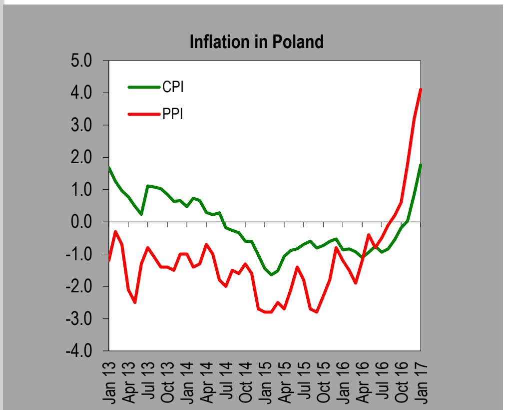
Bank Zachodni WBK
Grupa Santander

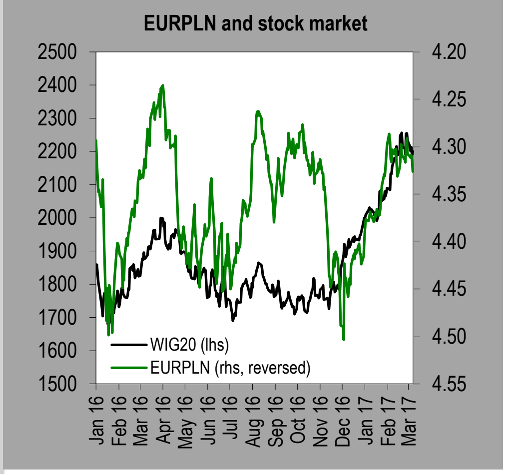
MACROscope

Polish Economy and Financial Markets

March 2017

Don't get too excited





- Poland's GDP growth in 4Q16 was higher than expected, reaching 2.7% y/y or as much as 1.7% q/q in the seasonally adjusted terms (the biggest rise since 2007). However, we didn't get too excited about 2017 growth outlook, as the fourth quarter's result was boosted, at least to some extent, by the frontloading of the government spending, which suggests that public consumption this year may be weaker. Investments were still falling at nearly 6% y/y in 4Q16, and we think that their recovery this year will not be very quick. Applications for EU funds, after having accelerated at the end of last year, have slowed down again in 1Q17, according to the data from the Ministry of Development (but it will affect investment growth probably not earlier than in 2018). Private consumption remains healthy, but, in our view, not strong enough, to trigger a significant growth acceleration. Meanwhile, the likely acceleration of exports growth will be probably coupled with even stronger import revival, so the net trade balance should remain almost neutral for the economic growth this year. In general, **we remain moderately optimistic about the economic outlook for the coming quarters, predicting that GDP growth to be around 3% y/y**, only slightly higher than in 2016.
- The headline inflation rate has picked up sharply at the start of the year, mainly due to base effects and situation in global fuel and food markets, and may top 2% y/y in the nearest months. However, **we still see no signs of strong underlying price pressure,** and we predict that, after levelling off later this year, the headline CPI may even temporarily drop below 2% again, with the core inflation moving up very slowly from the current zero level.
- We do not expect the central bank to hurry with the monetary tightening in such environment. The Monetary Policy Council has softened its rhetoric again after the last meeting, even though the inflation and GDP forecasts went up, which shows that their argumentation is quite flexible and adjusts to the situation. Even if the next inflation data continue to surprise positively, we believe the Council will be very patient with its 'wait-and-see' approach. **Our baseline forecast assumes that the central bank may wait even until the late 2018 before changing interest rates in Poland from the current level**.
- Despite the selloff in the core debt markets, Polish bonds have been performing relatively well in the recent weeks. The 10Y bond yield spread versus German Bunds has narrowed to 326bp, its lowest since December 2016. Even though the perception of the country risk seems to have improved and worries about monetary tightening are fading away, **we think that there is little room for Polish yields to decline**. The uncertainty related to the elections in Europe and to monetary policy outlook abroad may result in consolidation or even upward trend in Polish yields, in our view. As regards the FX market, **we still expect the short-term correction of the zloty** due to technical signals and lower risk appetite amid political uncertainty in Europe. Later in the year, when the economic recovery strengthens, the Polish currency should gain.

