

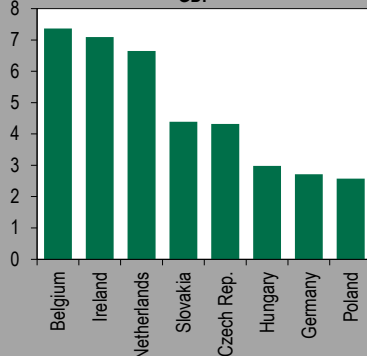
MACROscope

Polish Economy and Financial Markets

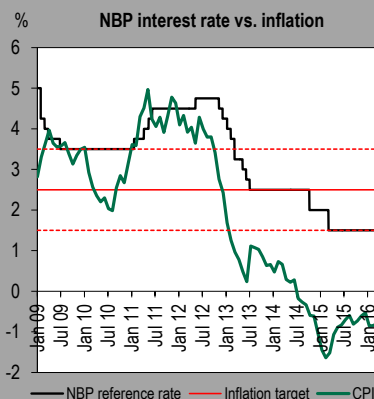
March 2016

There is still ammo, but no will to pull the trigger

Exports to the United Kingdom as % of GDP



NBP interest rate vs. inflation



In this issue:

Brexit – What If?	2
Economic update	4
Monetary policy watch	6
Fiscal policy watch	8
Interest rate market	9
Foreign exchange market	10
Market monitor	11
Economic calendar	12
Economic data & forecasts	13

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

■ Economic growth in Poland remains solid: it accelerated to 3.9% y/y in 4Q15 and, in our view, should remain close to 3.5% in 2016E. Private consumption is likely to be the main driver of growth in the coming quarters, supported by healthy labour income and new child benefits (the new government's 500+ plan). Meanwhile, fixed investment growth could decelerate (due to lower public spending and a more cautious mood in the private sector), and the continuation of rapid export growth could be under threat if Euro zone growth weakens. Uncertainty about the global economic outlook has been growing and currently seems to be the biggest threat for Poland's growth outlook. The risk of Brexit (which we discuss in more detail on pages 2-3) is making the economic outlook even more uncertain. The OECD recently trimmed its world GDP forecasts, and the IMF has signalled it may do the same in its April edition of the World Economic Outlook. If those trends continue, it could negatively affect demand for Polish goods and services, limiting economic growth.

■ The replacement of the Monetary Policy Council (MPC) members is almost complete (see page 7 for a description of the new council members). The new MPC decided to keep interest rates on hold at its March meeting, even though the latest central bank projection showed that inflation may not return to target until the end of 2018, and despite the European Central Bank deciding to ease monetary policy more than expected only the day before. The Polish central bank apparently wants to 'save ammo' for unforeseeable events. In our opinion, two factors that could trigger a monetary policy change in the future are: (1) a significant slowdown of the economy; and (2) a large inflow of portfolio capital on the Polish market (sharp zloty appreciation). As we continue to expect solid GDP growth and see rather limited room for further zloty appreciation, we do not expect the MPC to change its stance in the coming months. The next National Bank of Poland (NBP) projection will be available in July, when Marek Belka will be replaced by the new NBP Governor (most likely Adam Glapiński). However, since the projection was not important for the Council this time round and most of new members are reluctant to change their policy stance, we do not think this factor should be a game changer later this year.

■ The zloty and Polish bonds have gained substantially in recent weeks, as the markets were anticipating substantial monetary policy easing by the ECB, and the fiscal and political risk in Poland has moved into the background. We think that the pace of zloty appreciation may be hard to maintain as sentiment in the global market remains volatile, so EUR/PLN could stay around 4.25-4.35 at the turn of the quarters. As regards the debt market, we think that expectations for interest rate cuts in Poland should weaken, but the short end of the yield curve should be supported by banks' demand (bank tax issue). As regards the belly and long end of the curve, we see scope for further tightening of the spread vs the German Bund, especially if the 'risk-on' mood dominates after the ECB and FOMC meetings.

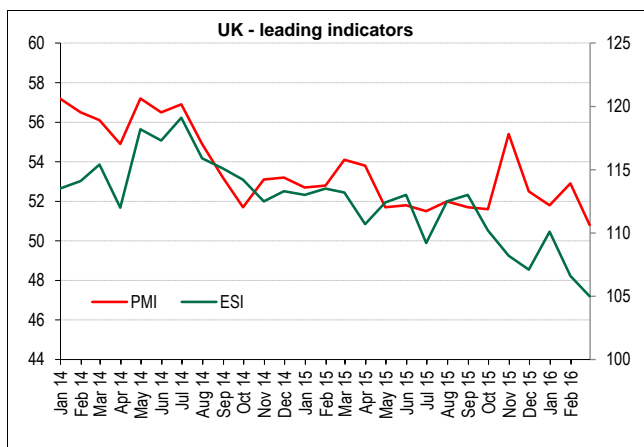
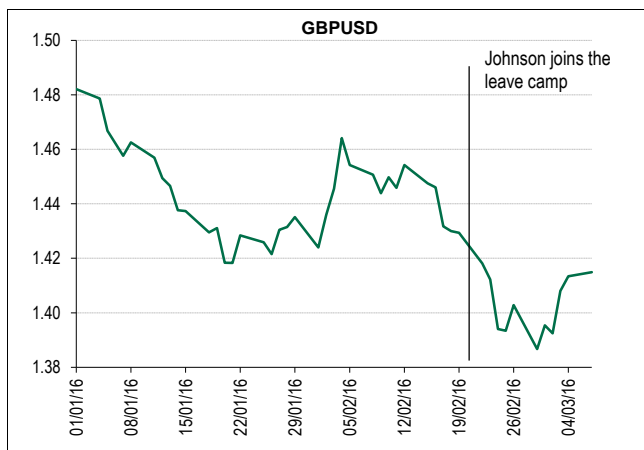
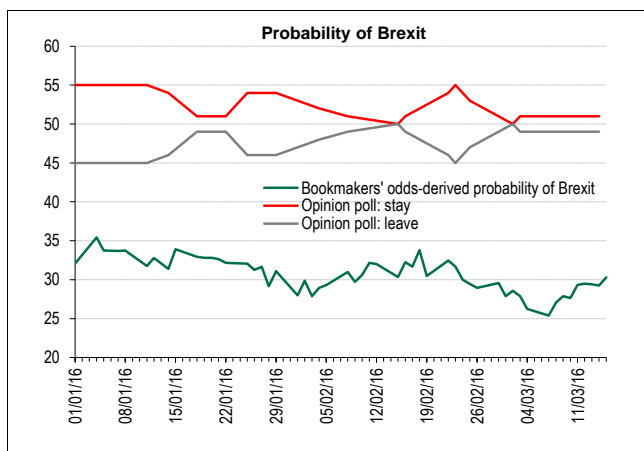
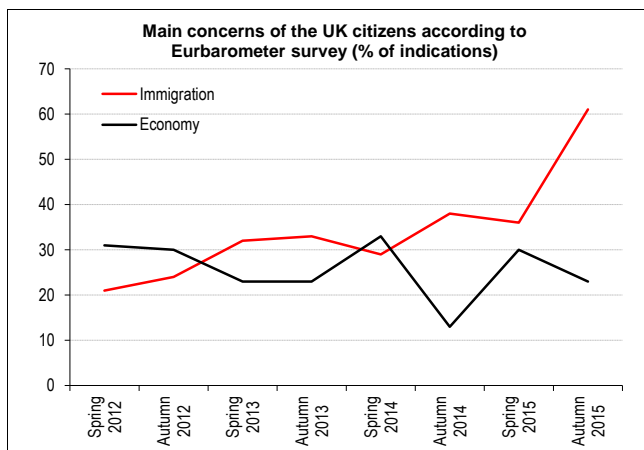
Financial market on March 15 2016:

NBP deposit rate	0.50	WIBOR 3M	1.67	EURPLN	4.2824
NBP reference rate	1.50	Yield on 2-year T-bond	1.44	USDPLN	3.8649
NBP lombard rate	2.50	Yield on 5-year T-bond	2.14	CHFPLN	3.9107

This report is based on information available until 15.03.2016.

US investors' enquiries should be directed to Santander Investment Securities Inc. (SIS) at (212) 692-2550. US recipients should note that this research was produced by a non-member affiliate of SIS and, in accordance with FINRA Rule 2241 limited disclosures can be found on the back cover.

Brexit – What If?



Why Brexit?

▪ On June 23, 2016 British citizens are to decide whether the United Kingdom will leave the European Union. The so-called Brexit will most likely have a considerable impact on both the European and Polish economies.

▪ The United Kingdom has always been rather reluctant towards European integration, both as regards politicians and the general population (stay/leave polls have fluctuated at around 50/50 since its entry in 1973). Britons were mostly concerned about economic and sovereignty issues, which is why the UK has secured some special clauses in the EU treaties (rebate for contributions in 1984, euro and social chapter opt-out in 1992). Currently, there is another problem bothering UK citizens –immigration– and they view it as the most important current issue affecting the EU, according to the Eurobarometer survey. This is a huge swing in opinions, as the UK was one of the few old-EU countries that had been open for immigration from new EU countries from the very beginning. This change has led to stronger claims for exiting the European Union and eventually to the Brexit referendum.

Is Brexit likely?

▪ Opinion polls are generally in favour of the UK staying in the EU, but they are quite volatile, plus margins are not high. Bookmakers price-in the probability of Brexit at about 30%. This shows that the chances for Brexit are substantial, yet it is not the baseline scenario.

Pre-referendum impact

▪ The pre-referendum period is likely to generate heightened market volatility, as markets react to important news concerning the probability of Brexit. Some assets will be vulnerable to such news, including the GBP exchange rate, which reacted quite visibly, for example, to Boris Johnson's (conservative mayor of London) decision to join the 'leave' camp.

▪ As for economic performance, UK leading indicators declined recently, but this was mainly due to lower orders from EMS (especially Brazil and Russia), and there is no strong evidence that the Brexit referendum prospects are affecting economic activity.

