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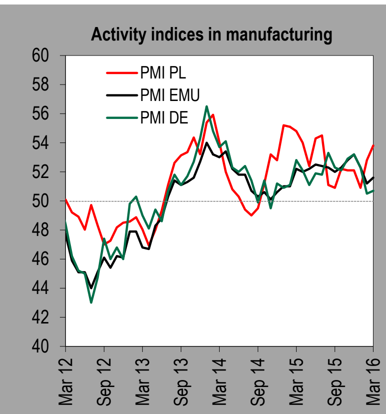
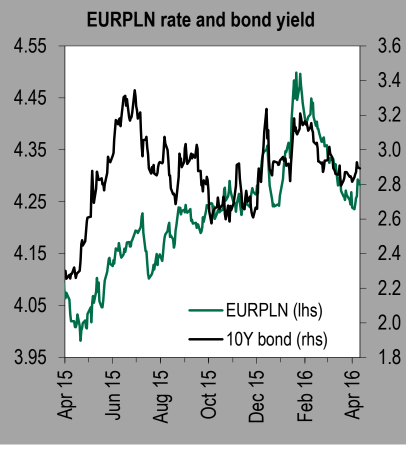
Polish Economy and Financial Markets

April 2016

Rate cuts now look unlikely unless the economy slows





In this issue:

There have been no major changes to the economic growth scenario after the first quarter. Most of the data confirmed that first quarter GDP is likely to exceed 3% again, although we see a slight slowdown vs the very strong 4Q15 (c4%). We expect industrial output and retail sales to be strong again (our forecasts are above market consensus). The very low reading of CPI inflation for March (-0.9%) confirmed deflation is likely to continue until 4Q16. In the medium-term, fiscal policy might be an important driver of inflation. Last month politicians mentioned the possibility of abandoning a planned VAT rate cut in 2017 or introducing an additional fuel charge. This was not confirmed, but it is worth remembering that such policy changes were not included in the central bank's (NBP) inflation projection.

The current no-inflation environment appears not to worry the Monetary Policy Council (MPC) and it is quite clear that new council members are focusing on a continuation of policy. They look willing to accept a deviation of CPI from the target until 2018. As we wrote last month, if the new projection did not persuade the council to cut rates in March, we would not expect it to change its mind in the following months. The April decision to keep rates on hold was probably unanimous and the council did not get any closer to monetary easing, as NBP Governor Marek Belka stated. The council treats the target very flexibly, in line with the Monetary Policy Guidelines. What is interesting is that Belka said that a possibility of adjusting rates more significantly in one shot (not via a series of smaller changes) was one of the MPC's discussion topics in April. Still, this is purely theoretical at this stage and the bottom line, after the MPC meeting, is: do not expect a rate cut in Poland in the next few months. We think any change in rates could happen in autumn and only if there is an economic slowdown (driven by global factors) or a significant strengthening of the zloty (which we do not expect).

As regards government policy, there are still a lot of uncertainties. Although the general government deficit for 2015 (2.5% of GDP) was a positive surprise, keeping it below 3% of GDP in the medium-term will be a challenge. In April, the government is due to approve the new version of the Convergence Programme. Still, we do not see this document as a game changer and the key to assessing the fiscal plan will be the 2017 budget. Significantly, the Polish government recently signalled it may backtrack on some of its proposals (a gradual and selective approach to tax free income and a lower retirement age that is conditional on a minimum number of years of paid contributions). However, the CHF-denominated loans issue is still a factor to watch closely. The central bank gave its estimate of the consequences of the president's proposal (cPLN40bn) and the Polish Financial Supervision Authority (KNF) released a report with an even higher estimate of the cost (cPLN67bn). This might suggest that the higher the cost, the lower the chances of the proposal being implemented. However, in recent weeks Polish media reported a number of comments from government officials (including PM Beata Szydło) questioning the quality of the KNF report and suggesting that the regulator will have to prepare another version. The Financial Stability Committee is scheduled to meet on April 18 to discuss the issue. It seems, therefore, that work on the proposal will continue and it is hard to guess what will emerge or when. All these factors will be important for the market as well as for Moody's decision on Poland's sovereign outlook/rating in mid-May.

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Financial market on April 11 2016:

NBP deposit rate	0.50	WIBOR 3M	1.67	EURPLN	4.2826
NBP reference rate	1.50	Yield on 2-year T-bond	1.49	USDPLN	3.7587
NBP lombard rate	2.50	Yield on 5-year T-bond	2.23	CHFPLN	3.9344

This report is based on information available until 11.04.2016.

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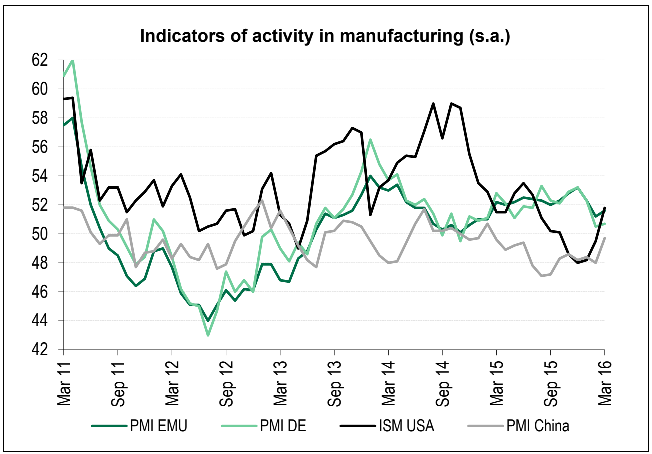
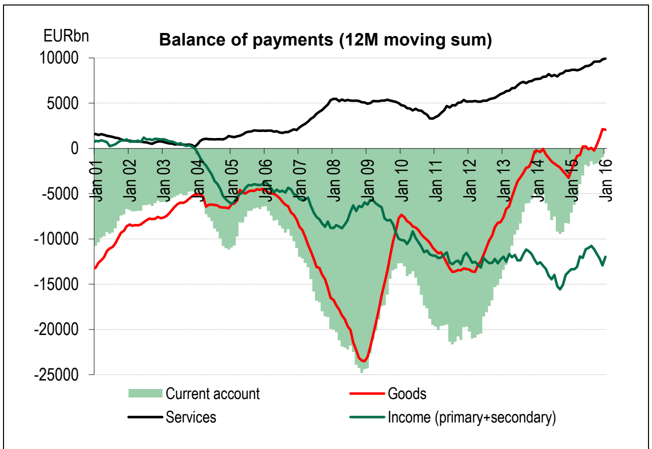
Economic update





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

Euro zone confidence worsened

- The start of the year saw a deterioration of economic climate indicators in the Euro zone, which raised concerns about the growth outlook for Poland's biggest trading partner. Some activity indicators picked up slightly in March, but others (like the European Commission's Economic Sentiment Index) deteriorated further.
- We still expect the Euro zone's y/y GDP growth in 1Q16 to be similar to that of 4Q15 and to accelerate gradually in the following quarters. However, doubts about this scenario seem to be mounting, which clouds the outlook for Poland's export growth (more than 50% of Polish exports are to the Euro zone, with Germany alone absorbing over 25%).

But foreign orders for Polish companies keep growing

- Despite a worse economic climate in the Euro zone, Polish companies have not yet suffered from falling external demand. On the contrary, recent reports show an improvement in this regard. Statistics office data showed a considerable rise in new industrial orders in February, especially non-domestic orders. A similar picture was confirmed by the recent PMI survey for March.
- In fact, virtually all available business climate surveys have confirmed recently that activity in Polish manufacturing remains strong. Markit's manufacturing PMI index rebounded in March for the second month in a row, driven by faster growth in new orders, output and employment. The European Commission's ESI index also improved, with the sub-index for industry soaring to its highest level since mid-2011.

