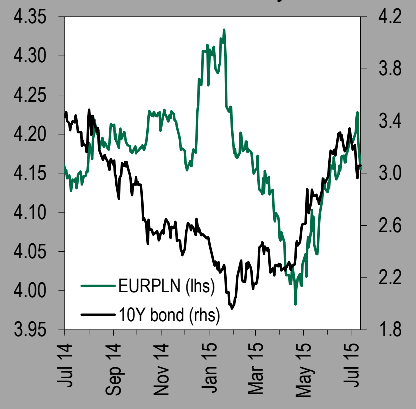
MACROscope

Polish Economy and Financial Markets

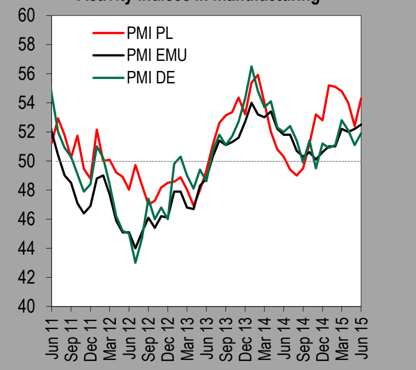
July-August 2015

Never ending story

EURPLN rate and bond yield



Activity indices in manufacturing



In this issue:

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

■ **After 17 hours of negotiations, European leaders announced they had reached an agreement with Greece on Monday. The initial market reaction was positive and the Polish zloty and government bonds gained.** However, the situation is far from being entirely clear, as there are still many hurdles to overcome in order to confirm that Grexit is avoided. The Greek parliament has two or three days to accept a package of bills (VAT hike, pension reform, antimonopoly law). This is a precondition for the Eurogroup to accept the bailout for Greece worth €82-86bn. Additionally, there will have to be a transfer of public assets worth €50bn to a dedicated fund and proceeds from privatisation will be partly spent to reduce Greek debt. Therefore, in mid-July we will see the next steps by Greek and Euro zone politicians (including votes in some European national parliaments) and within the next couple of months we will see if the agreement is kept (with new Greek laws coming into force).

■ This means there is still **uncertainty as regards Greece's fate in the Euro zone and it is unlikely to disappear soon.** On the next two pages we explain seven questions about Greece. **In our opinion, a strong message was sent by European politicians: they would like to avoid Grexit (for now).** In the short term, this supports a risk-on strategy in financial markets and, if there are no negative surprises after voting in the national parliaments, we should see an even stronger zloty and tighter spreads of Polish bonds over Bunds. However, as the Greek saga is likely to (temporarily?) recede into the background, a number of other factors will play a role: economic recovery, local political risk, Federal Reserve policy and the risk of market turmoil in China.

■ **The Polish economy is still on the same course** and if we exclude statistical noise (eg the impact of changes in working days), we see activity accelerating consistently and we expect this trend to continue. **We maintain our forecast of 2015E GDP expansion of 3.8%, with growth likely to approach 4% in 4Q15E.** The median market forecast is gradually converging towards our predictions. Economic growth in Europe continues to foster a positive environment for Polish exporters, especially when the exchange rate remains at highly competitive level. **Together with inflation bottoming out, this scenario speaks in favour of higher yields.**

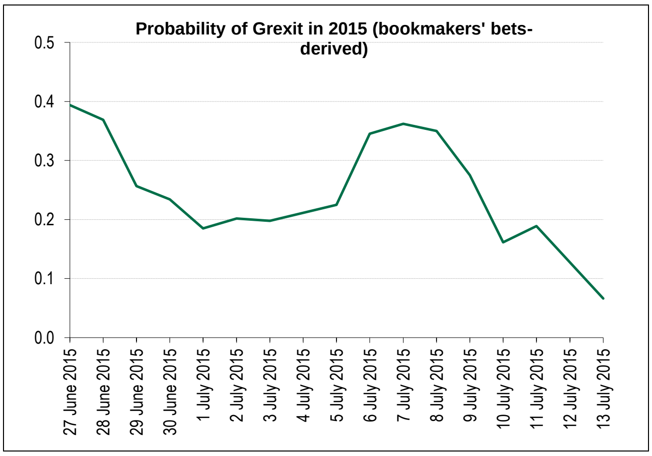
■ The short end of the curve is no longer pricing in any rate hikes in 2016. **There is still much uncertainty about the composition of the new Monetary Policy Council (MPC) next year and the main opposition party (which is leading the polls ahead of an autumn general election) suggests it would prefer central bank policy to stimulate growth.** As regards fiscal policy, there is an abundance of pre-election promises (details on page 7). It is hard to say to what extent these would materialise, but a combination of expansionary monetary and fiscal policy would favour a steeper curve.

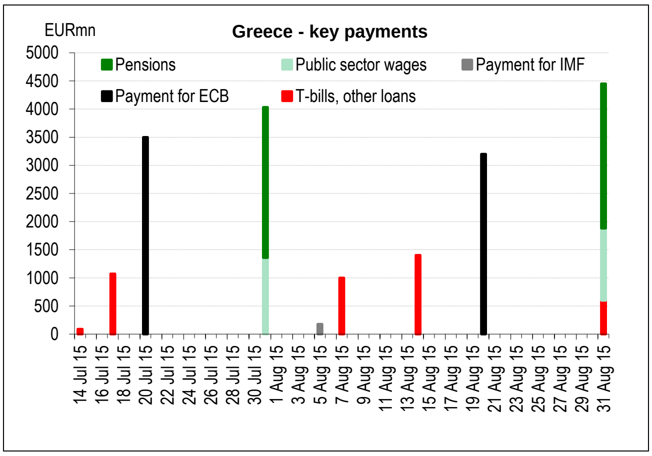
Financial market on July 13 2015:

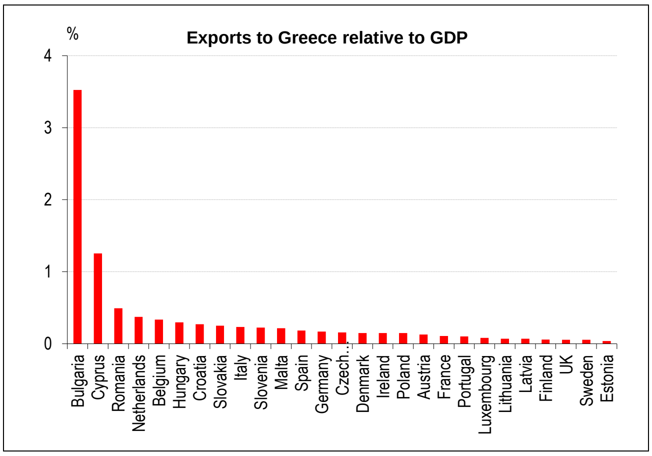
NBP deposit rate	0.50	WIBOR 3M	1.72	EURPLN	4.1550
NBP reference rate	1.50	Yield on 2-year T-bond	1.85	USDPLN	3.7543
NBP lombard rate	2.50	Yield on 5-year T-bond	2.46	CHFPLN	3.9636

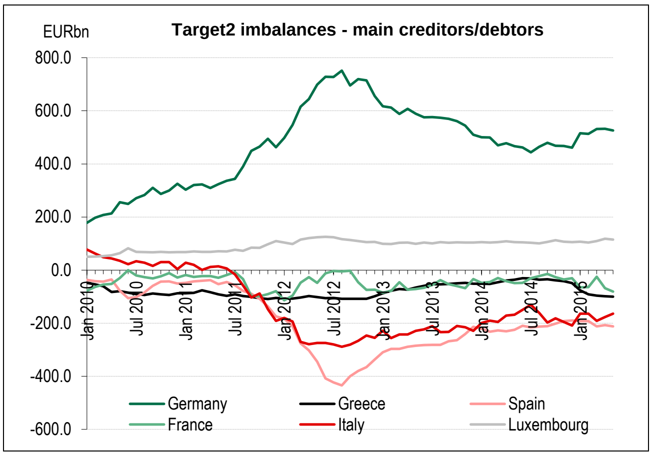
This report is based on information available until 14.07.2015.

Impact of turmoil in Greece: Q&A









Source: CSO, BIS, Eurostat, Bloomberg, oddschecker.com, eurocrisismonitor.com, BZ WBK.

1. How likely is a Grexit scenario?

▪ The agreement reached at the EU summit on July 13 markedly reduced the risk of Grexit, at least in the short run. However, given that Greece still has to meet a number of requirements for the bailout funds to be disbursed, it has not been entirely removed.

▪ The probability of Grexit (as derived from bookmakers' bets) has seesawed in the last few weeks. The news that a deal was reached reduced the chances that Greece would leave to <10% vs c40% just a week earlier.

2. What next for Greece? Key dates and deadlines

▪ The Greek deal has to be approved by the Greek parliament by July 15. If it happens, the bailout has to be approved by other Euro zone national parliaments (Germany, Portugal, Finland, Slovenia, Estonia and Italy, while government approval alone is sufficient in the other countries).

▪ On July 20, Greece has to pay €3.5bn to the ECB and, in our view, this is the crucial date. It is essential that the third bailout deal (or at least temporary bridge financing) is secured by then, so that the ECB can continue to provide emergency funding for Greek banks. Otherwise, the ECB could stop accepting Greek bonds as collateral, cutting off liquidity for the Greek banks, which would be the first step towards Grexit.

▪ Even in a no-Grexit scenario, weeks of capital controls, bank shutdowns and more austerity would most probably weigh heavily on Greek economic growth.

3. What is Europe's trade exposure to Greece?

▪ Total exports of the EU28 (ex Greece) to Greece were €23.7bn in 2014, which is insignificant at 0.18% of the region's GDP. Trade exposure to Greece is less than 0.5% of GDP for most EU countries, with two outliers: Bulgaria (3.5%) and Cyprus (1.3%). EU28 imports from Greece are €11.9bn so, with such limited exposure, a Grexit and/or recession in Greece are unlikely to cause serious problems in the European Union.

