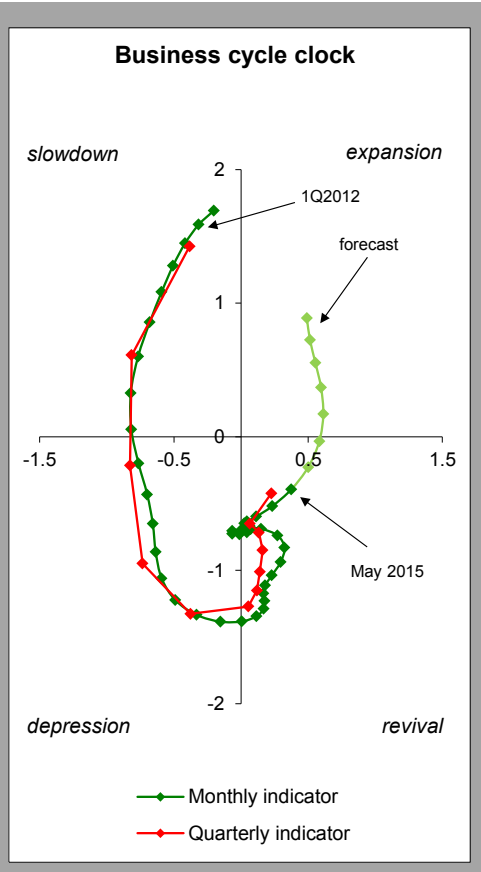


# MACROscope

Polish Economy and Financial Markets

June 2015

## Key themes remain the same



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### 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

■ In last month's report, Political question marks on the horizon, we wrote about the **uncertain political outlook** in the context of Polish elections and the talks between Greece and its creditors on a bailout extension. Indeed, uncertainty has been the name of the game on the financial markets in recent weeks. Polish assets were negatively affected by rising concern about Greece leaving the euro, as the deadline for a bailout agreement approached without any visible progress in negotiations, and the unexpected result of the presidential election, which raised questions about the future political situation in Poland.

■ It seems that the same themes will remain in focus in the coming months. The worries that pushed Polish yields and EUR/PLN higher in recent weeks are likely to remain the key factors for some time. We see limited room for a recovery of the Polish market, amid continuing concern about Greece and a higher local risk premium due to political uncertainty. The surprising result of the presidential race, with victory for the opposition candidate Andrzej Duda, augurs major changes after the general election in October. Polish Prime Minister Ewa Kopacz has already announced a number of changes over the so-called wire-tapping scandal, including a few ministries and her chief advisor Jacek Rostowski (former finance minister). The Lower House speaker also resigned. Although the changes should not influence the market mood and do not significantly alter the situation ahead of the general election, political uncertainty remains high.

■ Meanwhile, **Poland's economy started 2015 on a solid note**, with GDP growth accelerating to 3.6%YoY in 1Q15, **fuelled by strong private consumption, accelerating exports and buoyant fixed investments**. Although a few high-frequency indicators (April production and retail sales, May PMI) disappointed recently, **we still believe that economic growth will continue to speed up towards 4% at the end of the year**. External demand should keep growing and the zloty exchange rate is still competitive. At the same time, both consumption and investment growth are likely to remain strong, supported by record low interest rates and low commodity prices. After the 1Q15 data, **we raised our 2015 GDP forecast again, this time to 3.8%**.

■ With GDP accelerating and inflation bottoming out (the CPI fell 1.1%YoY in May and we expect it to post a YoY rise of 0.7% by December), we do not expect monetary policy parameters to change in the near future. We think it is highly likely that the Monetary Policy Council (MPC) will keep **interest rates on hold until the end of its term of office** (ie early 2016). It is hard to speculate, at this point, on the line-up of the new rate-setting panel (including the National Bank of Poland governor), as this will depend on the result of the autumn general election.

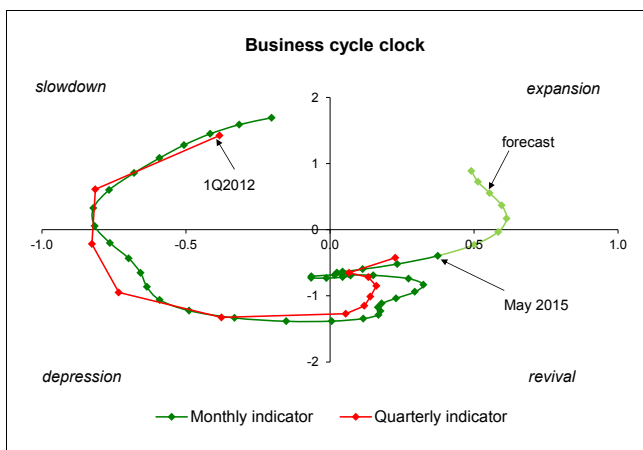
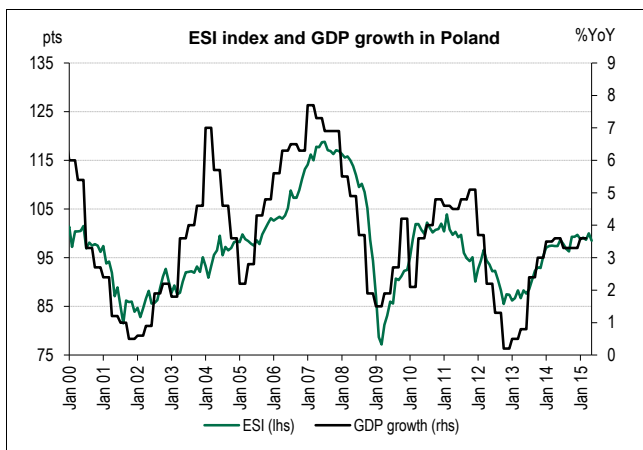
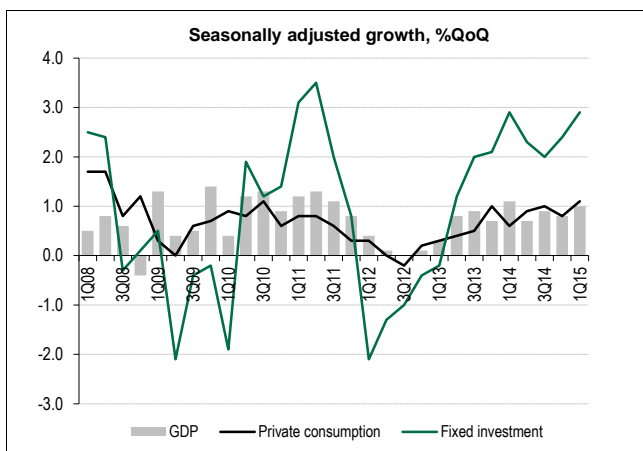
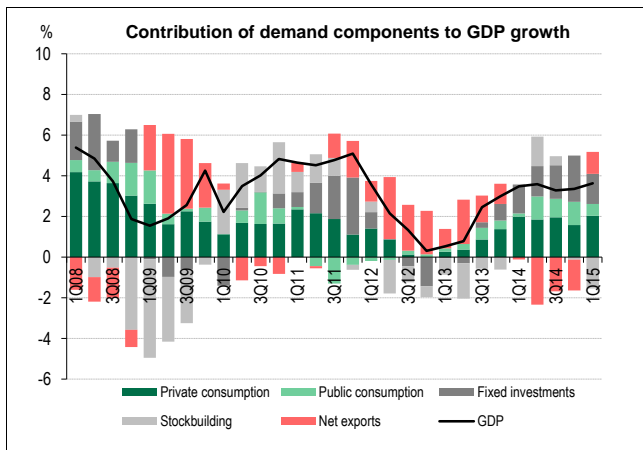
### Financial market on June 10 2015:

NBP deposit rate	0.50	WIBOR 3M	1.70	EURPLN	4.1602
NBP reference rate	1.50	Yield on 2-year T-bond	1.81	USDPLN	3.6760
NBP lombard rate	2.50	Yield on 5-year T-bond	2.70	CHFPLN	3.9655

This report is based on information available until 10.06.2015.