Post-referendum impact

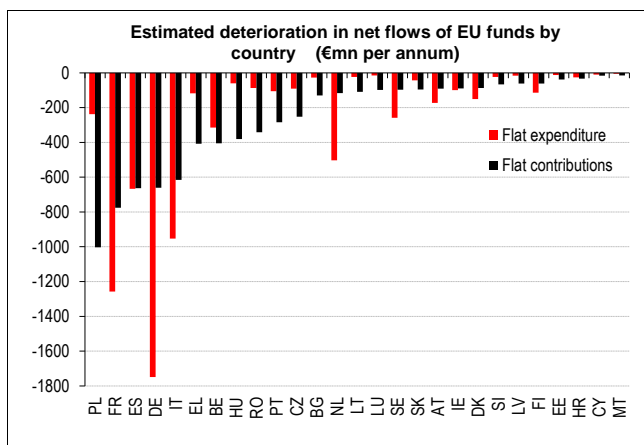
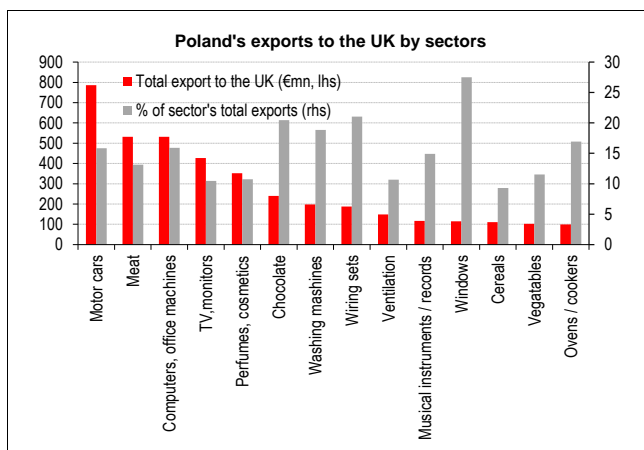
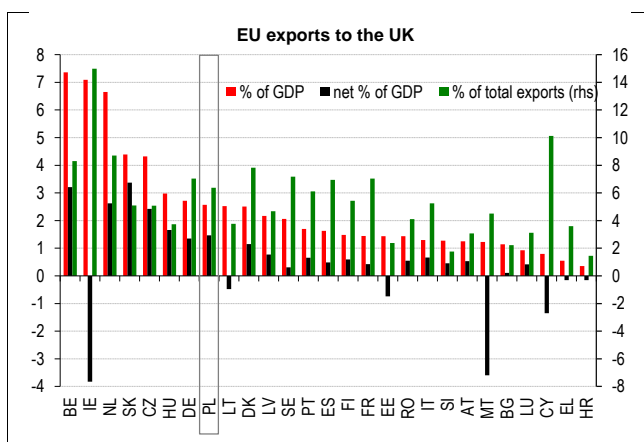
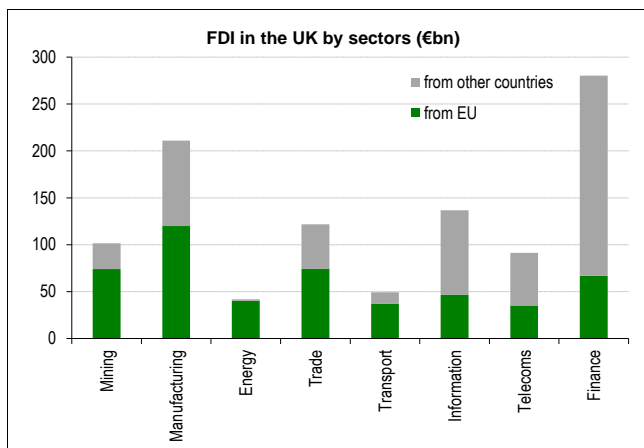
▪ A victory of 'leave' vote would surely trigger even more uncertainty for European markets and economies. The potential geopolitical scenarios are numerous: eg, Brexit could trigger a referendum in Scotland, leading to the possible break-up of the UK. A revival of separatist movements in other countries can also not be ruled out.

▪ Brexit would require the renegotiation of trade agreements. This would surely take time and could cause serious, long-lasting trade disruptions. About 43% of UK exports are to the EU (2014 data), so this would certainly weigh on the British economy, which is likely to suffer more than the EU, which sends about 7% of its exports to the UK. However, we believe a complete disruption of trade is unlikely and assume that the UK and UE will secure trade agreements before a potential Brexit. However, even assuming no major trade disruptions, the heightened uncertainty could trigger a slowdown in the UK, negatively affecting countries with high trade exposure to it.

▪ Moreover, the UK is a major destination of EU direct investment, with EU-based companies owing 48% of total FDI in this country (€520.6bn in 2013). Financial services is one of the main recipients of EU FDI and a major contributor to the UK's GDP (8% of value added in 2014). It cannot be ruled out that this business could partially quit the City after Brexit and move to one of the EU countries.

Source: Eurobarometer, What UK Thinks, oddschecker.com, Bloomberg, Eurostat, Markit, BZ WBK.

Brexit – What If?



Source: Eurostat, European Commission, BZ WBK.

▪ Even assuming no major effects on trade, high post-Brexit uncertainty would most probably imply suspended hiring and investment, producing an economic slowdown in the UK with spillover effects throughout the EU. All in all, we expect the short-term economic impact of Brexit on the UK to be negative and thus expect such an event to cause a depreciation of the British pound vs the US dollar. Brexit would also most likely trigger worries about further exits from the EU, so the euro is also likely to lose ground to the dollar. Higher risk aversion would also undermine the zloty.

PL-UK trade details

▪ The UK is one of Poland's most important trading partners; it is the third biggest receiver of Polish goods (€10.6bn in 2014). Poland's exports exposure to the UK is above the EU average, as it is equal to 2.6% of Polish GDP and 6.4% of total Polish exports (2014 data). Poland also has strong indirect trade links with the UK, eg, via Germany, which sends as much as 7.0% of its exports to the island. Polish imports from the UK are equal to 1.1% of GDP (€4.6bn in 2014). Poland buys a lot of intermediate and capital goods in Britain that are essential for manufacturing and investment.

▪ The net trade balance with the UK is positive, equal to 1.5% of GDP (fifth-highest in the whole EU). These numbers show that a full disruption in trade with the UK could deduct a couple of percentage points from Polish GDP. It would not be that easy to find new markets, as the entire European Union would suffer.

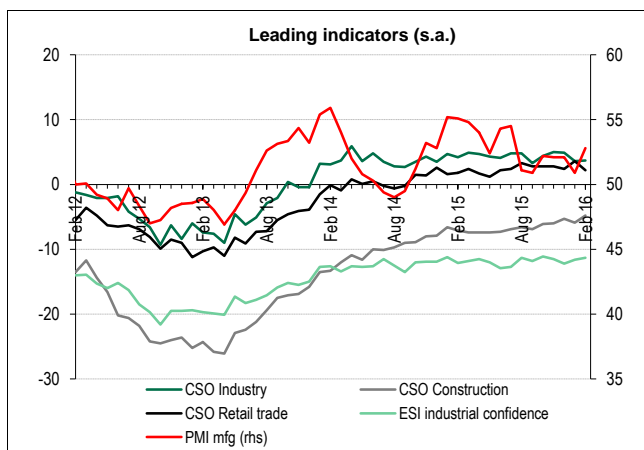
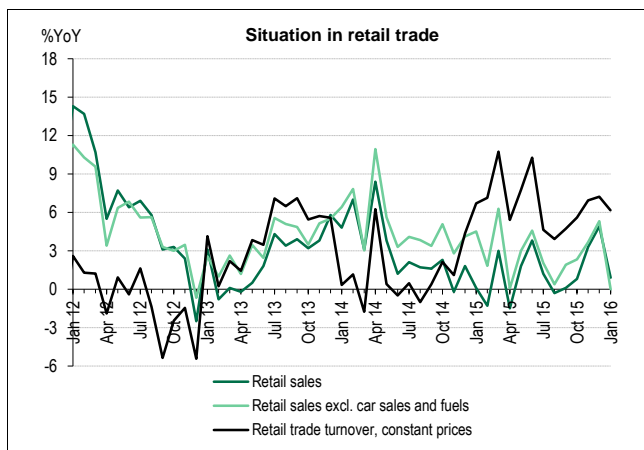
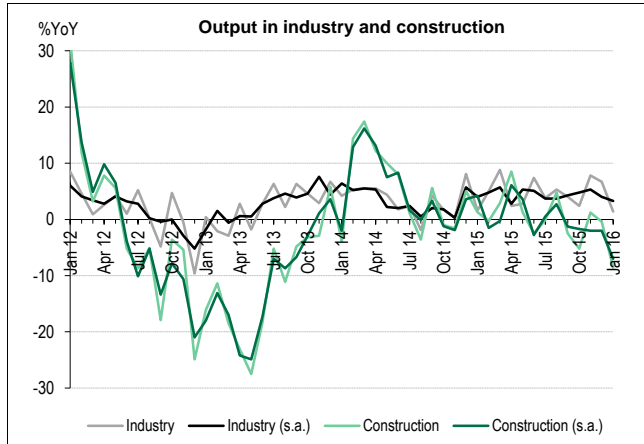
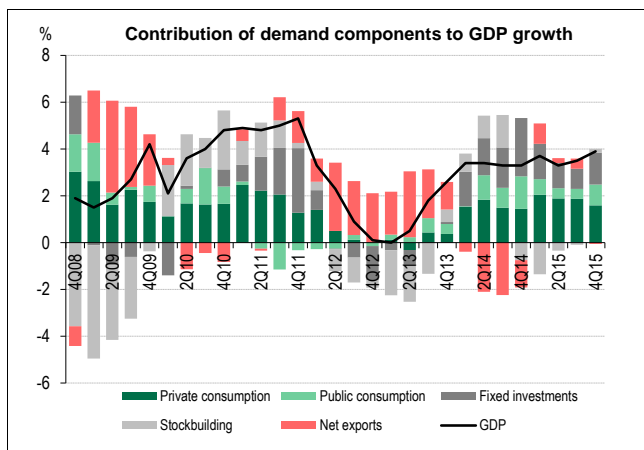
▪ The Polish sectors that are most exposed to the UK (as reflected by the percentage of total exports going to this country) are: personal cars, food (especially meat, vegetables and chocolate) and consumer goods (especially durables). The Polish food industry is generally focused on the local market (about 20%-25% of food manufacturing goes abroad), and demand for food is non-cyclical, so this sector is quite resilient to disruptions. But the other two are strongly dependent on foreign demand and cyclical, with the car industry selling 75% of its output abroad and the computer and electrical appliances industry over 60%.

What about the EU budget?

▪ Brexit would mean that the UK would no longer participate in the EU budget, triggering a major reconstruction of the 2014-20 financial framework. Poland is a huge participant in EU funds, so we try to estimate the possible impact of such a reconstruction based on data from the 2014 EU budget.

▪ In 2014, the annual national contribution to the EU budget was equal to cEUR133bn with almost 10% corresponding to the UK. In net terms, the UK contributed a positive EUR7.0bn to the budget. Assuming that post-Brexit the EU would try to keep its expenditure stable and finance it by raising national contributions by an equal proportion, contributions would rise by 6%, cutting Poland's net annual benefits to EUR13.2bn from EUR13.5bn (by 1.8%, or 0.06% of GDP). Another option would be for the EU to keep contributions flat and cut expenditure on every country by 6%; Poland's net negative contribution would fall to EUR12.5bn (7.4%, or 0.24% of GDP). In this scenario, Poland would be the EU country that would suffer the most in nominal terms. One way or another, we assume that the post-Brexit the EU budget would have to be renegotiated, and the negotiating power of each country would be important in that case, implying that Poland has a lot to lose.