In this issue:

Financial market on March 10, 2017:

NBP deposit rate	0.50	WIBOR 3M	1.73	EURPLN	4.3260
NBP reference rate	1.50	Yield on 2-year T-bond	2.08	USDPLN	4.0761
NBP lombard rate	2.50	Yield on 10-year T-bond	3.74	CHFPLN	4.0281

This report is based on information available until 10.03.2017.

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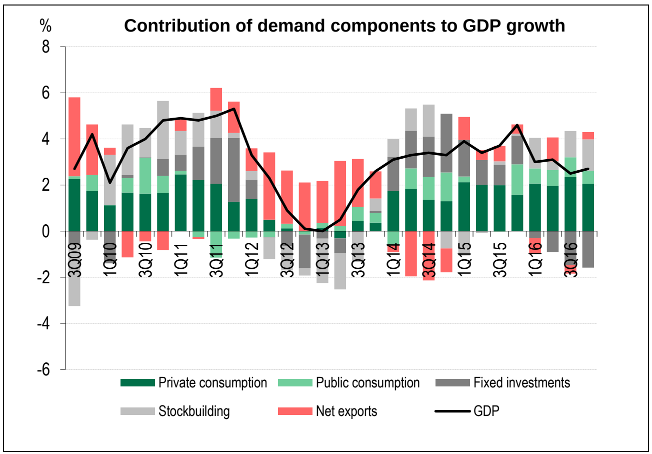
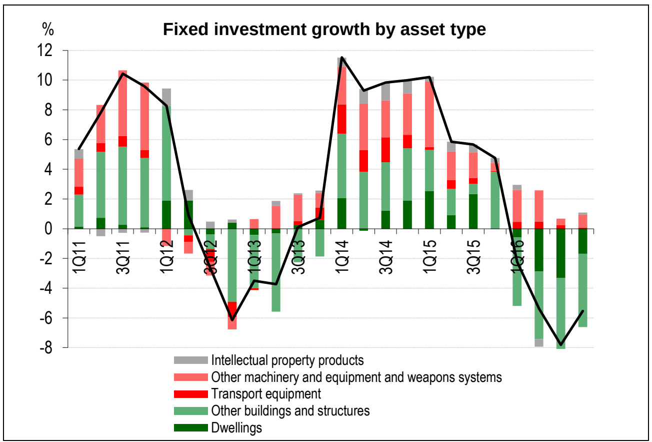
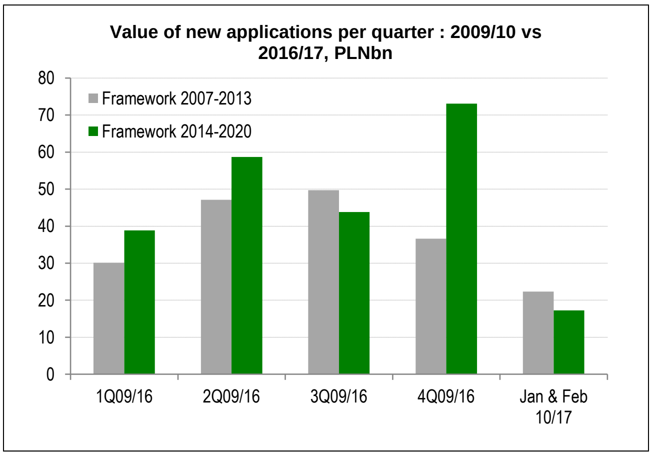
Economic update



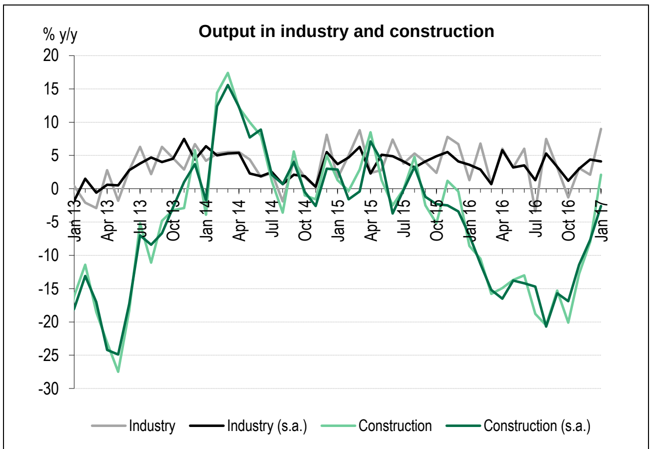
Contribution of demand components to GDP growth



Fixed investment growth by asset type



Value of new applications per quarter : 2009/10 vs 2016/17, PLNbn



Output in industry and construction

Source: GUS, NBP, Eurostat, Ministry of Development. BZ WBK.