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# Economic update



Source: CSO, EC, BZ WBK.

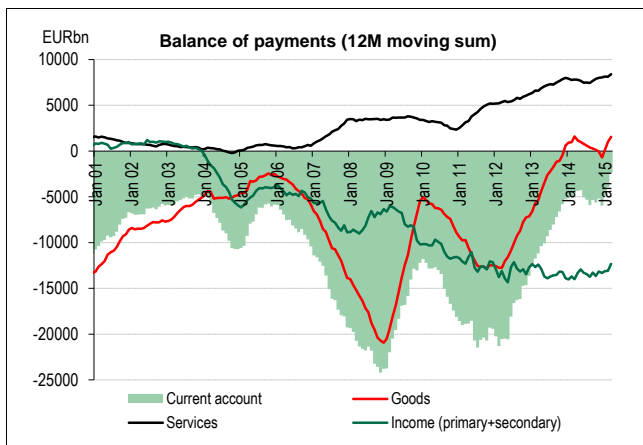
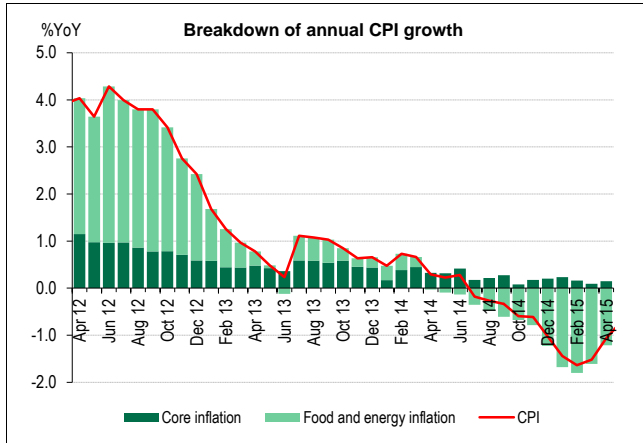
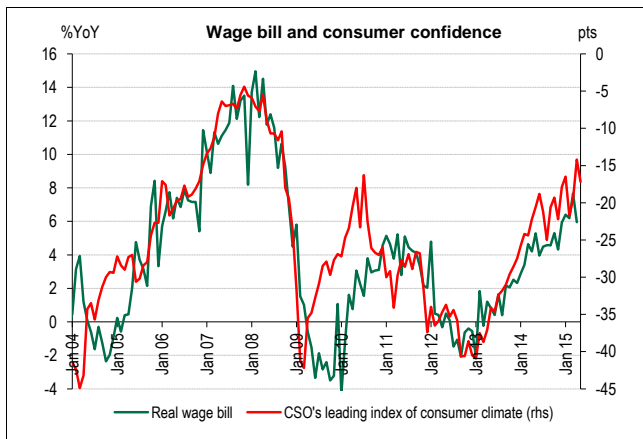
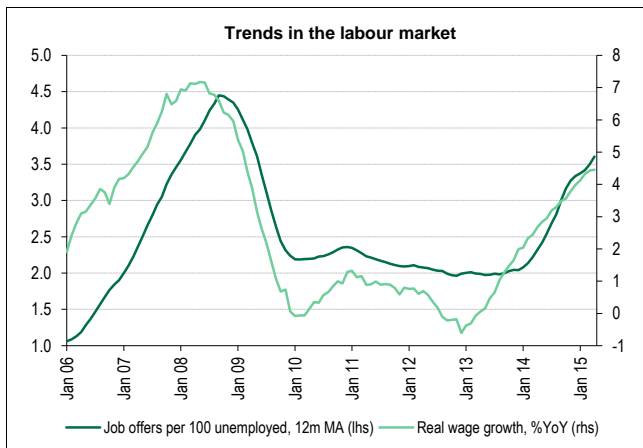
## 1Q GDP was stronger than expected

- Poland's economic growth in the first quarter surprised (twice) on the upside, as the flash GDP growth estimate of 3.5%YoY (above expectations) was revised further, to 3.6%, in the second release. Seasonally-adjusted GDP growth reached 1%QoQ.
- The data confirmed that – as we wrote in April's MACROscope – economic power is now being supplied to all four wheels: consumption, private investment, public investment and exports. The latter rose 8%YoY, the most since 3Q13, while imports decelerated to 6%, so that net exports added 1.1 percentage point to GDP growth, after a year of negative contribution. Private consumption growth accelerated to 3.1%YoY, while fixed investments soared 11.4%YoY (the fastest since 1Q14). The latter result is especially positive, as a high statistical base from last year (mild winter and temporary VAT allowance for cars) led us to think growth in investment could have slowed. In the end it rebounded, growing equally fast as in the exceptionally good 1Q14. This proves, in our view, that the economic recovery is firmly based and should continue: companies are not worried about the future and are not cutting spending on further expansion, probably because they are seeing a significant flow of new orders. Stable growth in private consumption should also continue later in the year, supported by falling unemployment and rising real wages. Please note that although the acceleration of YoY consumption growth was only moderate, seasonally-adjusted QoQ growth reached 1.1%, which is the best result since 4Q08.
- While overall domestic demand decelerated to 2.6%YoY, this was mainly due to a drop in inventories, which subtracted c1.5 pp from GDP growth. This was not surprising, given the strength of net exports, as these components are negatively correlated.

## The following quarters should be even better

- While 1Q15 GDP data were strong, pointing to a healthy and broad-based economic growth at the start of the year, several high-frequency indicators published recently have clearly disappointed, prompting some doubt over the sustainability of the recovery.
- Industrial output growth slowed sharply in April to 2.3%YoY, the weakest since January, while retail sales growth (in constant prices) slowed to 1.5%YoY (the lowest since November 2014). Both readings were significantly down vs March (8.8% and 6.6%YoY, respectively). However, we think it was mainly the timing of Easter (earlier than last year) that boosted the annual dynamics of output and sales in March and dampened them in April. This seems to be confirmed by the fact that it was mainly the sale and production of food that dragged down growth rates, while there was no significant weakening in other categories. In the case of industrial production, the number of working days also had some impact.
- The May Manufacturing PMI index was also a disappointment, falling to 52.4 from 54 in April, with all the major sub-indices (output, new orders, export orders and employment) in decline. The scale of the drop was surprising, given signals of economic revival in the Euro zone. It is possible that the gauge might have been affected by the presidential election and Greece undermining managers' confidence. We note that other survey measures of economic activity (the EC's Economic Sentiment Index, CSO business climate) were not as bad, staying at levels consistent with above-3.5% GDP growth in 2Q15.
- Our synthetic "Business cycle clock" signals that the economy is continuing its acceleration in 2Q and should enter the expansion zone in the second half of the year. Summing up, we argue that the negative surprises in recent data were caused by temporary factors, and that positive trends will continue, driving Poland's GDP growth higher in the coming quarters to reach 4%YoY in 4Q. We estimate average GDP growth in 2015 at 3.8%.

## Economic update



Source: CSO, NBP, BZ WBK.

### Demand for jobs continues to fuel strong wage growth

▪ The demand for labour seems to have stopped accelerating in recent months, but still remains decent. Employment growth in the corporate sector stabilised at 1.1%YoY in April, while the rise in the number of employed according to the Labour Force Survey (LFS) data slowed to 1.5%YoY. The seasonally-adjusted LFS unemployment rate was 7.9% in April, its lowest since May 2009.

▪ At the same time, we are observing growing evidence of a shortage of workers, as reflected in the rising ratio of job offers to registered unemployed (see chart on the left), which is steadily approaching its past peak and translating into increasing wage pressure. This trend is likely to continue, as Poland has already entered an era of labour force decline, due to an ageing population. According to the LFS data, the economically-active population dropped by 113k YTD and 162k YoY (at 17.3mn) and we expect this trend to continue.