Economic update



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

Strong GDP growth at the end of 2015 . . .

- 4Q15 GDP growth reached 3.9% y/y, confirming the flash estimate released in mid-February. Economic growth was driven by domestic demand, which expanded by 4.0% y/y (fastest in a year), mainly due to accelerating investments (4.9% y/y) and rising stocks. Private consumption growth was stable at 3.1% y/y, while net exports' contribution to growth was neutral (both exports and imports accelerated).

- December balance of payments data confirmed a strong performance in foreign trade. Exports surprised on the upside, reaching €13.8bn (up 12.1% y/y), while imports were below expectations and amounted to €13.5bn (an increase of 3.8% y/y). In January both export and import growth decelerated (to -0.4% y/y and 0.1% y/y, respectively). However, this was largely due to calendar effects and we expect the data to rebound in the coming months.

. . . but a moderate slowdown is possible at the start of 2016

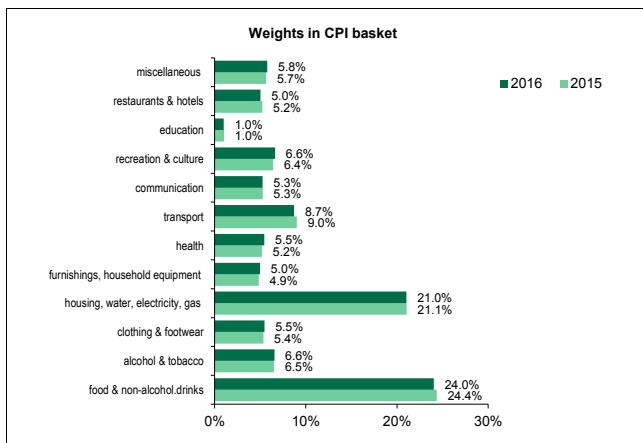
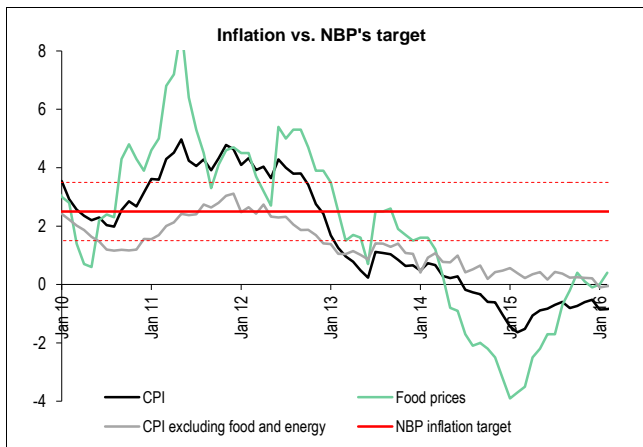
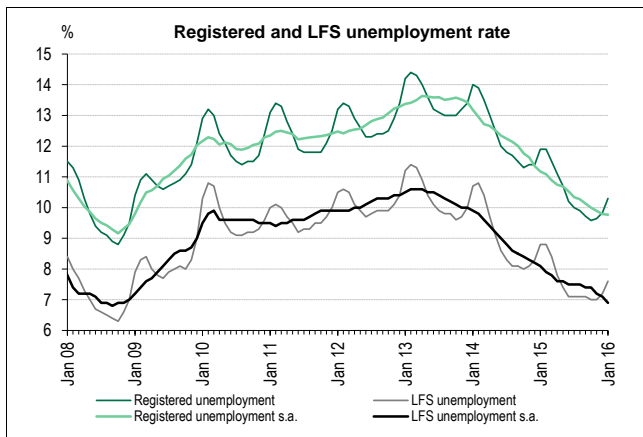
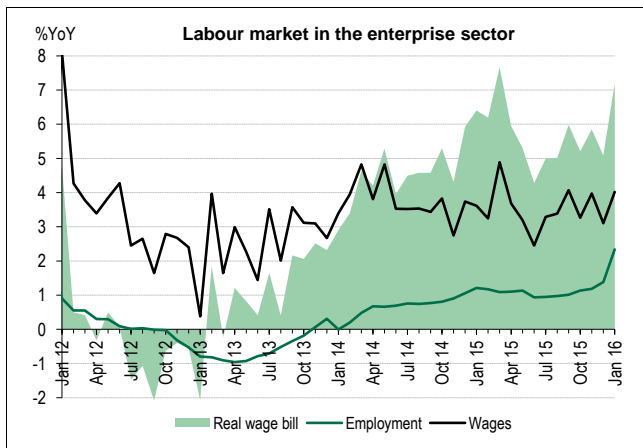
- High-frequency data indicate that the beginning of 1Q16E brought a slowdown in the pace of economic growth. Industrial production decelerated in January to 1.4% y/y from 6.8% y/y in December 2015. At the same time, construction output contracted 8.6% y/y in January, down from -0.3% y/y in the previous month. Activity in the industry sector has been negatively affected by the lower number of working days, but even after adjusting for this effect January's data show some deceleration. Data from the construction sector, in our view, may have been distorted by one-off factors.

- January retail sales data also disappointed, growing by 3.1% y/y in real terms, down from 7.0% y/y in December. The statistics office again reshuffled food and other retail sales categories, and after two months returned to the previous classification. Thus, food sales growth jumped to 2.9% y/y from -6.0% y/y, and other retail sales fell to 1.4% y/y from 33.5% y/y. What is more, car sales recorded a significant deceleration to +4.6% y/y from +19.7% y/y in December. All in all, we think the slowdown in January retail sales data resulted from one-off factors only.

- The outlook for economic activity, suggested by leading indicators, is quite optimistic for the coming months. Business climate indicators for manufacturing and construction saw a slight upturn in February after a series of declines in leading indicators. February's PMI for Polish manufacturing also surprised on the upside, rising for the first time since October and reaching 52.8pts, the highest level in July. Such a considerable improvement was triggered by a faster rise in new orders and output (both sub-indices were at the highest level in seven months). These data support our view that in February industrial output will recover, growing by 5.3% y/y (close to market consensus at 5.5% y/y). We also foresee a rebound in construction, but the scale of decline should be lower than in previous months (our forecast is -6.1% y/y, below market consensus at -4.9% y/y).

- In short, we expect GDP growth to slow down slightly in 1Q16E to 3.4% y/y. We are leaving our 2016 forecast unchanged – GDP growth is likely to be 3.5% on average. The main driver should be private consumption, which will probably accelerate in the coming quarters (well above 4% y/y in 2H, up from 3.5% y/y expected in 1H) on strong labour income and new child benefits (500+ program). Investment growth could decelerate slightly (due to lower public spending and a more cautious private sector), and the contribution of net exports should remain slightly negative (imports should grow faster than exports). The weakening of economic recovery in the Euro zone seems to be the biggest risk for Polish GDP growth. Economic indicators in Europe worsened significantly at the start of the year, and a continuation of this trend could undermine foreign demand for Polish goods.

Economic update



Source: CSO, NBP, BZ WBK.

The labour market is strengthening

- In January the pace of employment growth in the corporate sector accelerated to 2.3% y/y from 1.4% y/y in December, while wages rose 4.0% y/y vs 3.1% y/y in December. Each January the statistics office updates the companies in its survey and adds those that crossed the threshold of more than nine employees the previous year. This time, employment surprised well to the upside and rose by 77k MoM. This is the best January result since 2011 (and the third best in the last 15 years) and shows that in 2015 demand for workers rose not only in big companies, but also in the smaller ones. We expect some slowdown in employment growth later this year as the supply of available labour is drying up (although this process could be slowed by immigrant workers, mainly from Ukraine).

- Wages rose 4.0% YoY in January, close to our forecast, vs 3.1% YoY in December. We expect wages to continue to grow by rates of around 4% in the coming months and they may even accelerate, due to workers' growing negotiating power. The real wage bill increased 7.3%YoY in January, the highest level since March 2015.

- The registered unemployment rate rose to 10.3% in January and stayed at that level in February, according to flash data from the Labour Ministry. These were the lowest January and February readings since 1991. The seasonally-adjusted LFS unemployment rate for Poland fell to 6.9% in January, the lowest level since October 2008. The number of jobseekers reached 1.2mn, having declined by 200k in a year. Based on these numbers, we estimate that employment rose by 2.3% y/y in January, which would be the highest growth in four years. This, along with the corporate sector figures, suggests that Polish companies are not losing optimism at the start of 2016 and that economic growth remains robust.

Deeper deflation at the start of the year

- Inflation rate surprised again at the start of the year and reached -0.9% y/y in January and -0.8% y/y in February.

- The change of weights in the CPI basket, which the statistics office applies every year, decreased inflation rate quite substantially (before the new weightings the flash estimate for January was -0.7% y/y). Compared to previous year, the biggest declines in CPI weights were in food and non-alcoholic beverages (0.32pp), transport (0.30pp) and restaurants and hotels (0.2pp). The biggest increases were in (0.25pp), recreation and culture (0.21pp) and housing equipment (0.14pp).

- According to our estimates, core inflation excluding food and energy reached -0.1% y/y in January and February, its lowest level in a decade. This shows there is still no underlying pressure on prices, despite robust domestic demand and a weakening of the zloty in recent months.

- We predict that CPI inflation rate will remain in negative territory until the end of 3Q16. We note that, until recently, most forecasters were expecting deflation in Poland to end in 2015 or in early 2016, so the period of deflation has lengthened significantly. Core inflation may also stay very low for longer. We estimate it could stay around zero for the next half year and rise marginally only at the very end of 2016.

Monetary policy watch

Excerpts from the MPC's official statement after March's meeting

Global economic growth remains moderate and the uncertainty about its outlook has recently increased. Economic recovery is under way in the euro area, yet driven mainly by consumer demand amid weak investment and export growth. In the United States, GDP growth slowed down in the second half of 2015, following several years of recovery, and there is a risk of further economic weakening. In turn, economic growth continues to decelerate in China, while Russia and Brazil remain in recession. Concerns that activity in the emerging market economies might weaken further and the threat that this might translate into lower activity in the advanced economies currently pose the greatest risk for global economic conditions.

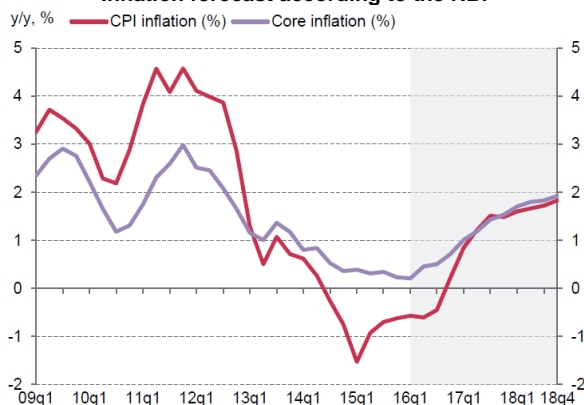
In Poland, stable economic growth continues and data for 2015 Q4 has even confirmed a slight acceleration in GDP growth. Domestic demand continues to be the key driver of GDP growth, supported by stable consumption growth and rising investment. The rise in demand is supported by favourable labour market conditions, positive consumer sentiment, sound financial standing of enterprises and their high capacity utilization, as well as lending growth.