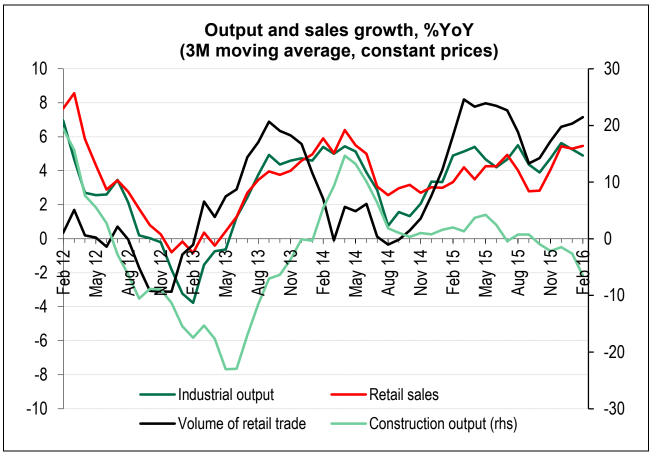
Export growth still quite strong, imports lagging behind

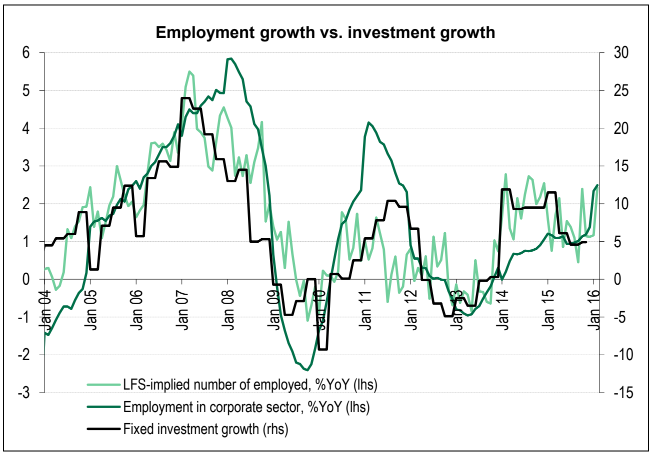
- Year-on-year growth in Polish exports slowed quite significantly in January (to -0.4% from 11.5% in December). However, we think it was mainly the effect of having fewer working days and of one-off factors. The data should show a rebound in the following months, assuming that economic growth in the Euro zone does not stall.
- The last few years saw a significant expansion of Polish exports and the trend even accelerated at the end of 2015. Meanwhile, import growth has lost steam recently. We think this could have been triggered by several things. First of all, by households being less willing to consume (private consumption growth is much lower than labour income growth). Second, the import intensity of domestic demand has declined: a growing share of consumption and investment goods are manufactured, or at least assembled, in Poland.

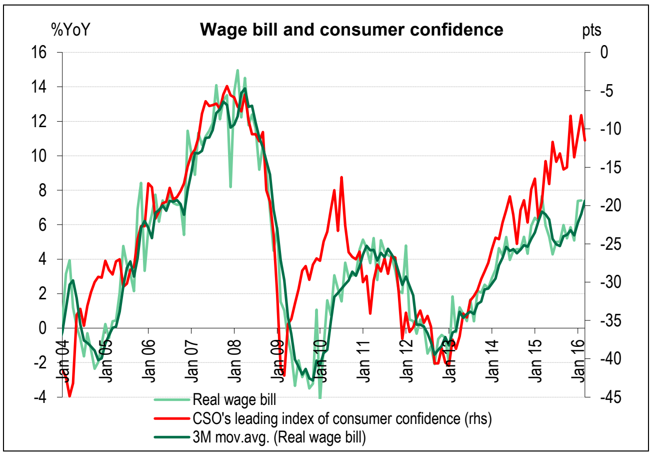
Current account swings to surplus

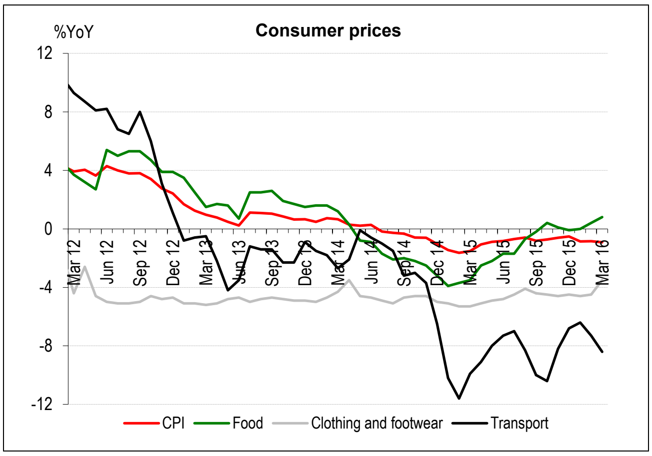
- As a result of the process we have explained above, Poland's external position improved greatly in recent quarters. According to the NBP's balance of payments data, 2015 ended with a surplus in external trade (€9.8bn) and a small current account deficit (-€1bn, or -0.2% of GDP). In January 2016 the current account was €764mn in surplus and, as a result, the cumulative 12-month rolling C/A balance improved further, reaching a small surplus (€25mn) for the first time since 1995.
- Poland's net international investment position at the end of 2015 was -PLN260bn, or 60.8% of GDP (the lowest level since 2011) vs 67.1% of GDP in 2014.
- If economic growth in the Euro zone does not deteriorate sharply, we think it is quite likely that the current account will remain in surplus in the next few months, contributing positively to GDP growth in 2016.

Economic update









Source: CSO, NBP, Eurostat, BZ WBK.

Strong manufacturing and retail trade, weak construction

- Industrial output growth (6.7% y/y) and retail sales growth (6.2% y/y in constant prices) surprised on the upside in February. Turnover in retail trade (an alternative measure of activity, including data from smaller shops but excluding car sales) accelerated to 8% y/y (in real terms). The data were boosted to some extent by a calendar effect (more working days this year than in February 2015), while the calendar impact was negative y/y in January. However, if we look at smoothed data (3M moving averages), the positive trend is quite clear: activity in Polish manufacturing is strong and retail trade is accelerating.
- Meanwhile, construction output is in a free fall. In February it dropped by c10% y/y, returning to the level last seen in mid-2013 (seasonally adjusted, real terms).

Private sector investments keep growing

- A slump in construction output seems to reflect a slowdown in public sector investment. The biggest production drop (-20.5% y/y) was recorded in companies involved in civil engineering, which suggests big infrastructure investments have ground to a halt. The national accounts data showed that fixed investments in the public sector started shrinking in 2H15 and we assume this negative trend continues.
- Meanwhile, private sector investments seem to be doing well. First of all, investment loans to non-financial corporations are showing no sign of weakness (their growth even accelerated in January-February to 12%-13% y/y, after FX adjustments). Secondly, the level of capacity utilisation remains high (c81%, according to an NBP survey) and above the long-term average, while the flow of new orders is picking up. Finally, employment growth has been accelerating, which is probably the clearest signal that companies are not losing their optimism and are continuing to expand their production capacity.

Solid labour income and child benefits should boost consumption

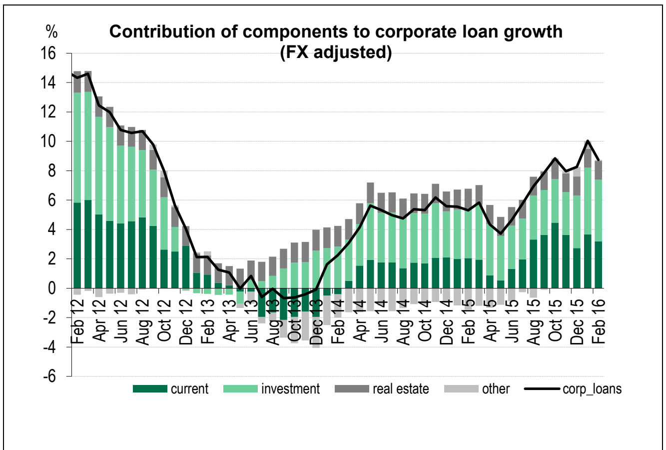
- Labour income growth is already decent (at its highest since 2009) and accelerating employment growth, together with an increasing shortage of available workers, is likely to trigger a further acceleration, in our opinion.
- The strength of the labour market is supporting consumer confidence and is likely to fuel household spending growth in the nearest quarters. Private consumption should receive an additional boost from '500+' child benefit programme launched in April. As we explained in our February report, the scheme may add PLN8.5bn to private consumption demand in 2016, temporarily lifting consumption growth to nearly 5% y/y (from around 3% in recent quarters).