▪ Average wage growth was 3.7% YoY in April, lower than March, but we think it might also have been affected by the timing of Easter (bringing earlier bonus payments, which inflated wage growth in March and reduced it in April). We expect wage growth to accelerate in the coming months.

▪ Rising household labour income is positively affecting consumer confidence and fuelling private consumption growth.

### Inflation trend reversed, as expected

▪ CPI growth was less negative in April at -1.1% YoY from -1.5% YoY in March, in line with our expectations. In monthly terms, prices rose 0.4%, the strongest increase since April 2013. The less negative annual CPI was driven mainly by higher fuel and food prices. Prices of fruit and vegetables rose considerably, apparently as the effect of the Russian embargo faded. Core inflation (excluding food and energy) rose to 0.4%YoY, from 0.2% in March.

▪ We expect inflation to rise further in the coming months. However, deflation will probably persist until 3Q and only in late 2015 will we see CPI growth approaching 1%YoY, still well below the MPC inflation target. Upside pressure on inflation is likely to come from faster economic growth, higher prices of food and commodities and the low base effect.

### Rapid improvement in the current account balance

▪ Polish exports surged 13.7%YoY in March (the fastest pace since October 2012), driven by reviving demand from the EU. The data show a clear rebound in exports to Poland's main trading partners (Germany, the UK, Italy, the Netherlands, Czech Republic and France), which we think should continue, given signs of growing economic activity in Europe.

▪ The current account reached a record surplus in March (€1.9bn) and the 12M rolling current account reached -0.6% of GDP, which is the smallest deficit since the mid-90s. This was driven by an improvement in all components: trade in goods, services and also income balance. Coverage of the 12M C/A deficit by inflows of long-term investments (EU funds + net FDI) surged to a record 735%.

▪ We think that rapid export growth should continue, fuelling economic growth in the coming quarters. It also seems likely that this year will be the first since 1995 in which the current account balance is in surplus.

## Monetary policy watch

### Excerpts from the MPC's communiqué after its June meeting

Growth of global economic activity remains moderate, although a slight acceleration is expected in 2015. In the euro area a gradual recovery is underway, although economic growth remains low. In the United States, despite the weakening of economic data in the first months of 2015, the recovery is expected to continue in the coming quarters. At the same time, in most major emerging economies activity is weakening, and the economic outlook for Poland's eastern trading partners, i.e. Russia and Ukraine, remains unfavourable.

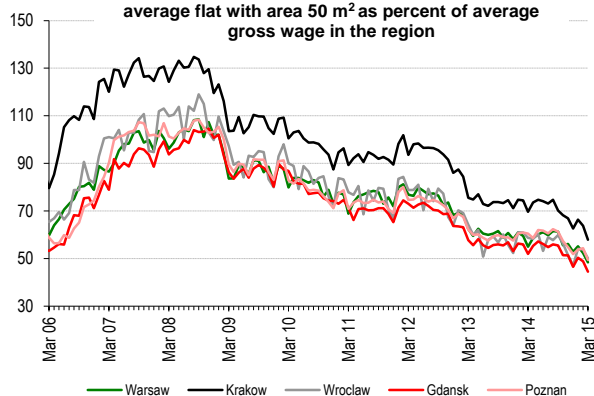
After a sharp and long-lasting fall, global oil prices have risen slightly in recent months. This has weakened disinflationary forces in many countries, fuelling increase in price growth in the euro area. However, price growth in the global economy remains very low, and in many European economies it is negative. In these conditions, major central banks are keeping interest rates close to zero and the ECB is continuing its asset purchase programme.

In Poland, real GDP growth accelerated in 2015 Q1 (to 3.6% from 3.3% in 2014 Q4). Increase in domestic demand, including consumption and investment, fuelled by an improving labour market situation, good financial condition of enterprises and stable expansion in lending has remained the main driver of economic growth. Economic recovery has been also spurred by accelerating exports, supported by improvement in economic activity in the euro area. [...]

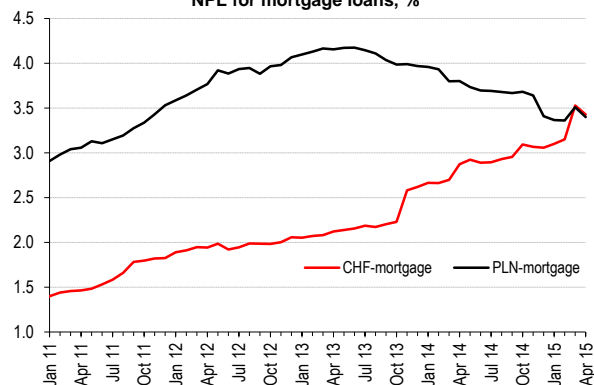
Due to the moderate growth in demand and the continuing negative output gap, there is no demand pressure in the economy. At the same time, low commodity prices and moderate nominal wage growth are contributing to the continued lack of cost pressure. As a result, the annual growth rate of consumer and producer prices remains negative, although the slight increase in fuel and food prices in the recent period has limited the scale of deflation. [...]

In the opinion of the Council, the annual price growth will remain negative in the coming months, mainly due to the earlier 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.

Monthly instalment of a zloty-denominated 25Y loan for average flat with area 50 m<sup>2</sup> as percent of average gross wage in the region



NPL for mortgage loans, %



Sources: NBP, Reuters, BZ WBK.

### Nothing new on the monetary policy front

Poland's Monetary Policy Council (MPC) decided to keep NBP interest rates unchanged, in line with expectations. The reference rate remains 1.50%.

Some recent data were a bit disappointing, but in general the economy remains on a solid growth path, as we have explained on the previous pages. GDP growth is accelerating, real wages are growing, inflation started bottoming out, the zloty stopped appreciating. Thus, there seems to be no need for additional monetary stimulus. Comments by the majority of the MPC members in recent months clearly indicate that they share a similar view. Moreover, at the June post-meeting press conference NBP governor Marek Belka repeated the previous month's statement that something extraordinary would have to happen to change the MPC's current belief that interest rates should be kept on hold.

The official MPC statement did not change much, compared with May. The Council maintained its assessment that a gradual acceleration of economic growth should limit the risk of inflation staying below target in the medium term.

We still think it is highly likely that the main interest rates will remain stable and meetings could be dull until the end of current MPC's term of office. The July meeting may be a bit more interesting, as new inflation and GDP projections are due for release. Higher forecasts look likely, but will probably not be enough to encourage the central bank to act. The new MPC's monetary policy is subject to greater uncertainty, as it is hard to speculate right now about its line-up (it will depend on the result of October's general election). Still, given current circumstances and our economic forecasts, we expect the first hike of interest rates in Poland in 4Q16.

### Affordability of flats improving

Flats are currently more affordable than they have been at any time since comparable data are available (end of 2005). This is due to a combination of declining home prices, rising wages and record-low interest rates.

Developers report decent home sales in recent months, while data from the credit market show stable growth in mortgage loans. Total mortgage loans rose just 3.3%YoY in April (after FX adjustment), while zloty-denominated mortgage credit increased 12.5%YoY. This suggests that cash remains the main source of financing for new house purchases.

Our availability index does not take into account all the factors, like a declining maximum LTV ratio (currently 90%), but, in our view, this is not a major obstacle for home sales, especially taking into account additional stimuli like the government loan programme for the young people (MdM). We expect stable mortgage loan growth to continue.

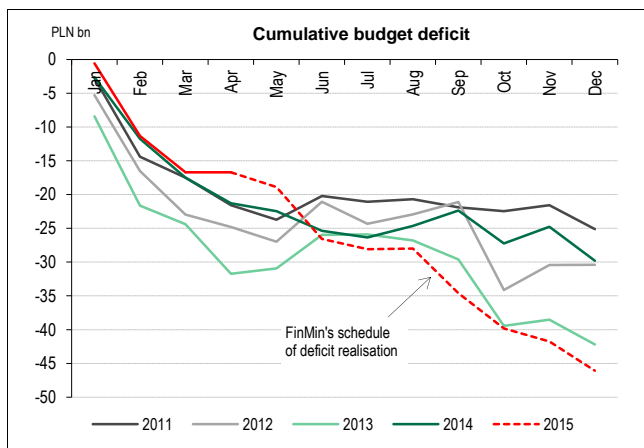
### Non-performing FX loans on the rise

The non-performing ratio (NPL) for CHF-denominated mortgage loans surged recently to c.3.5%, and, for the first time ever, exceeded the NPL ratio for zloty-denominated loans, which, in contrast, has been in decline since early 2013.