4. What is Europe's other exposure to Greece?

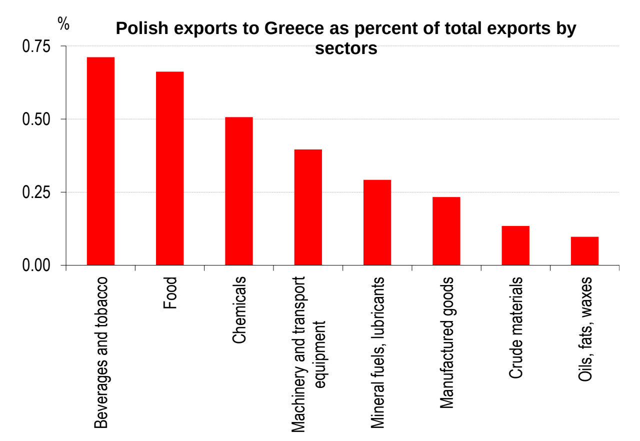
▪ Greece's net balance in the Target2 system is €100bn and this is the sum that Greek banks owe the ECB as a result of cross-border transactions. This sum is likely to be at risk in an event of Grexit. German entities hold most claims in the system (c€530bn versus a total Target2 imbalance of €700bn). However, we cannot rule out potential losses being divided based on national central banks' shares in the ECB's capital.

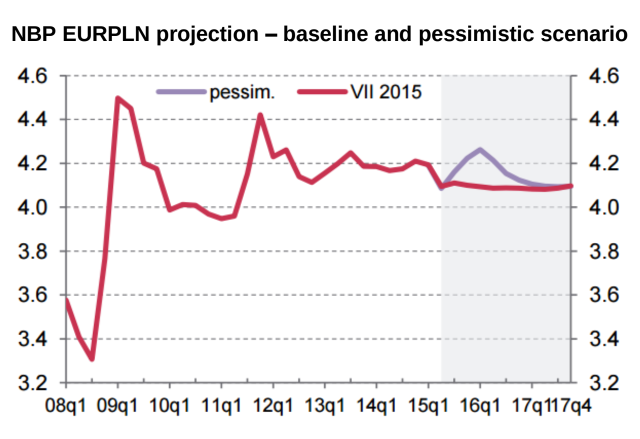
▪ Total exposure of European banks to Greece was US$33bn at the end of 2014 (according to the Bank of International Settlements). German banks hold US$13.3bn, UK banks US$12.2bn, French banks US$1.6bn and Italian ones US$1.4bn. Claims on the public sector are limited to US$1.1bn, and most are claims versus banks (US$11.9bn).

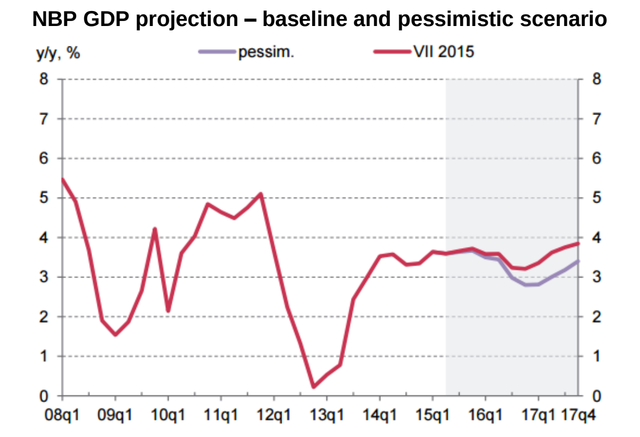
5. What is Poland's exposure to Greece?

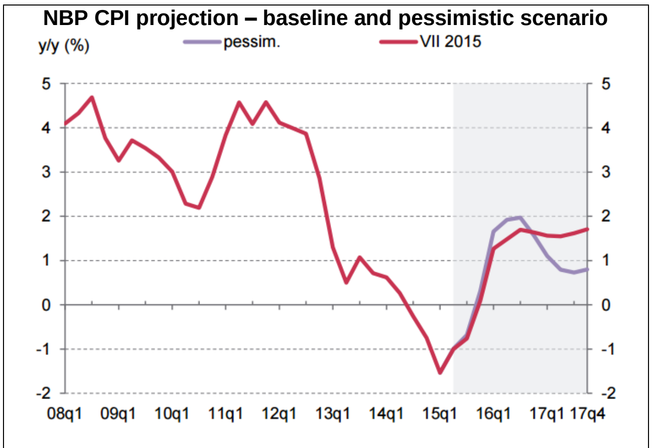
▪ Only 0.4% of Polish exports (0.15% of GDP) go to Greece, so Poland's trade exposure even lower than the EU28 average. Polish exports to Greece are worth €610mn and imports amount to €330mn. The most exposed sectors are beverages and tobacco (0.7% of exports go to Greece), food (0.65%) and chemicals (0.5% of exports) – but this is still very low, especially as these sectors rely mostly on domestic demand. Thus, we would not expect any significant repercussions for Polish exporters.

Impact of turmoil in Greece: Q&A









Source: Eurostat, NBP, BZ WBK.

5. What is Poland's exposure to Greece (cont.)?

- The Polish financial system has no direct links to Greece. Some Polish banks have foreign shareholders, which do have exposure to Greece, mainly because they have subsidiaries there. Still, as their Polish subsidiaries are financially independent, we are not expecting any significant negative impact in the case of parent company losses in Greece.

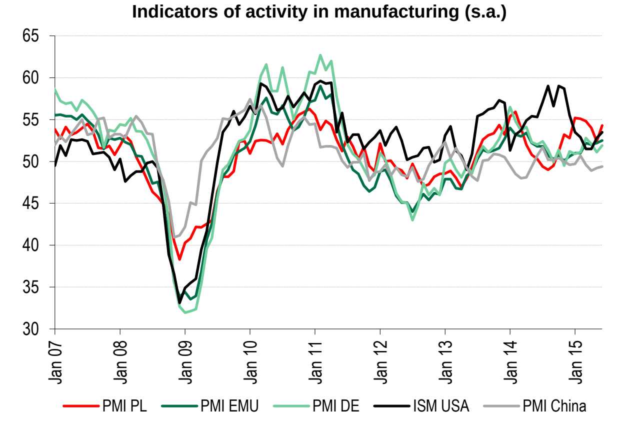
6. What would Grexit imply for financial markets?

- Grexit would most probably mean a global risk-off mood, at least in the short run. This would most probably hit EM assets, including the zloty.
- However, we think contagion would be limited, as the main central banks will probably jolt into action. The ECB may increase the scale of its QE programme and start OMT. We should remember that the ECB pledged to do whatever it takes to save the euro. Grexit would be a huge blow to that pledge, so the ECB would likely show it is determined not to suffer something like that again. In our view, Grexit would also encourage the Fed to postpone its normalization of monetary policy.
- The impact on the fixed income market is less obvious: higher risk aversion would most probably widen spreads between Bunds and other debt, but, in general, yields could fall, pricing in lower interest rates globally. By contrast, Greece staying in could drive Bund yields higher but make spreads narrower.

7. What are the consequences for Poland?

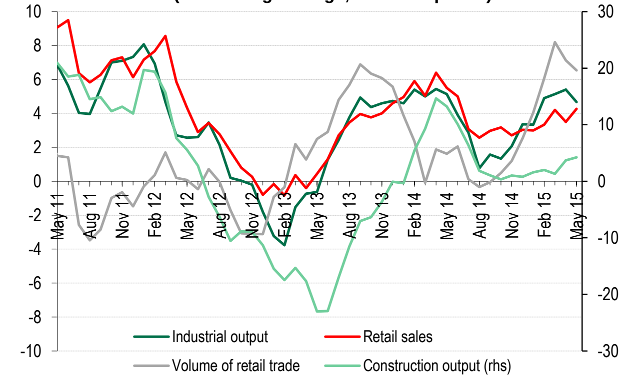
- As we said, Grexit would most likely hit the Polish currency. In the case of extreme fluctuations, the National Bank of Poland (NBP) would probably intervene in order to limit FX volatility. This was suggested by members of the NBP board (Belka, Raczko). In the longer run, action by other central banks (ECB, Fed), would be PLN-positive.
- Even in the event of very sharp market swings and capital outflows, Poland remains quite robust. In our view, even a total cut-off from foreign financing until year-end would not cause major problems.
- As regards emergency funding, the level of NBP reserves is high (€94bn, ie 22% of GDP) and Poland can use its IMF flexible credit line (FCL) worth US$22bn.
- The government has covered more than 73% of this year's borrowing needs and has PLN57.4bn of excess liquidity available (end of June). Thus, in our view, even in the scenario of higher uncertainty there should be no significant problems with 2015 financing.
- 12M current account deficit after May was merely 0.1% of GDP (and we think there is a good chance that 2015 will end with a small surplus) and is entirely covered by the inflow of EU funds.
- Gross external debt is €306bn and about €55bn of that matures in the short term and represents the main risk. However, c50% of that sum is a debt within capital groups and this makes the risk of refinancing low. The rest can be covered easily by the IMF FCL and the NBP's currency reserves.
- Grexit would trigger upward pressure on EURPLN and downward pressure on EURCHF, with both moves pushing CHFPLN higher. This would most probably mean higher non-performing loan rates for CHF-denominated mortgages in Poland and possibly more fuss about this issue in the media / comments of politicians, especially given the upcoming election.
- As we noted earlier, direct trade links between Poland and Greece are very weak. However, if Grexit brings a deterioration of sentiment in the Euro zone, the ensuing economic slowdown there could weigh on Polish growth. According to the NBP, in such a negative scenario Polish GDP growth would decelerate to c2.5%-3% in 2016, which is still strong.

Economic update

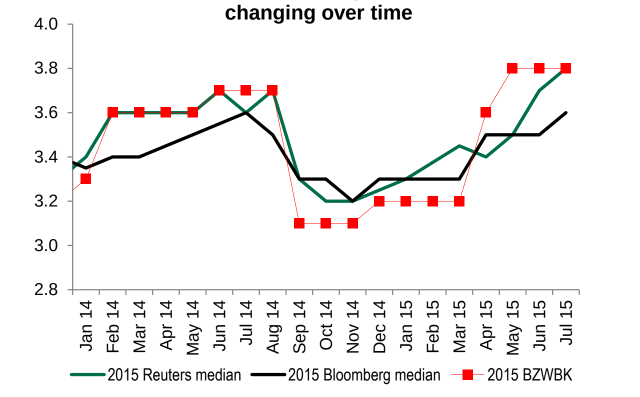


Indicators of activity in manufacturing (s.a.)