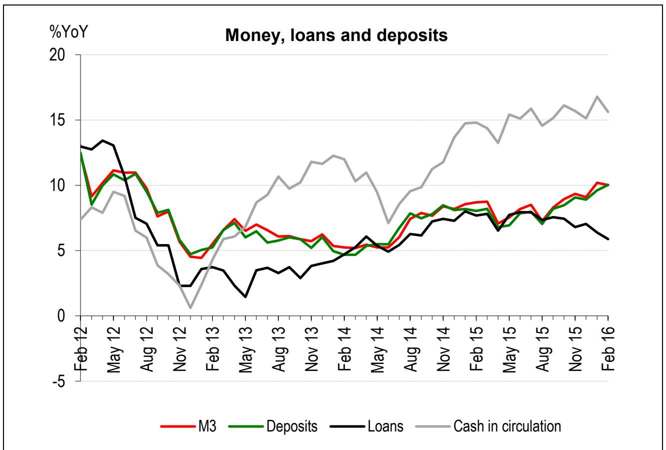
Deflation may last even longer

- The headline CPI decreased in March to -0.9% y/y from -0.8% y/y in February, in line with the flash reading. On a monthly basis consumer prices rose 0.1%. The deepening of deflation in March was mostly due to core categories and this will be reflected in the core inflation measure. We estimate that core inflation, excluding food and energy prices, slid to -0.2% y/y from -0.1% y/y.
- We expect annual CPI changes to stay negative until 4Q16 and to reach c0.5% y/y at year end. Although the rise in food prices is in line with our scenario, we were not expecting a downward move in core categories. If this trend proves persistent, we may change our inflation path for 2016. However, for now it seems that rising growth in consumer demand in the coming months should make this less likely. In our view, prolonged deflation could encourage the MPC to cut interest rates, but only if there is a considerable deterioration in the growth outlook and a significant zloty strengthening, which is not our base-case scenario.

Monetary policy watch

Excerpts from the MPC's official statement after its April meeting
Global economic growth remains moderate, amid continuing heightened uncertainty about its outlook. Uncertainty regards, above all, the scale of economic slowdown in the emerging economies and its translation into lower activity in the advanced economies.
In Poland, stable economic growth continues, although the data on industrial production and construction output signal that GDP growth in 2016 Q1 might have been slightly lower than in the previous quarter. Stable consumption growth and rising investment continue to support economic growth. The rise in consumer demand is driven by steady growth in employment and improving consumer sentiment. Growth in investment is supported by sound financial standing of enterprises, their high capacity utilization and the relatively favourable prospects for demand. This is accompanied by stable lending growth. At the same time, economic growth is hampered by weakening external demand.
As the output gap remains negative and average nominal wage growth is moderate, currently there is no inflationary pressure in the economy. Annual consumer price growth and producer price growth remain negative. However, external factors – particularly the earlier sharp fall in global commodity prices and low price growth in the environment of the Polish economy – continue to be the main reason for deflation. This is accompanied by very low inflation expectations. The persisting deflation has not adversely affected decisions of economic agents so far.
In the Council's assessment, price growth will stay negative in the coming quarters due to the earlier fall in global commodity prices. At the same time, it will be accompanied by stable economic growth, including an expected 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 and the volatility of commodity prices remain the sources of uncertainty for the domestic economy and price developments.
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.





Sources: NBP, BZ WBK.

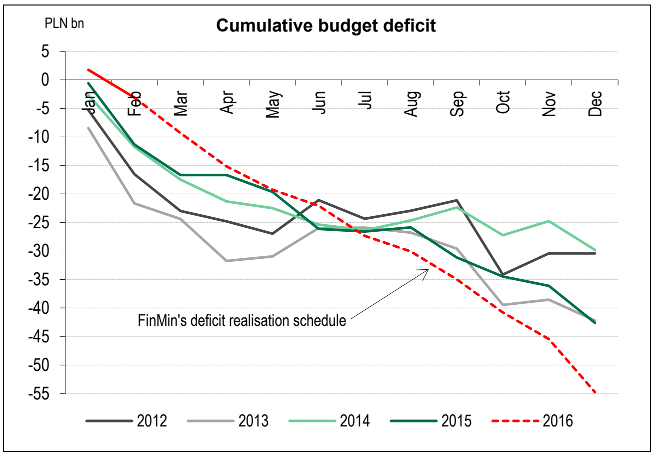
MPC not any closer to a rate cut

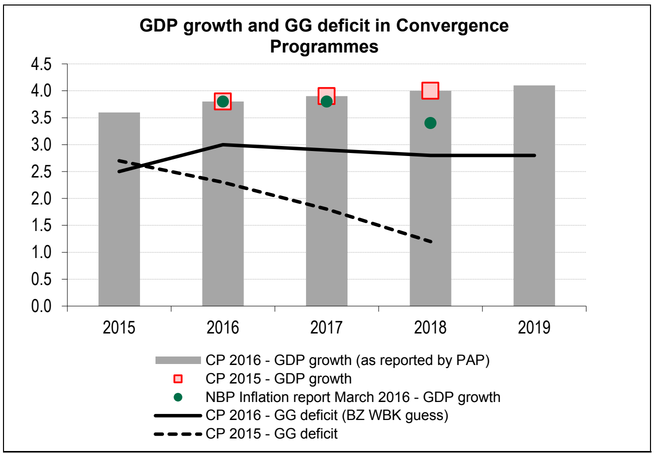
- The Monetary Policy Council kept interest rates on hold in April, in line with expectations. The official statement and the post-meeting press conference did not provide any new elements to change the monetary policy outlook, in our view.
- NBP Governor Marek Belka said at the press conference that the council had moved no closer to a rate cut. In March we noted that if the central bank's new inflation projection was not enough to persuade the council to cut rates then, we would not expect it to change its opinion in the following months. Belka said that the council was currently quite unanimous in its view (which does not mean this will continue, as the economic background may change). The council accepts a significant divergence of inflation from the target and treats the target as flexible (which is in line with Monetary Policy Guidelines). NBP governor even said that given the fact that the main aim of the MPC (price stability) has been maintained, the council can also focus on the stability of the financial sector. The council emphasised that GDP growth remains strong (although 1Q16 is slightly below 4Q15) and that the labour market and wage bill dynamics were very good. Most of the risks to growth are external and, if they materialised, they could trigger rate changes.
- What is interesting is that Belka said that the possibility of adjusting rates more significantly in one shot (not in smaller steps) was one of the MPC's discussion topics. Still, this was purely theoretical at this stage and, in our view, the bottom line after the April MPC meeting is: do not expect a rate cut in Poland in the next few months.

