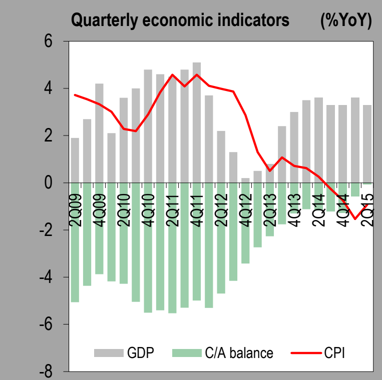
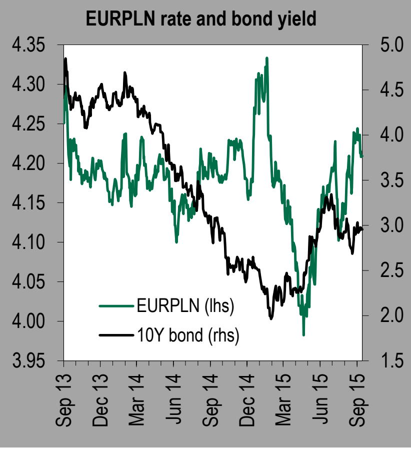
MACROscope

Polish Economy and Financial Markets

September 2015

Counting down the days





■ Although Poland's 2Q GDP growth proved slightly lower than expected, we believe that underlying trends are still robust and the economy will accelerate in 2H15E, although probably not as much as we previously anticipated. Private consumption growth should remain strong, supported by falling unemployment and rising labour income. Export growth may even accelerate, fuelled by an economic revival in the Euro zone. However, investment growth is unlikely to speed up significantly. **We now think GDP growth in 2015E will probably be closer to 3.5% than 4.0%, but maintain our 3.5% forecast for 2016E.**

■ Poland has been affected by the worst drought in many years, which is likely to reduce harvests and push up food prices. However, we think the overall effect on inflation should be limited. First of all, an increase in food prices should be offset by imports (bearing in mind that global food prices are at multi-year lows). Secondly, the impact of more expensive food on the CPI should be partly offset by less expensive fuel (pump prices fell c2.5% in August and could decline almost 5% in September, we estimate) and a cut in gas tariffs in September. Thus, **our CPI forecast for December has risen only slightly to c0.7% YoY and we still think inflation should head towards 2% YoY in 2016E**.

■ Monetary policy in Poland is unlikely to change in the coming months. We think the Monetary Policy Council (MPC) is highly likely to keep interest rates on hold until the end of its term of office (ie, until the start of 2016). In fact, it looks as if official rates could stay flat for the whole of next year. Despite increased uncertainty about the global economic outlook (with the possibility of lower GDP growth and inflation worldwide next year), **we still argue there should be no need for Polish monetary policy to ease in 2016E**, given predictions of robust economic growth, higher inflation and a shift towards less restrictive fiscal policy.

■ September's FOMC decision will be the key for the market in the coming weeks. A rate hike could trigger a wave of yield increases in global fixed income markets, as it is not currently priced in. The impact of the Fed's lift-off on the zloty is less straightforward: if the market interprets it as a sign of trust in the economic recovery, PLN could even gain. There are several factors that could keep risk aversion high: the situation in China, early elections in Greece and political uncertainty in Poland ahead of a general election in late October.

■ Poland's two biggest parties have presented their election proposals. The conservative opposition PiS, currently leading in polls, maintains its previous promises, although it has added a 15% corporate tax rate for small companies. The ruling PO plans to simplify the tax system (establishing a single type of contract and personal income tax with no additional contributions). Both parties would like to introduce a minimum hourly wage of PLN12.

In this issue:

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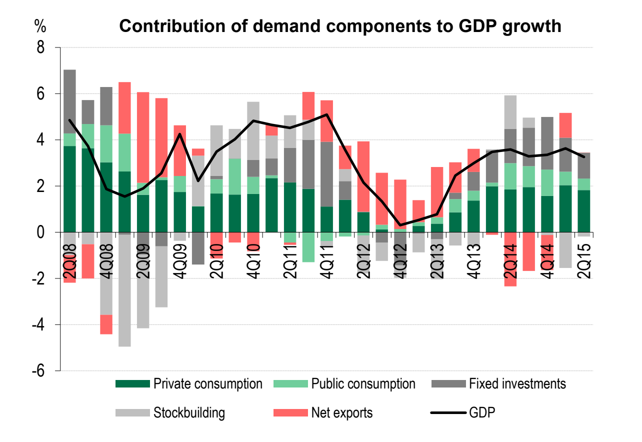
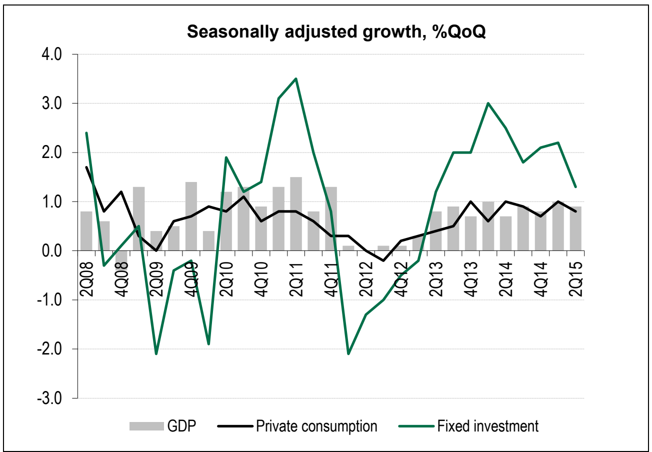
Financial market on September 14 2015:

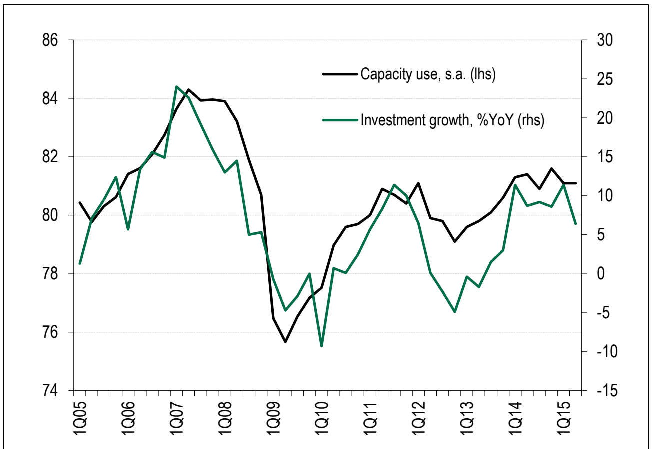
NBP deposit rate	0.50	WIBOR 3M	1.72	EURPLN	4.2090
NBP reference rate	1.50	Yield on 2-year T-bond	1.80	USDPLN	3.7124
NBP lombard rate	2.50	Yield on 5-year T-bond	2.47	CHFPLN	3.8272

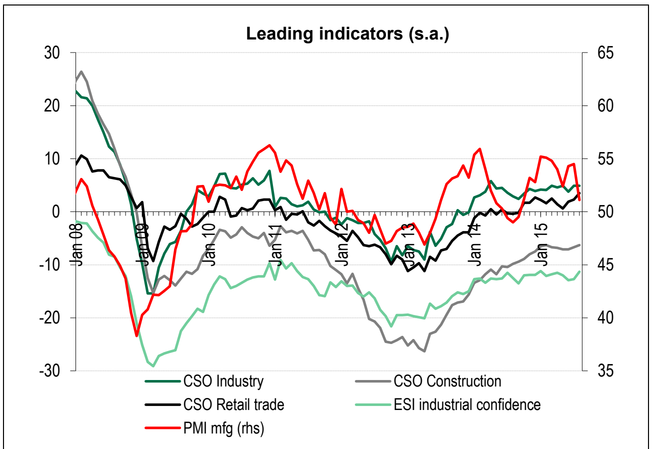
This report is based on information available until 14.09.2015.