While a jump in the CHFPLN rate after the SNB abandoned its 1.20-floor for EURCHF has probably contributed to the move in NPLs, we note that the rise in the FX loan NPL ratio started much earlier.

The total NPL ratio for mortgage loans reached 3.3% in April 2015, only a tick down from March's all-time high of 3.4%.

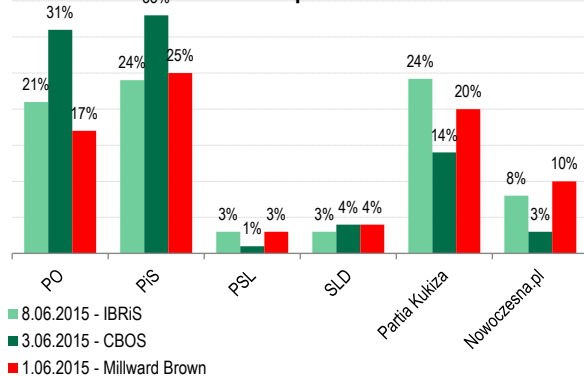
## Fiscal policy watch



### Forecasts for 2016 according to government's budget assumptions and our forecasts

	FinMin	BZWBK
GDP in current prices (in PLN bn)	1888.3	1891.5
Real GDP (%YoY)	3.8	3.5
CPI (%YoY average)	1.7	1.7
Average wages in enterprise sector (%YoY)	3.8	5.3
Average wages in national economy (%YoY)	3.6	5.3
Average employment in national economy (%YoY)	0.8	0.7
Unemployment rate (% , end of period)	9.8	9.6

### Support for Poland's political parties in opinion polls



	Spread vs. Bunds (10Y) in bp			CDS (5Y USD)		
	10.06	change since 12.05.15	change since 31.12.14	10.06	change since 12.05.15	change since 31.12.14
Poland	223	5	26	64	5	-6
Czech	28	19	7	48	0	-7
Hungary	310	-9	-5	141	2	-36
Greece	1067	39	161	231	7	52
Spain	136	20	28	74	-1	-12
Ireland	82	11	11	48	0	-3
Portugal	214	39	-1	157	28	-44
Italy	134	18	0	97	-9	-41
France	34	5	6	28	-2	-18
Germany				14	-1	-4

Source: Finance Ministry, Reuters, BZ WBK.

### Macro assumptions for 2016 budget in line with expectations

▪ The budget deficit at the end of April was PLN16.7bn, slightly higher than planned (PLN15.8bn) due to lower-than-expected budget revenues (PLN96bn vs PLN97.3bn expected). VAT revenues in April amounted to PLN12.3bn and declined by more than 10%YoY. YTD VAT revenues reached PLN40.7bn, down c8.5% on an annual basis.

▪ Poland's government approved macro assumptions for the 2016 budget, including 3.8% GDP growth and a 1.7% average annual inflation rate. The government also proposed raising the minimum wage by PLN100 to PLN1,850 and intends to allocate additional resources of cPLN2bn for wages in the public administration, which have been frozen since 2010. The figures presented match the forecasts included in Poland's Multi-Year Financial Plan for 2015-2018 published in April.

### Strong support for Kukiz in opinion polls

▪ Opposition candidate Andrzej Duda won the second round of the presidential election in Poland, with 51.55% of votes, ousting the incumbent Bronislaw Komorowski, backed by the ruling Civic Platform party. Turnout was 55.34%.

▪ This result signals that significant changes are looming in Polish politics. Public support for the ruling Civic Platform (PO) is declining ahead of the approaching general election (autumn). The latest opinion polls showed a rapid rise in support for the new parties, despite the fact that they are not even officially registered yet. A still-unnamed party led by a former rock musician, Pawel Kukiz, leads in an opinion poll done by IBRiS, with 24% support and tying with opposition Law and Justice (PiS) party. Another political movement being set up by economist Ryszard Petru (Nowoczesna.pl) could score 8% of the vote. Meanwhile, other opposition parties, i.e., the current junior coalition partner, the Polish Peasant's Party (PSL), and the left-wing Democratic Left Alliance (SLD), might not even be represented in the Sejm as support for both parties could fall below the minimum threshold of 5%.

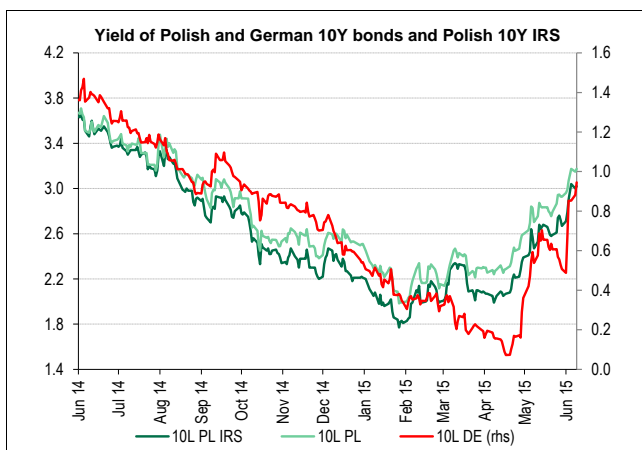
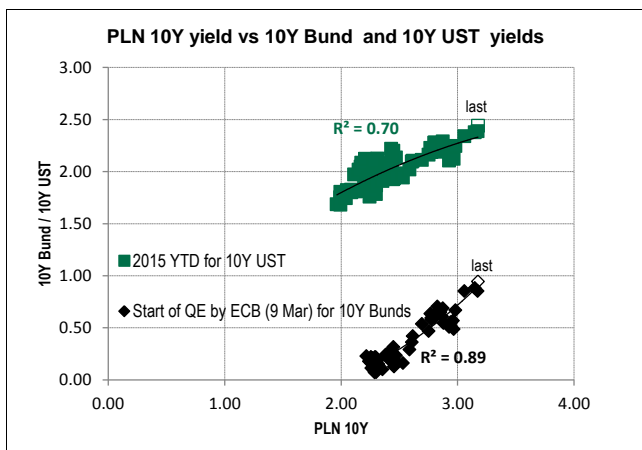
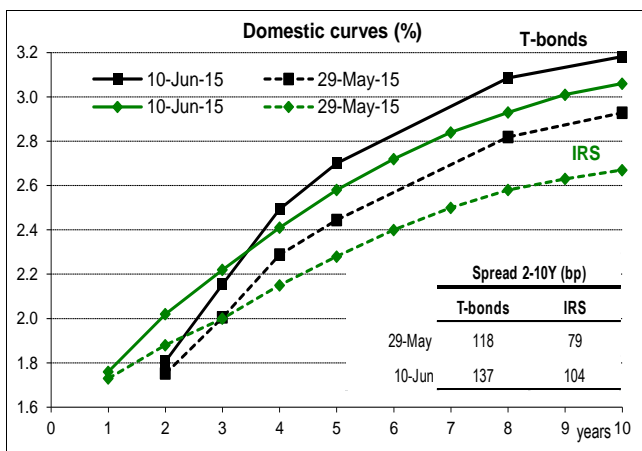
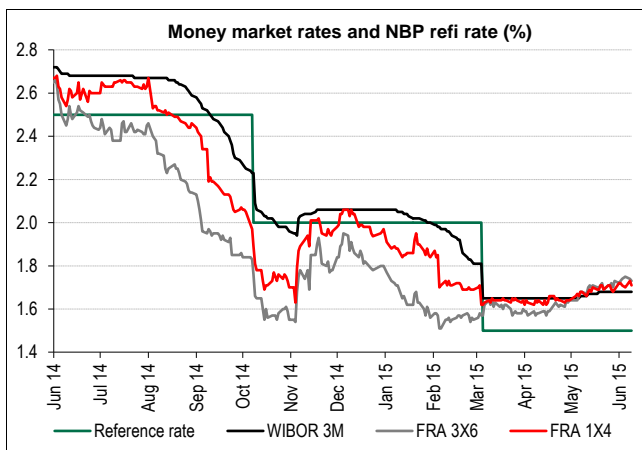
▪ The parliamentary election outcome remains uncertain and recent opinion polls show that a change is likely. It seems likely that during the election campaign we will hear more and more promises to increase government spending. As we wrote in our [comment on the presidential election result](#), some of the proposals backed by the opposition would be costly (child benefits, higher tax-free income), or could be negative for medium-term economic growth (lowering the retirement age). That said, the room for fiscal loosening is quite limited – if not because of Poland's spending rule, then because of Maastricht deficit limit – and probably does not exceed 0.5% of GDP.