As the output gap remains negative and nominal wage growth is only moderate, there is no inflationary pressure in the economy. Annual consumer price growth and producer price growth remain negative. Yet, the persistence of deflation results mainly from the strong fall in global energy commodity prices in recent quarters. Inflation expectations are still very low. The persisting deflation has not yet adversely affected decisions of economic agents.

In the Council's assessment, price growth will remain negative in the coming quarters due to the earlier strong fall in global commodity prices. At the same time, a gradual increase in core inflation is expected. It will be supported by stable economic growth, including an anticipated rise in consumer demand growth driven by rising employment, forecasted acceleration of wage growth and an increase in social benefits. This notwithstanding, the downside risks to the global economic conditions are a source of uncertainty for the domestic economy.

The Council continues to assess that – given the available data and forecasts – the current level of interest rates is conducive to keeping the Polish economy on the sustainable growth path and maintaining macroeconomic balance.

Inflation forecast according to the NBP



Subjective index of MPC members' restrictiveness

(how likely are MPC members to vote for interest rate cuts in the near future?)

MPC Member	Restrictiveness
Zubelewicz	less likely
Hardt	less likely
Chrzanowski	less likely
Ancyparowicz	less likely
Kropiwnicki	less likely
Belka	less likely
Osiatyński	less likely
Gatnar	less likely
Łon	less likely
Żyżyński	more likely

The new MPC continues the old policy

▪ The Monetary Policy Council (MPC) left interest rates unchanged at its March meeting (the reference rate is still 1.5%), despite the fact that new NBP projection showed a significantly lower inflation path than the previous one (please see details below). The MPC maintained its view that “the current level of interest rates is conducive to keeping the Polish economy on the sustainable growth path and maintaining macroeconomic balance”. NBP Governor Marek Belka confirmed the continuation of direct inflation targeting strategy in Poland, despite the fact that the central bank's latest projection does not foresee inflation returning to the target until the end of 2018.

▪ We see two factors that might drive a policy change (rate cut) in the future: (1) a significant slowdown in the economy (Belka: “in the case of a global crisis we might need ammunition”); and (2) the impact of the latest ECB decision on the Polish market (ie a stronger zloty). As we continue to expect solid GDP growth (in line with the NBP projection) and we see rather limited room for a further zloty appreciation, we do not expect the MPC to change its stance in the coming months.

▪ The next NBP projection is due in July, when Marek Belka will have been replaced by a new governor (most likely Adam Glapiński). However, given the fact that the NBP projection was not important for the Council this time, and most of new members are reluctant to change policy stance, we do not think either a new governor or a new projection will be game changers in July.

Inflation report: higher GDP, lower inflation

▪ The NBP's inflation projection shows temporarily higher GDP growth and a lower inflation path than previously predicted. According to the bank, GDP growth may accelerate to 3.8% in 2016-17 (mainly due to the government's 500+ child benefit programme, which may add c0.3pp to growth in 2016 and 0.5pp in 2017) and should then slow down. The CPI should rise gradually, but should not exceed 2% before 4Q18, so it will remain well below the inflation target in the next few years. The risks to CPI are symmetrical, according to the NBP report, while for GDP they are more on the downside, due to growing risk of a major economic slowdown abroad.

▪ We see two significant risk factors, which might drive inflation above the NBP's projection. First, a higher than assumed VAT rate, as it might not be reduced in 2017 (because of fiscal pressure). Second, a possible impact from a new retail tax, which might be implemented later this year.

The new MPC is almost complete

▪ Seven new MPC members took part in its March meeting, plus Jerzy Osiatyński (whose term of office expires in 2019) and governor Marek Belka (to be replaced in June 2016). There is still one vacancy to be filled by the Sejm and the Law and Justice MP Jerzy Żyżyński looks the most likely person to get the nomination at the next parliamentary meeting (the vote is scheduled for March 18). He has already received a positive recommendation from the Sejm's public finance committee.

▪ On the next page we present a primer on the current Monetary Policy Council with a summary of members' views, based on their recent comments and interviews. The traditional division between doves and hawks we used in the past is hard to apply to the current MPC, especially as financial stability seems now to be an important factor influencing their decisions, alongside the MPC's role of reacting to any deviation of inflation from its target (and a desired speed of return to the target). That said, on the left we show how MPC members rank in terms of restrictiveness, based on our subjective judgement. We stress that, at this stage, we have very limited evidence and the margin of discretion is extremely wide.

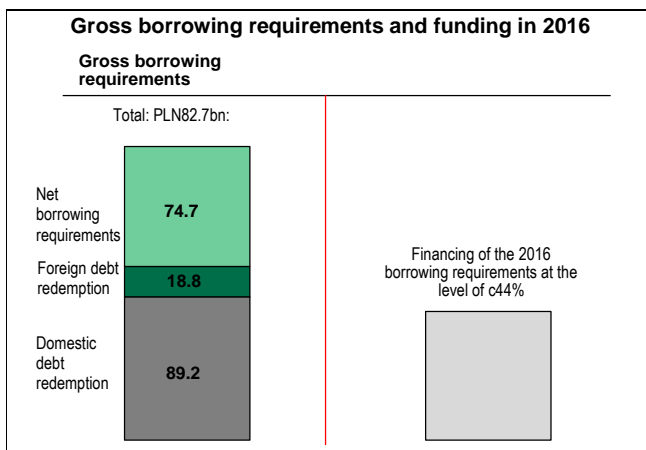
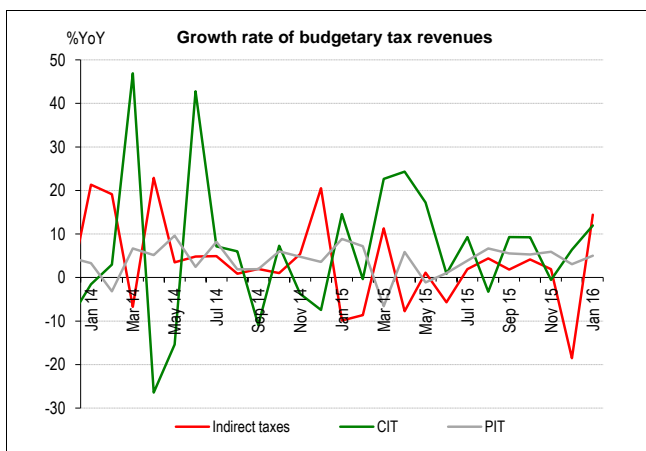
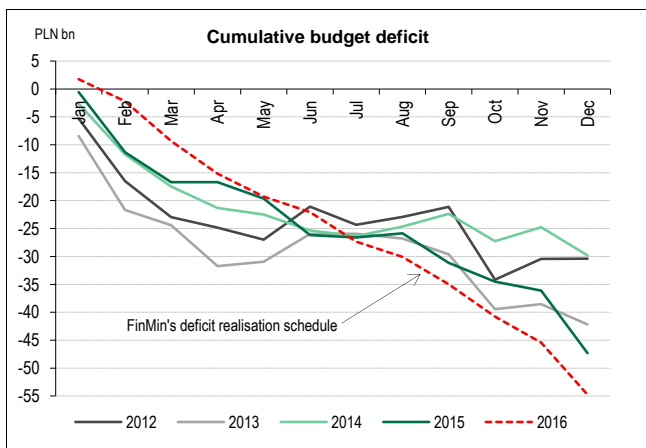
Sources: NBP, Reuters, Bloomberg, PAP, BZ WBK.