ESI index and GDP growth in Poland



Output and sales growth, %YoY
(3M moving average, constant prices)



Forecasts of 2015 GDP growth in Poland
changing over time

Source: CSO, Eurostat, Markit, Reuters, Bloomberg, BZ WBK.

Global economic recovery in progress

- The global economy continues to heal slowly. Economic conditions in the U.S. seem to be improving, with a decent pace of expansion in personal spending, improvement in the housing market and labour market slack being steadily squeezed out. Economic recovery in the Euro zone, while still modest, is also gaining momentum. European PMIs for June edged higher, indicating that tailwinds for growth are starting to work their way through the system, with the recovery not derailed by events in Greece.

- While the risk of a Grexit scenario has decreased after the recent summit, it cannot be ruled out completely. We think, however, it is unlikely to materially affect the ongoing economic recovery in the Euro zone. We still believe that economic growth in Europe will surprise on the upside in 2015E, creating a positive environment for Polish exporters, especially when the exchange rate remains at highly competitive level.

Economic sentiment in Poland is still decent

- Indicators of economic confidence in Poland for June were mixed. While Markit's manufacturing PMI rebounded sharply after four months of declines, signalling a notable improvement in almost all sub-indices, other measures (the European Commission's ESI, CSO business climate in manufacturing) recorded minor corrections, although they remain at levels consistent with reasonable growth in economic activity.

- June CSO consumer confidence indices jumped to the highest levels since late 2008. Almost all the components improved, with a particularly strong rise in participants' assessment of their future economic situation. Growing consumer confidence, rising labour income and falling unemployment bode well for the private consumption outlook. We continue to predict an acceleration of consumption growth in the coming quarters. It should be coupled with improving external demand thanks to a continuing recovery in the Euro zone.

Recent data not as bad as they seem

- The pace of industrial output growth disappointed for the second consecutive month, reaching 2.8%YoY in May. While in April this was mainly due to the timing of Easter, which dragged food output down, the main culprit in May seems to have been the negative impact of the number of working days. According to the statistics office estimates, seasonally and working-day-adjusted output growth was 5.3%YoY, which is one of the highest readings in the last year.

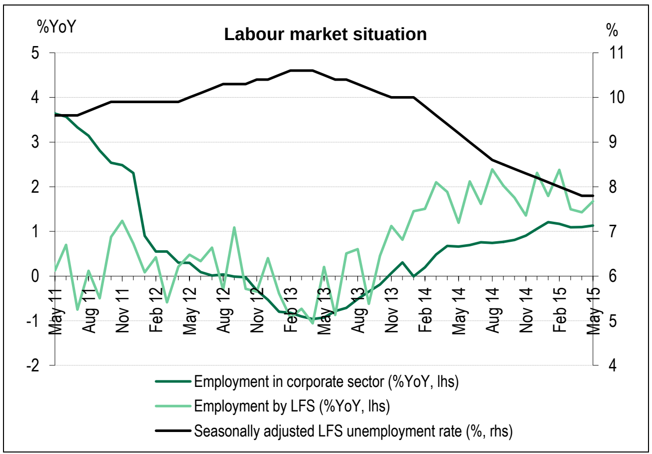
- Construction output decelerated significantly in May (to 1.3%YoY) after two relatively strong months and the working day effect was also partly responsible for the slowdown. Excluding this factor, growth reached 4.8%YoY.

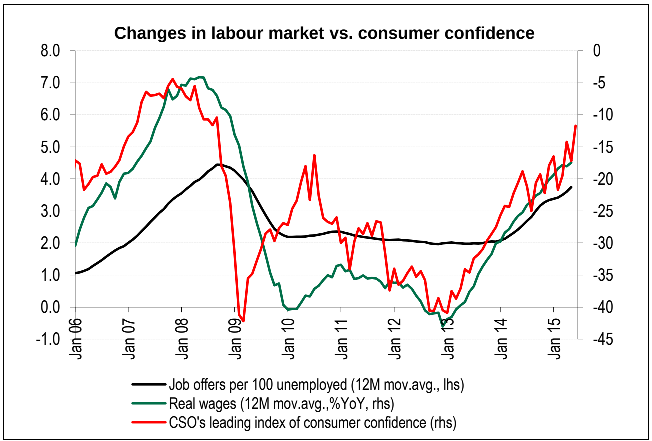
- Retail sales growth in May was 4.7%YoY at constant prices, in line with our forecast and above the market consensus, suggesting a good performance by private consumption. The volume of retail trade, an alternative measure of the sector's performance (excluding car sales, but including data from small shops), climbed 7.6%YoY in real terms (seasonally adjusted), which was the highest rise in the European Union.

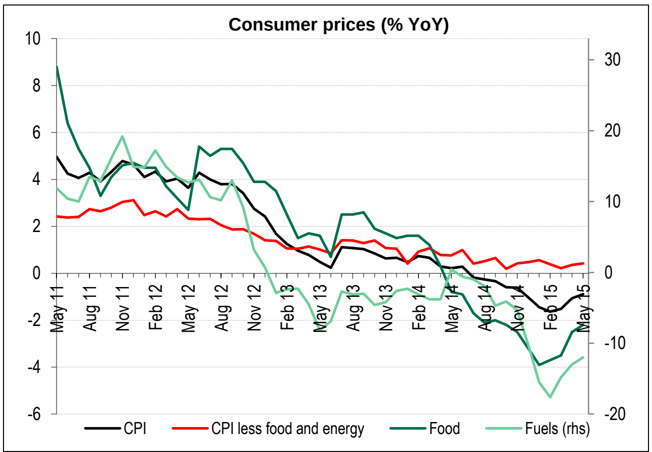
- If we exclude the statistical noise, it seems that activity in all three sectors: industry, construction and retail is gaining strength consistently and we expect this trend to continue.

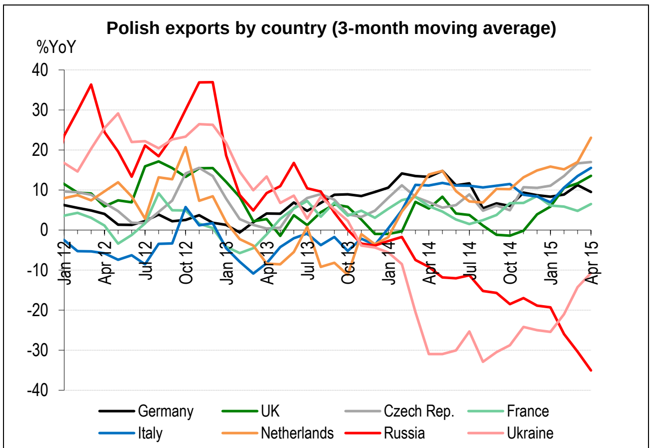
- We maintain our forecast of 2015E GDP growth for Poland of 3.8%, with growth likely to approach 4% in 4Q15E. The median market forecast in polls by Reuters and Bloomberg is gradually converging towards that level.

Economic update









Source: CSO, NBP, Eurostat, BZ WBK.

The labour market improvement is losing steam

▪ The improvement in the labour market seems to have stalled in recent months. Growth of average employment in the corporate sector is no longer accelerating, but stabilised at 1.1%YoY in March-May. The number of employed implied by the Labour Force Survey (LFS) is still near its all-time high (around 16 million), but its growth slowed from around 2%YoY several months ago to 1.5%-1.7%YoY recently. Moreover, the employment sub-index in the PMI survey was the only one that did not improve in June (although it stayed above 50). The seasonally-adjusted unemployment rate, according to the LFS, stabilised at 7.8% in May after falling substantially over the previous two years. Still, the number of jobseekers (seasonally adjusted) declined by 9k to 1,350k, the lowest since mid-2009.

▪ The decline in unemployment may be slowing, but interestingly the number of new job offers is surging. In May it exceeded 122k (the highest since 2007) and in June, according to preliminary Labour Ministry estimates, it was at its highest since comparable data is available, ie 2001. This seems to confirm our hypothesis that the slower growth in employment and slower drop of unemployment in recent months resulted from a growing shortage of suitably skilled workers, rather than from limited demand for labour. We think this could result in growing wage pressure in the coming months.

Income growth is boosting consumer confidence

▪ In May wage growth in the corporate sector decelerated to 3.2% YoY from 3.7% in April, mainly due to the negative working day effect, in our view. However, a steady acceleration of labour income growth is apparent in the last two years and is among the factors boosting consumer confidence.

▪ We expect a further acceleration of nominal wage growth in the second half of the year. The real wage increase is more likely to stabilise near 5%YoY (ie close to the average of the last six months) due to a gradual pick-up in inflation in the coming months.

Inflation is rising slowly

▪ CPI inflation rate was -0.9%YoY in May from -1.1%YoY in April. The result was below forecast and was mainly caused by a decline in food prices. Fruit prices went up sharply (7.2%MoM – the highest MoM rise in May since 2010), but this was offset by falls in other categories like vegetables, dairy and meat. We still think that in the coming months food price inflation will accelerate (firstly due to a very low statistical base and secondly to less-favourable weather, given the rather cold spring), pushing the CPI upwards.

▪ There is still very little evidence of strengthening inflationary pressure, but we expect the CPI to continue its upward trend in the coming months, to c0.7%YoY in December. Core inflation, excluding food and energy prices, which were unchanged in May at 0.4% YoY, should rise towards 1% at the end of the year.