### FOMC meeting and Greece determine the direction

▪ Core and peripheral bonds weakened considerably in May and this trend intensified in early June. The 10Y German Bund yield increased to 1%, the highest level since September 2014 as a result of stronger macro data in the US (in particular labour market) and higher-than-expected inflation in the Euro zone. Core markets performed better than peripheral ones, as investors shifted money to lower risk assets because of concern about Greece.

▪ This month investors are likely to focus on macroeconomic data in core markets and the FOMC meeting. We think US debt will probably underperform European as US data should be strong and the FOMC should confirm the start of monetary tightening later this year. The accumulated impact of the ECB's QE programme before the holiday period and negative net debt supply should help to lower yields in Germany in the short term. Prolonged talks between Greece and its creditors will curb the strengthening of peripheral bonds. In the medium to long term we expect yields of core and peripheral debt to rise again due to the start of monetary tightening in the US and strong macro data in the Euro zone.

# Interest rate market



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

## Market weakening, curve steepening

- The pace of money market rate growth in May was quite subdued, while the first week of June brought a sharp increase, in particular in FRAs. This was a result of a significant weakening of IRS, due to high global risk aversion. As a result, the market has started to price in a first rate hike of 25bp in 12 months' time.
- T-bond and IRS markets weakened significantly. In the first week of June yields rose by 10-25bp (after increase by 10-32bp in May), while IRS rates gained 15-37bp (vs 10-28bp growth in the previous month). This stemmed from concerns about Greece, but also from the weakening in core markets (the 10Y Bund yield temporarily increased to nearly 1.00%) and low liquidity in the domestic market. As a result, long-dated yields are back to roughly where they were in mid-August 2014, but volatility is much higher. Yield of Poland's 10Y benchmark temporarily rose above 3.20%.

- Polish curves steepened noticeably, with the long end performing worst. The 2-10Y spread widened to over 130bp for Poland's T-bonds, while for IRS it exceeded 100bp, following the trends in global markets. Meantime, the spread of Polish bonds over Bunds narrowed gradually at the beginning of June, to nearly 220bp for 10Y from over 240bp at the end of May.

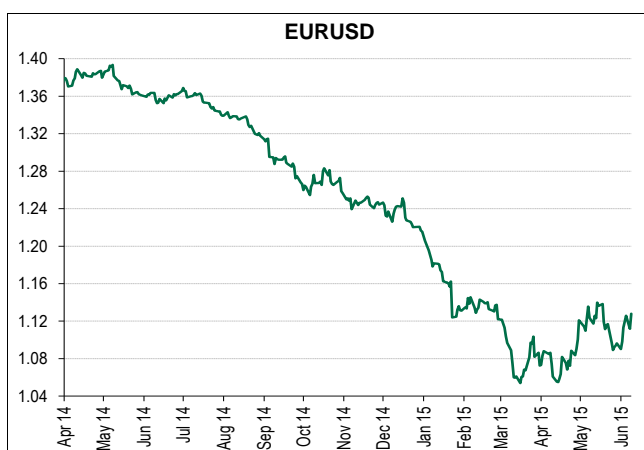
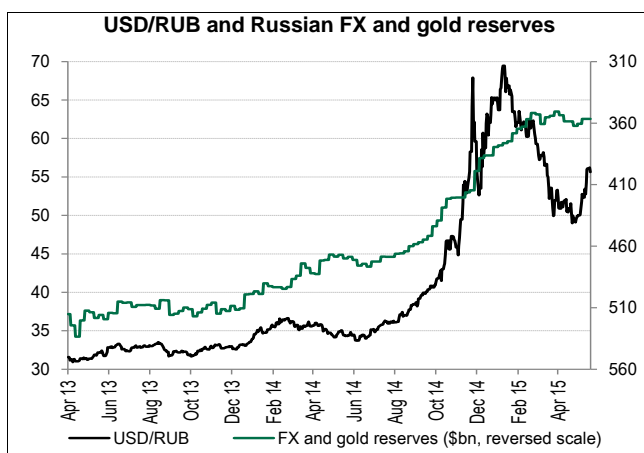
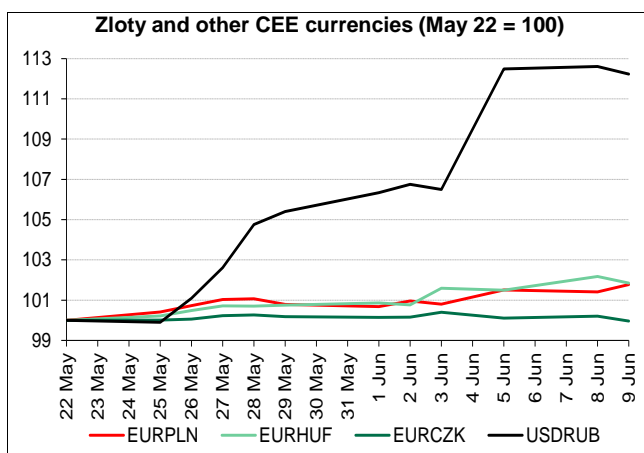
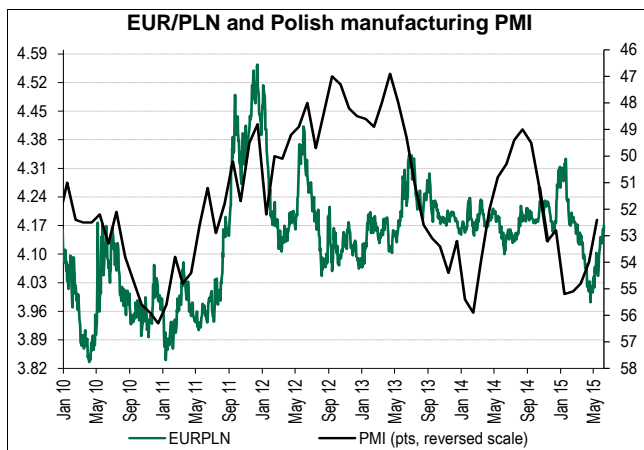
## Higher risk premium due to political situation and Greece

- In our view, WIBORs should continue to edge higher gradually in upcoming months. Investors are likely to focus mainly on domestic macro data releases rather than the MPC's meetings as we see the Council leaving rates unchanged until its term ends in early 2016. An improvement in the economic outlook (our forecasts of industrial output and retail sales for May are above market consensus) might slightly speed up growth in money market rates, in particular FRAs.
- Global events are likely to play the main role in the market this month. We think investors are still negative on the Polish market, in particular on fixed-income assets. Much stronger-than-expected May non-farm payrolls in the US strengthened expectations of a rate hike later this year (we expect the first hike in September). If these expectations are confirmed by the June FOMC statement, core markets could suffer and this would hurt Polish assets, in particular long-dated bonds. It is worth noting that an increase in UST yields may translate into higher domestic yields as the correlation of the 10Y US Treasury and the Polish 10Y yield has been around 0.70 YTD. Correlations between Germany and Polish assets have also increased since the start of the ECB's QE programme. All in all, higher yields in core markets will translate into higher Polish yields and IRS rates. The unresolved situation in Greece is likely to continue to weigh on Polish assets, keeping yields and IRS rates high. Recent moves have left the 10Y Polish benchmark rate above our end-2015 forecast. We decided to raise our forecast, as we see higher Bund yields in the coming months. Currently, we expect a 10Y benchmark yield of 3.20% in three months and c3.40% at the end of 2015.