Economic update









Source: CSO, NBP, Markit, European Commission, BZ WBK.

GDP growth rate has stabilised

▪ GDP growth slowed to 3.3%YoY in 2Q15 from 3.6%YoY in 1Q. Domestic demand growth accelerated to 3.3%YoY despite slower investment growth (6.4%YoY, the lowest since 4Q13) and stable consumption growth (3%YoY), with inventories surprising on the upside. Both exports and imports decelerated but the former by more than the latter. As a result, 2Q net exports' contribution to GDP growth dropped to zero from 1.1pp in 1Q. Interestingly, despite a significant decline in commodity prices and a roughly stable zloty exchange rate vs the main currencies, the import deflator was only slightly below zero (-0.6%).

▪ Seasonally-adjusted GDP growth remained quite robust at 0.9%QoQ, in line with average for the past eight quarters.

▪ The slowdown in investment growth was deeper than we had expected, but we note it took place after surprisingly robust and persistent growth in the preceding five quarters (averaging 9.9%YoY in 1Q14-1Q15). Growth in public sector investment has been surprisingly strong in the last several quarters (growing by double digits, on average), and it is hard to foresee a significant deceleration just before the general election. Moreover, the finance minister has just signalled that public sector investment growth in 2016 should be solid (contrary to earlier assumptions under the Convergence Programme) and will includes "much higher" spending on roads and defence R&D.

▪ The private sector may become a bit more cautious due to growing uncertainty about the global economic outlook, but we should remember that its reaction to macro and geopolitical uncertainty a year ago (when there was growing concern about the EU slowdown and the conflict with Russia) was very muted. Therefore, we do not expect a significant slowdown in private investment in the coming quarters.

▪ Capacity usage is still above the multi-year average, suggesting that if new orders keep growing (as we expect, assuming a recovery in the Euro zone), Polish companies are likely to expand and invest. Demand for investment loans has slowed slightly in recent months (from 10%YoY to c8%YoY) but remains heathy and firms continue to hire new staff.

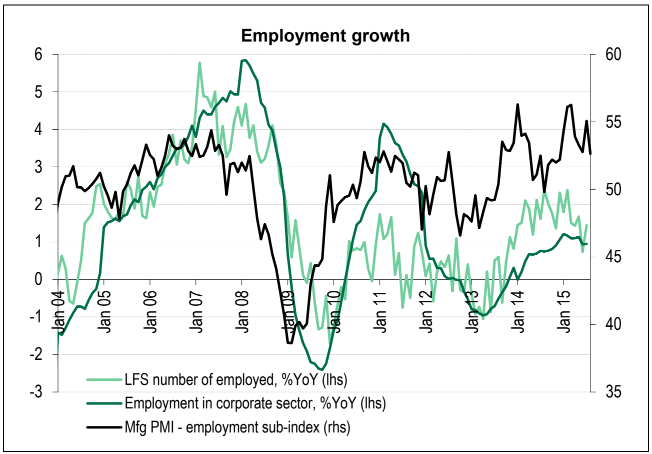
▪ In the coming quarters we expect private consumption growth to remain robust, supported by falling unemployment and rising labour income (which even gives some upside potential). Export growth should accelerate, fuelled by economic revival in the Euro zone, and investment growth should remain solid (even though it is hard to see it returning to double digits). Thus, we still think GDP growth should accelerate in 2H15, although by slightly less than our previous forecast (3.6%YoY in Q4 vs 4% before). Our forecast for 2016 GDP remains unchanged at 3.5%.

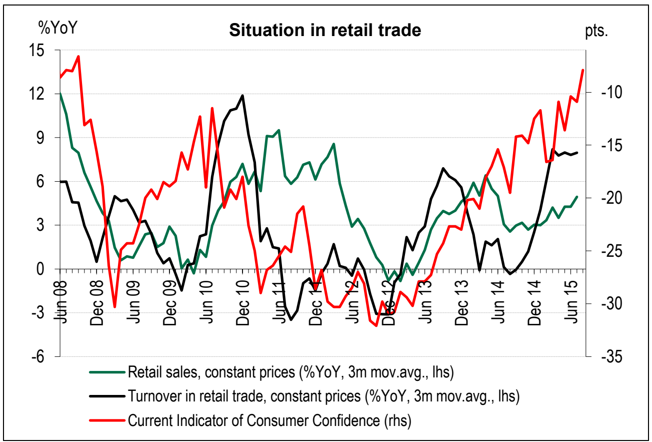
Leading indicators improve, except the PMI

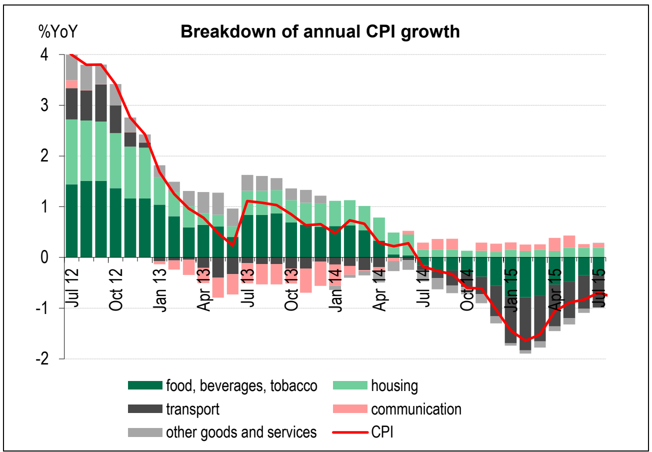
▪ Most of leading indicators and business climate surveys have confirmed that the Polish economy is improving. The European Commission's Economic Sentiment Index (ESI) and the statistical office's business climate survey both signal continuing expansion.

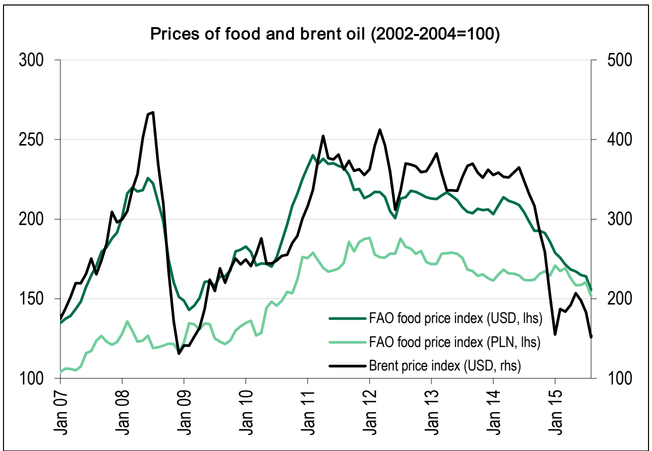
▪ The PMI is the only outlier, as it fell substantially in August (the biggest monthly drop since January 2005). This was a broad-based deterioration (production, domestic and export orders down). Possibly, the poor result was caused by the closure of some power stations in mid-August, due to drought. However, we note that despite this, power consumption in August rose at the fastest YoY pace since 2011, so we think the impact on industrial production should not be significant. We expect solid industrial production readings from August onwards to confirm growth in Polish industry.

Economic update









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

The labour market is very strong

- The labour market is still improving. Employment growth has decelerated slightly in recent months (along with fixed investment growth), but companies remain ready and willing to hire new workers.
- Demand for labour remains solid, as shown by the CSO business climate survey and the PMI's employment sub-index (the only component that escaped a sharp drop in August). The number of new job offers is rising. Labour Ministry data for August show it increased 26%YoY, to 119k, the highest level registered since 2001. The ratio of job offers to the number of unemployed is rising steadily and, if this continues, could trigger growing wage pressure, amid an increasing shortage of labour supply.
- The seasonally-adjusted unemployment rate in the Labour Force Survey fell to 7.6% in July, the lowest since April 2009. It looks set to approach its all-time low of 6.8%, probably at the start of 2016.