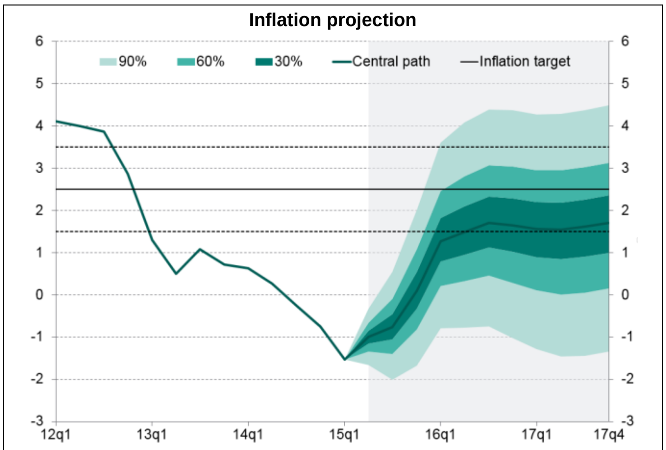
Clear revival in exports to EU countries

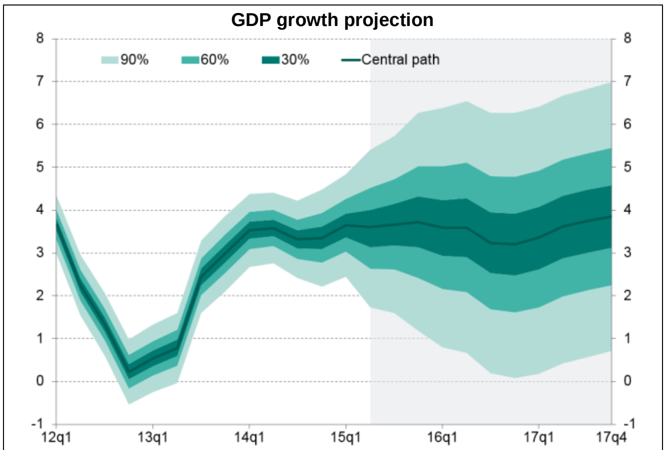
▪ While the collapse of Poland's exports to Russia has become more marked (-35%YoY in April), trade with major EU partners is clearly gaining momentum. We think those trends will continue, supported by faster economic growth in the Euro zone and a competitive zloty exchange rate.

▪ We stick to the view that 2015 may be the first year since 1995 in which Poland's current account shows a small surplus. Net exports' contribution to GDP growth in the coming quarters should remain positive, even if smaller than in 1Q15.

Monetary policy watch

Excerpts from the MPC's communiqué after its July meeting
Growth of global economic activity remains moderate. In the euro area, economic conditions improve gradually, although activity is still low. In the United States, recent data suggest that the slowdown at the beginning of the year was temporary and the economic outlook is favourable. In turn, economic growth in China remains low as for this country, while recession continues in Poland's eastern trading partners, i.e. Russia and Ukraine.
Despite the ongoing recovery in developed economies, the sentiment in the financial markets has recently deteriorated in the wake of growing fears of a Greek insolvency. This was conducive to a fall in prices of some financial assets as well as a weakening of exchange rates of Central and Eastern European currencies, including the zloty.
In Poland, GDP growth in 2015 Q2 most likely continued at a previous quarter level. Increase in consumption and investment, fuelled by an improving labour market situation, good financial condition of enterprises and a rise in lending, has probably remained the main driver of economic growth. At the same time, recent data do not indicate acceleration of economic growth in the coming quarters.
Due to the moderate pace of growth in demand and the continuing negative output gap, there is no inflationary pressure in the economy. Moreover, low commodity prices and moderate nominal wage growth are contributing to the continued lack of cost pressure. As a result, the annual growth of consumer prices remains negative, although the increase in the annual growth of fuel and food prices in the recent period has limited the scale of deflation. The annual growth of producer prices is also negative, while inflation expectations remain very low.
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 stable 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. Such an assessment is supported by NBP's July projection. Therefore, the Council decided to keep NBP interest rates unchanged





Sources: NBP, Reuters, BZ WBK.

No change in monetary policy… again

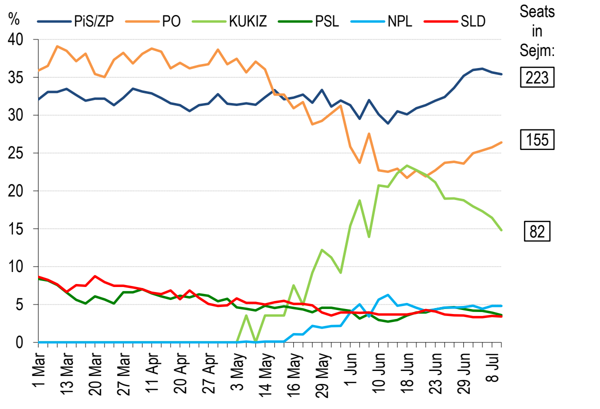
- Poland's Monetary Policy Council kept NBP rates unchanged in July with the reference rate at 1.50%. The MPC's communiqué did not change significantly compared with the previous one, although it is worth noting that now the Council expects GDP growth to "stabilise" in the coming quarters, while in June it anticipated its "gradual acceleration". As explained by NBP Governor Marek Belka at the press conference, the lack of growth acceleration is due to a lower contribution from net exports to GDP growth than in the first quarter of 2015.
- If inflation is in line with the central bank's projection for 2016, it would put real interest rates at zero, increasing the chance of a rate hike in 2016, in our view. Belka said that lower real rates would be supportive for the economy. However, we think it is not clear that the economy would need monetary policy stimulus, given solid GDP growth and the strength of the labour market, which is supportive for consumption.
- We still assume that a slight adjustment in monetary policy can take place at the end of 2016. The interest rate market is currently pricing in the first hike at the turn of 2016 and 2017 and Belka said "this is more or less valid". Still, there is a high uncertainty about the composition of the new MPC which will decide on monetary policy in 2016 (eight of the nine members are due to change at the start of 2016 and there is a possibility of a new governor being named in mid-2016). This uncertainty should disappear in a couple of months' time. Until then, not much will happen to Polish monetary policy and market participants will be more focused on external factors affecting the PLN and bond yields. Let's hope these factors will not be sufficient to make the NBP intervene. Governor Belka reiterated at the MPC press conference that the central bank "knows what to do" in case of market turmoil.

Higher inflation projection for 2016-17

- The new inflation projection shows, as we expected, higher inflation and GDP in the coming years than in the bank's March update.
- The main change in GDP projections is in 2015 Currently, the mid-point of the projection is 3.6% (still slightly below our forecast of 3.8%), compared with the previous NBP estimate of 3.4%. The following year shows a moderate slowdown to 3.4%, which is roughly consistent with our forecast. For 2017 the NBP sees an acceleration to 3.6% again. Overall, economic growth stabilizes at the level of c3.5% in 2015-17 period.
- In the case of inflation, the central bank expects deflation in 2015 to be 0.3pp deeper than it did previously but in the following years inflation should rise quite clearly. The central point of CPI projection for 2016 is now 1.5%, ie 0.6pp higher than previously. In 2017 12M CPI stabilises. Still , the projection's central point remains below the inflation target (2.5%) until the end of projection horizon (2017). However, contrary to the projection presented in March, CPI inflation is back to the tolerance band surrounding the target (1.5-3.5%).
- The rise in inflation in the medium and long run will be limited by low demand pressure, low import prices and low world commodity prices, according to the central bank. It is worth remembering that the projection takes into account the current legal environment, which implies a lower VAT rate starting in 2017. This would have a negative effect on inflation of 0.34pp.
- The NBP also lowered its estimates of potential GDP growth for 2015-17, which implies that the negative output gap is very low already this year (0.2% of potential GDP) and will close completely by 2017.

Fiscal policy watch

Public support for parties (average from last five opinion polls)



PiS' proposals and financing (calculation by PiS)

Proposals	Financing
■ hike of tax free income fromPLN3091 to PLN8000 – **cost PLN7.0bn** ■ return to lower retirement age (60Y for women and 65Y for men) – **PLN10.0bn** (in 1 year) ■ PLN500 allowance for every second and further child and for every child in the poorest families – **PLN22.0bn**	■ better VAT tax collection - **PLN52bn** ■ 23% of total proposals on the left, returning to the economy as VAT receipts – **PLN9bn** ■ stop of earnings flight to tax havens – **PLN4bn** ■ introduction of bank tax – **cPLN5bn** ■ introduction of large shops tax – **cPLN3bn**
TOTAL PLN39bn	**TOTAL PLN73bn**

Breakdown of loans eligible for FX conversion (cumulated) according to draft bill prepared by PO

Years	Number of loans	Value of loans (PLNk)	Share in total number	Share in total value
1 year	20 771	11 085 840	4.3%	8.4%
2 year	44 854	21 801 857	9.3%	16.6%
3 year	59 154	27 666 964	12.2%	21%

	Spread vs. Bunds (10Y) in bp			CDS (5Y USD)		
	13.07	change since 10.06.15	change since 31.12.14	13.07	change since 10.06.15	change since 31.12.14
Poland	219	-5	22	74	10	3
Czech	38	10	17	49	1	-6
Hungary	293	-17	-22	150	9	-28
Greece	1114	47	208	234	3	55
Spain	127	-9	20	87	13	1
Ireland	78	-5	7	50	2	-1
Portugal	192	-23	-23	169	12	-32
Italy	128	-7	-7	103	6	-35
France	41	6	12	33	5	-13
Germany				15	1	-3

Source: opinion polls, PiS, Polish parliament, Finance Ministry, Reuters, BZ WBK.

No coalition partner needed for PiS after elections?

- The latest polls show only three parties entering parliament after the next general election: the governing Civic Platform (PO), the main opposition Law and Justice party (PiS) and the new Kukiz movement. The latter has lost popularity recently, while the first two seem stronger than a few weeks ago.
- If the results are in line with the latest opinion polls, PiS may win a simple majority in the Sejm (the lower house) without a minor coalition partner.

Which party promises most in the election campaign?

- PiS unveiled the main elements of its electoral programme at its party convention at the beginning of July. The three main proposals are the same as those presented in the presidential campaign: child benefits, higher tax free income and a lower retirement age. The table on the left presents PiS' calculation of the costs of these proposals, together with sources of financing. The first problem we see is the possible impact on public finances, which might be higher than indicated by PiS. For example, it seems like the party's experts have not taken into account the impact on the total public finances (including local governments) of the higher tax free income. Secondly, and more importantly in our opinion, PiS did not show reliable sources of financing of the proposals, as the main element is a better tax collection. Although an improvement in tax collection is necessary, as, according to different calculations, the shortfall might be as high as PLN40-50bn, we would like to see the sequence reversed: first securing financing and then planning how to spend it. Otherwise, the result could simply be a higher deficit, especially if the extra spending happens as soon as 2016.
- The ruling PO is not expected to publish its economic programme until September, but it promises to keep deficit in check.