- Domestic macro data for May should confirm healthy economic growth, but are unlikely to bring the first interest rate hike closer. As a consequence, the front end of the curves should perform better than the long end, leaving the bear steepener strategy intact.

- In the short term, an agreement between Greece and its creditors could revive the domestic market. However, in the medium to long term, investors will be pricing-in higher political uncertainty in Poland ahead of the election. This should add to the risk premium and increase volatility on the debt market, keeping yields/rates high in the coming months.

## Foreign exchange market



Sources: Reuters, Bloomberg, BZ WBK.

### Zloty depreciates with no sign of an immediate recovery

- The zloty remained under negative pressure from shaky global market sentiment amid ambiguous news on progress in Greek debt talks. Polish macro data – particularly PMI – were on the weaker side and this also contributed to the EUR/PLN's rise to nearly 4.20 in early June.

- A victory for opposition candidate Andrzej Duda in the second round of Poland's presidential elections on May 24 could have also weighed slightly on market sentiment. However, the second chart shows that the zloty did not underperform its CEE peers, so we do not think this political factor had much impact. It is highly likely that Polish political issues will retreat to the background, at least until late summer, as most of the surprise has already been priced in. However, greater uncertainty about the outcome of the autumn general election and about the controversial proposals of opposition parties in the election campaign (like undoing the pension reform) may be mildly negative for the zloty, especially if opinion polls show declining support for the ruling coalition.

- Last month we mentioned that apart from adverse global market conditions, technical analysis shows some upside potential. Since then there have been no signals to suggest the zloty may start to recover and thus we expect EUR/PLN to remain high in near term and some recovery could occur after late June. However, global sentiment remains unstable as the Greek crisis is still up in the air and a final agreement may come at the end of the month, keeping investors on edge and discouraging them from taking much risk. At the same time, we still believe there are fundamental arguments for the Polish currency to appreciate later in the year, as it should still be supported by high real interest rates, accelerating economic growth, an improving C/A balance and fiscal position as well as the ECB's QE.

### Has a new USD/RUB upward wave started?

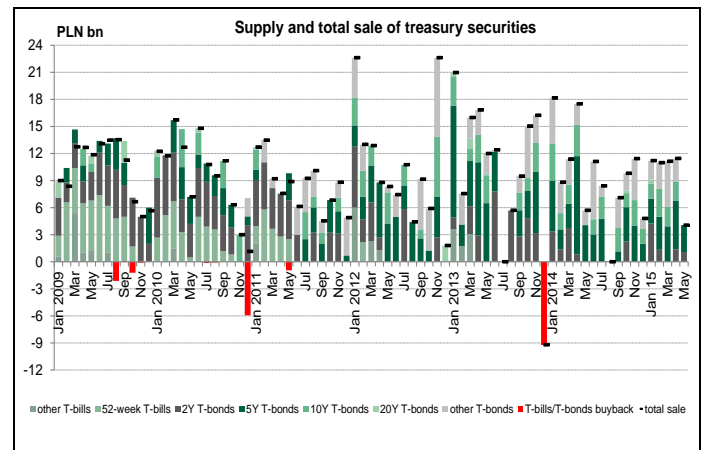
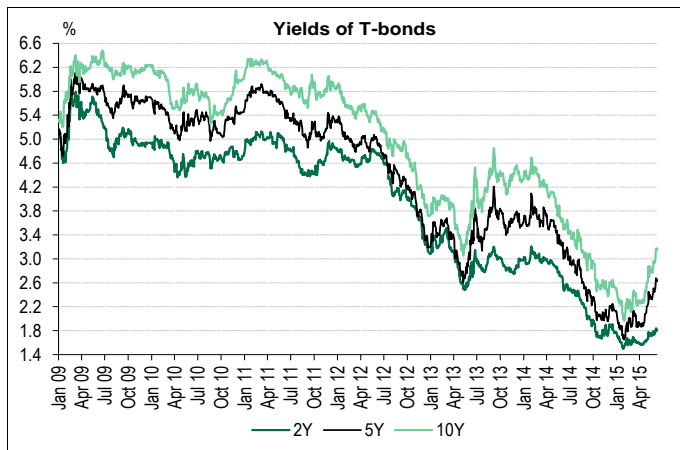
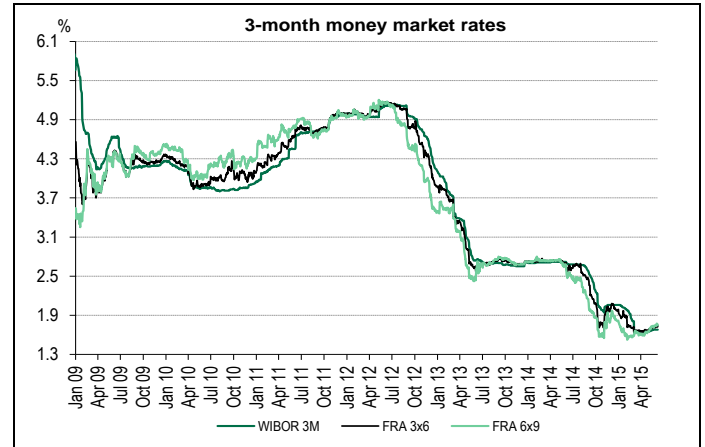
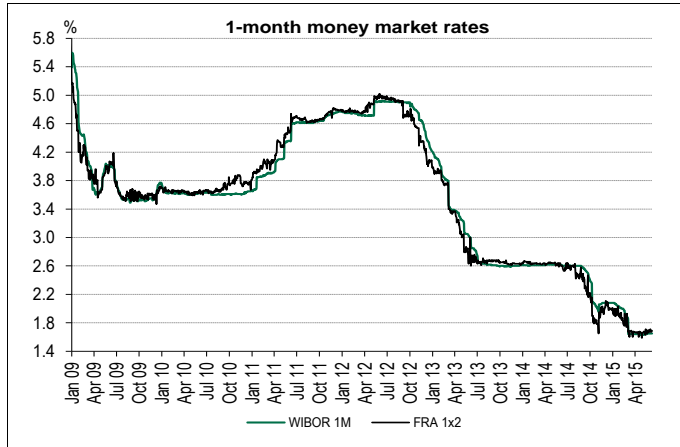
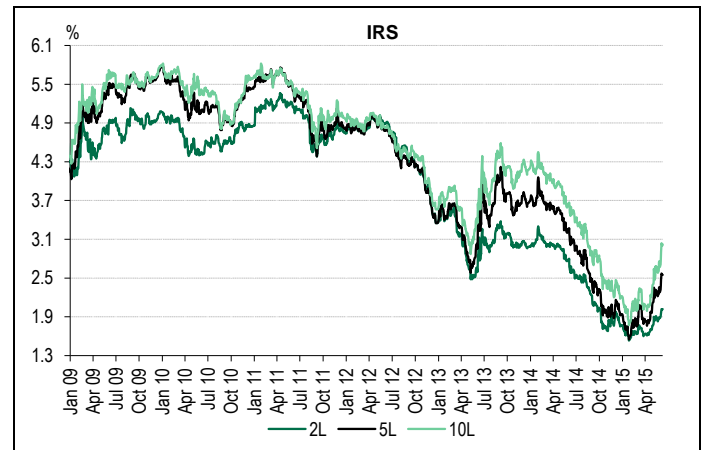
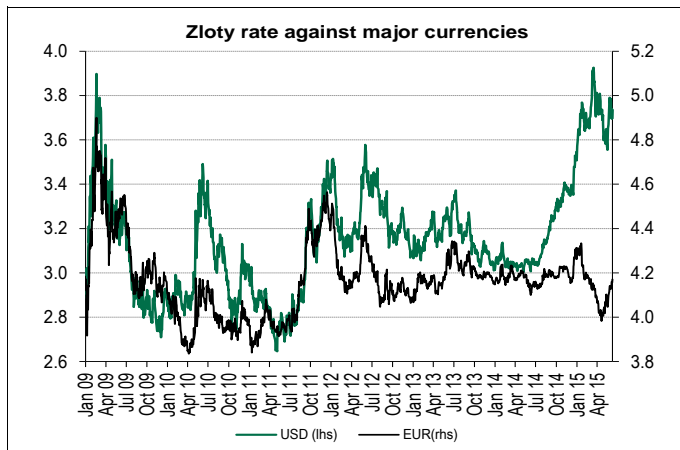
- The pace of ruble's appreciation faded in May and the currency is on the back foot so far in June. The USD/RUB downtrend might have halted due to the external factors (lower oil prices) and internal issues. In mid-May the Russian central bank announced it was starting to buy USD100-200mn daily to rebuild its currency reserves, which it used extensively at the turn of 2014/2015 to stop the ruble's depreciation. The Finance Ministry also said it had started buying foreign currencies. Reserves are now at their lowest since comparable data are available (since 1Q08). We continue to think that a further ruble appreciation is neither in the interest of the Russian economy nor supported by fundamental factors. We note that the rebound in USD/RUB seen in early June is the biggest upside move this year. So far in 2015 we saw a downward move without any significant rebounds. On the other hand, in 2014 the exchange rate trended up without any big corrections. Should this pattern of significant and uninterrupted moves continue, we could suspect that the new multi-week or multi-month upside move has just started in the USD/RUB market.