Unimpressive GDP breakdown in 4Q16

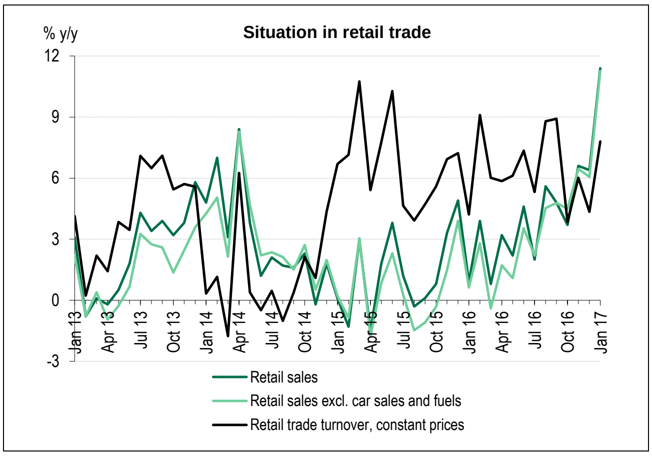
- GDP growth accelerated to 2.7% y/y in 4Q16, in line with the flash reading. Seasonally adjusted GDP growth increased 1.7% q/q, which was the highest rise since 2007.
- Private consumption growth was at 4.2% y/y (the highest since 2008), being the main driver of growth. Consumption was fuelled by the very good labour market situation, payments of 500+ child benefits and earlier disbursement of payments for farmers. We expect consumption growth to remain similarly strong throughout 2017. Public consumption rose by 2.7% y/y, and this is a decent reading given high base from 4Q15. This, in our view, resulted from the Ministry of Finance's decision to shift some public spending from 2017 to December 2016 in order to 'smooth' budget path in 2016-2017. GDP was also boosted by a significant increase in inventories (adding 1.4 pp to growth), but this is not a long-lasting growth supporter. Investments did not show any positive surprise but rebounded to -5.8% y/y from -7.7% y/y. Exports rose by 8.6% y/y, import by 8.5% y/y, net exports contributed in total 0.3pp to GDP growth.
- On the supply side, value added in industry rose by a mere 2.7% y/y, but construction rebounded to -9.3% y/y from -16.5% y/y in 3Q. Strong input to GDP growth was secured by transport (10.1% y/y, the highest since 2011) and by trade, which was the strongest contributor to growth (+0.8pp with +5.8% y/y growth).
- Some recovery in investment is a positive factor. Detailed data on asset type breakdown shows, however, that it was mostly driven by a rebound in dwellings construction (-11.6% y/y in 4Q16 vs -15.4% y/y in 3Q16), while improvement in other categories was barely visible. We are expecting some gradual improvement in investment in the upcoming quarters, yet it will not be sharp, in our view. Much depends on spending of the EU funds and it seems that after a boost in number of newly signed applications in 4Q16, their pace slowed down considerably in 1Q17 (at least in January and February). In 4Q16, there were PLN24.4bn applications signed monthly versus PLN8.6bn in 1Q17. For contracts, these numbers are at PLN14.3bn and PLN4.2bn, respectively.
- We think that 4Q16 data did not improve the outlook for 2017 considerably. The main source of positive surprise was the shift in time of government spending, which, according to our estimates, boosted GDP growth in 4Q16 even by c0.7pp. This means that the 'underlying' GDP growth without this one-off effect was close to 2% y/y. However, since there was a shift in spending, it is obvious that those expenditures will not appear in this year's statistics. This implies, *ceteris paribus*, weaker public consumption growth in 1Q17 and 4Q17 (base effect).