And which party will give more to CHF borrowers?

- An additional source of funding for PiS is a special tax on financial institutions (on assets) and supermarkets (on turnover). Interestingly, while PO criticised the proposal by using an argument of pass-through effect on households (higher prices of goods and services), a few days later it proposed a solution to help CHF borrowers, which would cost the banking sector PLN8.5bn.
- PiS has not officially presented its final offer to CHF borrowers yet, but some preliminary proposals were even more generous (or more costly for banks).

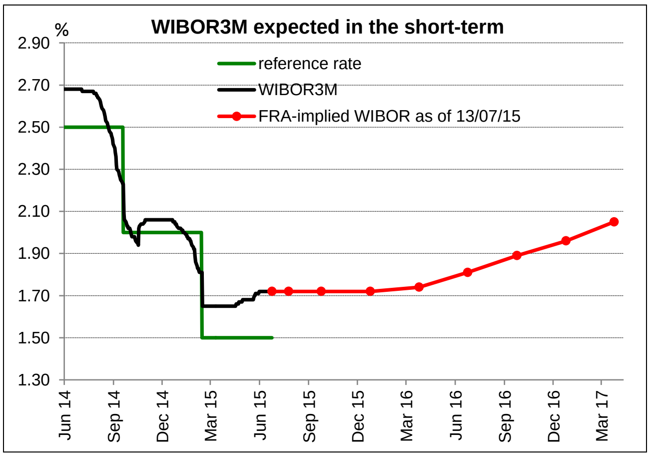
PiS proposes a more active role for the central bank

- Central bank policy was also discussed during the PiS convention and the main conclusion was that the NBP should be more supportive of economic growth. Its candidate for prime minister, Beata Szydło, said in an interview that the central bank should actively support credit for SMEs (giving the ECB's LTRO as an example).
- We do not know if this means allowing for above-target inflation for the sake of faster economic growth, but does indicate the type of central banker that might be preferred by PiS. This creates a risk of lower interest rates for a longer time. A mix of more expansive fiscal and monetary policies would mean a steeper yield curve in Poland.

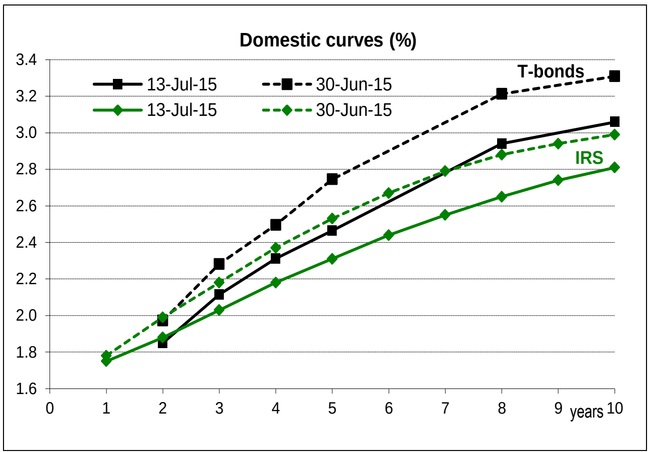
Spread over Bunds tightens as mood improves

- In early July both core and peripheral bonds gained visibly, even though the question of financial aid for Greece was still open. Peripheral spreads narrowed significantly and this could continue in the coming months after the EU reaches a compromise with Greece.
- Given improving fundamentals in the Euro zone, we expect yields on core markets to increase gradually in the coming months. We still expect US Treasuries to underperform European bonds as expectations of a rate hike by Fed later this year are still alive.

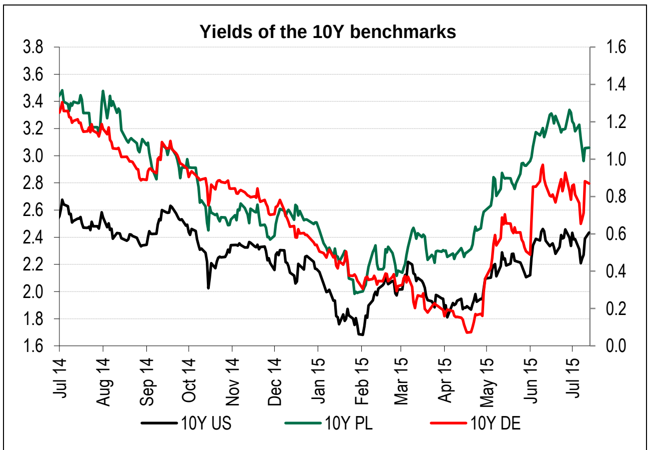
Interest rate market



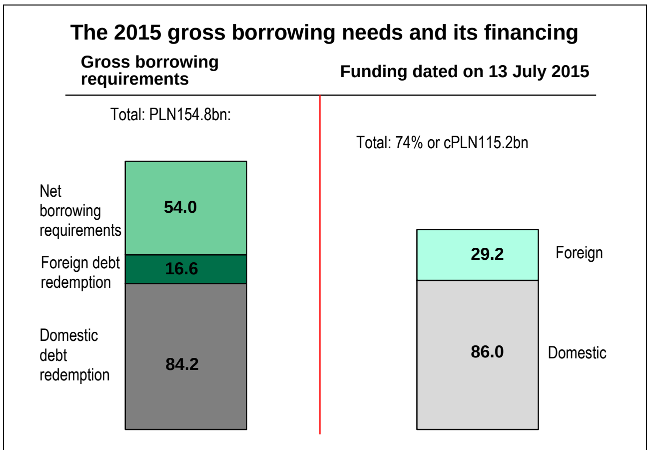
WIBOR3M expected in the short-term



Domestic curves (%)



Yields of the 10Y benchmarks



The 2015 gross borrowing needs and its financing

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

Lower yields and flatter curve in early July

▪ WIBOR rates rose only slightly in June (by 1-4 bp), while FRAs, T-bond yields and IRS rates increased significantly (by between 5 and 40bp) over the past month. This stemmed from growing risk aversion in the context of a prolonged lack of agreement between Greece and its creditors.

▪ The beginning of July brought a significant decline in yields as the stock market rout in China triggered worries about global growth and inflation, strengthening core debt markets. The eventual EU agreement with Greece then decreased the risk of Grexit, reducing market spreads. Consequently, yields and IRS rates reversed most of their June losses. What is more, investors have delayed the expected timing of the first hike by the MPC to the end of 2016, instead of mid-2016 as anticipated at the end of June.

▪ In early July both curves have flattened visibly, consistent with global trends. The 2-10Y spread narrowed to slightly below 120bp for T-bonds and 85bp for IRS, the lowest levels since May. The spread over Bunds, after rising above 250bp in early July, tightened to c214bp for the 10Y sector just after the agreement with Greece.

Under the influence of global factors

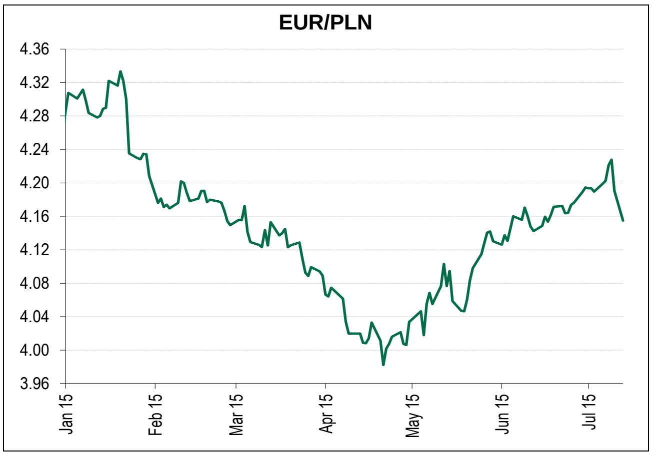
▪ We expect WIBORs to continue to edge higher in the coming months. A rebound in the headline CPI in May was a bit slower than we previously anticipated, despite a further improvement in economic activity, but we expect the trend to continue. FRAs will remain more vulnerable, following situation on IRS market.

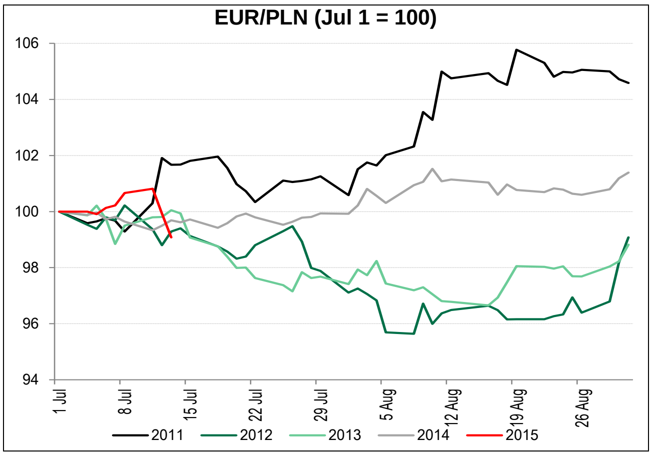
▪ Recently, the psychological support level at 3.0% effectively stopped the decline of the 10Y benchmark yield. This level may be tested again, but in our view it will not be broken for good, as – even despite lower global risk aversion, we are likely to see yields of German bunds trending higher (especially with a lower risk of Grexit, stabilisation in the Chinese equity market and improving fundamentals in the Euro zone). Therefore, the risk is skewed towards a steepening of the curves in the medium to long term.