### Pause in EUR/USD rebound

- EUR/USD pulled back from the local peak of 1.14 it reached in mid-May. The euro was under the pressure because of concern over Greece.

- We think the potential for a fresh upward move is limited given the lack of agreement between Greece and its creditors on the terms of financial aid. A constant flow of ambiguous information is generating confusion among investors. Also, US data was fairly mixed (poor 1Q GDP, strong May non-farm payrolls) and so there is still much uncertainty as regards the timing of the first Fed rate hike. We think EUR/USD could stay below 1.14 until there is a solution of the Greek case and coherent US macro data.

# 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
June '14	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	OK0717/PS0420	2000-4000	4056.0			
June	11.06	OK0717/WZ0120	2000-4000	4236.5					25.06	OK0715/DS1015	to be announced

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

Source: MoF, Reuters, BZ WBK.



## Economic calendar

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
<b>8 June</b> DE: Industrial output (Apr) DE: Exports (Apr) CZ: Industrial output (Apr)	<b>9</b> CZ: CPI (May) HU: CPI (May)	<b>10</b>	<b>11</b> US: Retail sales (May)	<b>12</b> <b>PL: Money supply (May)</b> EZ: Industrial output (Apr) US: Flash Michigan (Jun)
<b>15</b> <b>PL: CPI (Mar)</b> <b>PL: Balance of payments (Apr)</b> US: Industrial output (May)	<b>16</b> <b>PL: Core inflation (May)</b> DE: ZEW index (Jun) US: House starts (May) US: Building permits (May)	<b>17</b> <b>PL: Wages and employment (May)</b> EZ: HICP (May) US: FOMC decision	<b>18</b> <b>PL: MPC minutes</b> <b>PL: Industrial output (May)</b> <b>PL: Retail sales (May)</b> <b>PL: PPI (May)</b> US: CPI (May) US: Philly Fed index (Jun)	<b>19</b>
<b>22</b> US: Home sales (May)	<b>23</b> CN: Flash PMI – manufacturing (Jun) DE: Flash PMI – manufacturing (Jun) EZ: Flash PMI – manufacturing (Jun) HU: Central bank decision US: Durable goods orders (May) US: New home sales (May)	<b>24</b> <b>PL: Unemployment rate (May)</b> DE: Ifo index (Jun) US: GDP (Q1)	<b>25</b> US: Personal income (May) US: Consumer spending (May) CZ: Central bank decision	<b>26</b> US: Michigan index (Jun)
<b>29</b> US: Pending home sales (May)	<b>30</b> <b>PL: Balance of payments (Q1)</b> <b>PL: Inflation expectations (Jun)</b> CZ: GDP (Q1) EZ: Flash HICP (Jun) US: Consumer confidence index (Jun)	<b>1 July</b> <b>PL: PMI – manufacturing (Jun)</b> CN: PMI – manufacturing (Jun) DE: PMI – manufacturing (Jun) EZ: PMI – manufacturing (Jun) US: ISM – manufacturing (Jun) US: ADP report (Jun)	<b>2</b> US: Non-farm payrolls (Jun) US: Unemployment rate (Jun) US: Industrial orders (May)	<b>3</b> DE: PMI – services (Jun) EZ: PMI – services (Jun)
<b>6</b> DE: Industrial orders (May) US: ISM – services (Jun)	<b>7</b> DE: Industrial output (May) CZ: Industrial output (May)	<b>8</b> <b>PL: MPC decision</b> US: FOMC minutes HU: CPI (Jun)	<b>9</b> DE: Exports (Jun) CZ: CPI (Jun)	<b>10</b>
<b>13</b>	<b>14</b> <b>PL: Balance of payments (May)</b> <b>PL: Money supply (Jun)</b> EZ: Industrial output (May) DE: ZEW index (Jul) US: Retail sales (Jun)	<b>15</b> <b>PL: CPI (Jun)</b> US: Industrial output (Jun) US: Fed Beige Book	<b>16</b> <b>PL: Core inflation (Jun)</b> <b>PL: Wages and employment (Jun)</b> EZ: HICP (Jun) EZ: ECB decision US: Philly Fed index (May)	<b>17</b> <b>PL: Industrial output (Jun)</b> <b>PL: Retail sales (Jun)</b> <b>PL: PPI (Jun)</b> US: CPI (Jun) US: House starts (Apr) US: Building permits (Apr) US: Flash Michigan (Jul)

## 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 <sup>a</sup>	13 <sup>b</sup>	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												
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. <sup>a</sup> preliminary data for January. <sup>b</sup> January and February.