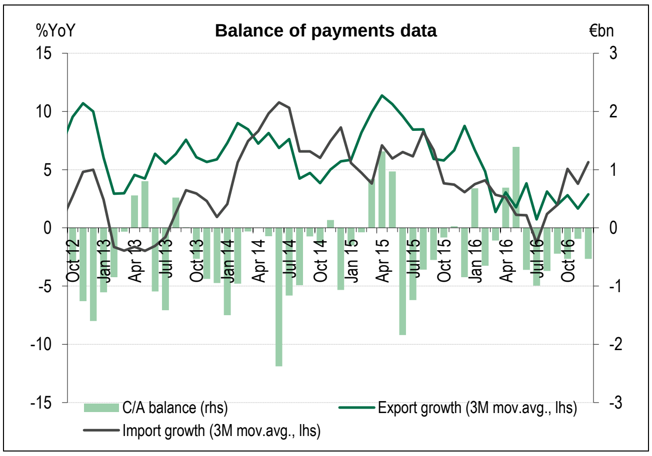
Data from early 1Q17 above expectations

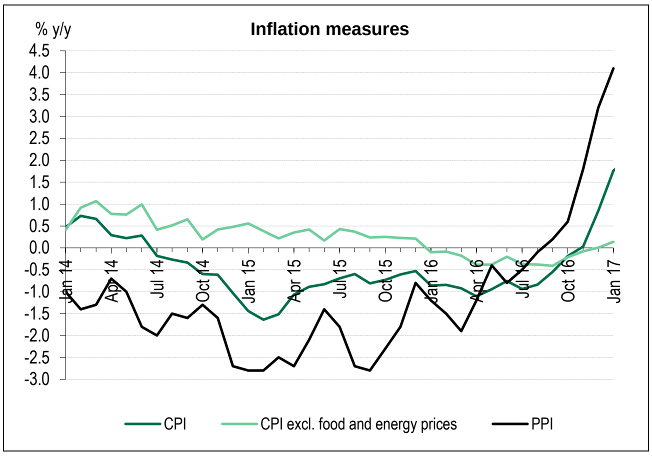
- Industrial production rose in January by 9.0% y/y, exceeding forecast. It was the fastest growth of production since February 2011. However, to a large extent, such a significant growth may be explained by the calendar effect: +2 working days in January 2017. Even after taking this factor into account, data show increase in activity in Polish industry sector in January: seasonally adjusted industrial output grew in January by 4.1% y/y, its highest since August 2016.
- Construction output brought an even more positive surprise as it grew in January by 2.1% y/y. Seasonally adjusted construction output growth amounted to -2.6% y/y, the highest since December 2015.

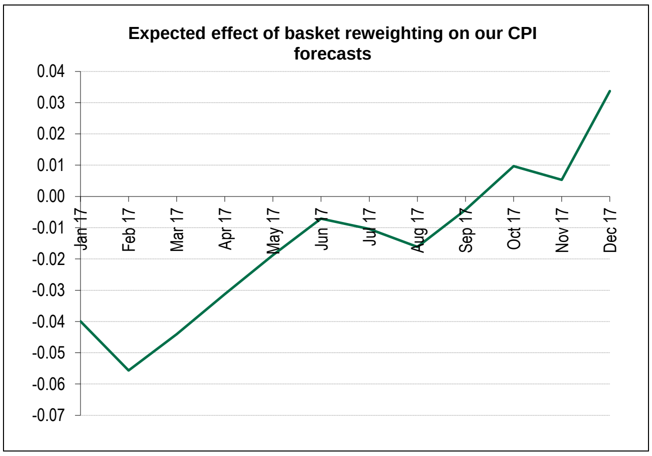
In February both industrial and construction output are likely to slow down as this time the calendar day effect will be negative. Still, the favourable outcome of January production increases optimism about GDP growth in 1Q17. We are expecting that the GDP growth will be accelerating gradually throughout 2017 and may be close to 3% y/y on average. The improving real activity is supporting our forecasts, and even implying some upward risk.

Economic update









Source: GUS, NBP, Eurostat, BZ WBK.

Retail trade data suggesting strong consumption

- In January retail sales rose 9.6% y/y in real terms, the fastest pace since January 2012 and much faster than expected. The biggest surprise came from strong sales of fuels (+17.2% y/y) that added as much as 2.4pp to the headline sales figure. In our view, this might have been caused by the introduction of the ‘fuel package’ which resulted in higher fuel sales from legal sources. Nevertheless, retail sales excluding fuels accelerated as well, to 8.3% y/y from 6.0% y/y in December.
- Turnover in retail trade rose by 7.8% y/y in January and also rebounded versus December (4.3% y/y). The reading was only slightly higher than 2016 average (6.3% y/y). This statistics, contrary to retail sales, includes also small shops.
- Retail trade statistics suggest that consumption will remain strong in 2017.