Monetary policy watch – the new MPC in a nutshell

	<p>Grażyna Ancyparowicz, appointed by the Sejm, term of office: 9.02.2016 – 9.02.2022 Academic background / professional experience: PhD in economics, lecturer at Katowice School of Economics, member of the National Development Council Fields of interest / expertise: political economy, finance Views: The 500+ programme and other government plans, plus a fairly high budget deficit, create inflationary risks. Monetary policy should be stable and conservative. There should be no experiments with monetary policy and there are no reasons to change it. Interest rate cuts would not revive economic growth at this stage. This assessment may change in few months' time, after the government's plans are implemented and their effects are known. She is against bank tax and supermarket tax. FX reserves must be high. Poland is at risk from speculative moves as it has a large foreign currency debt. The Hungarian way is not for Poland: they are two different economies. Central bank should be autonomous. This is a crucial issue and should not be changed.</p>
	<p>Marek Chrzanowski, appointed by the Senate, term of office: 25.01.2016 – 25.01.2022 Academic background / professional experience: PhD in economics, lecturing at the Warsaw School of Economics, member of the National Development Council Fields of interest / expertise: public finance and monetary policy Views: The current level of interest rates guarantees macroeconomic balance and stability. If we changed interest rates now (up or down), it would harm stability. Deflation is becoming more prolonged, but it is not a serious threat. The MPC should be very cautious about changing interest rates. Interest rate cuts may have no significant effect. The new NBP projection will be very important for MPC decisions. There is no sense in discussing a change in the inflation target. A weakening of the zloty is improving the competitiveness of Polish exports. Central bank independence is not under threat. There is no need to use unconventional monetary policy tools. Poland is not ready to adopt the euro. This would be unfavourable in the near term, but eventually we should join the Euro zone.</p>
	<p>Eugeniusz Gatnar, appointed by the Senate, term of office: 25.01.2016 – 25.01.2022 Academic background / professional experience: professor of economics, professor at the Statistics Department of the University of Economics in Katowice, NBP management board member 2010-16, member of the Polish Academy of Sciences Fields of interest / expertise: application of econometric and statistical methods to financial analysis Views: No need to change the inflation target, no need to boost lending and no room for central bank activity in this area. We should not aim to meet the inflation target at any price. The current level of interest rates is adequate and there is no reason to change it. Monetary policy is working well. The decision to change interest rates will depend on the inflation and GDP outlook published in March as well as on how the economy reacts to the government's new economic policy. The government's 500+ programme is likely to boost domestic demand and may fuel inflation. Exporters do not need additional zloty depreciation. The flexible exchange rate is working well in Poland. There is no need to use non-standard monetary policy tools. He is against joining the Euro zone in the next few years.</p>
	<p>Lukasz Hardt, appointed by the president, term of office: 20.02.2016 – 20.02.2022 Academic background / professional experience: PhD in economics, lecturing at the Faculty of Economic Sciences of the University of Warsaw, former member of the supervisory board of the Warsaw Stock Exchange, member of the National Development Council Fields of interest / expertise: history of economic thought, new institutional economy, and European integration Views: "Absolutely" no reason to cut interest rates at the moment, even by 25bp. Deflation should end this year with the government's family benefit plan set to hasten the process. Rates should be left unchanged, as "we need to have some extra room left in case external factors threaten the zloty or imperil our economic growth". If loan growth significantly exceeds GDP growth, the council would need to consider some tightening, but this is not the case now.</p>
	<p>Jerzy Kropiwnicki, appointed by the Senate, term of office: 25.01.2016 – 25.01.2022 Academic background / professional experience: PhD in economics, worked many years at the University of Lodz, former member of parliament, minister of labour, minister of regional development and construction, head of the government's Centre of Strategic Studies, Lodz city mayor, adviser to NBP governor 2010-16 Fields of interest / expertise: macroeconomics, economic and social policy, public finances Views: Sceptical about the possibility of fuelling economic growth with monetary policy. Monetary policy should be cautious and there is no need for rushed reactions. The next inflation projection is likely to show prolonged deflation, but "there is no need to change the status quo" in monetary policy taking into account solid economic growth. He sees no need to change the inflation target or to think about non-standard monetary policy tools. Deflation is not dangerous for the Polish economy at this stage. A weaker zloty is not a particular cause for concern as it supports Polish exports.</p>
	<p>Eryk Łon, appointed by the Sejm, term of office: 9.02.2016 – 9.02.2022 Academic background / professional experience: PhD in economics, graduated from Economic University in Poznan and Faculty of Law and Administration at Poznan University, member of the National Development Council Fields of interest / expertise: capital markets and banking, monetary policy, financial law, international finance Views: The room for interest rate cuts in Poland exists but it is not large. A potential rate cut would not have a significant impact on the real economy in the present situation. Deflation does not yet constitute a significant problem for the Polish economy. A factor which could make him support actions leading to the loosening of Polish monetary policy could be, for example, a potential crash of the US stock market. Developments in financial markets should be followed closely. If the zloty were to appreciate strongly, a rate cut would be more probable. A moderate weakening of the zloty would not be a reason to worry. There is no reason to use non-standard tools in monetary policy. He is sceptical about Poland joining the Euro zone and author of the report "Why Poland should not join the Euro zone", published in 2010.</p>
	<p>Jerzy Osiatyński, appointed by the president, term of office: 20.12.2013 – 20.12.2019 Academic background / professional experience: professor of economics, professor at the Warsaw School of Economics, member of Polish Academy of Sciences, former minister of finance, ex member of parliament, ex World Bank consultant Fields of interest / expertise: economic theory, public finance, history of economic thought, economic transition Views: There is still some room for interest rate cuts, taking into account the inflation outlook, as deflation will persist much longer than previously expected. However, further interest rate cuts in Poland would be wrong and ineffective. They would not boost economic growth, but could negatively affect the banking system's stability and fuel speculation. We will not create additional demand by lowering interest rates. The Council should start to consider a change of its policy bias towards a more hawkish stance because economic growth remains strong and wage pressures could rise. Public finances as of 2017 seem difficult to hold on a leash. He is not sure if new MPC members will be convinced enough to use monetary easing in reaction to possibly over-expansive fiscal policy.</p>
	<p>Kamil Zubelewicz, appointed by the president, term of office: 20.02.2016 – 20.02.2022 Academic background / professional experience: PhD in economics, graduated from Warsaw School of Economics and Faculty of Law and Administration at Warsaw University, cooperating with Collegium Civitas and Adam Smith Centre, worked for Institute of Political Studies at Polish Academy of Sciences Fields of interest / expertise: public finance, strategic studies Views: Hard to expect an abrupt change to the MPC policy conducted to date. Money should cost something. Monetary policy is likely to remain conservative, stabilisation seems to be most appropriate. If GDP is growing markedly, there is no point in launching an additional stimulus in the shape of an interest rate cut or some other non-standard central bank measure. The reference rate of 1.5% provides a safety buffer, which can be used if needed. We should be much more cautious about an inflation deviation upwards from the 2.5% target than with a deviation downwards. The central bank has to anticipate the effects of government policies. Nothing indicates that we should become a Euro zone member in the near future.</p>
	<p>Jerzy Żyżyński, candidate proposed by the Law and Justice Party, expected to be appointed by the Sejm on March 18 Academic background / professional experience: professor of economics, professor at the Faculty of Management at Warsaw University, member of Polish Academy of Sciences, member of parliament Fields of interest / expertise: finance, financial mathematics, fiscal and monetary policy Views: There is a little room for interest rate cuts. Interest rate policy should be supportive for economic growth. Perhaps some quantitative easing tools should be considered. "Generally speaking" in favour of lowering interest rates, but "there are counterarguments". An interest rate cut could be risky from the point of view of falling profits at small banks and the stability of the cooperative bank sector. The effects of a potential rate cut should be analysed. The central bank should be cautious and the decision must not be hasty.</p>

Sources: NBP, PAP, Reuters, Bloomberg, BZ WBK.

Fiscal policy watch



	Spread vs. Bunds (10Y) in bp			CDS (5Y USD)		
	15.03	Change since 10.02.16	Change since 31.12.15	15.03	Change since 10.02.16	change since 31.12.15
Poland	256	-31	25	90	-1	15
Czech R.	9	-20	13	46	0	-5
Hungary	299	-35	21	157	-6	-7
Greece	851	-240	80	1162	-161	172
Spain	120	-29	5	78	-18	-9
Ireland	60	-19	7	59	12	22
Portugal	249	-79	59	225	-56	65
Italy	105	-36	8	101	-30	11
France	27	-10	-8	29	-6	5
Germany	-	-	-	18	-2	5

Source: Ministry of Finance, Reuters, Eurostat, BZ WBK.

Higher tax revenues at the start of the year

- In January, Poland's state budget achieved a surplus of PLN1.76bn, slightly higher than that assumed in the schedule of budget revenues and expenditure execution for 2016 (PLN1.69bn). The better-than-expected result was mainly because of much lower budget spending than in previous years (7.9% of the annual plan vs 9.6% on average in 2012-15) in all categories. Revenues were slightly less than expected (PLN30.7bn vs PLN30.9bn) as a result of lower non-tax revenues.

- Tax revenues were much better than predicted, in particular VAT. In January, VAT inflows amounted to PLN17.5bn, 18.4% higher y/y. However, that increase is largely the result of weak monthly data in January last year (see chart on left), mainly due to changes introduced in VAT on imports by authorized economic operators (AEO). Excluding this, VAT growth in January stood at c9-10% y/y according to the Ministry of Finance.

- A strong financial performance from the corporate sector meant inflows from corporate tax (CIT) continued to increase. In January CIT revenues reached PLN2.4bn, exceeding the ministry's expectations and 12% higher than in January 2015. According to the Finance Minister Paweł Szałamacha, the positive trend in CIT should have continued in February 2016.

Poland's issuance close to 50% complete at the end of March

- Poland's Ministry of Finance has sold T-bonds on the primary market comfortably this year, with demand increasing markedly from auction to auction. The bid-to-cover ratio has climbed towards 2, up from 1.5 at the start of the year, thanks to strong demand from domestic investors and also from non-residents. Foreign investors, who in January reduced their holdings in Polish bonds by cPLN13bn (due to the OK0116 redemption, among other things) were buyers of medium- and long-term bonds in February, according to the Ministry of Finance.

- In our view, the ministry's goal of covering 50% of the year's gross borrowing needs at the end of 1Q16 is very realistic. However, the ministry will not aim to achieve this at any price. Completion of close to 50% of the 2016 target at the end of March would be less than the same time last year (when it was at 57% of the target) but not far from the average level in 2010-15 (c52%).

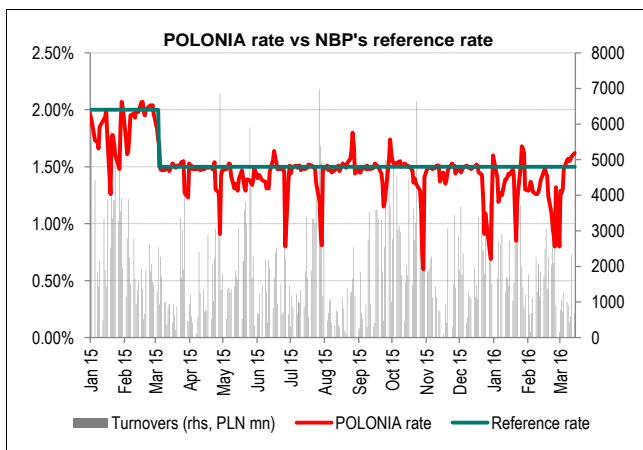
- We think the ministry will expand its issuance plan for April, taking into account the liquidity situation. Next month flows to investors will reach PLN21.4bn from the domestic T-bond PS0416 redemption and interest rate payments.

ECB easing supports peripheral debt

- European and US debt markets rallied quite visibly in late February and early March, due to rising concern about a global slowdown, a lack of inflationary pressure and changes to monetary policy expectations (further easing by the ECB, no rate hikes by Fed in upcoming months). As a result, yields headed south, in some cases towards this year's lows. Risk premiums for Euro zone peripherals and for CEE countries tightened visibly in early March.

- More QE and the new TLTRO announced at the March ECB meeting mean that the 'hunt for yield' will continue. Therefore we expect a further decline in the yields of peripheral debt. We also foresee a lower peripheral risk premium (as measured by the spread over bunds), especially if the data flow in periphery does not sour.

Interest rate market

**POLONIA rate proves volatile due to bank tax**

- The end of February saw a significant drop in the POLONIA rate, reflecting the price of overnight interbank deposits. The decline proved to be more persistent than in the previous months, when the POLONIA only occasionally fell way below the reference rate and only for a day or two, just before the settlement of the obligatory reserve. What is more, we observed a sharp fall in the value of end-of-month turnover on the POLONIA (to PLN155mn on the last day of February). This was one of the effects of the introduction of the bank tax. Although the money market returned to normal on the shortest tenors early March, we think that this pattern could be repeated in the future.

- As regards other money market rates, in February and early March WIBORs continued their gradual decline (by 1-4bp across the curve). FRAs remained more vulnerable to IRS market volatility but proved immune to comments by new MPC members, suggesting there is no need to cut interest rates. FRA rates fell markedly (by 4-13bp) at the time, which indicates that investors are still convinced that there will be further NBP rate cuts. The March MPC decision to leave rates unchanged caused only a slight (1-2bp) increase in rates up to one year.

Bond rally in anticipation of ECB action

- After a significant increase in global risk aversion at the beginning of February, investor interest in Polish bonds increased again in latter part of the month and early March. Market participants digested local factors and concentrated on global ones, which allowed declines in Poland's credit risk. This resulted from expectations of another easing package from the ECB and fading prospects of monetary policy tightening in the US. Strong demand for Poland's bonds on the primary market also supported the downward trend in yields/rates.