This supports consumer confidence and spending

- July retail sales were worse than expected, but if we filter out statistical noise, consumer demand still looks healthy. Eurostat's retail trade volume data (which include sales in small shops but exclude car sales) recorded a 7.7%YoY rise on average for January-July period (vs 1.1% in 2014).
- Strong job creation and unemployment approaching record lows should help to maintain decent growth in household labour income and lead to a further rise in consumer confidence. In August the current index of consumer confidence soared to the highest level since September 2008 and the assessment of households' financial situation was at its highest in the survey's history (1997). Even though the purchasing power of personal incomes looks set to be eroded by rising inflation in the coming quarters, we expect consumption demand growth to stay around 3%YoY.

Inflation is trending up: effect of drought probably limited

- The CPI inflation in July reached -0.7%YoY, slightly more than forecast. The key factors behind the upward surprise were prices in healthcare and communication, which drove core inflation, excluding food and energy prices, up to 0.4%YoY. We expect the upward trend to continue because of rising food prices and a gradual rebound in core inflation, thanks to solid domestic demand.
- The worst drought in many years is likely to reduce crops and push up domestic food prices, but we expect its overall impact to be limited for at least two reasons.
  - First, the increase in food prices should be curbed by higher (and relatively cheap) food imports. We should recall global food prices are at multi-year lows. In August the FAO Food Price Index registered the sharpest monthly decline since 2008 and dropped to the lowest level since early 2009. The decline results from ample supplies, a slump in energy prices and concern about an economic slowdown in China.
  - Secondly, the impact of more expensive food on the CPI should be partly offset by less expensive fuel (prices at the pump fell c2.5% in August and we expect them to drop a further 4% in September) and a cut in gas tariffs in September.
- Thus, our CPI forecast for December goes up only slightly to c0.7%YoY and we still think inflation should head towards 2%YoY in 2016E.

Monetary policy watch

Excerpts from the MPC's communiqué after its September meeting

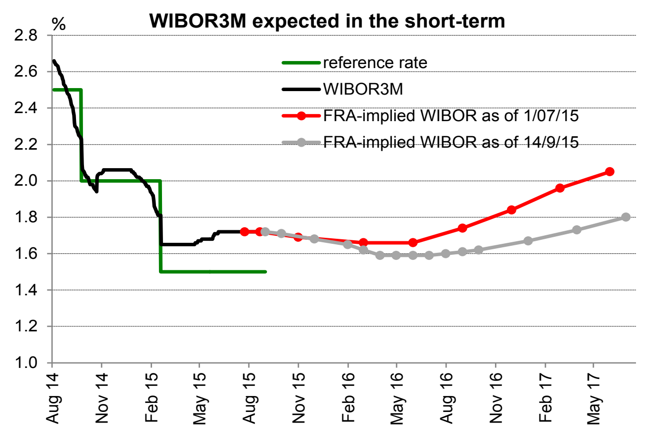
Growth of global economic activity remains moderate. In the euro area, economic recovery continues, despite a slight weakening of GDP growth in 2Q15. In the United States, output growth has picked up. In turn, economic growth in China in 2Q 2015 remained low as for this country and incoming data indicate that economic conditions might deteriorate further. The rising risk of a stronger slowdown in emerging economies led to deterioration in the financial market sentiment and – in effect – to a drop of prices of many assets.

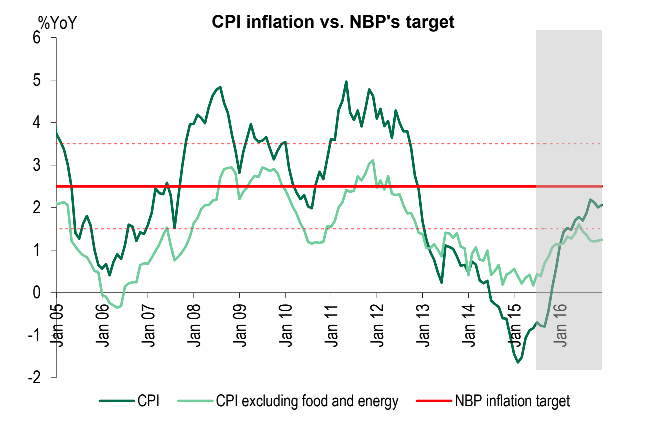
Major central banks keep interest rates at close to zero, but the Federal Reserve is signalling a possibility of their increase this year. At the same time, the ECB continues its asset purchase programme. The People's Bank of China has devalued the yuan, which was conducive to weakening some emerging markets' currencies.

In Poland, GDP growth in2Q 15 was slightly weaker than in the previous quarter. Economic growth continued to be driven primarily by consumption, supported by a favourable labour market situation and growing household lending. GDP growth was also driven by further growth in investment – although weaker than in 1Q – fuelled by the good financial condition of enterprises. In turn, the contribution of net exports to GDP growth declined markedly. July data on production and retail sales point to a stabilisation of economic growth in the following quarters.

Due to moderate 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 limit the risk of rising cost pressure. As a result, annual consumer price growth remains negative, although the scale of deflation is gradually diminishing.

In the opinion of the Council, price growth will continue to slowly increase in the nearest quarters. Its growth will be supported by expected stable economic growth, amidst the recovery in the euro area and a favourable situation in the domestic labour market. At the same time, increasing risk of a stronger economic slowdown in emerging economies and declining commodity prices have raised t uncertainty about the pace of inflation returning to the target.





Sources: NBP, Reuters, BZ WBK.

No change in the MPC's attitude

- Poland's Monetary Policy Council left interest rates unchanged in September with the reference rate at 1.50%.

- The decision was not surprising and it seems very likely that rates will remain at the current level until the end of the MPC's term. The Council has said before that it finds no reasons to change monetary policy unless there is a significant turn in the macroeconomic outlook. Although recently there were some negative surprises in the Polish macro data releases, in our view the economic outlook remains quite positive.

- The biggest concern now is situation in China and its impact on global growth. So far – despite great uncertainty – we see no reason for a dramatic worsening of the global economic outlook. We think Poland's GDP growth should accelerate in the second year-half and should stay at a solid level in 2016. At the same time, inflation should rise gradually. The central bank's assessment is similar to ours. During the MPC press conference, NBP governor Marek Belka said that forecasts for both GDP and CPI remain roughly unchanged. Deflation should end in November and the GDP growth rate in the central bank's last projection (3.6% this year) is still achievable.

- We have dropped our assumption of an interest rate hike at the end of 2016E, mainly due to increased uncertainty about the global economic outlook (with possible lower GDP growth and inflation worldwide next year due to, among other things, negative development in China). As we have said before, there is a strong likelihood that the next MPC could consist of more dovish than currently members. In such an uncertain environment, monetary tightening is not likely to happen very soon. Nevertheless, we still argue there should be no need for monetary policy easing in 2016E, given predicted robust economic growth in Poland, an inflation rate converging towards the official target and probably some shift towards less restrictive fiscal policy after the election.

- However, investors see a significant increase in the probability of a rate cut by the MPC in 2016. FRA rates fell sharply over the past two months, pricing in rising odds for a rate cut in six to nine months horizon. Currently the market is pricing in a c50% chance of a 25bp rate cut in 9 months. It has also pushed back the start of monetary tightening and is now looking for a first hike of 25bp in 21 months. The odds for such a scenario have been hovering around 50%, lower than at the beginning of July, when investors fully priced-in two hikes of 25 bp each in 21 months.