Foreign trade volumes above expectations

- Current account deficit in December was at €533mn. Deficit for the preceding months was revised down, so current account deficit amounted to 0.5% of GDP in 2016 and this was the lowest result since comparable data have been available (2004). In January, we are likely to see a massive current account surplus, given very strong inflows of EU funds. According to the Ministry of Finance, current transfers from EU to Poland amounted to €2.2bn in January, vs average at €0.5bn monthly in 2016.
- Exports and imports rose by 6.7% y/y and 9.0% y/y, respectively. Exports amounted to €14.615bn, imports to €14.766bn Data seem to confirm that the foreign demand for Polish products is reviving, which is a positive sign for the upcoming quarters. Still, we are expecting that imports will be growing at a higher rate, fuelled by strong consumer demand, so current account deficit is likely to widen slightly in 2017.

CPI sharply up

- The CPI inflation rose sharply to 1.8% y/y in January 2017, up from 0.8% y/y in December, exceeding expectations. This means that inflation rate is now at the highest level since 2012 and it has topped the bottom of the acceptable deviations band around the NBP’s inflation target (2.5% ±1pp). On monthly basis, the consumer prices increased by 0.4%, mainly as result of sharp growth in food and non-alcoholic beverages prices (by 1.8% m/m, the highest increase in January since 2011, and the second-highest since 1996!).
- Significant growth in food prices stemmed from higher prices of fresh fruit, vegetables and wheat flour. To large extent, it is probably the aftermath of severe winter, which damaged vegetable crops in the Southern Europe. This effect may not be long-lasting, as weather improved at the turn of February and March. On balance, despite higher-than-expected headline CPI (caused mainly by food and energy), our estimate of core inflation went down slightly, to 0.1% y/y in January.
- In March, the Statistics Office will release the revised CPI basket. In our view, this revision will have a very small impact on CPI: negative in the first half of the year, positive in the second. We expect to see the most considerable impact in December 2017, yet it will be equal to mere 0.03pp.
- We think the CPI will rise further in the nearest months, pushed up by still-very-low base and faster-than-expected growth in food prices: in February the CPI may reach 2.0% y/y, and in the next months it is likely to exceed this level. The situation on food and fuel markets will determine how far inflation will go. However, the core inflation will probably be rising much more slowly this year, as there are still no signs of the underlying price pressure.

Monetary policy watch

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

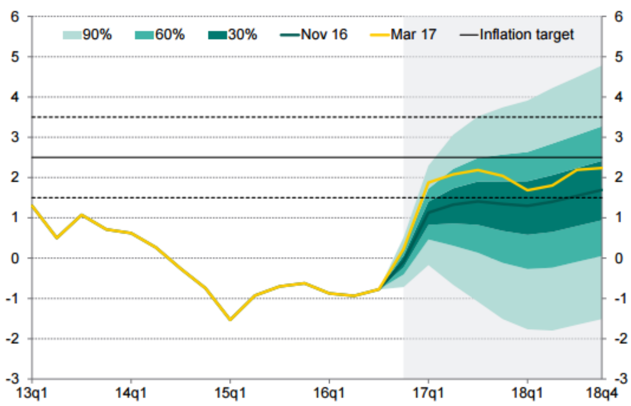
Global economic growth remains moderate, with signs of economic recovery strengthening in many economies. In the euro area, economic growth is stable, accompanied by favourable sentiment in industry. (…) Over past few months, inflation has risen considerably in many countries, mainly on the back of an increase in global commodity prices, which has recently come to a halt. At the same time, low demand pressure in many economies, including in the euro area, contains the rise in inflation and keeps core inflation at a moderate level.

In Poland, economic growth in 2016 Q4 was slightly higher than a quarter earlier. Economic growth was mainly driven by increasing consumer demand, supported by a rise in employment and wages, very good consumer sentiment and child benefit payments. At the same time, the fall in investment narrowed due to higher absorption of EU funds. Recent economic data, including industrial output, retail sales and labour market point to ongoing recovery.