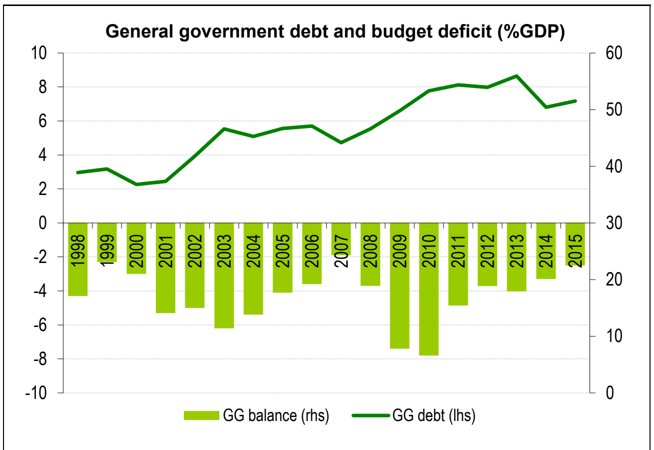
Loan growth still solid

- The loan market is continuing the pattern of 2015: corporate loans rose by 8.7% y/y in February (FX-adjusted), driven by investment loans (11.9% y/y), with other categories also showing robust growth rates (current loans 7.6% y/y, real estate loans 4.6% y/y). We expect this trend to hold further into 2016. We think that the still strong growth in investment loans is a sign of robust private investment in 1Q16.
- Growth in loans to households is quite stable and stood at 3.8% y/y in February (FX-adjusted). Mortgage loans are rather sluggish and gradually decelerating versus 2015 (2.5% y/y in February), but consumer loans are more dynamic (6.7% y/y). We expect mortgage loan growth to remain subdued, given tighter credit criteria (eg lower maximum LtV ratio), but consumer loans should expand at heathy rates, given robust consumption growth and the support of the 500+ child benefit programme. Stricter capital requirements for banks, imposed by the Polish Financial Supervision Authority, could restrict lending in 2016.
- Deposits are advancing fast, up 9.5% y/y in the household sector and 11.3% y/y in the corporate sector (data adjusted for FX changes). We expect this trend to continue, thanks to fairly strong GDP growth and loan origination.
- Data on M3 money supply are still showing rapid growth in cash in circulation, 15.6% y/y in February. We think this may be due either to the growing size of the shadow economy or to the increasing number of immigrant workers in Poland.

Fiscal policy watch







	Spread vs. Bunds (10Y) in bp			CDS (5Y USD)		
	11.04	Change since 15.03.16	Change since 31.12.15	11.04	Change since 15.03.16	change since 31.12.15
Poland	276	20	46	89	-2	14
Czech R.	34	25	38	43	-3	-7
Hungary	296	-3	17	152	-6	-12
Greece	892	41	121	1227	115	236
Spain	140	20	25	91	10	4
Ireland	73	13	20	58	-1	21
Portugal	315	67	125	261	36	101
Italy	122	18	25	124	19	34
France	35	9	1	30	1	6
Germany	-	-	-	18	1	6

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

Tax revenues were quite weak in February

- The state budget deficit was PLN3.1bn at the end of February, with revenues at PLN56.2bn and expenditure at PLN59.3bn. This means that in February alone the deficit reached PLN4.8bn, ie nearly twice the average for this month in 2009-15.
- This resulted from the inflow of one-off revenues (from the LTE frequency auction), as non-tax revenue in February were PLN8.7bn. Tax revenues, in particular from indirect taxes, were quite weak. Indirect taxes fell by c4% vs the same period the previous year. Excluding excise duties they were down 10% y/y. Still, the deficit target for 2016 does not seem to be under threat, mainly due to the extra payment from NBP profit that should appear later this year.

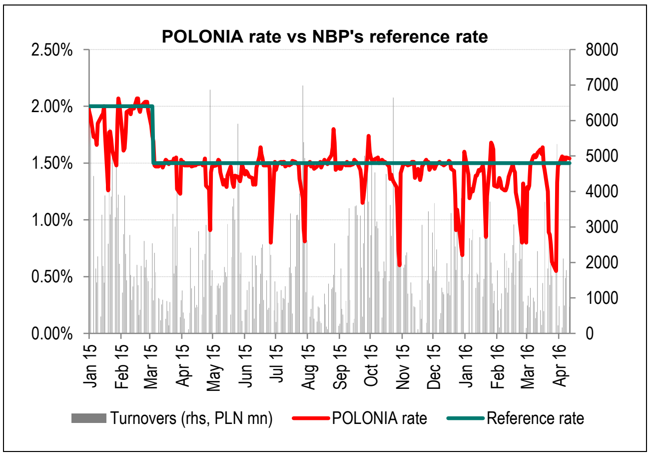
Government fiscal plans still to be revealed

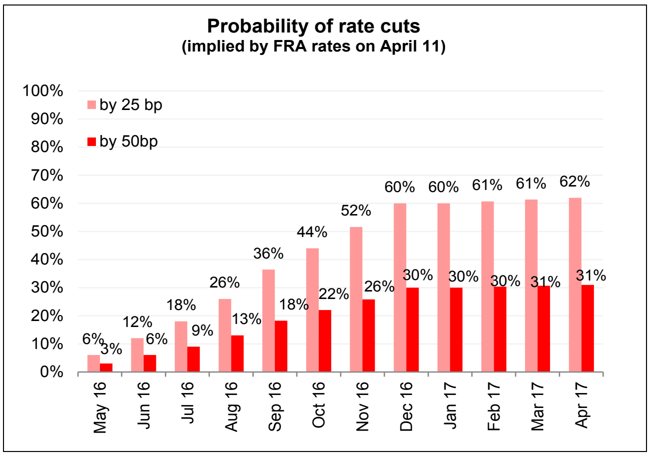
- Poland's general government deficit fell to 2.5% of GDP in 2015 (its lowest level since 2007) vs 3.3% in 2014, while the general government debt rose to 51.5% of GDP in 2015 from 50.5% in 2014, according to the statistics office's flash estimate.
- By the end of April, the government is supposed to approve the new version of its Convergence Programme (CP), which will show the fiscal plans for the next few years. According to the Polish Press Agency, the document will be based on the assumption of GDP growth of c4% in 2017-19 (see chart). Such forecasts are quite optimistic, although they do not differ much from those of the NBP inflation projection (2017) or the previous CP (2018). Faster economic growth, with higher tax revenues, should make it easier to keep the fiscal deficit below 3% in the medium term.
- Still, for 2017 there is a gap to be covered: the need to finance full-year spending of the so-called 500+ programme (benefits for families with children, which should cost PLN23bn) without the one-off revenues of 2016. We estimate that, to keep the deficit below c3% of GDP, an additional fiscal adjustment of PLN12bn would be needed. We believe the Ministry of Finance will try to cover this in the new CP with higher effective tax collection (the required amount is equivalent to one-third of the estimated VAT revenue gap).
- As regards a promise of higher tax-free income, the prime minister suggested this would be introduced only gradually (perhaps in five years) and would concentrate on low-income families. Lowering the retirement age is a more risky idea (the bill is currently with the parliamentary commission) and it has to be closely watched in the coming months to see what final form it takes. Recently, the representatives of employees and labour unions agreed on a proposal to freeze the retirement age at current level (66 for men, 61 for women) and to introduce a condition of minimum years worked (35 for men, 40 for women). They also supported the proposal to set the minimum hourly wage at PLN12 per hour from 2017. These proposals have not yet received official support from the government and we do not think they will be included in the new CP estimates.
- Overall, we do not believe the new Convergence Programme to be a game changer. It seems the 2017 budget draft will be key to address investor concerns about medium-term fiscal policy.