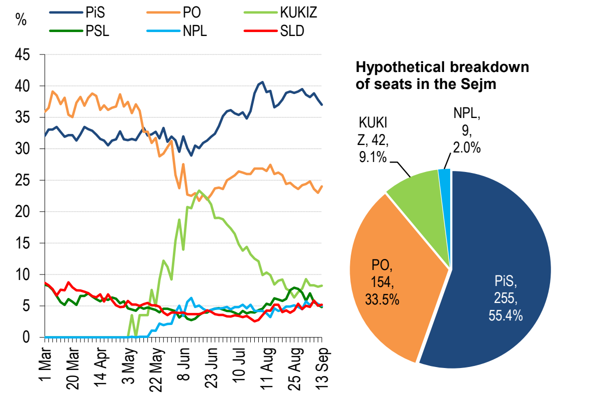
What about the inflation target?

- The Council started working on monetary policy guidelines for next year (they will be approved in mid-September), but according to NBP governor they will (naturally) include no significant modifications.

- MPC member Elżbieta Chojna-Duch suggested recently that t "in the context of an unspecified deadline for entering the Euro zone we must return to discussions on lowering the inflation target to the European level of 2.0%". We do not expect any changes in the official target, as Belka made it clear that there is no support in the Council for revolutionary changes. Also, the recent research paper published by economists from the NBP Economic Institute suggests that current inflation target is one of elements protecting the economy from a "deflationary trap". Lowering the target to 1.5% would lead to a significantly higher probability of a deflationary trap, in their view.

Fiscal policy watch

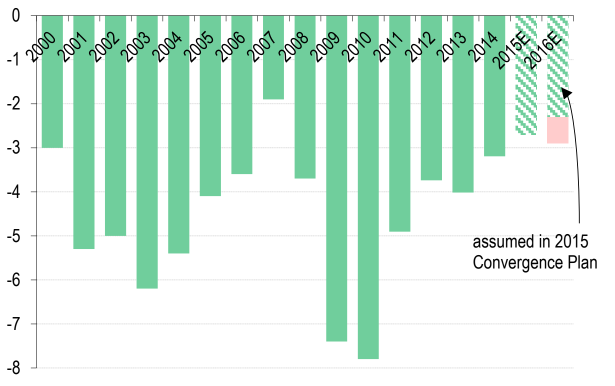
Public support for parties (average from last five opinion polls)



Main parameters of 2016 budget draft (PLNm)

	2015 plan (1)	2015 E (2)	2016 plan (3)	change (3) / (2)
Total revenue	**297,198**	**291,423**	**296,879**	***1.9%***
Tax revenue	269,820	257,239	268,443	*4.4%*
VAT	124,262	121,000	128,370	*6.1%*
CIT	24,530	25,700	26,440	*2.9%*
PIT	44,390	44,843	46,700	*4.1%*
Non-tax revenue	25,830	32,636	26,699	*-18.2%*
Total spending	**343,278**	**337,478**	**351,499**	***4.2%***
Budget balance	**-46,080**	**-46,055**	**-54,620**	***18.6%***

General government balance (% of GDP)



Net borrowing needs and its funding (PLNbn)

	2015E (1)	2016E (2)	change (2) / (1)
Total net borrowing needs:	**57.98**	**73.72**	***27.1%***
▪ budget deficit	46.08	54.62	*18.5%*
▪ EU budget deficit	3.44	9.24	*168.6%*
▪ other	8.46	9.86	*16.5%*
Funding of net borrowing needs:	**57.98**	**73.72**	***27.1%***
▪ domestic funding, in which	41.18	47.60	*15.6%*
- marketable T-bonds	36.57	39.67	*8.5%*
- T-bills	0	7.85	-
- other	4.61	0.08	*-98.3%*
▪ foreign funding, in which	16.80	26.12	*55.5%*
- bonds	0.20	9.28	*4540.0%*
- credits from IFI	6.30	1.37	*-78.3%*

Source: opinion polls, Ministry of Finance, Reuters, BZ WBK.

Will PiS rule alone after October elections?

▪ The popularity of the Kukiz movement (perceived as a natural coalition partner for PiS) has plummeted recently, amid problems with forming candidates lists, among other things. Meanwhile, the support for other smaller parties (liberal, united left and the PSL) has increased, but is still very close to the threshold for them to enter parliament.

▪ PiS looks likely to win the elections, but, if it fails to get more than 50% of the seats, it is uncertain whether it would find a minor coalition partner. Overall, there is still a big question mark over who will form a new government after the elections.

Higher budget deficit in 2016

▪ The government approved a preliminary budget for 2016 with a deficit of PLN54.6bn (PLN8.5bn higher than planned for this year), revenues at PLN296.9bn (almost 2% higher than this year's predicted level) and spending at PLN351.5bn (a 4%+ increase).

▪ The draft is built on an assumption of 3.8% GDP growth and 1.7% inflation. While the latter is consistent with our forecast, we are less optimistic about growth.

▪ Despite quite optimistic government macro assumptions, planned revenue growth seems rather conservative with tax revenues rising more slowly than nominal GDP, while non-tax revenues fall significantly, mainly due to much lower income from the digital dividend. Non-tax revenues include PLN3bn from this year's NBP profit, which seems a risky assumption to us, given that we predict a zloty appreciation before year end. Within tax revenues, the only element rising relatively quickly is VAT, but this is due to a lower base in 2015 because of some one-off factors.

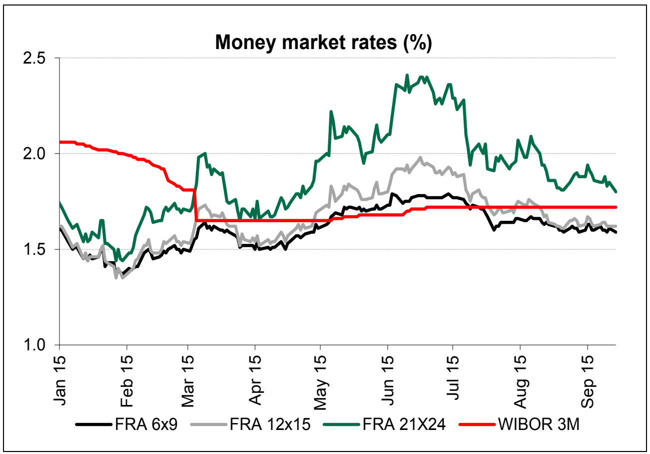
▪ Total spending goes up c4% and it seems that, ahead of the elections, the government decided to use all available room determined by the spending rule to finance several election promises: higher wages in the public sector, higher social benefits, more spending on science and on national defence and the mining sector. As a result, the central budget deficit rises to c3% of GDP, which implies a departure from the fiscal consolidation plan outlined in the Convergence Programme (which aims to cut the general government deficit to 2.3% of GDP in 2016 from this year's 2.7%). It seems that the electoral cycle is affecting fiscal policy in Poland. The medium-term objective of the general government deficit is also questionable, given the ruling party's recent proposal to simplify the tax system and introduce a uniform work contract, including income tax and but with no additional contributions paid by employees or employers (these would be paid by the state). We find the idea interesting, although it would cost PLN10.2bn if introduced. In the previous MACROscope we discussed PiS's (costly) pre-election proposals. It looks as if the fiscal deficit in Poland is likely to be c3% of GDP, no matter which party forms a government after the election.