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

## Economic data and forecasts for Poland

## Monthly economic indicators

		May 14	Jun 14	Jul 14	Aug 14	Sep14	Oct14	Nov 14	Dec 14	Jan 15	Feb 15	Mar 15	Apr 15	May 15E	Jun 15E
PMI	pts	50.8	50.3	49.4	49.0	49.5	51.2	53.2	52.8	55.2	55.1	54.8	54.0	52.4	52.8
Industrial production	% YoY	4.4	1.8	2.4	-1.9	4.2	1.7	0.3	8.1	1.6	5.0	8.8	2.3	4.5	8.7
Construction production	% YoY	10.0	8.0	1.1	-3.6	5.6	-1.0	-1.6	5.0	1.3	-0.3	2.9	8.5	9.0	11.9
Retail sales <sup>a</sup>	% YoY	3.8	1.2	2.1	1.7	1.6	2.3	-0.2	1.8	0.1	-1.3	3.0	-1.5	2.1	3.2
Unemployment rate	%	12.5	12.0	11.8	11.7	11.5	11.3	11.4	11.5	12.0	12.0	11.7	11.2	10.8	10.5
Gross wages in corporate sector	% YoY	4.8	3.5	3.5	3.5	3.4	3.8	2.7	3.7	3.6	3.2	4.9	3.7	4.1	4.4
Employment in corporate sector	% YoY	0.7	0.7	0.8	0.7	0.8	0.8	0.9	1.1	1.2	1.2	1.1	1.1	1.1	1.1
Exports (€)	% YoY	10.4	5.7	6.4	-1.2	5.8	4.7	3.5	4.3	5.2	10.8	13.7	6.5	11.0	11.0
Imports (€)	% YoY	11.8	7.5	7.7	0.7	7.0	5.6	5.0	9.8	-1.3	3.8	9.8	3.5	8.0	8.0
Trade balance	EUR mn	-160	86	-270	-215	492	-43	10	-791	937	788	674	450	215	480
Current account balance	EUR mn	-161	-927	-729	-1,063	12	-371	-181	-1,414	37	225	1,938	1,541	296	-751
Current account balance	% GDP	-1.1	-1.2	-1.3	-1.4	-1.3	-1.4	-1.3	-1.4	-1.2	-1.0	-0.6	-0.3	-0.2	-0.1
Budget deficit (cumulative)	PLN bn	-22.5	-25.4	-26.4	-24.6	-22.4	-27.2	-24.8	-29.8	-0.6	-11.3	-16.7	-16.7	-18.9	-26.6
Budget deficit (cumulative)	% of FY plan	47.3	53.4	55.5	51.9	47.1	57.4	52.1	62.7	1.3	24.6	36.2	36.2	41.0	57.7
CPI	% YoY	0.2	0.3	-0.2	-0.3	-0.3	-0.6	-0.6	-1.0	-1.4	-1.6	-1.5	-1.1	-0.7	-0.6
CPI excluding food and energy	% YoY	0.8	1.0	0.4	0.5	0.7	0.2	0.4	0.5	0.6	0.4	0.2	0.4	0.5	0.4
PPI	% YoY	-1.0	-1.8	-2.0	-1.5	-1.6	-1.3	-1.6	-2.7	-2.8	-2.8	-2.5	-2.6	-2.0	-1.7
Broad money (M3)	% YoY	5.2	5.2	6.0	7.4	7.9	7.7	8.4	8.2	8.6	8.7	8.8	7.2	7.6	7.5
Deposits	%YoY	5.5	5.5	6.7	7.8	7.5	7.8	8.5	8.1	8.2	8.0	8.2	6.8	7.1	7.1
Loans	%YoY	5.4	4.9	5.4	6.3	6.2	7.2	7.4	7.3	8.0	7.7	7.8	6.5	7.1	6.8
EUR/PLN	PLN	4.18	4.14	4.14	4.19	4.19	4.21	4.21	4.21	4.28	4.18	4.13	4.02	4.08	4.15
USD/PLN	PLN	3.04	3.04	3.06	3.15	3.25	3.32	3.38	3.42	3.68	3.68	3.81	3.73	3.66	3.78
CHF/PLN	PLN	3.42	3.39	3.41	3.46	3.47	3.48	3.50	3.50	3.96	3.93	3.89	3.88	3.93	3.98
Reference rate <sup>b</sup>	%	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	1.50
3M WIBOR	%	2.72	2.69	2.68	2.65	2.45	2.07	2.03	2.06	2.03	1.92	1.67	1.65	1.67	1.70
Yield on 2-year T-bonds	%	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	1.75
Yield on 5-year T-bonds	%	3.36	3.10	2.89	2.73	2.40	2.12	2.04	2.16	1.82	1.88	1.99	1.98	2.38	2.42
Yield on 10-year T-bonds	%	3.80	3.54	3.34	3.23	2.98	2.63	2.54	2.55	2.21	2.20	2.32	2.36	2.83	3.18

Note: <sup>a</sup> in nominal terms, <sup>b</sup> 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	3Q14	4Q14	1Q15	2Q15E	3Q15E	4Q15E
GDP	PLN bn	1,615.9	1,662.1	1,728.7	1,800.0	403.7	419.5	427.1	478.3	417.8	435.0	444.1	503.0
GDP	% YoY	1.8	1.7	3.4	3.8	3.5	3.6	3.3	3.3	3.6	3.7	3.9	4.0
Domestic demand	% YoY	-0.4	0.2	4.9	3.3	3.6	6.1	5.1	5.0	2.6	3.4	3.2	3.8
Private consumption	% YoY	1.0	1.1	3.1	3.2	3.0	3.0	3.2	3.0	3.1	3.3	3.3	3.3
Fixed investments	% YoY	-1.5	0.9	9.2	8.9	11.4	8.7	9.2	8.6	11.4	8.8	8.9	8.0
Industrial production	% YoY	1.0	2.3	3.4	5.7	4.9	3.7	1.8	2.8	5.2	5.2	6.4	5.9
Construction production	% YoY	-1.0	-10.3	4.3	9.1	9.8	9.9	1.1	1.0	1.4	9.9	11.2	10.4
Retail sales <sup>a</sup>	% YoY	6.0	2.6	3.1	3.7	5.1	4.6	1.9	1.4	0.7	1.3	5.1	7.3
Unemployment rate <sup>b</sup>	%	13.4	13.4	11.5	10.2	13.5	12.0	11.5	11.5	11.7	10.5	10.0	10.2
Gross wages in the national economy <sup>a</sup>	% YoY	3.7	3.4	3.6	4.4	4.2	3.5	3.5	3.1	4.1	4.0	4.7	4.8
Employment in the national economy	% YoY	0.0	-1.1	0.2	0.7	-0.3	0.1	0.3	0.9	0.8	0.7	0.7	0.7
Exports (€)	% YoY	6.5	5.7	5.6	11.2	8.2	6.6	3.8	4.1	10.1	11.0	12.0	11.5
Imports (€)	% YoY	2.2	0.2	7.2	7.8	6.9	10.1	5.2	6.6	2.9	8.0	10.0	10.0
Trade balance	EUR mn	-7,146	635	-1,629	3,597	-381	-431	9	-826	2,399	705	796	-303
Current account balance	EUR mn	-13,697	-5,148	-5,762	1,563	-1,222	-789	-1,780	-1,971	2,200	645	-772	-510
Current account balance	% GDP	-3.5	-1.3	-1.4	0.4	-1.1	-1.2	-1.3	-1.4	-0.6	-0.2	0.0	0.4
General government balance	% GDP	-3.7	-4.0	-3.2	-2.7	-	-	-	-	-	-	-	-
CPI	% YoY	3.7	0.9	0.0	-0.6	0.6	0.3	-0.3	-0.7	-1.5	-0.8	-0.4	0.4
CPI <sup>b</sup>	% YoY	2.4	0.7	-1.0	0.8	0.7	0.3	-0.3	-1.0	-1.5	-0.6	-0.2	0.8
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	0.5	1.0
PPI	% YoY	3.4	-1.3	-1.5	-2.5	-1.2	-1.2	-1.7	-1.9	-2.7	-2.1	-2.8	-2.2
Broad money (M3) <sup>b</sup>	% oY	4.5	6.2	8.2	7.9	5.2	5.2	7.9	8.2	8.1	8.0	8.0	7.9
Deposits <sup>b</sup>	%YoY	4.7	6.0	8.1	7.5	4.7	5.5	7.5	8.1	7.9	7.8	7.6	7.5
Loans <sup>b</sup>	%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	4.07	4.19	4.17	4.18	4.21	4.20	4.09	4.05	3.93
USD/PLN	PLN	3.26	3.16	3.15	3.62	3.06	3.04	3.15	3.37	3.72	3.72	3.62	3.42
CHF/PLN	PLN	3.47	3.41	3.45	3.84	3.42	3.42	3.45	3.50	3.93	3.93	3.86	3.64
Reference rate <sup>b</sup>	%	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	1.74	2.71	2.71	2.59	2.06	1.87	1.67	1.70	1.72
Yield on 2-year T-bonds	%	4.30	2.98	2.46	1.73	3.01	2.76	2.26	1.80	1.61	1.70	1.78	1.85
Yield on 5-year T-bonds	%	4.53	3.46	2.96	2.28	3.71	3.35	2.67	2.11	1.90	2.26	2.45	2.53
Yield on 10-year T-bonds	%	5.02	4.04	3.49	2.88	4.38	3.82	3.18	2.58	2.24	2.79	3.19	3.30

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

This analysis is based on information available until 10.06.2015 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](mailto: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](mailto: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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