.9
Employment in corporate sector	% YoY	0.7	0.7	0.7	0.8	0.7	0.8	0.8	0.9	1.1	1.2	1.2	1.1	1.2	1.3
Exports (€)	% YoY	5.1	10.4	5.7	6.4	-1.2	5.8	4.7	3.5	4.3	5.2	10.7	13.6	8.5	8.5
Imports (€)	% YoY	8.9	11.8	7.5	7.7	0.7	7.0	5.6	5.0	9.8	-1.3	3.7	10.5	8.5	8.5
Trade balance	EUR mn	39	-160	86	-270	-215	492	-43	10	-791	937	783	570	42	-174
Current account balance	EUR mn	269	-161	-927	-729	-1,063	12	-371	-181	-1,414	37	116	1,445	298	-207
Current account balance	% GDP	-1.1	-1.1	-1.2	-1.3	-1.4	-1.3	-1.4	-1.3	-1.4	-1.2	-1.0	-0.7	-0.7	-0.7
Budget deficit (cumulative)	PLN bn	-21.3	-22.5	-25.4	-26.4	-24.6	-22.4	-27.2	-24.8	-29.8	-0.6	-11.3	-16.7	-15.8	-18.9
Budget deficit (cumulative)	% of FY plan	44.8	47.3	53.4	55.5	51.9	47.1	57.4	52.1	62.7	1.3	24.6	36.2	34.3	41.0
CPI	% YoY	0.3	0.2	0.3	-0.2	-0.3	-0.3	-0.6	-0.6	-1.0	-1.4	-1.6	-1.5	-1.1	-0.9
CPI excluding food and energy	% YoY	0.8	0.8	1.0	0.4	0.5	0.7	0.2	0.4	0.5	0.6	0.4	0.2	0.3	0.5
PPI	% YoY	-0.7	-1.0	-1.8	-2.0	-1.5	-1.6	-1.3	-1.6	-2.7	-2.8	-2.8	-2.4	-2.7	-1.6
Broad money (M3)	% YoY	5.4	5.2	5.2	6.0	7.4	7.9	7.7	8.4	8.2	8.6	8.7	8.8	8.6	8.6
Deposits	%YoY	5.4	5.5	5.5	6.7	7.8	7.5	7.8	8.5	8.1	8.2	8.0	8.2	8.1	8.0
Loans	%YoY	6.1	5.4	4.9	5.4	6.3	6.2	7.2	7.4	7.3	8.0	7.7	7.8	7.8	8.4
EUR/PLN	PLN	4.18	4.18	4.14	4.14	4.19	4.19	4.21	4.21	4.21	4.28	4.18	4.13	4.02	4.06
USD/PLN	PLN	3.03	3.04	3.04	3.06	3.15	3.25	3.32	3.38	3.42	3.68	3.68	3.81	3.73	3.62
CHF/PLN	PLN	3.43	3.42	3.39	3.41	3.46	3.47	3.48	3.50	3.50	3.96	3.93	3.89	3.88	3.87
Reference rate [b]	%	2.50	2.50	2.50	2.50	2.50	2.50	2.00	2.00	2.00	2.00	2.00	1.50	1.50	1.50
3M WIBOR	%	2.72	2.72	2.69	2.68	2.65	2.45	2.07	2.03	2.06	2.03	1.92	1.67	1.65	1.66
Yield on 2-year T-bonds	%	2.94	2.79	2.54	2.45	2.30	2.02	1.77	1.78	1.84	1.60	1.60	1.62	1.60	1.74
Yield on 5-year T-bonds	%	3.60	3.36	3.10	2.89	2.73	2.40	2.12	2.04	2.16	1.82	1.88	1.99	1.98	2.34
Yield on 10-year T-bonds	%	4.10	3.80	3.54	3.34	3.23	2.98	2.63	2.54	2.55	2.21	2.20	2.32	2.36	2.82