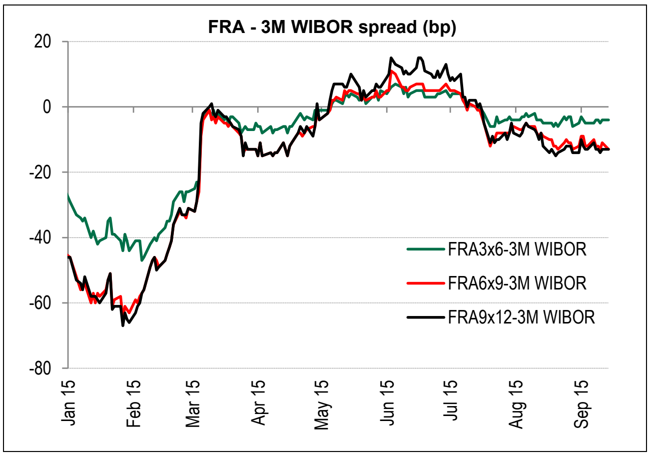
Significant increase in the net borrowing requirement in 2016

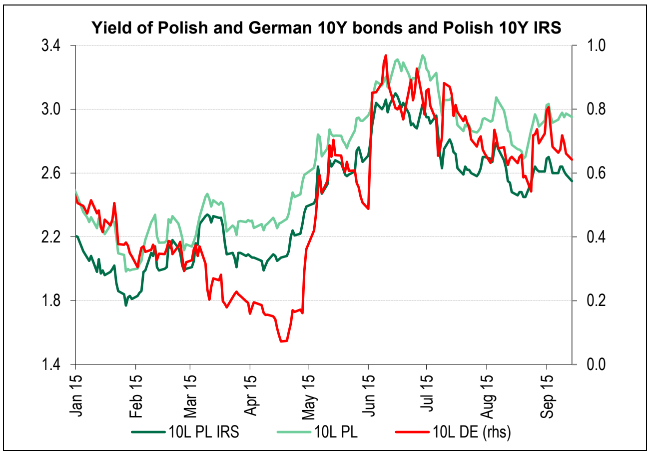
▪ The draft 2016 budget assumes net borrowing needs of PLN73.7bn (27% higher than this year's target) and gross borrowing needs of cPLN180bn (16% higher). The increase is mainly due to the larger deficit and a significant increase in debt redemptions. On a net basis, the government plans to increase domestic financing by 15% (to PLN47.6bn), while foreign financing is expected to increase by more than 50% (foreign net bonds issuance of PLN9bn). Still, we think it is possible that foreign issuance will be lower than planned, as was the case in 2015.

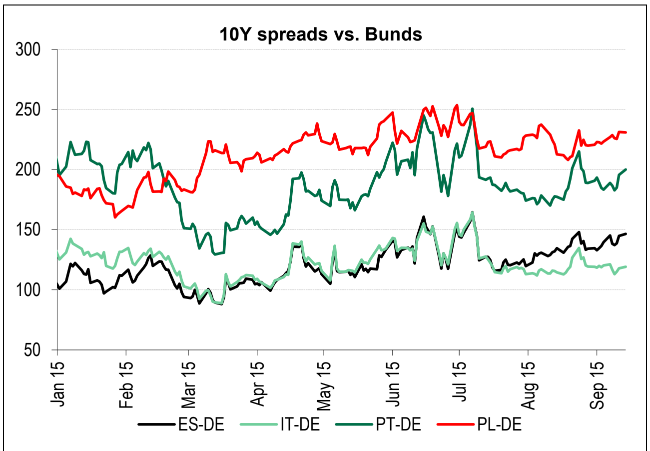
▪ As regards the deficit itself, we think it is possible that next year's spending could be at least PLN5bn less than planned. In 2011-14, expenditure was under budget by an average of cPLN10bn. On the other hand, there is a risk of a NBP profit transfer. On balance, it is hard to argue, at this point, that the budget deficit – and net borrowing needs – will be significantly lower than projected.

Interest rate market









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

Market is pricing-in rate cuts in 6-9 months, yields inch lower

- FRAs fell significantly in July-August after several Polish economic activity indicators emerged below consensus and on concern about the global economic outlook. The FRA curve has moved down 9-48bp over the past two months, with long rates dropping the most. As a result, in the market's view, the first rate hike in Poland has been postponed further (FRA21x24 fell below 1.90%). WIBORs were more or less stable with 6M, 9M and 12M rates increasing just 1bp.
- The situation did not change much at the beginning of September. WIBORs remained stable as the September MPC statement only confirmed the Council's guidance of steady rates until the end of its term in 1Q16. FRAs have anchored themselves close to the August low. Now the market sees c40% odds of a resumption of the monetary easing cycle in the next six to nine months.
- The summer was very volatile on the domestic interest rate market. First, yields and IRS declined on the back of the fading odds of a Fed rate hike in September and worries over the impact that China could have on global economic growth. The decline was further fuelled by below-consensus Polish economic data. However, when risk aversion rose sharply in late August, investors' flight to safety hit the Polish market. The 10Y benchmark yield rebounded from the c2.70% support (May's low) towards 3%. In July-August the peak-low spread was 20-25bp for medium- and long-term IRS and bonds. The T-bond and IRS markets remained volatile in early September. After a weak start to the month, when the 10Y yield climbed back above 3%, the ECB and mixed US labour market data helped both markets to rebound gradually.

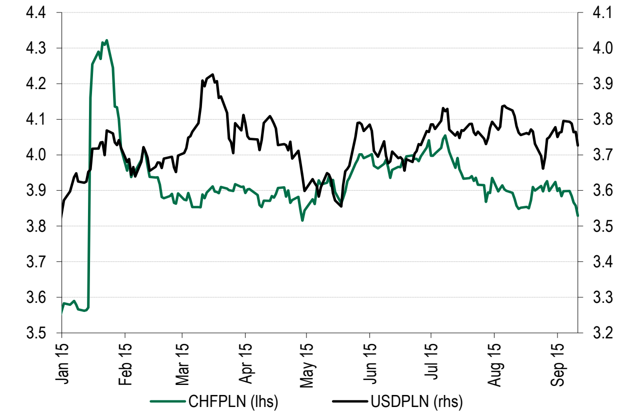
Short-end to price in easing, long-end driven by global factors

- Recent macro data (GDP, PMI, and the earlier industrial output and retail sales) have prompted us to revise our GDP growth forecast for 2015E to 3.5%YoY from 3.8%. We do not expect the monetary tightening cycle to start before 2017E, given the growing uncertainty about the world's economic outlook. We do not expect the central bank to ease policy further, however the market may be speculating that it will, especially if upcoming data are weak. FRA rates are likely to remain vulnerable, not only to the expected domestic outlook but also to global sentiment (in particular the Fed's decision on rates). If rates do not rise at the next FOMC meeting, this would strengthen market speculation about a possible global economic slowdown and the potential for monetary easing in Poland. This would likely depress money market rates at the end of the month.
- Global events are likely to remain in focus in the coming month. The Polish bond market, as in previous weeks, will likely follow developments in the core markets. The key event will be the FOMC decision on rates. We believe that a September Fed rate hike (which is still our baseline scenario) could trigger a wave of yield increases throughout global fixed income markets. First of all, because investors had started betting on later monetary tightening after recent turmoil in China. Secondly, because lift-off in September would be a vote of confidence in the strength of the US economy and thus may reduce investors' worries about the world economic outlook. Should the Fed's statement cool market expectations for the next hikes, the initial market reaction could be muted.
- If Fed leaves rates unchanged in September, global fixed income markets should strengthen. We see a risk of Polish bonds underperforming core markets in such a scenario, as the Fed could spur concern about global growth and a rise in risk aversion could hit Polish assets just as it did in late August.