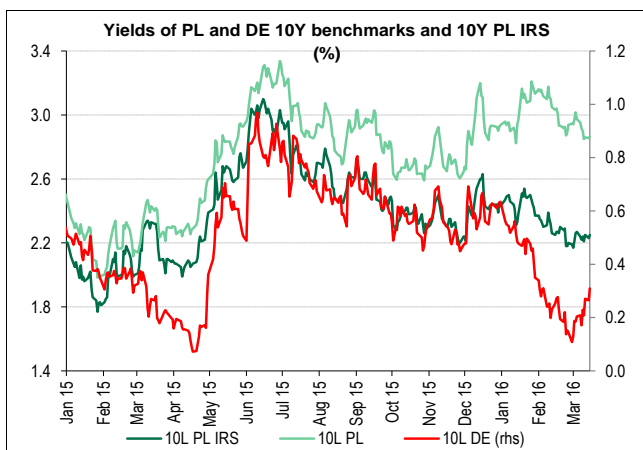
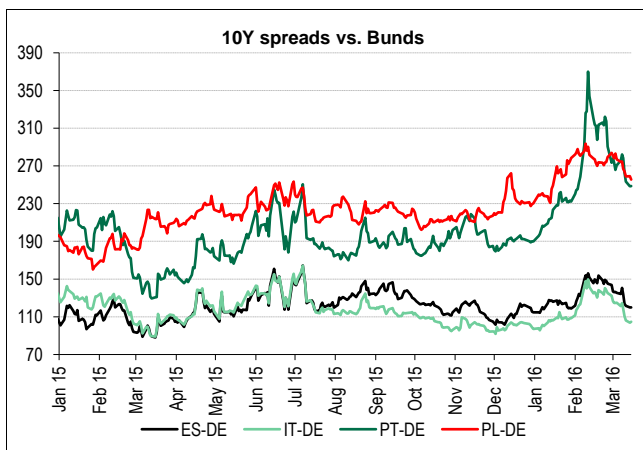
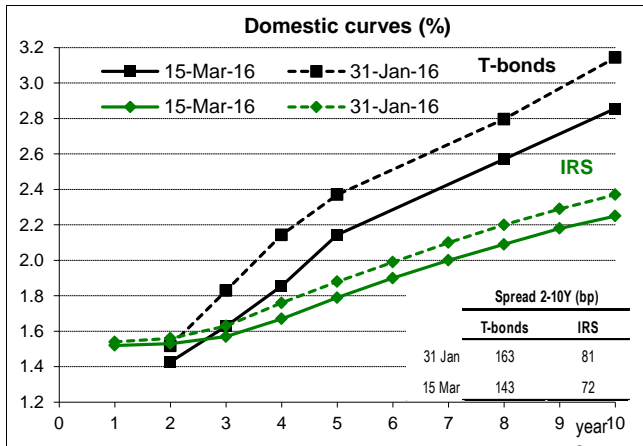
- Both bond and IRS curves flattened markedly thanks to the belly and long end outperforming vs the short end. The risk premium also tightened, as the 10Y spread over bunds fell towards 260bp in early March (from this year's high of 294bp at the beginning of February).

- Poland's Ministry of Finance successfully tapped the domestic primary market, selling T-bonds worth PLN24.6bn in total in February and early March. Healthy demand at auctions confirms that the S&P rating downgrade in January did not have a significant long-lasting impact on foreign investor demand for Polish debt. The Finance Ministry has now covered nearly 44% of its gross borrowing requirements for 2016.

Risk premium could be tightened

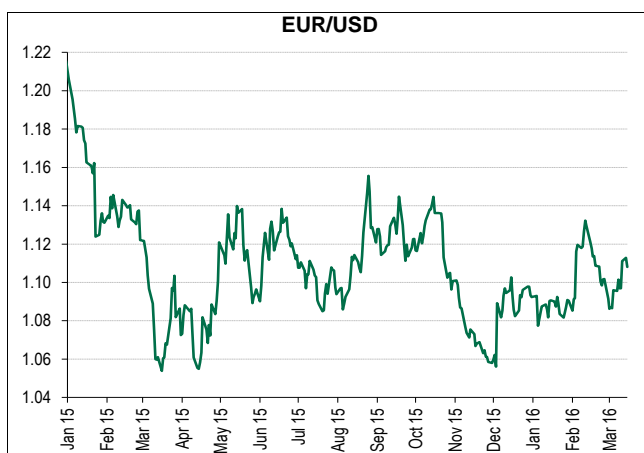
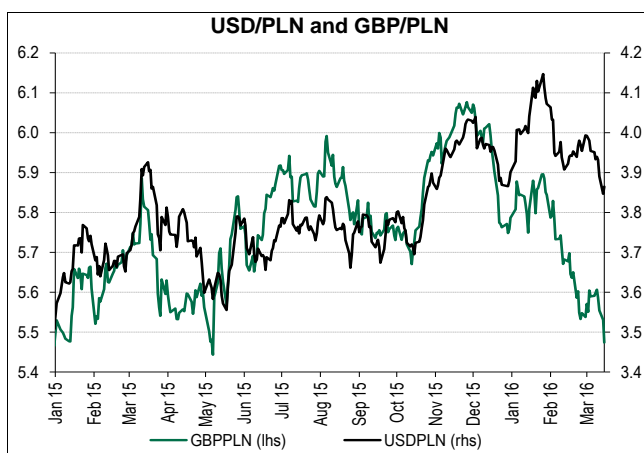
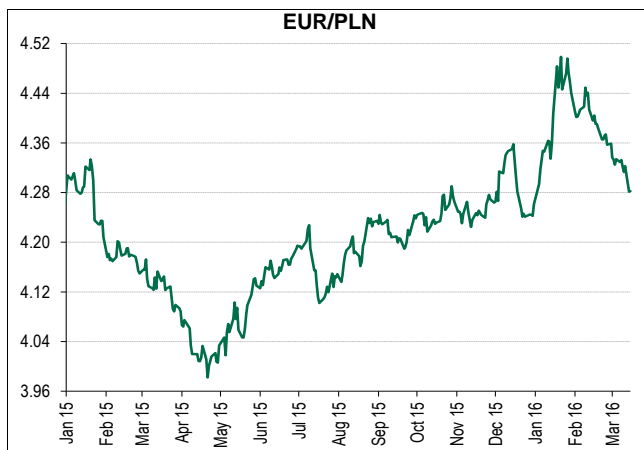
- MPC rhetoric in March has cooled our expectations of monetary easing later this year. Therefore, we have adjusted our baseline scenario. Now we expect 3M WIBOR to be fairly stable in the coming months. In our view, there could be a noticeable increase in WIBOR at the end of the year if it looks as if deflation is over and 4Q16 economic growth is solid. FRAs should increase in the next few months as the prospects of further monetary easing in Poland fade.

- While market expectations of further monetary easing by the MPC may weaken, we think the short end of the bond curve should remain supported by the impact of the bank tax (which creates an incentive for banks to move money from NBP bills to short-term treasuries). The belly and the long end of the curves will remain under the influence of global factors, making the Fed's decision and macro data abroad key. In our view, foreign investors' perception of Polish bonds has improved recently. Therefore, in the short term, we still see room for further tightening of the 10Y spread over bunds, especially if risk-on mode dominates the market after the ECB and Federal Reserve decisions.



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

Foreign exchange market



Sources: Reuters, Bloomberg, Markit, BZ WBK.

Little room for further appreciation

▪ The zloty has firmed fairly rapidly against the euro in February. The monthly drop in EUR/PLN was the biggest since March 2015. The zloty was the eighth-strongest EM currency vs the dollar and the euro last month. Only the RUB, CLP, IDR, MXN, ZAR, COP and SGD outperformed the Polish currency. Interestingly, when we try to find what these eight best currencies had in common, we see that five of them (PLN, MXN, RUB, COP and ZAR) suffered a significant depreciation in January and the following month's performance was mainly due to weak starting levels. We think this was combined with the positive global market mood, hopes for more easing to be announced in March by the ECB and more stimulus launched by the Bank of Japan.

▪ We think that it may be difficult for the Polish currency to keep up this pace of appreciation in the near future and we do not expect EUR/PLN to stay persistently below 4.30 even later this year. Note that since 2011 there was only one year (2015), in which the zloty gained vs the single currency in March and the summer is usually not very positive for the zloty either. However, the fact that the EM currencies recovered fast after significant weakening suggests that investors' perception of emerging markets is not that negative as long as global sentiment does not deteriorate much.

▪ The Financial Supervision Authority (KNF) presented its estimate of losses that Polish banks would incur if President Andrzej Duda's proposal on how to deal with FX mortgage loans is implemented. The KNF's estimate is even higher than that of the central bank, at up to PLN67bn, which reduces the chances of the president's proposal being implemented, in our view. The KNF estimate should be moderately supportive for the zloty, although discussion about the final shape of the proposal will continue, so the uncertainty will probably not disappear completely. We note that concern about the banking system has been a factor driving EUR/PLN up in past months.

▪ We think EUR/PLN could stay around 4.25-4.35 at the turn of the quarters.

EUR/USD volatile on central banks

▪ EUR/USD was pretty volatile in February, jumping to 1.14 on lower chances of a Fed rate hike and then to 1.08 as concern about China faded and some positive US data were released. Early March has also seen sharp swings, as markets reacted to the ECB decision.