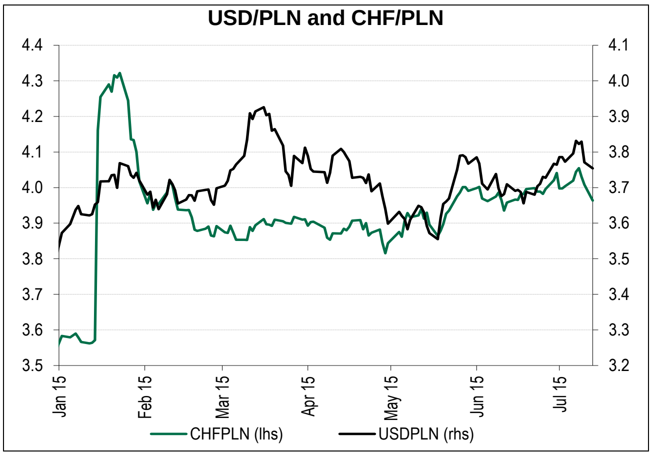
▪ The main central banks' monetary policy will still be closely watched by investors. The ECB is not likely to change course, in our view, assuming Greece does not leave the Euro zone, and we expect the board to continue its asset purchases until September 2016, despite slightly stronger macro data and a gradual increase in headline HICP. Nevertheless a further increase in Euro zone inflation and more signs of economic recovery could push yields of German Bunds higher, which would also affect the Polish fixed income market. Moreover, July's FOMC meeting could bring some suggestion of the timing of the first rate hike in the US. Investors will be keeping a close watch on US macro data in an attempt to determine whether a September rate hike is still on the table or not. In our view, the Fed is still likely to start monetary tightening in September, which, when confirmed, should push domestic yields upwards in the medium to long term. Therefore, we stick to our baseline scenario of moderate growth in domestic yields and IRS rates until the end of the year.

▪ Planned issuance in July-August is low as the Finance Ministry plans to sell T-bonds worth PLN4-12bn in total. We think actual supply could be close to the upper end of this range, as demand will be supported by liquidity: in July there will be quite significant inflows of cPLN7.7bn from the OK0715 redemption and cPLN3.3bn from interest payments of the WZ and PS series. We predict that the Finance Ministry will have covered c80% of its gross borrowing needs at the end of August (from 74% after the first auction in July). A limited offer of T-bonds on primary market could support a horizontal move in yields during the holiday period.

Foreign exchange market







Sources: Reuters, Bloomberg, BZ WBK.

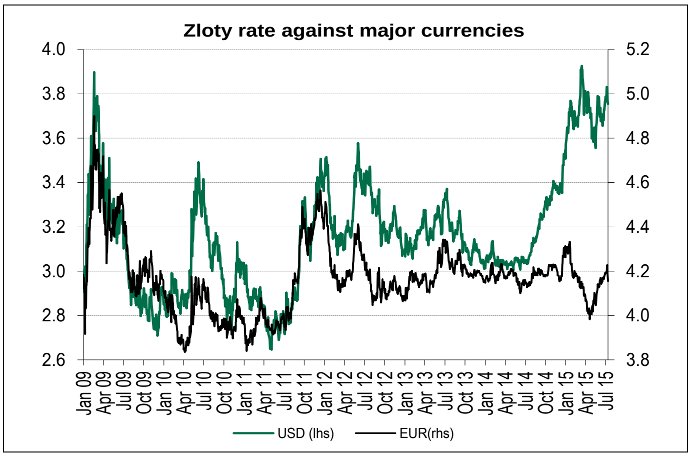
Volatile zloty driven by the news on Greece

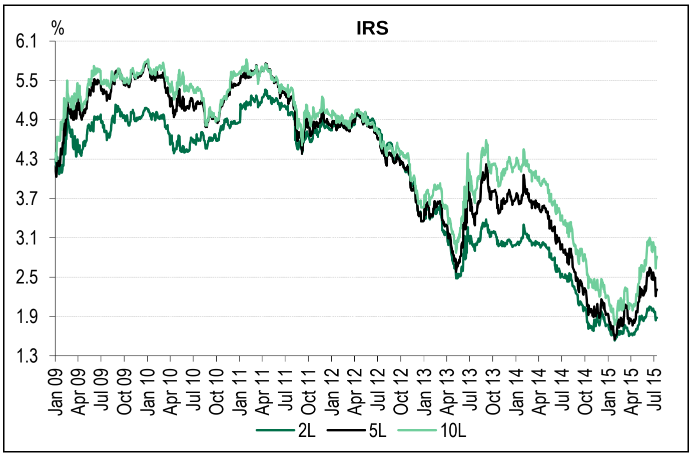
- Worries over the fate of Greece have weighed on the zloty and the other CEE currencies during the last couple of weeks. In early July investors also became concerned over the situation in China. All this pushed EUR/PLN up to 4.24. After the agreement between Greece and creditors at the EU summit, the zloty reversed all the losses suffered since mid-June as EUR/PLN dropped to 4.14.
- As the second chart shows, the July-August period for the past four years does not show any firm pattern for EUR/PLN. However, the Polish currency depreciated in August in the last four years. If it emerged stronger vs the euro after the holidays, this was thanks to its performance in July. In each case, however, the main drivers of its poor August were global events (the Greek crisis, tensions in the Middle East, concern over global economic growth) and we think this could be the case again. The risk of Grexit seems to have faded after the last EU summit, but there are still crucial steps ahead before the deal can be closed. National parliaments have to approve the conditions for the bailout package and Greece has to start implementation. There are other risk factors that may hit investor sentiment, for example the situation in China.
- Although the zloty's performance in the last few summers and the current unstable global sentiment show that there is a risk of the currency weakening again now, EUR/PLN volatility (measured as a monthly high-low spread) does not indicate that swings of the exchange rate in July-August are significantly stronger than the average for the year. For the four years since 2011, the average monthly high-low spread is PLN0.138 for the whole year and PLN0.142 for the July-August period. Expressed as a percentage of monthly opening level for EUR/PLN, spreads are at 0.032% and 0.034%, respectively. We think that any concerns over further developments in the euro could be tamed by expectations that the ECB and the other central banks could step in and stabilize the market, should the situation deteriorate significantly. Also, Polish data are likely to confirm that the economy is accelerating gradually and inflation is approaching positive territory, limiting scope for a resumption of monetary easing. As compared with our June MACROscope, we have raised our quarterly forecasts of average EUR/PLN rates and now expect a level slightly above 4.0 at year end.

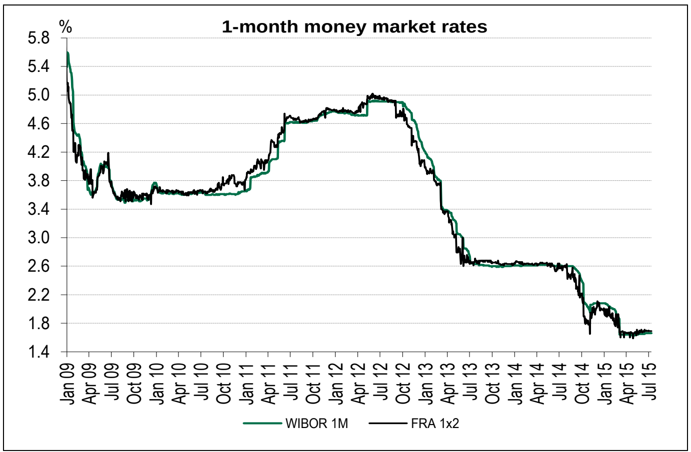
Greece and US data crucial for EUR/USD

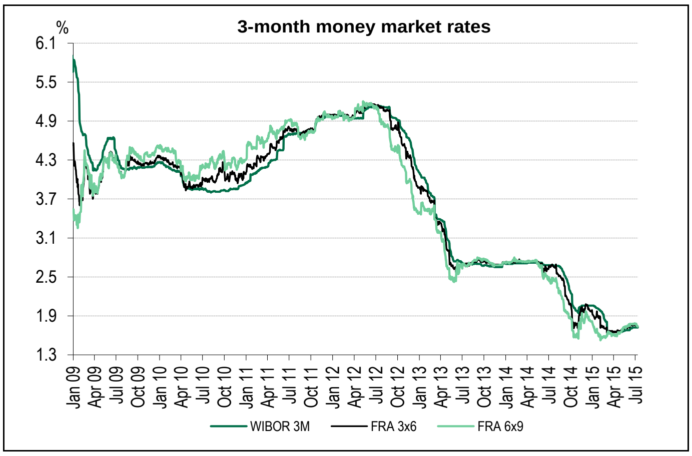
- The dollar has gained vs the euro since last month's MACROscope but the scale of the move seems to have been limited by rising concerns over Greece amid talks on the terms of the bailout. The exchange rate eased to 1.09 from 1.14 and the announcement of the Greek deal did not trigger any subsequent sharp upward move.
- The cautious market reaction to the politicians' comments saying that the agreement on the bailout conditions has been reached may indicate that investors need to see national parliaments accepting the deal. Also, the lack of euro appreciation following the positive news might be due to the fact that Greece staying in means there are fewer reasons for the Fed to delay its rate hike.
- The first FOMC meeting when the interest rates could be raised is, in our and the market's view, in September, when Janet Yellen will speak at the press conference following the decision. Crucial US data is due between now and mid-September, including the first and second estimate of 2Q15 GDP and two monthly non-farm payroll reports. The minutes from the June meeting showed that the Committee may still want more data to confirm that economic growth is on track before lifting rates, so upcoming macro releases will be closely scrutinised by the market and may influence EURUSD noticeably.
- We expect EURUSD to climb gradually to 1.13 during the holidays and we maintain our 1.16 target for the end of the year.