Foreign exchange market

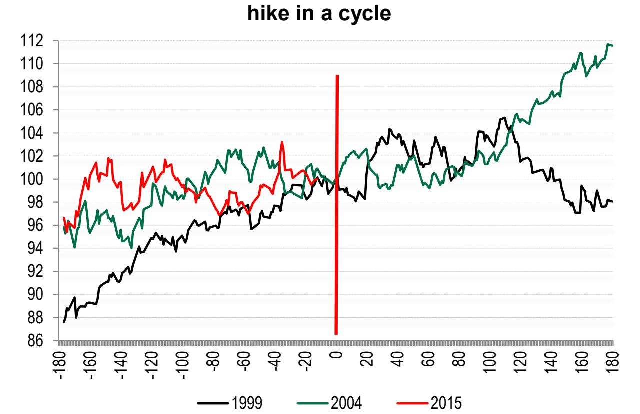
EUR/PLN

CHF/PLN and USD/PLN



EUR/USD

EUR/USD six months before and six months after first Fed rate hike in a cycle



Sources: Reuters, Bloomberg, BZ WBK.

Fed rates crucial for the zloty . . .

▪ In July we noted that the Polish currency had depreciated in August in the last four years. This year was no exception. The EUR/PLN's upward move started in mid-July and pushed the exchange rate temporarily above 4.26 in late August. The zloty weakened on the back of global risk aversion, fuelled by concern about China, weaker-than-expected Polish economic data (flash GDP for 2Q15, production and retail sales in July) and uncertainty about the Polish banking sector. In early September the market mood improved and this helped the zloty recover, but only slightly (EUR/PLN eased to 4.20) as investors are waiting for the FOMC decision.

▪ Our EUR/PLN forecasts for the coming quarters are largely unchanged. We see some risk to the upside for the remainder of the year, due to the potential further turmoil in China and/or Brazil which could affect other emerging markets. Polish parliamentary elections may also be an adverse factor (even if the proposal of forced FX loan conversion has been losing weight and we think the chances of a bill that would be negative for banks is decreasing).

▪ If the Fed decided not to hike rates this month, in line with calls from the IMF and World Bank, which are concerned about the global economy and the emerging markets, it could spur demand for riskier assets as the benefits of easy monetary policy could outweigh worries about global growth. Markets could react positively even if there were lift-off in September, if the accompanying statement suggested that the following rate hikes would be slow and if the market took the decision as a sign of trust in the economic recovery. The Financial Times reported that emerging market central bankers have urged the Fed to raise rates sooner rather than later because they believe that this would end uncertainty and help markets recover.

▪ In the last three years, September has been a month of zloty gains vs the euro. To some extent, this might have been related to the fact that the EUR/PLN level at the end of the month determines the conversion rate for EU subsidies for Polish farmers. However, this year may be different, with an election ahead and farmers already suffering from a severe drought.

▪ Our technical analysis suggests that the current EUR/PLN levels could be close to a monthly peak and the exchange rate will be lower at the end of September.

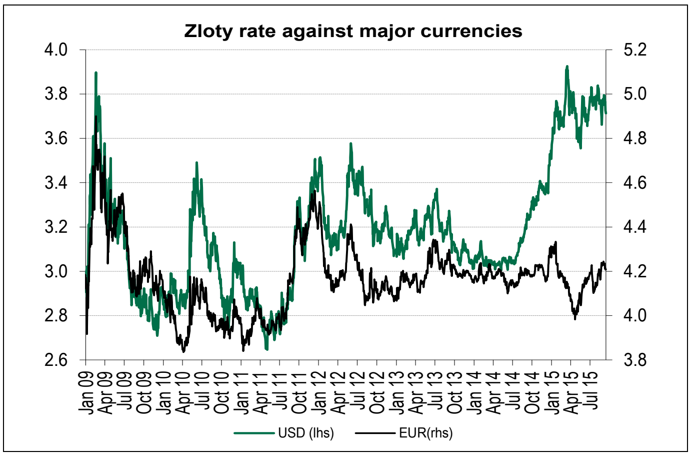
. . . and for EUR/USD

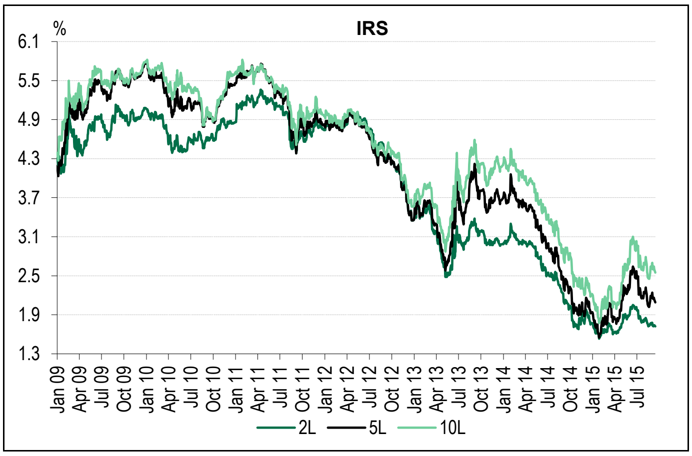
▪ EUR/USD has been moving in a 1.08-1.15 range since May (except for a temporary jump to 1.17 in late August) and it seems that only the FOMC decision can end this horizontal trend.

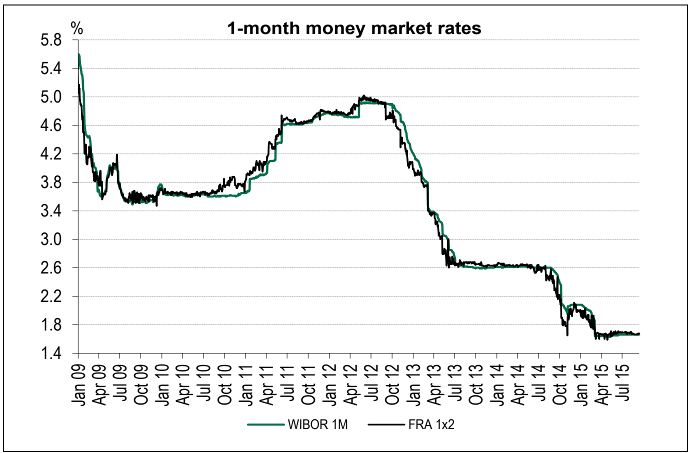
▪ The fourth chart shows how EUR/USD was moving six months before and six months after the first Fed rate hike in previous tightening cycles. We think 2004 may be the closest to the current situation and the best guide to the direction of the exchange rate in the coming months. In June 2004 the FOMC started the tightening cycle and interest rates rose from 1% to 5.25% just before the US financial crisis. The tightening cycle in the Euro zone started in late 2005 and rates rose from 2% to 4.25% pre crisis. Current expectations for monetary policy in the US and the Euro zone are fairly similar to what they were then. The FOMC is expected to start raising rates this year while the ECB is likely to stay put for the whole of 2016. Past experience makes our current view of a rise in EUR/USD less controversial than one might think.

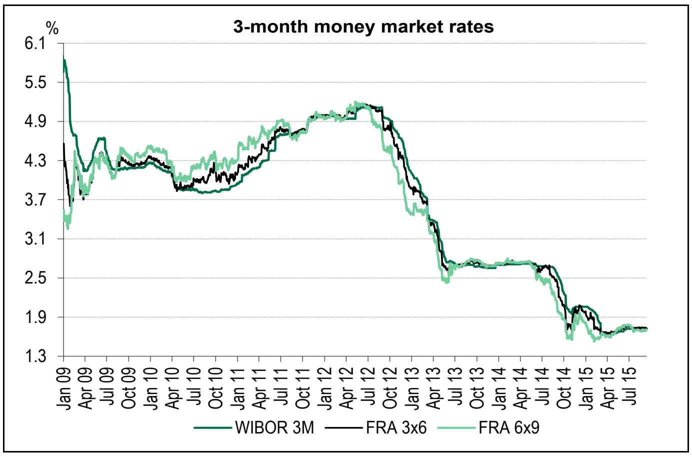
▪ Risks to this scenario include Greece, where parliamentary elections this month could result in a new government challenging the terms of the third bailout package agreed in August, and slower economic growth (that may mean more stimulus from the ECB).