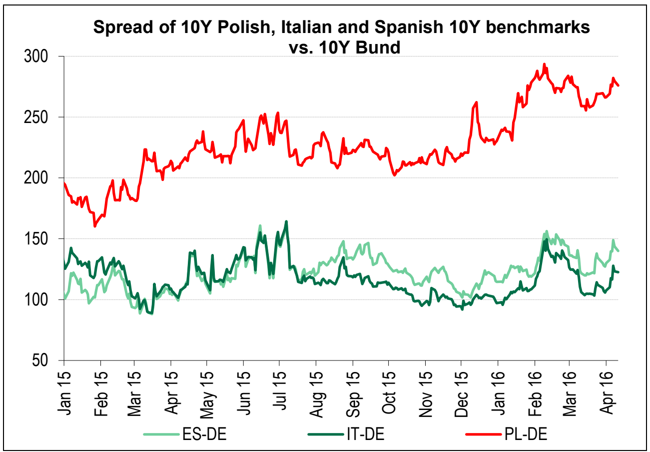
Peripheral debt suffered from the risk-off mood

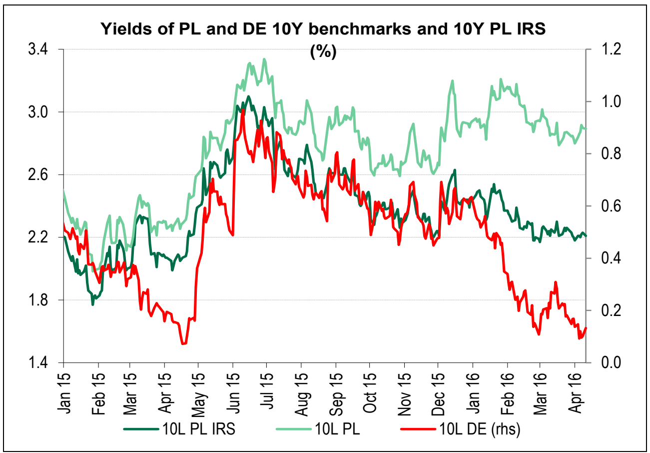
- In early April core markets continued to strengthen as investors moved capital to lower risk assets. At the same time, Euro zone peripheral debt suffered a significant sell-off due to country-specific factors (including political uncertainty in Portugal and Spain). As a result, risk premium measures (spread over Bund, CDS) increased visibly, in particular for Portugal. In our view, central banks are likely to continue to drive markets in the coming weeks/months. In a low-yield environment, the peripheral market looks attractive, in particular given the improving macroeconomic data.

Interest rate market









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

Investors scaled back their expectations for rate cuts

- In March investors continued to pull back on their expectations for further monetary easing in Poland, as the MPC's rhetoric and the new council members' comments sounded hawkish. As a result, FRAs increased by 3-11bp across the curve over the month. Meanwhile, WIBORs were roughly unchanged (on monthly basis only the 3M rate decreased, by 1bp). However, the end of March brought significant changes in the POLONIA rate. The rate fell again, as it did in February and due to the banking tax, and ended the month at 0.55%, well below the reference rate.
- The early April increase in FRAs intensified as the MPC maintained its hawkish rhetoric. Currently, the FRA market sees only a c60% chance rates will fall 25bp in the next nine months.

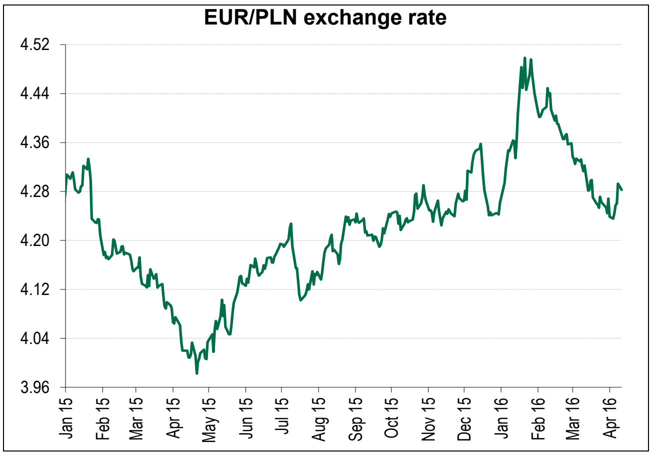
Profit-taking in early April after a strong rally

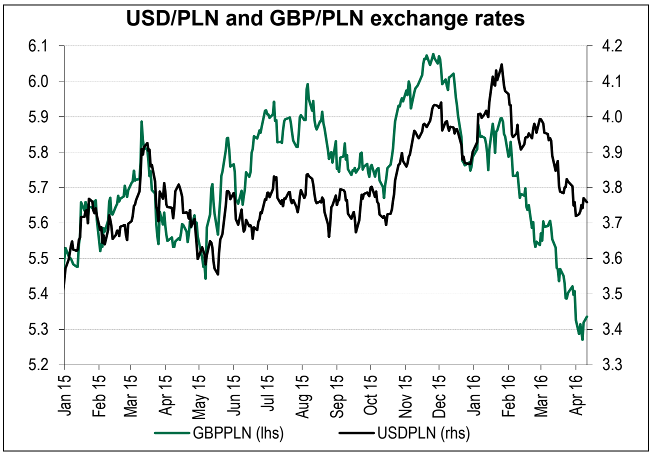
- Polish bonds and IRS benefited from the improved global mood after the ECB delivered more substantial monetary easing and the Fed surprisingly scaled back its forecast to only two rate hikes this year. Tracking trends on core markets, the 10Y benchmark yield fell temporarily below 2.80% at the beginning of April. However, such a substantial decline in yield in the 10Y sector caused some investors to take profits (pushing the 10Y benchmark to nearly 2.95% for a while), especially that global risk aversion increased at the start of April.
- Both bond and IRS curves flattened slightly, thanks to the belly and long end outperforming the short end. The risk premium increased, as the 10Y spread over bunds widened to more than 280bp in early April (up from March's low of 259bp).
- Polish T-bonds suffered despite healthy investor demand at the first auction in April. The Ministry of Finance, as in previous month, successfully launched short- and long-term debt (2Y OK1018 and 10Y DS0726) worth PLN6.4bn (vs supply of PLN3-6bn). After this auction, 2016 borrowing needs are 56% covered.

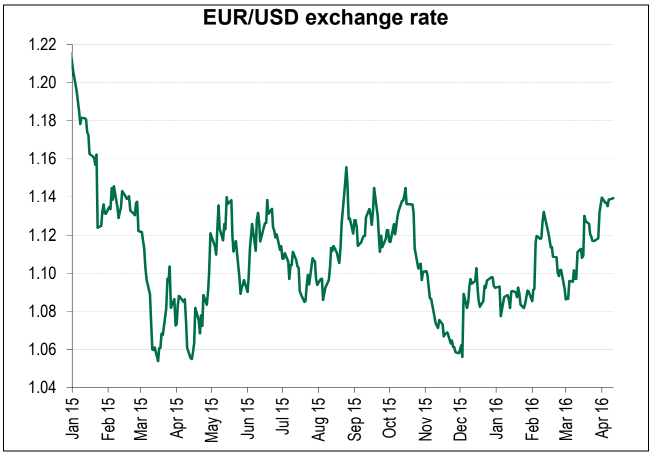
Hunt for yield should support domestic curves