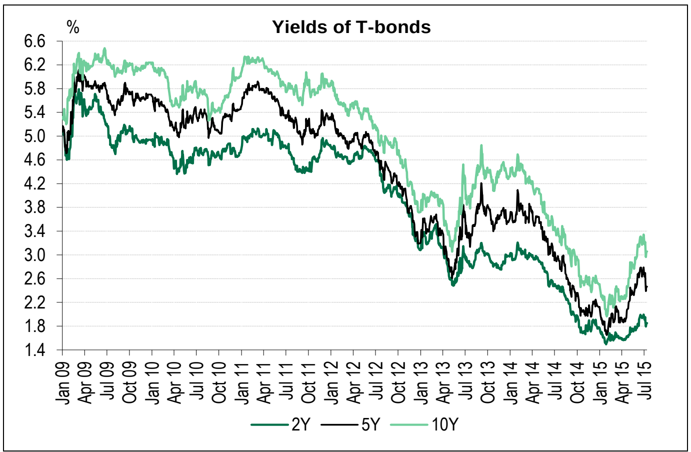
Market monitor

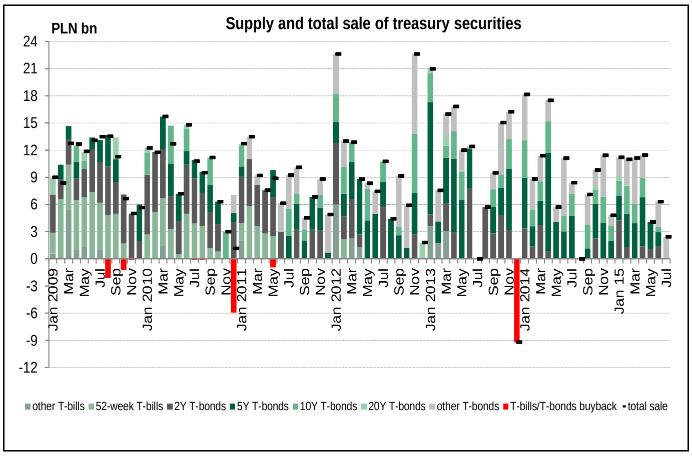












Treasury bond auctions in 2014/2015 (PLN mn)

month	First auction date	First auction T-bonds	First auction offer		Second auction date	Second auction T-bonds	Second auction offer		Switch auction date	Switch auction T-bonds	Switch auction offer
August '14	-	-	-	-	-	-	-	-	-	-	-
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/	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	PS0420/DS0725
July	9.07	WZ0120/WZ0124	1000-2000	2430.3	23.07	To be announced	2000-6000				
August	6.08	To be announced	1000-4000								

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

Source: MoF, Reuters, BZ WBK.

Economic calendar

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

Source: CSO, NBP, Bloomberg

Economic data and forecasts for Poland

Monthly economic indicators

		Jun 14	Jul 14	Aug 14	Sep14	Oct14	Nov 14	Dec 14	Jan 15	Feb 15	Mar 15	Apr 15	May 15E	Jun 15E	Jul 15E
PMI	pts	50.3	49.4	49.0	49.5	51.2	53.2	52.8	55.2	55.1	54.8	54.0	52.4	54.3	54.4
Industrial production	% YoY	1.8	2.4	-1.9	4.2	1.7	0.3	8.1	1.6	5.0	8.8	2.4	2.8	7.9	3.5
Construction production	% YoY	8.0	1.1	-3.6	5.6	-1.0	-1.6	5.0	1.3	-0.3	2.9	8.5	1.3	3.1	1.3
Retail sales [a]	% YoY	1.2	2.1	1.7	1.6	2.3	-0.2	1.8	0.1	-1.3	3.0	-1.5	1.8	4.2	3.5
Unemployment rate	%	12.0	11.8	11.7	11.5	11.3	11.4	11.5	12.0	12.0	11.7	11.2	10.8	10.4	10.2
Gross wages in corporate sector	% YoY	3.5	3.5	3.5	3.4	3.8	2.7	3.7	3.6	3.2	4.9	3.7	3.2	3.9	4.7
Employment in corporate sector	% YoY	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	1.1
Exports (€)	% YoY	5.3	6.4	-1.2	5.8	4.7	3.5	4.3	4.4	10.2	13.9	9.2	9.7	11.0	12.0
Imports (€)	% YoY	8.4	7.7	0.7	7.0	5.6	5.0	9.8	-2.1	2.6	7.8	7.8	0.0	8.0	9.0
Trade balance	EUR mn	-58	-270	-215	492	-42	10	-792	766	721	702	119	946	323	108
Current account balance	EUR mn	-827	-730	-1,063	14	-374	-24	-1,245	-60	-7	1,743	1,129	1,184	-1,001	-659
Current account balance	% GDP	-1.2	-1.3	-1.4	-1.2	-1.3	-1.1	-1.3	-1.0	-0.9	-0.6	-0.4	-0.1	-0.1	-0.1
Budget deficit (cumulative)	PLN bn	-25.4	-26.4	-24.6	-22.4	-27.2	-24.8	-29.8	-0.6	-11.3	-16.7	-16.7	-19.6	-26.6	-28.1
Budget deficit (cumulative)	% of FY plan	53.4	55.5	51.9	47.1	57.4	52.1	62.7	1.3	24.6	36.2	36.2	42.6	57.7	60.9
CPI	% YoY	0.3	-0.2	-0.3	-0.3	-0.6	-0.6	-1.0	-1.4	-1.6	-1.5	-1.1	-0.9	-0.7	-0.7
CPI excluding food and energy	% YoY	1.0	0.4	0.5	0.7	0.2	0.4	0.5	0.6	0.4	0.2	0.4	0.4	0.3	0.4
PPI	% YoY	-1.8	-2.0	-1.5	-1.6	-1.3	-1.6	-2.7	-2.8	-2.8	-2.5	-2.7	-2.2	-1.9	-1.5
Broad money (M3)	% YoY	5.2	6.0	7.4	7.9	7.7	8.4	8.2	8.6	8.7	8.9	7.2	7.6	8.3	8.2
Deposits	%YoY	5.5	6.7	7.8	7.5	7.8	8.5	8.1	8.2	8.0	8.2	6.8	6.9	7.9	7.8
Loans	%YoY	4.9	5.4	6.3	6.2	7.2	7.4	7.3	8.0	7.7	7.8	6.5	7.7	7.9	8.2
EUR/PLN	PLN	4.14	4.14	4.19	4.19	4.21	4.21	4.21	4.28	4.18	4.13	4.02	4.08	4.16	4.17
USD/PLN	PLN	3.04	3.06	3.15	3.25	3.32	3.38	3.42	3.68	3.68	3.81	3.73	3.66	3.71	3.76
CHF/PLN	PLN	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	3.97
Reference rate [b]	%	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	1.50
3M WIBOR	%	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	1.72
Yield on 2-year T-bonds	%	2.54	2.45	2.30	2.02	1.77	1.78	1.84	1.60	1.60	1.62	1.60	1.74	1.91	1.94
Yield on 5-year T-bonds	%	3.10	2.89	2.73	2.40	2.12	2.04	2.16	1.82	1.88	1.99	1.98	2.38	2.68	2.68
Yield on 10-year T-bonds	%	3.54	3.34	3.23	2.98	2.63	2.54	2.55	2.21	2.20	2.32	2.36	2.83	3.20	3.10

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

		2013	2014	2015E	2016E	1Q15	2Q15E	3Q15E	4Q15E	1Q16E	2Q16E	3Q16E	4Q16E
GDP	PLN bn	1,662.1	1,728.7	1,797.4	1,888.7	417.8	433.8	443.4	502.4	436.1	456.5	466.5	529.7
GDP	% YoY	1.7	3.4	3.8	3.5	3.6	3.6	3.7	4.0	3.7	3.6	3.3	3.4
Domestic demand	% YoY	0.2	4.9	3.4	4.0	2.6	3.4	3.4	3.9	3.6	3.9	4.0	4.3
Private consumption	% YoY	1.1	3.1	3.3	3.2	3.1	3.3	3.4	3.5	3.3	3.2	3.1	3.1
Fixed investments	% YoY	0.9	9.2	9.0	6.8	11.4	9.0	9.0	8.0	8.0	7.0	7.0	6.0
Industrial production	% YoY	2.3	3.4	5.1	5.0	5.3	4.4	5.6	5.1	4.1	5.8	5.1	4.9
Construction production	% YoY	-10.3	4.3	2.5	2.9	1.4	4.1	2.5	1.8	3.0	2.9	2.9	2.9
Retail sales [a]	% YoY	2.6	3.1	3.4	5.5	0.7	1.5	4.8	6.0	5.3	5.6	5.4	5.4
Unemployment rate [b]	%	13.4	11.5	10.3	9.7	11.7	10.4	10.0	10.3	10.4	9.3	9.2	9.7
Gross wages in the national economy [a]	% YoY	3.4	3.6	4.1	5.2	4.1	3.6	4.3	4.3	4.1	5.6	5.5	5.5
Employment in the national economy	% YoY	-1.1	0.2	0.7	0.7	0.8	0.7	0.7	0.6	0.6	0.7	0.7	0.7
Exports (€)	% YoY	5.7	5.6	11.0	10.7	9.5	11.0	12.0	11.5	11.0	11.2	10.5	10.3
Imports (€)	% YoY	0.2	7.2	7.2	12.2	2.8	8.0	9.0	9.0	13.0	12.0	12.0	12.0
Trade balance	EUR mn	635	-1,629	4,192	2,100	2,189	705	1,189	108	1,629	443	672	-643
Current account balance	EUR mn	-5,148	-5,250	885	-1,552	1,648	629	-1,010	-382	1,118	353	-1,716	-1,306
Current account balance	% GDP	-1.3	-1.3	0.2	-0.3	-0.6	-0.3	-0.1	0.2	0.1	0.0	-0.1	-0.3
General government balance	% GDP	-4.0	-3.2	-2.7	-2.3	-	-	-	-	-	-	-	-
CPI	% YoY	0.9	0.0	-0.7	1.7	-1.5	-0.9	-0.6	0.3	1.4	1.7	1.8	1.8
CPI [b]	% YoY	0.7	-1.0	0.7	1.9	-1.5	-0.7	-0.4	0.7	1.5	1.7	1.8	1.9
CPI excluding food and energy	% YoY	1.2	0.6	0.5	1.3	0.4	0.4	0.5	0.9	1.1	1.3	1.3	1.3
PPI	% YoY	-1.3	-1.5	-1.9	0.4	-2.7	-2.3	-1.8	-0.7	-0.2	0.3	0.5	0.8
Broad money (M3) [b]	% oY	6.2	8.2	7.8	7.6	8.9	8.3	8.2	7.8	7.7	7.7	7.6	7.6
Deposits [b]	%YoY	6.0	8.1	7.3	7.9	8.2	7.9	7.7	7.3	7.5	7.6	7.8	7.9
Loans [b]	%YoY	3.6	6.9	6.7	5.3	7.8	7.9	7.8	6.7	6.4	6.0	5.6	5.3
EUR/PLN	PLN	4.20	4.18	4.12	4.07	4.20	4.09	4.14	4.07	4.03	4.06	4.09	4.10
USD/PLN	PLN	3.16	3.15	3.66	3.43	3.72	3.70	3.68	3.52	3.43	3.43	3.43	3.42
CHF/PLN	PLN	3.41	3.45	3.88	3.53	3.93	3.93	3.92	3.74	3.64	3.58	3.50	3.39
Reference rate [b]	%	2.50	2.00	1.50	2.00	1.50	1.50	1.50	1.50	1.50	1.50	1.50	2.00
3M WIBOR	%	3.02	2.52	1.76	1.87	1.87	1.67	1.73	1.75	1.75	1.75	1.79	2.17
Yield on 2-year T-bonds	%	2.98	2.46	1.81	2.18	1.61	1.75	1.93	1.95	1.98	2.07	2.17	2.50
Yield on 5-year T-bonds	%	3.46	2.96	2.40	2.78	1.90	2.35	2.66	2.70	2.70	2.70	2.77	2.93
Yield on 10-year T-bonds	%	4.04	3.49	2.87	3.52	2.24	2.79	3.14	3.30	3.42	3.48	3.53	3.65