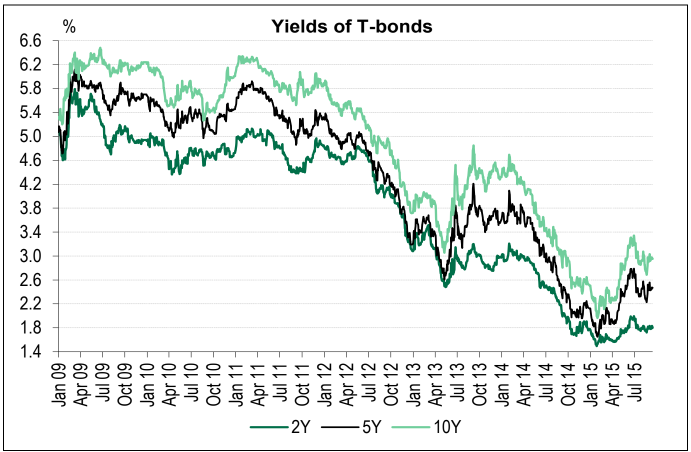
Market monitor

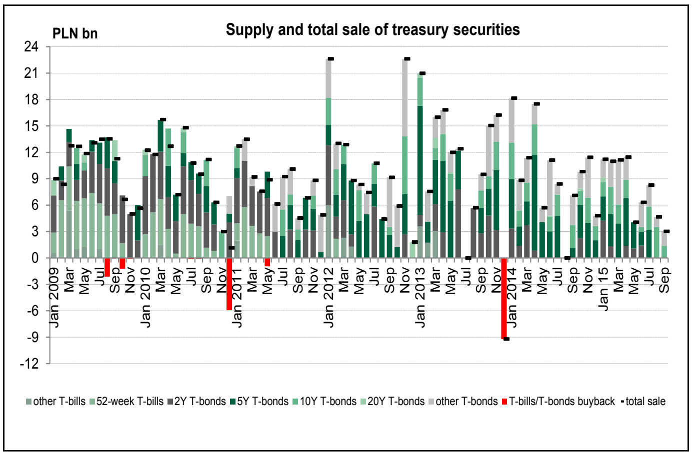












Treasury bond auctions in 2014/2015 (PLN mn)

month	First auction				Second auction				Switch auction		
	date	T-bonds	offer		date	T-bonds	offer		date	T-bonds	offer
September'14	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	PS0420/DS0725
July	9.07	WZ0120/WZ0124	1000-2000	2430.3	23.07	PS0420/DS0725	3000-6000	5852.7			
August	6.08	DS0725/WZ0126	1000-4000	4655.9							
September	10.09	WZ0126/DS0726	2000-4000	3019.0	24.09	To be announced	2000-6000				

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

Source: MoF, Reuters, BZ WBK.

Economic calendar

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
7 September 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) US: Industrial output (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**
21 US: Home sales (Aug)	**22** HU: Central bank decision	**23** ***PL: Unemployment rate (Aug)*** CN: Flash PMI – manufacturing (Sep) DE: Flash PMI – manufacturing (Sep) EZ: Flash PMI – manufacturing (Sep)	**24** DE: Ifo index (Sep) CZ: Central bank decision US: Durable goods orders (Aug) US: New home sales (Aug)	**25** US: Final GDP (Q2) US: Michigan index (Sep)
28 US: Personal income (Aug) US: Consumer spending (Aug) US: Pending home sales (Aug)	**29** US: Consumer confidence index (Sep)	**30** ***PL: Balance of payments (Q2)*** ***PL: Inflation expectations (Sep)*** ***PL: Flash CPI (Sep)*** EZ: Flash HICP (Sep) CZ: GDP (Q2) US: ADP report (Sep)	**1 October** ***PL: PMI – manufacturing (Sep)*** CN: PMI – manufacturing (Sep) DE: PMI – manufacturing (Sep) EZ: PMI – manufacturing (Sep) US: ISM – manufacturing (Sep)	**2** US: Non-farm payrolls (Sep) US: Unemployment rate (Sep) US: Industrial orders (Aug)
5 DE: PMI – services (Sep) EZ: PMI – services (Sep) US: ISM – services (Sep)	**6** ***PL: MPC decision*** DE: Industrial orders (Aug)	**7** DE: Industrial output (Aug) CZ: Industrial output (Aug)	**8** DE: Exports (Aug) HU: CPI (Sep) US: FOMC minutes	**9** CZ: CPI (Sep)
12	**13** DE: ZEW index (Oct)	**14** ***PL: Balance of payments (Aug)*** ***PL: Money supply (Sep)*** EZ: Industrial output (Aug) US: Retail sales (Sep) US: Fed Beige Book	**15** ***PL: CPI (Sep)*** US: CPI (Sep) US: Philly Fed index (Oct)	**16** ***PL: Core inflation (Sep)*** ***PL: Wages and employment (Sep)*** EZ: HICP (Sep) US: Industrial output (Sep) US: Flash Michigan (Oct)