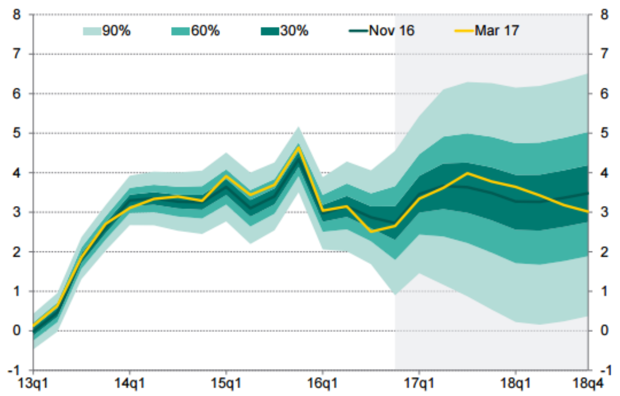
The annual growth in prices of consumer goods and services in Poland has picked up considerably over recent months, mainly due to higher global commodity prices, i.e. factors beyond the direct impact of domestic monetary policy. Core inflation remains close to zero, which points to still low demand pressure. Despite growing employment and wages, growth in unit labour costs remains moderate. In the Council's opinion, following a considerable rise in the first months of the year, inflation will stabilise at a moderate level. The stabilisation of price growth in the coming quarters will result on the one hand from fading effects of the past increase in global commodity prices and on the other hand from only a gradual increase in domestic inflationary pressure stemming from improving domestic economic conditions. In consequence, the risk of inflation running persistently above the target in the medium term is limited.

The Council confirms its assessment 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.

NBP's CPI Projection



NBP's GDP Projection



Sources: NBP, BZ WBK.

MPC not to hurry with monetary tightening

▪ The Monetary Policy Council kept interest rates unchanged in March. The reference rate remained at 1.5%. The tone of the MPC's official communique has not changed much and remained dovish, in line with our expectations, even though the new central bank projection showed an inflation path higher than its previous November's version (see details below).

▪ The MPC members present at the press conference (Hardt, Gatnar) said they were not worried that the period of negative real interest rates will be longer than the earlier expected. The NBP Governor Adam Glapiński repeated his earlier pledge several times, saying that he saw no reasons to change interest rates until the end of this year. Moreover, he even added that if the situation evolves in line with the current NBP's projection, he would see no grounds to tighten monetary policy in 2018 either. A similar message was repeated a bit later by the MPC's Jerzy Żyżyński.

▪ In general, we think that the recent signals from the MPC have clearly confirmed that the Polish central bank is not going to hurry with the monetary policy tightening, unless we see a really dramatic change in the inflation environment. We think that the first interest rate hike should not take place earlier than in late 2018, especially if the inflation rate stabilizes in 2018 (which is in line with the current NBP's forecast and our predictions). It does not mean that there will be no earlier discussion about policy tightening, however we believe that the majority of the MPC members will not want to press on the brakes too early as they would like to see relatively fast economic growth.

New projection showing higher CPI path

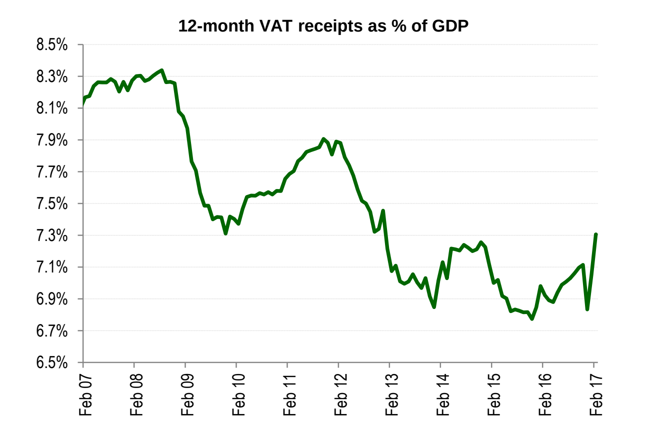
▪ The new economic projections prepared by the NBP showed a higher inflation path and a rather unchanged GDP path, as compared to November edition. The mid-point of the CPI projection went up by 0.7pp in 2017 (to 2.0%) and by 0.5pp in 2018 (to 2.0%); the mid-point for 2019 is 2.3%. Upward revision in 2017 was due to higher path of core inflation, food inflation and energy inflation. Average core inflation is expected at 0.9% y/y in 2017 and 1.5% y/y in 2018. In general, the new projection has challenged the Council's earlier view that inflation will go back below 1.5% relatively soon. On the other hand, the projection showed that in 2018, CPI is likely to stabilize instead of trending up further, and that reaching the 2.5% inflation target is still quite distant. According to NBP, there is a 49% chance that CPI will exceed 2.5% in 4Q2019.