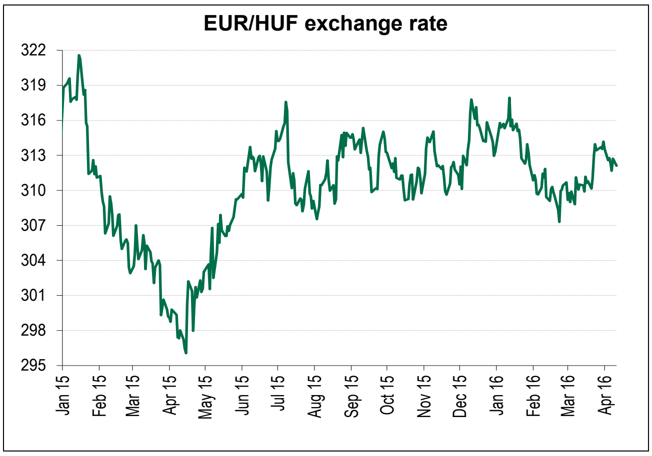
- We think the new MPC will continue its current monetary policy and its cautious approach to further easing. In our view, the council may decide to cut rates if the GDP growth outlook weakens or the zloty makes strong gains, but this is not our baseline scenario. We expect upcoming Polish data releases to confirm healthy economic growth (our forecasts for industrial output and retail sales are above market expectations). That could continue to generate upside pressure on FRAs.
- We think the short end of the bond curve is well anchored near the current level and should remain supported by the banking tax (which provides an incentive for banks to move from NBP bills to short-term Treasuries).
- The belly and the long end remain under the influence of global factors, in particular major central banks' rhetoric. In our view, efforts by the ECB to prop up inflation and the dovish FOMC should support debt markets in the coming weeks.
- The main risk factors we see are domestic ones. We do not expect any negative surprises from the new Convergence Programme (the Ministry of Finance has confirmed its determination to keep the general government deficit below/close to 3% of GDP), which should be positive for market players. Still, we can only fully assess the credibility of the government's plans when we see next year's budget. Meanwhile, investors are waiting for Moody's rating decision and a new CHF-loan conversion proposal, which may weigh on domestic curves, adding to market volatility. Moody's said the crisis surrounding the Constitutional Court is credit negative, increasing the risk of a downgrade.
- That said, we still see some room for a gradual decline in bond yields/IRS rates in the short run as the strategy of hunting for yield supports domestic curves.

Foreign exchange market









Sources: Reuters, Bloomberg, Markit, BZ WBK.

A fresh impulse is needed for PLN continue to strengthen

- In March, the zloty gained markedly against the main currencies, reaching highs for this year against the euro, the US dollar and the British pound. The Polish currency benefited from the dovish signals of the global central banks and some re-pricing of country-specific risk (the FX loans issue and/or the government's fiscal plans). Domestic macro data releases, which point to decent growth, were also supportive for the domestic currency. As a result, EUR/PLN fell temporarily slightly below 4.23, the lowest level since November 2015.
- In early April, downward pressure started to build up after quite a long period of zloty strengthening and despite Poland's solid economic fundamentals, ECB stimulation and the dovish Fed. Most of the pressure stems from internal factors, such as a rating downgrade as Moody's warned that the crisis around Poland's Constitutional Court is credit negative. Moody's is due to review its rating for Poland on May 13. A new proposal for CHF-mortgage loan conversion could also weigh on the zloty's valuation in the coming weeks or months, as President Andrzej Duda's office is working on amending its FX loan conversion proposal. The new proposal is due to be presented by April 18. As regards external factors, the main central bank decisions (ECB, Fed) and the UK's EU referendum could affect the currency. The current market valuation of the zloty (with EUR/PLN close to 4.30) is largely pricing-in a worsening of Poland's rating outlook, in our view. However, we think that a fresh impulse is needed for the rally to extend. All in all, we think that EUR/PLN could move sideways, staying in a range of 4.25-4.35 in the coming weeks.

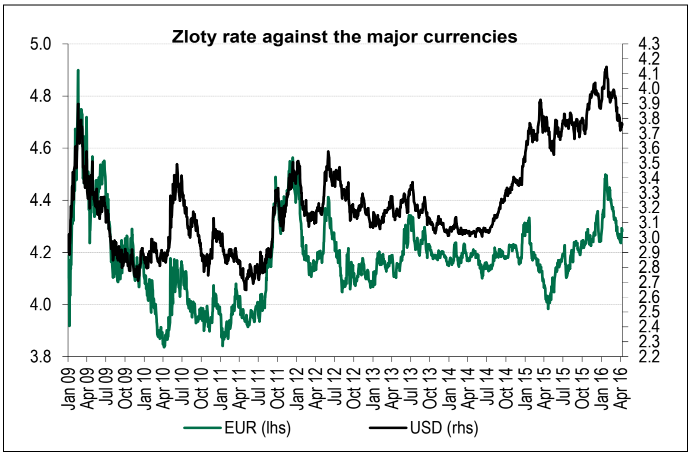
EUR/USD could fall

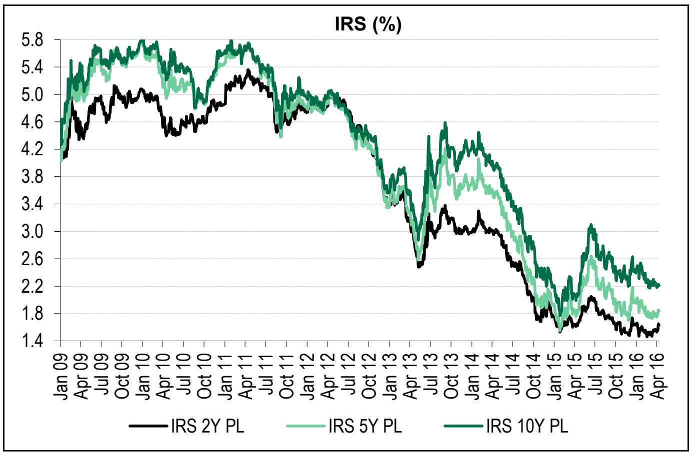
- The US dollar has weakened in March due to a dovish FOMC and mixed macroeconomic data from the US. In March, the Fed revised downwards its Fed funds path to only two rate hikes in 2016, instead of the four expected in December 2015. As a result, EUR/USD increased to nearly 1.135 and it continued its upward move in early April, rising to 1.146 for a while, not far from local peak of 1.15 in October 2015.
- In our view, the recent rise in EUR/USD may have been overdone, implying downside risks may dominate over the coming weeks. The European currency might be under pressure from low Euro zone inflation expectations and rising political risks. Any negative news from the Euro zone could renew expectations of further rate cuts, which should imply a weaker EUR. We do not rule out EUR/USD moving towards the lower boundary of the fluctuation channel of 1.12-1.16 in the short run. However, we still expect EUR/USD to move towards 1.16 at the end of 2016E.

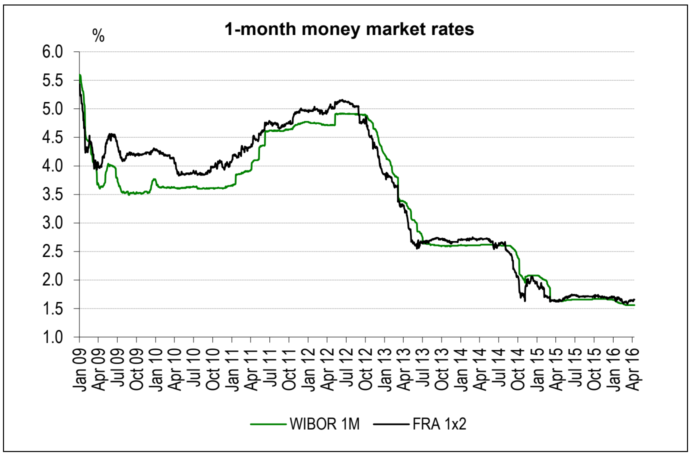
HUF under pressure of further monetary easing

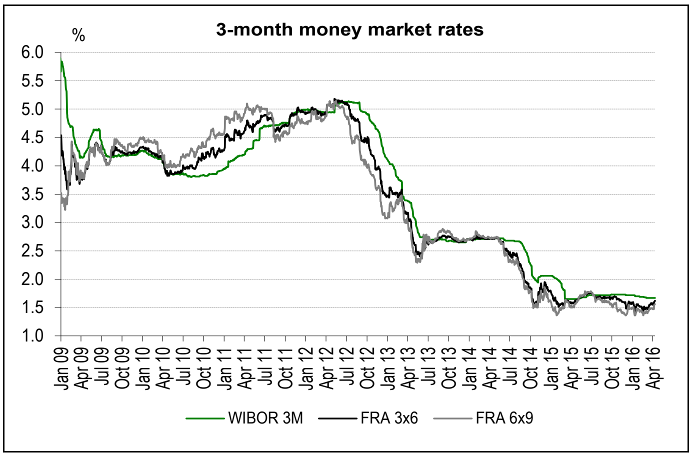
- The Hungarian forint weakened visibly at the end of March as the Hungarian central bank (MNB) unexpectedly cut interest rates by 15bp in March, trimming the base rate to 1.20% and introducing a negative deposit rate of -0.05%. As a result EUR/HUF increased to nearly 315, up from a low of c307 in early March.
- At the start of April HUF rebounded slightly and EUR/HUF inched down to 312. However, the lower-than-expected Hungarian March CPI reading (-0.2% y/y vs 0.3% y/y the previous month) increased expectations that the MNB may cut rates again in April. In our view, further monetary easing in upcoming months and continuing political risk will keep some pressure on the HUF in the near term. However, we maintain our forecast of a moderate HUF strengthening later this year.