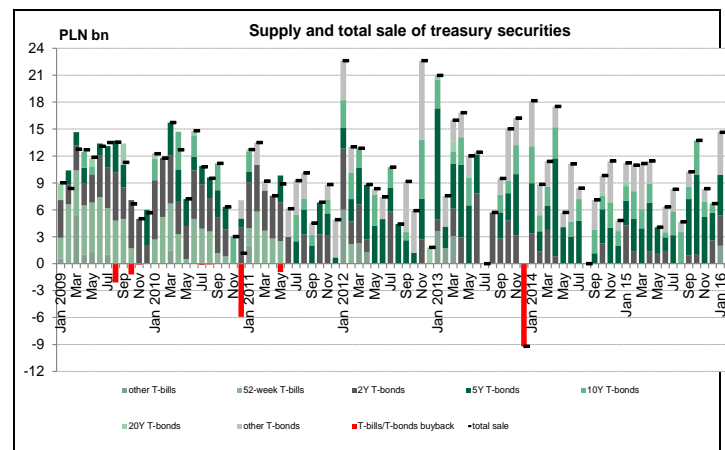
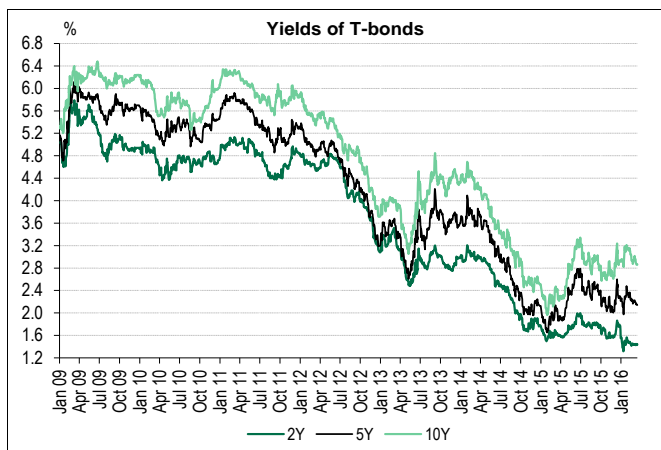
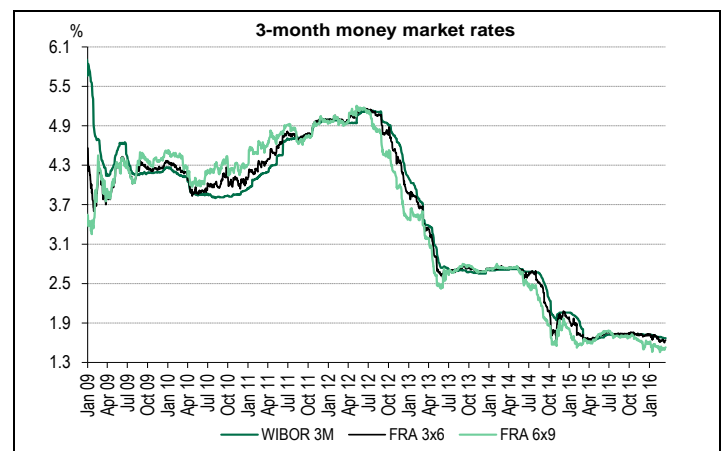
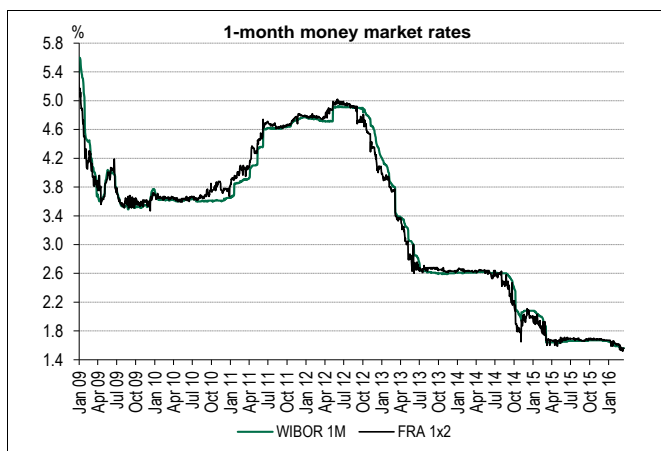
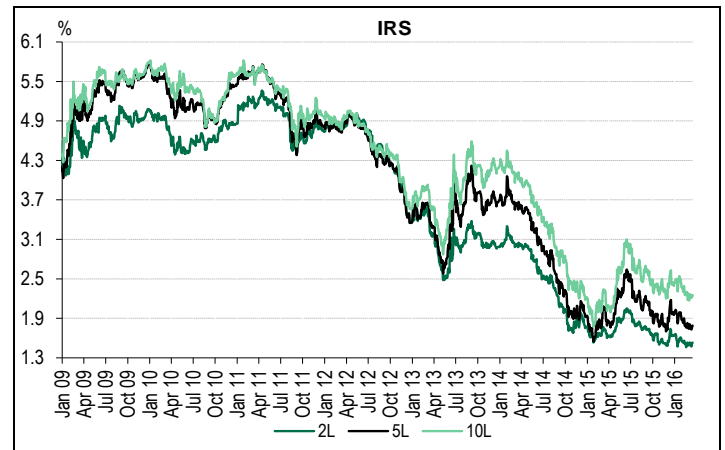
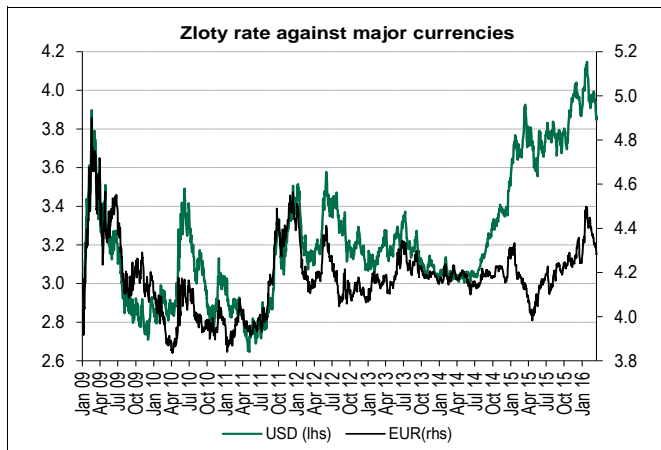
▪ We are still positive about the euro for the remainder of the year but, in the short term, it may be difficult for EUR/USD to maintain the pace of its increase. The recent not-too-positive European macro data, the extensive monetary policy easing announced by the ECB and quite robust US economic data may cap euro gains in 1H16.

Higher Brent supports the ruble

▪ The ruble was the best performing EM currency in February, helped by the rebound in the Brent oil price above US\$40/bbl and by supportive internal factors. The Central Bank of Russia (CBR) left interest rates unchanged at 11% in late January. Its statement said a significant drop in oil prices generates upside risk for inflation and if commodity prices recover and the inflation risk increases, the central bank may consider raising rates. The most recent communication confirms that the pace of price growth remains the CBR's main concern, but the bias seems to have turned more hawkish. Back in December, the bank suggested that rate cuts may still be on the agenda. Lower odds of monetary policy easing may be positive for the ruble, making further depreciation less likely.

▪ As regards macro data, YoY changes in industrial output and retail sales continue to run at low levels, but are no longer deteriorating. We have even seen some improvement since mid-2015. The manufacturing PMI neared 50 points in January, providing some hope that the situation could stabilize.

Market monitor



Treasury bond auctions in 2015/2016 (PLN mn)

Month	First Auction				Second Auction			Switch Auction			
	Date	T-bonds	Offer		Date	T-bonds	Offer	Date	T-bonds	Offer	
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					8.10	DS1015/OK0116	PS0421/DS0726
September	10.09	WZ0126/DS0726	2000-4000	3019.0	24.09	OK0717/PS0420	4000-6000	7214.0	19.11	OK0116/PS0416	WZ0120/PS0421/DS0726
October	29.10	OK/PS/DS	5000-8000	8082.0					10.12	OK0116/PS0416	OK0717/PS0421/DS0726
November	26.11	EUR20160201**	Up to €1bn	€730m							
December											
January '16	7.01	PS0421	2500-4500	4555.0	28.01	OK1018/WZ0120/WZ0126	5000-8000	8074.0			
February	4.02	OK1018/DS0726	4500-7500	9011.2	18.02	WZ0120/PS0421	4000-6000	7210.0			
March	3.03	OK1018/DS0726	4000-7000	8387.5					24.03	PS0416/OK0716/PS1016	To be announced

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

Source: Finance Ministry, Reuters, BZ WBK.

Economic calendar

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
14 March <i>PL: Money supply (Feb)</i> EZ: Industrial output (Jan)	15 <i>PL: CPI (Feb)</i> <i>PL: Balance of payments (Jan)</i> CZ: Industrial output (Jan) US: Retail sales (Feb)	16 <i>PL: Wages and employment (Feb)</i> <i>PL: Core inflation (Feb)</i> US: House starts (Feb) US: Building permits (Feb) US: CPI (Feb) US: Industrial output (Feb) US: FOMC decision	17 <i>PL: Industrial output (Feb)</i> <i>PL: PPI (Feb)</i> <i>PL: Retail sales (Feb)</i> <i>PL: MPC minutes</i> EZ: HICP (Feb) US: Philly Fed index (Mar)	18 US: Flash Michigan (Mar)
21 US: Home sales (Feb)	22 DE: Ifo index (Mar) DE: ZEW index (Mar) HU: Central bank decision	23 <i>PL: Unemployment rate (Feb)</i> US: New home sales (Feb)	24 DE: Flash PMI – manufacturing (Mar) EZ: Flash PMI – manufacturing (Mar) US: Durable goods orders (Feb)	25 US: Third estimate GDP (Q4)
28 US: Personal income (Feb) US: Consumer spending (Feb) US: Pending home sales (Feb)	29 US: Consumer confidence index (Mar)	30 US: ADP report (Mar)	31 <i>PL: Flash CPI (Mar)</i> <i>PL: Inflation expectations (Mar)</i> EZ: Flash HICP (Mar) CZ: GDP (Q4) CZ: Central bank decision	1 April <i>PL: PMI – manufacturing (Mar)</i> CN: PMI – manufacturing (Mar) DE: PMI – manufacturing (Mar) EZ: PMI – manufacturing (Mar) US: ISM – manufacturing (Mar) US: Non-farm payrolls (Mar) US: Unemployment rate (Mar) US: Michigan index (Mar)
4 US: Industrial orders (Feb)	5 DE: Industrial orders (Feb) DE: PMI – services (Mar) EZ: PMI – services (Mar) US: ISM – services (Mar)	6 <i>PL: MPC decision</i> DE: Industrial output (Feb) US: FOMC minutes	7 CZ: Industrial output (Feb)	8 DE: Exports (Feb) HU: CPI (Mar)
11 <i>PL: CPI (Mar)</i> CZ: CPI (Mar)	12 <i>PL: Core inflation (Mar)</i>	13 <i>PL: Balance of payments (Feb)</i> EZ: Industrial output (Feb) US: Retail sales (Mar) US: Fed Beige Book	14 <i>PL: Money supply (Mar)</i> EZ: HICP (Mar) US: CPI (Mar)	15 US: Industrial output (Mar) US: Flash Michigan (Apr)
18 <i>PL: Wages and employment (Mar)</i>	19 <i>PL: Industrial output (Feb)</i> <i>PL: PPI (Feb)</i> <i>PL: Retail sales (Feb)</i> DE: ZEW index (Apr) US: House starts (Mar) US: Building permits (Mar)	20 US: Home sales (Mar)	21 <i>PL: MPC minutes</i> EZ: ECB decision US: Philly Fed index (Apr)	22 DE: Flash PMI – manufacturing (Apr) EZ: Flash PMI – manufacturing (Apr)

Source: CSO, NBP, Bloomberg.