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	2014	2015E	1Q14	2Q14	3Q14E	4Q14	1Q15E	2Q15E	3Q15E	4Q15E
GDP	PLN bn	1,615.9	1,662.1	1,728.7	1,796.9	403.7	419.5	427.1	478.3	419.9	433.7	442.5	500.9
GDP	% YoY	1.8	1.7	3.4	3.6	3.5	3.6	3.3	3.3	3.4	3.5	3.6	4.0
Domestic demand	% YoY	-0.4	0.2	4.9	4.3	3.6	6.1	5.1	5.0	3.4	4.6	4.5	4.7
Private consumption	% YoY	1.0	1.1	3.1	3.5	3.0	3.0	3.2	3.0	3.3	3.6	3.6	3.5
Fixed investments	% YoY	-1.5	0.9	9.2	8.6	11.4	8.7	9.2	8.6	8.7	8.8	8.9	8.2
Industrial production	% YoY	1.0	2.3	3.4	6.5	4.9	3.7	1.8	2.8	5.2	6.8	7.2	6.7
Construction production	% YoY	-1.0	-10.3	4.3	8.5	9.8	9.9	1.1	1.0	1.4	9.7	10.3	9.5
Retail sales [a]	% YoY	6.0	2.6	3.1	4.0	5.1	4.6	1.9	1.4	0.7	2.2	5.2	7.4
Unemployment rate [b]	%	13.4	13.4	11.5	10.1	13.5	12.0	11.5	11.5	11.7	10.4	9.9	10.1
Gross wages in the national economy [a]	% YoY	3.7	3.4	3.6	5.2	4.2	3.5	3.5	3.1	4.1	4.9	5.5	5.5
Employment in the national economy	% YoY	0.0	-1.1	0.2	0.8	-0.3	0.1	0.3	0.9	0.7	0.7	0.7	0.7
Exports (€)	% YoY	6.5	5.7	5.6	9.9	8.2	6.6	3.8	4.1	10.1	8.5	10.0	11.0
Imports (€)	% YoY	2.2	0.2	7.2	8.6	6.9	10.1	5.2	6.6	3.1	8.2	11.0	12.0
Trade balance	EUR mn	-7,146	635	-1,629	228	-381	-431	9	-826	2,290	-349	-383	-1,329
Current account balance	EUR mn	-13,697	-5,148	-5,762	-3,480	-1,222	-789	-1,780	-1,971	1,598	-767	-2,351	-1,961
Current account balance	% GDP	-3.5	-1.3	-1.4	-0.8	-1.1	-1.2	-1.3	-1.4	-0.7	-0.7	-0.8	-0.8
General government balance	% GDP	-3.7	-4.0	-3.2	-2.7	-	-	-	-	-	-	-	-
CPI	% YoY	3.7	0.9	0.0	-0.7	0.6	0.3	-0.3	-0.7	-1.5	-0.9	-0.6	0.3
CPI [b]	% YoY	2.4	0.7	-1.0	0.7	0.7	0.3	-0.3	-1.0	-1.5	-0.7	-0.4	0.7
CPI excluding food and energy	% YoY	2.2	1.2	0.6	0.6	0.8	0.8	0.5	0.4	0.4	0.4	0.6	1.0
PPI	% YoY	3.4	-1.3	-1.5	-2.0	-1.2	-1.2	-1.7	-1.9	-2.7	-2.1	-2.2	-1.0
Broad money (M3) [b]	% oY	4.5	6.2	8.2	8.6	5.2	5.2	7.9	8.2	8.3	8.4	8.5	8.6
Deposits [b]	%YoY	4.7	6.0	8.1	8.1	4.7	5.5	7.5	8.1	8.1	8.1	8.1	8.1
Loans [b]	%YoY	1.2	3.6	6.9	6.7	5.3	4.9	6.2	7.3	7.2	7.0	6.9	6.7
EUR/PLN	PLN	4.19	4.20	4.18	4.03	4.19	4.17	4.18	4.21	4.20	4.03	3.97	3.92
USD/PLN	PLN	3.26	3.16	3.15	3.57	3.06	3.04	3.15	3.37	3.72	3.65	3.52	3.41
CHF/PLN	PLN	3.47	3.41	3.45	3.79	3.42	3.42	3.45	3.50	3.93	3.86	3.77	3.63
Reference rate [b]	%	4.25	2.50	2.00	1.50	2.50	2.50	2.50	2.00	1.50	1.50	1.50	1.50
3M WIBOR	%	4.91	3.02	2.52	1.72	2.71	2.71	2.59	2.06	1.87	1.66	1.68	1.69
Yield on 2-year T-bonds	%	4.30	2.98	2.46	1.72	3.01	2.76	2.26	1.80	1.61	1.68	1.74	1.85
Yield on 5-year T-bonds	%	4.53	3.46	2.96	2.25	3.71	3.35	2.67	2.11	1.90	2.20	2.38	2.53
Yield on 10-year T-bonds	%	5.02	4.04	3.49	2.62	4.38	3.82	3.18	2.58	2.24	2.65	2.78	2.83

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

This analysis is based on information available until 12.05.2015 has been prepared by:

ECONOMIC ANALYSIS DEPARTMENT

Al. Jana Pawła II 17, 00-854 Warszawa fax +48 22 586 83 40

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

Maciej Reluga* – Chief Economist

tel. +48 22 5341888. Email: maciej.reluga@bzwbk.pl

Piotr Bielski*	+48 22 534 18 87
Agnieszka Decewicz*	+48 22 534 18 86
Marcin Luziński*	+48 22 534 18 85
Marcin Sulewski*	+48 22 534 18 84

TREASURY SERVICES DEPARTMENT

Poznań

pl. Gen. W. Andersa 5
61-894 Poznań

tel. +48 61 856 58 14/30

fax +48 61 856 44 56

Warszawa

al. Jana Pawła II 17
00-854 Warszawa

tel. +48 22 586 83 20/38

fax +48 22 586 83 40

Wrocław

ul. Rynek 9/11
50-950 Wrocław

tel. +48 71 369 94 00

fax +48 71 370 26 22

IMPORTANT DISCLOSURES

ANALYST CERTIFICATION:

The views expressed in this report accurately reflect the personal views of the undersigned analyst(s). In addition, the undersigned analyst(s) have not and will not receive any compensation for providing a specific recommendation or view in this report: **Maciej Reluga*, Piotr Bielski*, Agnieszka Decewicz*, Marcin Luziński*, Marcin Sulewski*.**

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