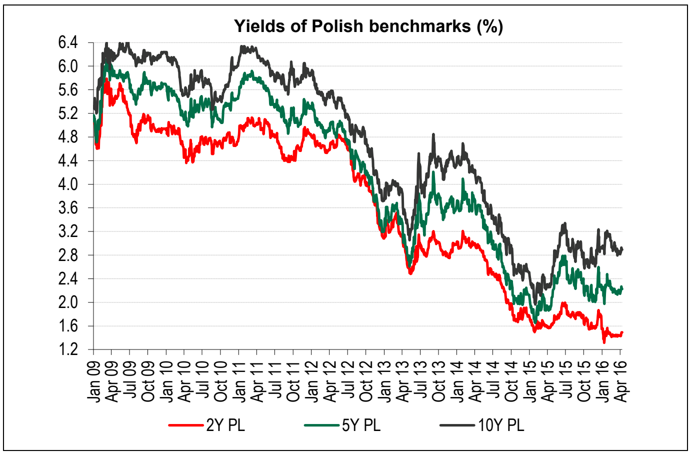
Market monitor

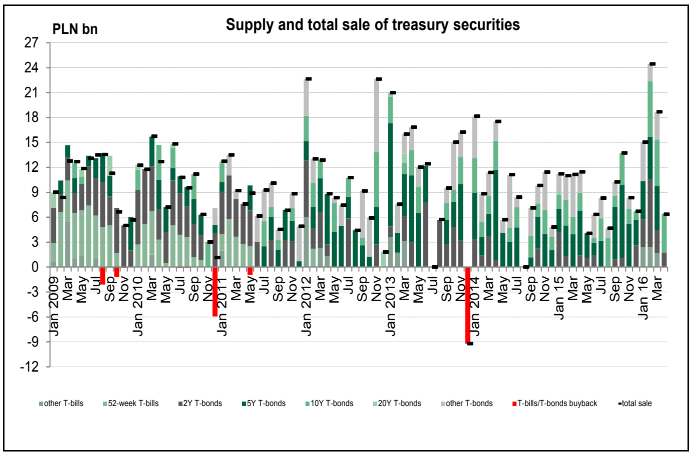












Treasury bond auctions in 2015/2016 (PLN mn)

Month	First Auction				Second Auction				Switch Auction		
	Date	T-bonds	Offer		Date	T-bonds	Offer		Date	T-bonds	Offer
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	OK0717/PS0420	4000-6000	7214.0			
October	29.10	OK/PS/DS	5000-8000	8082.0					8.10	DS1015/OK0116	PS0421/DS0726
November	26.11	EUR20160201**	Up to €1bn	€730m					19.11	OK0116/PS0416	WZ0120/PS0421/DS0726
December									10.12	OK0116/PS0416	OK0717/PS0421/DS0726
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	WZ0120/PS0721/WZ0126
April	7.04	OK1018/DS0726	3000-6000	6356.6	28.04	To be announced	4000-9000				

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

Source: Finance Ministry, Reuters, BZ WBK.

Economic calendar

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
11 April ***PL: CPI (Mar)*** CZ: CPI (Mar)	**12** ***PL: CPI core (Mar)***	**13** ***PL: Balance of payments (Feb)*** EZ: Industrial output (Feb) US: Retail sales (Mar) US: Fed Beige Book	**14** ***PL: Money supply M3 (Mar)*** EZ: HICP (Mar) US: CPI (Mar)	**15** US: Industrial output (Mar) US: Flash Michigan (Apr)
18 ***PL: Wages and employment (Mar)***	**19** ***PL: Industrial output (Mar)*** ***PL: PPI (Mar)*** ***PL: Retail sales (Mar)*** DE: ZEW index (Apr) US: House starts (Mar) US: Building permits (Mar)	**20** US: Home sales (Mar)	**21** ***PL: Minutes from April's MPC meeting*** EZ: Central bank decision US: Philly Fed index (Apr)	**22** DE: Flash PMI – manufacturing (Apr) EZ: Flash PMI – manufacturing (Apr)
25 ***PL: Unemployment rate (Mar)*** DE: Ifo index (Apr) US: New home sales (Mar)	**26** HU: Central bank decision US: Durable goods orders (Mar) US: Consumer confidence index (Apr)	**27** US: Central bank decision US: Pending home sales (Mar)	**28** US: First estimate GDP (Q1)	**29** ***PL: Inflation expectations (Apr)*** EZ: Flash HICP (Apr) EZ: GDP (Q1) US: Personal income (Mar) US: Consumer spending (Mar) US: Michigan index (Apr)
2 May ***PL: PMI – manufacturing (Apr)*** CN: PMI – manufacturing (Apr) DE: PMI – manufacturing (Apr) EZ: PMI – manufacturing (Apr) US: ISM – manufacturing (Apr)	**3** **PL: Financial market is closed**	**4** DE: PMI – services (Apr) EZ: PMI – services (Apr) EZ: Retail sales (Mar) US: ISM – services (Apr) US: ADP report (Apr)	**5**	**6** ***PL: MPC decision*** US: Non-farm payrolls (Apr) US: Unemployment rate (Apr)
9 DE: Industrial orders (Mar) CZ: Industrial output (Mar)	**10** DE: Industrial output (Mar) DE: Exports (Mar) HU: CPI (Apr) CZ: CPI (Apr)	**11**	**12** ***PL: CPI (Apr)*** ***PL: Balance of payments (Feb)*** EZ: Industrial output (Mar)	**13** ***PL: Flash GDP (Q1)*** ***PL: Core inflation (Apr)*** ***PL: Money supply M3 (Apr)*** ***PL: Balance of payments (Mar)*** DE: Flash GDP (Q1) HU: Flash GDP (Q1) US: Retail sales (Apr) US: Flash Michigan (May)
16	**17** CZ: Flash GDP (Q1) US: House starts (Apr) US: Building permits (Apr) US: CPI (Apr) US: Industrial output (Apr)	**18** ***PL: Wages and employment (Apr)*** US: FOMC minutes	**19** ***PL: Industrial output (Apr)*** ***PL: PPI (Apr)*** ***PL: Retail sales (Apr)***	**20** US: Home sales (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	about 50 working days after reported period											
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