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 14.07.2015 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*.**

* Employed by a non-US affiliate of Santander Investment Securities Inc. and not registered/qualified as a research analyst under FINRA rules, and is not an associated person of the member firm, and, therefore, may not be subject to the FINRA Rule 2711 and Incorporated NYSE Rule 472 restrictions on communications with a subject company, public appearances, and trading securities held by a research analyst account.

IMPORTANT DISCLOSURES (CONT.)

This report has been prepared by Bank Zachodni WBK S.A. and is provided for information purposes only. Bank Zachodni WBK S.A. is registered in Poland and is authorised and regulated by The Polish Financial Supervision Authority.

This report is issued in the United States by Santander Investment Securities Inc. ("SIS"), in Poland by Bank Zachodni WBK S.A. ("BZ WBK"), in Spain by Banco Santander, S.A., under the supervision of the CNMV and in the United Kingdom by Banco Santander, S.A., London Branch ("Santander London"). SIS is registered in the United States and is a member of FINRA. Santander London is registered in the UK (with FRN 136261) and subject to limited regulation by the FCA and PRA. SIS, BZ BWK, Banco Santander, S.A. and Santander London are members of Grupo Santander. A list of authorised legal entities within Grupo Santander is available upon request.

This material constitutes "investment research" for the purposes of the Markets in Financial Instruments Directive and as such contains an objective or independent explanation of the matters contained in the material. Any recommendations contained in this document must not be relied upon as investment advice based on the recipient's personal circumstances. The information and opinions contained in this report have been obtained from, or are based on, public sources believed to be reliable, but no representation or warranty, express or implied, is made that such information is accurate, complete or up to date and it should not be relied upon as such. Furthermore, this report does not constitute a prospectus or other offering document or an offer or solicitation to buy or sell any securities or other investment. Information and opinions contained in the report are published for the assistance of recipients, but are not to be relied upon as authoritative or taken in substitution for the exercise of judgement by any recipient, are subject to change without notice and not intended to provide the sole basis of any evaluation of the instruments discussed herein.

Any reference to past performance should not be taken as an indication of future performance. This report is for the use of intended recipients only and may not be reproduced (in whole or in part) or delivered or transmitted to any other person without the prior written consent of BZ WBK.

Investors should seek financial advice regarding the appropriateness of investing in financial instruments and implementing investment strategies discussed or recommended in this report and should understand that statements regarding future prospects may not be realised. Any decision to purchase or subscribe for securities in any offering must be based solely on existing public information on such security or the information in the prospectus or other offering document issued in connection with such offering, and not on this report.

The material in this research report is general information intended for recipients who understand the risks associated with investment. It does not take into account whether an investment, course of action, or associated risks are suitable for the recipient. Furthermore, this document is intended to be used by market professionals (eligible counterparties and professional clients but not retail clients). Retail clients must not rely on this document.

To the fullest extent permitted by law, no Santander Group company accepts any liability whatsoever (including in negligence) for any direct or consequential loss arising from any use of or reliance on material contained in this report. All estimates and opinions included in this report are made as of the date of this report. Unless otherwise indicated in this report there is no intention to update this report.

BZ WBK and its legal affiliates may make a market in, or may, as principal or agent, buy or sell securities of the issuers mentioned in this report or derivatives thereon. BZ WBK and its legal affiliates may have a financial interest in the issuers mentioned in this report, including a long or short position in their securities and/or options, futures or other derivative instruments based thereon, or vice versa.

BZ WBK and its legal affiliates may receive or intend to seek compensation for investment banking services in the next three months from or in relation to an issuer mentioned in this report. Any issuer mentioned in this report may have been provided with sections of this report prior to its publication in order to verify its factual accuracy.

Bank Zachodni WBK S.A. (BZ WBK) and/or a company in the Santander Group is a market maker or a liquidity provider for EUR/PLN.

Bank Zachodni WBK S.A. (BZ WBK) and/or a company of the Santander Group has been lead or co-lead manager over the previous 12 months in a publicly disclosed offer of or on financial instruments issued by the Polish Ministry of Finance or Ministry of Treasury.

Bank Zachodni WBK S.A. (BZ WBK) and/or a company in the Santander Group expects to receive or intends to seek compensation for investment banking services from the Polish Ministry of Finance or Ministry of Treasury in the next three months.

ADDITIONAL INFORMATION

BZ WBK or any of its affiliates, salespeople, traders and other professionals may provide oral or written market commentary or trading strategies to its clients that reflect opinions that are contrary to the opinions expressed herein. Furthermore, BZ WBK or any of its affiliates' trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

No part of this report may be copied, conveyed, distributed or furnished to any person or entity in any country (or persons or entities in the same) in which its distribution is prohibited by law. Failure to comply with these restrictions may breach the laws of the relevant jurisdiction.

Investment research issued by BZ WBK is prepared in accordance with the Santander Group policies for managing conflicts of interest. In relation to the production of investment research, BZ WBK and its affiliates have internal rules of conduct that contain, among other things, procedures to prevent conflicts of interest including Chinese Walls and, where appropriate, establishing specific restrictions on research activity. Information concerning the management of conflicts of interest and the internal rules of conduct are available on request from BZ WBK.

COUNTRY & REGION SPECIFIC DISCLOSURES

U.K. and European Economic Area (EEA): Unless specified to the contrary, issued and approved for distribution in the U.K. and the EEA by Banco Santander, S.A. Investment research issued by Banco Santander, S.A. has been prepared in accordance with Grupo Santander's policies for managing conflicts of interest arising as a result of publication and distribution of investment research. Many European regulators require that a firm establish, implement and maintain such a policy. This report has been issued in the U.K. only to persons of a kind described in Article 19 (5), 38, 47 and 49 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (all such persons being referred to as "relevant persons"). This document must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this document relates is only regarded as being provided to professional investors (or equivalent) in their home jurisdiction. **United States of America (US):** This report is being distributed to US persons by Santander Investment Securities Inc ("SIS") or by a subsidiary or affiliate of SIS that is not registered as a US broker dealer, to US major institutional investors only. Any US recipient of this report (other than a registered broker-dealer or a bank acting in a broker-dealer capacity) that would like to effect any transaction in any security or issuer discussed herein should contact and place orders in the United States with the company distributing the research, SIS at (212) 692-2550, which, without in any way limiting the foregoing, accepts responsibility (solely for purposes of and within the meaning of Rule 15a-6 under the US Securities Exchange Act of 1934) under this report and its dissemination in the United States. US recipients of this report should be advised that this research has been produced by a non-member affiliate of SIS and, therefore, by rule, not all disclosures required under NASD Rule 2711 apply. **Hong Kong (HK):** This report is being distributed in Hong Kong by a subsidiary or affiliate of Banco Santander, S.A. Hong Kong Branch, a branch of Banco Santander, S.A. whose head office is in Spain. The 1% ownership disclosure satisfies the requirements under Paragraph 16.5(a) of the Hong Kong Code of Conduct for persons licensed by or registered with the Securities and Futures Commission, HK. Banco Santander, S.A. Hong Kong Branch is regulated as a Registered Institution by the Hong Kong Monetary Authority for the conduct of Advising and Dealing in Securities (Regulated Activity Type 4 and 1 respectively) under the Securities and Futures Ordinance. The recipient of this material must not distribute it to any third party without the prior written consent of Banco Santander, S.A. **Japan (JP):** This report has been considered and distributed in Japan to Japanese-based investors by a subsidiary or affiliate of Banco Santander, S.A. - Tokyo Representative Office, not registered as a financial instruments firm in Japan, and to certain financial institutions defined by article 17-3, item 1 of the Financial Instruments and Exchange Law Enforcement Order. Some of the foreign securities stated in this report are not disclosed according to the Financial Instruments and Exchange Law of Japan. There is a risk that a loss may occur due to a change in the price of the shares in the case of share trading and that a loss may occur due to the exchange rate in the case of foreign share trading. **China (CH):** This report is being distributed in China by a subsidiary or affiliate of Banco Santander, S.A. Shanghai Branch ("Santander Shanghai"). Santander Shanghai or its affiliates may have a holding in any of the securities discussed in this report; for securities where the holding is greater than 1%, the specific holding is disclosed in the Important Disclosures section above. **Poland (PL)**: This publication has been prepared by Bank Zachodni WBK S.A. for information purposes only and it is not an offer or solicitation for the purchase or sale of any financial instrument. All reasonable care has been taken to ensure that the information contained herein is not untrue or misleading. But no representation is made as to its accuracy or completeness. No reliance should be placed on it and no liability is accepted for any loss arising from reliance on it. Information presented in the publication is not an investment advice. Resulting from the purchase or sale of financial instrument, additional costs, including taxes, that are not payable to or through Bank Zachodni WBK S.A., can arise to the purchasing or selling party. Rates used for calculation can differ from market levels or can be inconsistent with financial calculation of any market participant. Conditions presented in the publication are subject to change. Examples presented in the publication is for information purposes only and shall be treated only as a base for further discussion.