Calendar of MPC meetings and data releases for 2016

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
ECB meeting	21	-	10	21	-	2	21	-	8	20	-	8
MPC meeting	13-14	2-3	10-11	5-6	12-13	7-8	5-6	-	6-7	4-5	8-9	6-7
MPC minutes	28	18	17	21	27	23	-	25	22	20	24	22
Flash GDP*		12			13			12			15	
GDP*	-	29	-	-	31	-	-	30	-	-	30	-
CPI	15	12 ^a	15 ^b	11	12	13	11	12	12	11	14	12
Core inflation	18		16	12	13	14	12	16	13	12	15	13
PPI	21	17	17	19	19	17	19	18	19	19	21	19
Industrial output	21	17	17	19	19	17	19	18	19	19	21	19
Retail sales	21	17	17	19	19	17	19	18	19	19	21	19
Gross wages, employment	20	16	16	18	18	16	18	17	16	18	18	16
Foreign trade												
Balance of payments*			31									
Balance of payments	13	15	15	13								
Money supply	14	12	14	14								

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

Economic data and forecasts for Poland

Monthly economic indicators

		Feb 15	Mar 15	Apr 15	May 15E	Jun 15	Jul 15	Aug 15	Sep 15	Oct 15	Nov 15	Dec 15	Jan 16	Feb 16E	Mar 16E
PMI	pts	55.1	54.8	54.0	52.4	54.3	54.5	51.1	50.9	52.2	52.1	52.1	50.9	52.8	53.0
Industrial production	% YoY	5.0	8.8	2.4	2.8	7.4	3.8	5.3	4.0	2.4	7.8	6.7	1.4	5.3	5.8
Construction production	% YoY	-0.3	2.9	8.5	1.3	-2.5	-0.1	4.8	-2.5	-5.2	1.2	-0.4	-8.6	-6.1	-6.1
Retail sales ^a	% YoY	-1.3	3.0	-1.5	1.8	3.8	1.2	-0.3	0.1	0.8	3.3	4.9	0.9	3.3	4.3
Unemployment rate	%	11.9	11.5	11.1	10.7	10.2	10.0	9.9	9.7	9.6	9.6	9.8	10.3	10.3	10.1
Gross wages in corporate sector	% YoY	3.2	4.9	3.7	3.2	2.5	3.3	3.4	4.1	3.3	4.0	3.1	4.0	4.3	4.3
Employment in corporate sector	% YoY	1.2	1.1	1.1	1.1	0.9	0.9	1.0	1.0	1.1	1.2	1.4	2.3	2.4	2.4
Exports (€)	% YoY	10.9	14.3	8.6	7.8	10.6	5.2	8.1	3.0	3.0	12.3	12.1	-0.4	3.0	18.0
Imports (€)	% YoY	3.9	8.7	7.7	0.5	10.3	7.3	6.7	5.2	-2.9	5.3	3.8	0.1	1.5	28.4
Trade balance	EUR mn	526	485	-117	500	-165	-726	-150	19	499	717	373	576	743	-975
Current account balance	EUR mn	93	1,054	929	928	-963	-1,110	-654	-768	-163	582	-410	764	234	-345
Current account balance	% GDP	-1.5	-1.3	-0.9	-0.7	-0.4	-0.5	-0.3	-0.5	-0.4	-0.3	-0.2	0.1	0.1	-0.2
Budget deficit (cumulative)	PLN bn	-11.3	-16.7	-16.7	-19.6	-26.1	-26.6	-25.9	-31.1	-34.5	-36.1	-47.3	1.8	-2.2	-9.3
Budget deficit (cumulative)	% of FY plan	24.6	36.2	36.2	42.6	56.7	57.7	56.1	67.6	74.8	78.4	102.6	-3.2	4.0	17.0
CPI	% YoY	-1.6	-1.5	-1.1	-0.9	-0.8	-0.7	-0.6	-0.8	-0.7	-0.6	-0.5	-0.9	-0.8	-0.8
CPI excluding food and energy	% YoY	0.4	0.2	0.4	0.4	0.2	0.4	0.4	0.2	0.3	0.2	0.2	-0.1	-0.1	0.0
PPI	% YoY	-2.8	-2.5	-2.7	-2.1	-1.4	-1.8	-2.7	-2.8	-2.3	-1.8	-0.8	-1.2	-1.4	-1.8
Broad money (M3)	% YoY	8.7	8.7	7.1	7.5	8.2	8.5	7.2	8.3	8.9	9.3	9.1	10.2	10.0	9.1
Deposits	%YoY	9.0	9.2	7.8	7.8	8.7	8.8	7.7	8.9	9.2	9.7	9.1	9.9	10.3	9.2
Loans	%YoY	7.7	7.8	6.4	7.7	7.9	7.9	7.6	7.9	7.7	7.0	6.9	6.2	5.8	5.6
EUR/PLN	PLN	4.18	4.13	4.02	4.08	4.16	4.15	4.19	4.22	4.25	4.25	4.29	4.41	4.40	4.35
USD/PLN	PLN	3.68	3.81	3.73	3.66	3.71	3.78	3.77	3.75	3.78	3.96	3.95	4.06	3.96	3.97
CHF/PLN	PLN	3.93	3.89	3.88	3.93	3.98	3.96	3.89	3.86	3.91	3.92	3.96	4.03	3.99	3.97
Reference rate ^b	%	2.00	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
3M WIBOR	%	1.92	1.67	1.65	1.67	1.70	1.72	1.72	1.72	1.73	1.73	1.72	1.71	1.69	1.67
Yield on 2-year T-bonds	%	1.60	1.62	1.60	1.74	1.91	1.82	1.79	1.79	1.65	1.58	1.71	1.46	1.46	1.40
Yield on 5-year T-bonds	%	1.88	1.99	1.98	2.38	2.68	2.45	2.40	2.43	2.18	2.10	2.28	2.24	2.26	2.25
Yield on 10-year T-bonds	%	2.20	2.32	2.36	2.83	3.20	3.00	2.88	2.91	2.66	2.73	2.93	3.04	3.03	3.06

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	2015	2016E	1Q15	2Q15	3Q15	4Q15	1Q16E	2Q16E	3Q16E	4Q16E
GDP	PLN bn	1,656.3	1,719.1	1,790.1	1,851.1	414.6	432.2	438.6	504.8	425.1	444.2	451.8	529.9
GDP	% YoY	1.3	3.3	3.6	3.5	3.7	3.3	3.5	3.9	3.4	3.3	3.6	3.6
Domestic demand	% YoY	-0.7	4.9	3.3	4.0	2.9	3.1	3.2	4.0	4.7	3.8	4.0	3.6
Private consumption	% YoY	0.2	2.6	3.1	4.1	3.1	3.1	3.1	3.1	3.1	3.8	4.6	4.8
Fixed investments	% YoY	-1.1	9.8	6.1	3.5	11.5	6.1	4.6	4.9	4.5	4.0	3.0	3.0
Industrial production	% YoY	2.3	3.4	4.8	4.9	5.3	3.9	4.3	6.0	4.3	5.9	5.7	3.8
Construction production	% YoY	-10.3	4.3	0.3	-4.2	1.4	1.9	0.5	-1.5	-6.8	-4.1	-4.3	-3.0
Retail sales ^a	% YoY	2.6	3.1	1.5	5.4	0.7	1.4	0.4	3.2	2.9	3.7	7.3	7.3
Unemployment rate ^b	%	13.4	11.4	9.8	9.0	11.5	10.2	9.7	9.8	10.1	9.1	8.8	9.0
Gross wages in the national economy ^a	% YoY	3.4	3.6	3.3	5.4	4.1	3.1	3.0	3.2	4.2	5.7	5.6	6.1
Employment in the national economy	% YoY	-1.1	0.2	0.8	1.6	0.8	0.8	0.7	0.8	1.7	1.7	1.6	1.4
Exports (€)	% YoY	5.7	6.4	8.2	9.2	9.8	9.0	5.3	8.9	7.5	9.0	10.0	10.3
Imports (€)	% YoY	0.2	8.3	4.4	11.0	3.5	6.2	6.4	1.9	11.0	11.0	11.0	11.0
Trade balance	EUR mn	-335	-3,255	2,605	-181	1,651	216	-851	1,589	345	-614	-1,363	1,451
Current account balance	EUR mn	-5,031	-8,303	-754	-3,043	900	864	-2,527	9	-403	-109	-3,044	513
Current account balance	% GDP	-1.3	-2.0	-0.2	-0.7	-1.3	-0.4	-0.5	-0.2	-0.5	-0.7	-0.8	-0.7
General government balance	% GDP	-4.0	-3.2	-3.1	-3.0	-	-	-	-	-	-	-	-
CPI	% YoY	0.9	0.0	-0.9	-0.4	-1.5	-0.9	-0.7	-0.6	-0.8	-0.6	-0.5	0.4
CPI ^b	% YoY	0.7	-1.0	-0.5	0.7	-1.5	-0.8	-0.8	-0.5	-0.7	-0.5	-0.2	0.7
CPI excluding food and energy	% YoY	1.2	0.6	0.3	0.1	0.4	0.3	0.3	0.2	-0.1	0.0	0.0	0.4
PPI	% YoY	-1.3	-1.5	-2.2	-1.1	-2.7	-2.1	-2.4	-1.6	-1.4	-1.9	-0.7	-0.2
Broad money (M3) ^b	% oY	6.2	8.2	9.1	4.9	8.7	8.2	8.3	9.1	8.1	7.0	6.0	4.9
Deposits ^b	%YoY	6.6	9.0	9.1	4.4	9.2	8.7	8.9	9.1	7.9	6.7	5.6	4.4
Loans ^b	%YoY	3.5	7.2	6.9	5.4	7.8	7.9	7.9	6.9	6.6	6.2	5.8	5.4
EUR/PLN	PLN	4.20	4.18	4.18	4.34	4.20	4.09	4.19	4.26	4.39	4.31	4.36	4.32
USD/PLN	PLN	3.16	3.15	3.77	3.87	3.72	3.70	3.77	3.90	4.00	3.88	3.86	3.76
CHF/PLN	PLN	3.41	3.45	3.92	3.79	3.93	3.93	3.90	3.93	4.00	3.82	3.73	3.62
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	1.68	1.87	1.67	1.72	1.73	1.69	1.67	1.67	1.69
Yield on 2-year T-bonds	%	2.98	2.46	1.70	1.47	1.61	1.75	1.80	1.65	1.44	1.43	1.45	1.55
Yield on 5-year T-bonds	%	3.46	2.96	2.21	2.45	1.90	2.35	2.43	2.19	2.25	2.35	2.53	2.67
Yield on 10-year T-bonds	%	4.04	3.49	2.69	3.24	2.24	2.79	2.93	2.77	3.04	3.15	3.30	3.45

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 15.03.2016 has been prepared by:

ECONOMIC ANALYSIS DEPARTMENT

Al. Jana Pawła II 17, 00-854 Warszawa fax (+48) 22 586 8340

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

Maciej Reluga* – Chief Economist

tel. (+48) 22 534 1888. Email: maciej.reluga@bzwbk.pl

Piotr Bielski* (+48) 22 534 1887

Agnieszka Decewicz* (+48) 22 534 1886

Marcin Luziński* (+48) 22 534 1885

Marcin Sulewski* (+48) 22 534 1884

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 2241 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 WBK, 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 FINRA Rule 2241 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.