Source: CSO, NBP, Bloomberg

Calendar of MPC meetings and data releases for 2015

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

** quarterly data. a preliminary data for January. b January and February.*
Source: CSO, NBP

Economic data and forecasts for Poland

Monthly economic indicators

		Aug 14	Sep14	Oct14	Nov 14	Dec 14	Jan 15	Feb 15	Mar 15	Apr 15	May 15E	Jun 15	Jul 15	Aug 15E	Sep 15E
PMI	pts	49.0	49.5	51.2	53.2	52.8	55.2	55.1	54.8	54.0	52.4	54.3	54.5	51.1	54.0
Industrial production	% YoY	-1.9	4.2	1.7	0.3	8.1	1.6	5.0	8.8	2.4	2.8	7.4	3.8	7.1	5.7
Construction production	% YoY	-3.6	5.6	-1.0	-1.6	5.0	1.3	-0.3	2.9	8.5	1.3	-2.5	-0.1	4.0	-1.1
Retail sales [a]	% YoY	1.7	1.6	2.3	-0.2	1.8	0.1	-1.3	3.0	-1.5	1.8	3.8	1.2	1.3	2.8
Unemployment rate	%	11.7	11.5	11.3	11.4	11.5	12.0	12.0	11.7	11.2	10.8	10.3	10.1	10.0	9.9
Gross wages in corporate sector	% YoY	3.5	3.4	3.8	2.7	3.7	3.6	3.2	4.9	3.7	3.2	2.5	3.3	3.6	3.4
Employment in corporate sector	% YoY	0.7	0.8	0.8	0.9	1.1	1.2	1.2	1.1	1.1	1.1	0.9	0.9	0.9	0.9
Exports (€)	% YoY	-1.2	5.8	4.7	3.5	4.3	4.4	10.2	13.9	9.2	9.4	10.9	1.1	11.0	11.0
Imports (€)	% YoY	0.7	7.0	5.6	5.0	9.8	-2.1	2.6	7.8	7.8	-0.2	10.0	6.9	7.0	7.0
Trade balance	EUR mn	-215	492	-42	10	-792	766	721	702	119	922	56	-1,071	235	1,098
Current account balance	EUR mn	-1,063	14	-374	-24	-1,245	-60	-7	1,743	1,129	1,225	-849	-1,660	-443	60
Current account balance	% GDP	-1.4	-1.2	-1.3	-1.1	-1.3	-1.0	-0.9	-0.6	-0.4	-0.1	-0.1	-0.3	-0.1	-0.1
Budget deficit (cumulative)	PLN bn	-24.6	-22.4	-27.2	-24.8	-29.8	-0.6	-11.3	-16.7	-16.7	-19.6	-26.1	-28.1	-28.0	-34.6
Budget deficit (cumulative)	% of FY plan	51.9	47.1	57.4	52.1	62.7	1.3	24.6	36.2	36.2	42.6	56.7	60.9	60.7	75.1
CPI	% YoY	-0.3	-0.3	-0.6	-0.6	-1.0	-1.4	-1.6	-1.5	-1.1	-0.9	-0.8	-0.7	-0.8	-0.8
CPI excluding food and energy	% YoY	0.5	0.7	0.2	0.4	0.5	0.6	0.4	0.2	0.4	0.4	0.2	0.4	0.4	0.7
PPI	% YoY	-1.5	-1.6	-1.3	-1.6	-2.7	-2.8	-2.8	-2.5	-2.7	-2.1	-1.4	-1.7	-1.9	-1.4
Broad money (M3)	% YoY	7.4	7.9	7.7	8.4	8.2	8.6	8.7	8.9	7.2	7.6	8.3	8.6	7.3	7.3
Deposits	%YoY	8.5	8.1	8.4	9.0	9.0	9.1	9.0	9.2	7.8	7.8	8.7	8.8	7.9	7.9
Loans	%YoY	5.5	5.2	6.5	6.8	7.2	8.0	7.7	7.8	6.4	7.7	7.9	7.9	7.6	8.0
EUR/PLN	PLN	4.19	4.19	4.21	4.21	4.21	4.28	4.18	4.13	4.02	4.08	4.16	4.15	4.19	4.22
USD/PLN	PLN	3.15	3.25	3.32	3.38	3.42	3.68	3.68	3.81	3.73	3.66	3.71	3.78	3.77	3.73
CHF/PLN	PLN	3.46	3.47	3.48	3.50	3.50	3.96	3.93	3.89	3.88	3.93	3.98	3.96	3.89	3.98
Reference rate [b]	%	2.50	2.50	2.00	2.00	2.00	2.00	2.00	1.50	1.50	1.50	1.50	1.50	1.50	1.50
3M WIBOR	%	2.65	2.45	2.07	2.03	2.06	2.03	1.92	1.67	1.65	1.67	1.70	1.72	1.72	1.72
Yield on 2-year T-bonds	%	2.30	2.02	1.77	1.78	1.84	1.60	1.60	1.62	1.60	1.74	1.91	1.82	1.79	1.79
Yield on 5-year T-bonds	%	2.73	2.40	2.12	2.04	2.16	1.82	1.88	1.99	1.98	2.38	2.68	2.45	2.40	2.48
Yield on 10-year T-bonds	%	3.23	2.98	2.63	2.54	2.55	2.21	2.20	2.32	2.36	2.83	3.20	3.00	2.88	3.03

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	2Q15	3Q15E	4Q15E	1Q16E	2Q16E	3Q16E	4Q16E
GDP	PLN bn	1,662.1	1,728.7	1,794.4	1,887.9	417.8	433.8	443.4	499.4	439.5	457.7	466.0	524.8
GDP	% YoY	1.7	3.4	3.5	3.5	3.6	3.3	3.5	3.6	3.3	3.6	3.6	3.6
Domestic demand	% YoY	0.2	4.9	3.3	3.6	2.6	3.3	3.2	3.9	3.3	3.6	3.6	3.6
Private consumption	% YoY	1.1	3.1	3.2	3.2	3.1	3.0	3.4	3.5	3.3	3.2	3.1	3.1
Fixed investments	% YoY	0.9	9.2	6.9	6.0	11.4	6.4	6.0	6.0	6.0	6.0	6.0	6.0
Industrial production	% YoY	2.3	3.4	4.9	4.8	5.3	3.9	5.5	4.8	3.7	5.6	4.9	4.9
Construction production	% YoY	-10.3	4.3	0.9	2.6	1.4	1.9	0.8	0.0	1.1	3.2	2.7	2.9
Retail sales [a]	% YoY	2.6	3.1	1.7	3.8	0.7	1.4	1.9	2.7	2.0	2.5	5.1	5.4
Unemployment rate [b]	%	13.4	11.5	10.0	9.5	11.7	10.3	9.9	10.0	10.4	9.2	9.0	9.5
Gross wages in the national economy [a]	% YoY	3.4	3.6	3.4	4.9	4.1	3.1	3.2	3.4	3.2	5.1	5.6	5.5
Employment in the national economy	% YoY	-1.1	0.2	0.6	0.6	0.8	0.6	0.6	0.5	0.5	0.6	0.7	0.7
Exports (€)	% YoY	5.7	5.6	10.6	10.7	9.5	9.8	11.0	12.0	11.0	11.0	10.5	10.3
Imports (€)	% YoY	0.2	7.2	5.9	10.8	2.8	5.9	7.0	8.0	10.0	11.0	11.0	11.0
Trade balance	EUR mn	635	-1,629	5,590	6,071	2,189	1,097	1,582	722	2,830	1,218	1,538	485
Current account balance	EUR mn	-5,148	-5,250	1,213	2,137	1,648	1,505	-723	-1,217	2,414	1,549	-758	-1,068
Current account balance	% GDP	-1.3	-1.3	0.3	0.5	-0.6	-0.1	0.2	0.3	0.4	0.5	0.4	0.5
General government balance	% GDP	-4.0	-3.2	-2.7	-2.9	-	-	-	-	-	-	-	-
CPI	% YoY	0.9	0.0	-0.8	1.8	-1.5	-0.9	-0.8	0.1	1.4	1.7	1.9	2.1
CPI [b]	% YoY	0.7	-1.0	0.6	2.1	-1.5	-0.8	-0.8	0.6	1.5	1.8	2.2	2.1
CPI excluding food and energy	% YoY	1.2	0.6	0.6	1.3	0.4	0.3	0.5	1.0	1.2	1.4	1.3	1.2
PPI	% YoY	-1.3	-1.5	-1.9	-0.6	-2.7	-2.1	-1.7	-1.1	-1.1	-0.9	-0.6	0.2
Broad money (M3) [b]	% oY	6.2	8.2	7.6	7.7	8.9	8.3	7.3	7.6	7.6	7.6	7.7	7.7
Deposits [b]	%YoY	6.6	9.0	6.9	8.1	9.2	8.7	7.9	6.9	7.2	7.5	7.8	8.1
Loans [b]	%YoY	3.5	7.2	6.5	5.5	7.8	7.9	8.0	6.5	6.3	6.0	5.7	5.5
EUR/PLN	PLN	4.20	4.18	4.15	4.08	4.20	4.09	4.19	4.12	4.04	4.06	4.09	4.10
USD/PLN	PLN	3.16	3.15	3.69	3.43	3.72	3.70	3.76	3.58	3.44	3.44	3.43	3.42
CHF/PLN	PLN	3.41	3.45	3.90	3.53	3.93	3.93	3.94	3.79	3.65	3.59	3.50	3.39
Reference rate [b]	%	2.50	2.00	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
3M WIBOR	%	3.02	2.52	1.75	1.75	1.87	1.67	1.72	1.73	1.74	1.75	1.75	1.75
Yield on 2-year T-bonds	%	2.98	2.46	1.75	2.02	1.61	1.75	1.80	1.81	1.84	1.95	2.07	2.17
Yield on 5-year T-bonds	%	3.46	2.96	2.30	2.69	1.90	2.35	2.45	2.53	2.58	2.63	2.72	2.82
Yield on 10-year T-bonds	%	4.04	3.49	2.79	3.43	2.24	2.79	2.97	3.15	3.23	3.35	3.50	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 14.09.2015 has been prepared by:

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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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