		Mar 15	Apr 15	May 15E	Jun 15	Jul 15	Aug 15	Sep 15	Oct 15	Nov 15	Dec 15	Jan 16	Feb 16	Mar 16E	Apr 16E
PMI	pts	54.8	54.0	52.4	54.3	54.5	51.1	50.9	52.2	52.1	52.1	50.9	52.8	53.8	53.0
Industrial production	% YoY	8.8	2.4	2.8	7.4	3.8	5.3	4.0	2.4	7.8	6.7	1.3	6.7	4.4	4.3
Construction production	% YoY	2.9	8.5	1.3	-2.5	-0.1	4.8	-2.5	-5.2	1.2	-0.4	-8.6	-10.5	-12.8	-12.8
Retail sales [a]	% YoY	3.0	-1.5	1.8	3.8	1.2	-0.3	0.1	0.8	3.3	4.9	0.9	3.9	4.5	4.0
Unemployment rate	%	11.5	11.1	10.7	10.2	10.0	9.9	9.7	9.6	9.6	9.8	10.3	10.3	10.0	9.6
Gross wages in corporate sector	% YoY	4.9	3.7	3.2	2.5	3.3	3.4	4.1	3.3	4.0	3.1	4.0	3.9	3.7	4.7
Employment in corporate sector	% YoY	1.1	1.1	1.1	0.9	0.9	1.0	1.0	1.1	1.2	1.4	2.3	2.5	2.6	2.6
Exports (€)	% YoY	14.3	8.6	7.8	10.6	5.2	8.1	3.0	4.5	12.6	11.5	-0.4	5.6	3.6	4.1
Imports (€)	% YoY	8.7	7.7	0.5	10.3	7.3	6.7	5.2	0.2	6.7	3.8	0.1	3.6	1.0	-1.5
Trade balance	EUR mn	485	-117	500	-165	-727	-150	19	252	574	294	576	820	900	695
Current account balance	EUR mn	1,054	929	928	-963	-1,174	-574	-608	-216	395	-603	764	418	1,368	1,420
Current account balance	% GDP	-1.3	-0.9	-0.7	-0.4	-0.5	-0.3	-0.4	-0.4	-0.3	-0.2	0.0	0.1	0.2	0.3
Budget deficit (cumulative)	PLN bn	-16.7	-16.7	-19.6	-26.1	-26.6	-25.9	-31.1	-34.5	-36.1	-42.6	1.8	-3.1	-9.3	-15.2
Budget deficit (cumulative)	% of FY plan	36.2	36.2	42.6	56.7	57.7	56.1	67.6	74.8	78.4	92.5	-3.2	5.7	17.0	27.7
CPI	% YoY	-1.5	-1.1	-0.9	-0.8	-0.7	-0.6	-0.8	-0.7	-0.6	-0.5	-0.9	-0.8	-0.9	-1.1
CPI excluding food and energy	% YoY	0.2	0.4	0.4	0.2	0.4	0.4	0.2	0.3	0.2	0.2	-0.1	-0.1	-0.2	-0.3
PPI	% YoY	-2.5	-2.7	-2.1	-1.4	-1.8	-2.7	-2.8	-2.3	-1.8	-0.8	-1.2	-1.4	-1.3	-1.0
Broad money (M3)	% YoY	8.7	7.1	7.5	8.2	8.5	7.2	8.3	8.9	9.3	9.1	10.2	10.0	9.8	10.5
Deposits	%YoY	9.2	7.8	7.8	8.7	8.8	7.7	8.9	9.2	9.7	9.1	9.9	10.4	10.1	10.6
Loans	%YoY	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	6.1
EUR/PLN	PLN	4.13	4.02	4.08	4.16	4.15	4.19	4.22	4.25	4.25	4.29	4.41	4.40	4.29	4.27
USD/PLN	PLN	3.81	3.73	3.66	3.71	3.78	3.77	3.75	3.78	3.96	3.95	4.06	3.96	3.87	3.75
CHF/PLN	PLN	3.89	3.88	3.93	3.98	3.96	3.89	3.86	3.91	3.92	3.96	4.03	3.99	3.93	3.87
Reference rate [b]	%	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	1.50
3M WIBOR	%	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	1.67
Yield on 2-year T-bonds	%	1.62	1.60	1.74	1.91	1.82	1.79	1.79	1.65	1.58	1.71	1.46	1.46	1.44	1.46
Yield on 5-year T-bonds	%	1.99	1.98	2.38	2.68	2.45	2.40	2.43	2.18	2.10	2.28	2.24	2.26	2.18	2.19
Yield on 10-year T-bonds	%	2.32	2.36	2.83	3.20	3.00	2.88	2.91	2.66	2.73	2.93	3.04	3.03	2.88	2.85

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	1,849.2	414.6	432.2	438.6	504.8	426.1	444.2	451.3	527.6
GDP	% YoY	1.3	3.3	3.6	3.5	3.7	3.3	3.5	3.9	3.5	3.5	3.7	3.4
Domestic demand	% YoY	-0.7	4.9	3.3	2.7	2.9	3.1	3.2	4.0	2.3	1.7	3.2	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	4.6	5.3	3.9	4.3	6.0	4.2	4.9	5.6	3.9
Construction production	% YoY	-10.3	4.3	0.3	-10.6	1.4	1.9	0.5	-1.5	-10.9	-10.9	-11.1	-9.9
Retail sales [a]	% YoY	2.6	3.1	1.5	5.6	0.7	1.4	0.4	3.2	3.2	3.9	7.5	7.5
Unemployment rate [b]	%	13.4	11.4	9.8	8.8	11.5	10.2	9.7	9.8	10.0	9.0	8.6	8.8
Gross wages in the national economy [a]	% YoY	3.4	3.6	3.3	4.9	4.1	3.1	3.0	3.2	3.9	5.2	5.0	5.6
Employment in the national economy	% YoY	-1.1	0.2	0.8	1.7	0.8	0.8	0.7	0.8	1.7	1.8	1.7	1.5
Exports (€)	% YoY	5.7	6.4	8.3	7.3	9.8	9.0	5.3	9.3	3.1	7.0	9.0	10.0
Imports (€)	% YoY	0.2	8.3	4.9	6.0	3.5	6.2	6.4	3.4	1.7	4.0	8.0	10.0
Trade balance	EUR mn	-335	-3,255	2,135	4,531	1,651	216	-852	1,120	2,296	1,506	-502	1,232
Current account balance	EUR mn	-5,031	-8,303	-1,011	4,177	900	864	-2,348	-427	2,550	2,507	-1,575	695
Current account balance	% GDP	-1.3	-2.0	-0.2	1.0	-1.3	-0.4	-0.4	-0.2	0.1	0.5	0.7	1.0
General government balance	% GDP	-4.0	-3.3	-2.5	-3.0	-	-	-	-	-	-	-	-
CPI	% YoY	0.9	0.0	-0.9	-0.7	-1.5	-0.9	-0.7	-0.6	-0.9	-1.0	-0.8	0.1
CPI [b]	% YoY	0.7	-1.0	-0.5	0.4	-1.5	-0.8	-0.8	-0.5	-1.1	-0.9	-0.5	0.4
CPI excluding food and energy	% YoY	1.2	0.6	0.3	0.0	0.4	0.3	0.3	0.2	-0.1	-0.1	0.0	0.4
PPI	% YoY	-1.3	-1.5	-2.2	-0.3	-2.7	-2.1	-2.4	-1.6	-1.3	-1.0	0.3	0.8
Broad money (M3) [b]	% oY	6.2	8.2	9.1	4.8	8.7	8.2	8.3	9.1	8.0	7.0	5.9	4.8
Deposits [b]	%YoY	6.6	9.0	9.1	4.3	9.2	8.7	8.9	9.1	7.9	6.7	5.5	4.3
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	4.37	4.30	4.36	4.32
USD/PLN	PLN	3.16	3.15	3.77	3.84	3.72	3.70	3.77	3.90	3.96	3.79	3.86	3.76
CHF/PLN	PLN	3.41	3.45	3.92	3.79	3.93	3.93	3.90	3.93	3.98	3.85	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	1.48	1.61	1.75	1.80	1.65	1.45	1.48	1.47	1.52
Yield on 5-year T-bonds	%	3.46	2.96	2.21	2.25	1.90	2.35	2.43	2.19	2.23	2.19	2.23	2.35
Yield on 10-year T-bonds	%	4.04	3.49	2.69	3.05	2.24	2.79	2.93	2.77	2.98	2.87	3.03	3.33

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 11.04.2016 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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