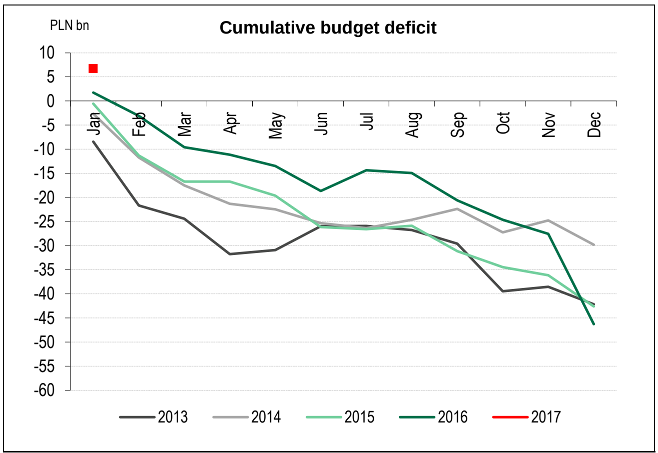
▪ GDP path was revised only slightly, to 3.7% from 3.6% in 2017 and remained unchanged at 3.3% in 2018. The NBP assumes a strong rebound in investment in 2017: from about 0% y/y in 1Q17 to a double-digit growth in 4Q17 and entire year result at 6.0% y/y. In our view, rebound in investment will be less pronounced. According to the NBP, private consumption will remain the main growth driver. However, shrinking labour supply will trigger a stagnation in employment, which will be supportive for wage growth, expected to reach 6% in late 2017 / 2018.

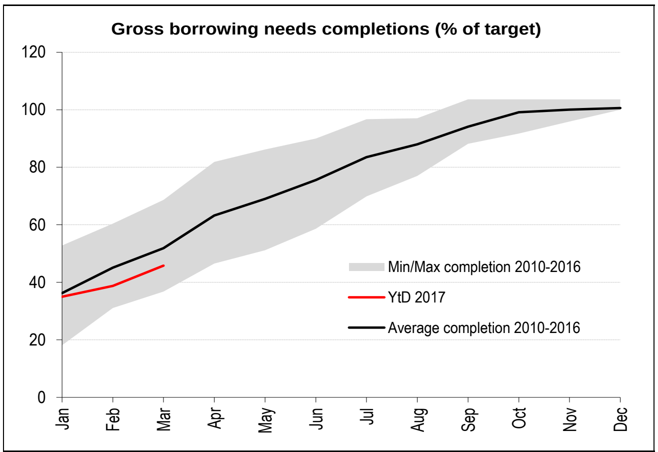
Household deposits slowed down

▪ Data on money supply showed a deceleration in growth rate of corporate loans to 2.2% y/y in January from 3.9% y/y in December (data after FX adjustment). This development was mostly due to deceleration of investment loans (to 7.3% y/y vs 11.8% in December). Their growth rate was dragged down by high base from January 2016. Household's loans dynamics remained stable at 4.2% y/y in total. Corporate deposits rose by 8.4% y/y vs 8.0% y/y in December, while household deposits slowed down to 8.6% y/y from 9.2% y/y after a relatively weak growth. In our view, this was caused by outflow of deposits to other assets, especially stock market.

Fiscal policy watch







	Spread vs. Bunds (10Y) in bp			CDS (5Y USD)		
	10.03	Change since 10.02.17	Change since 30.12.16	10.03	Change since 10.02.17	change since 30.12.16
Poland	327	-23	-12	71	-2	-8
Czech R.	30	13	-7	42	0	-1
Hungary	328	-4	23	116	-4	-10
Greece	676	-26	-17	885	-111	-90
Spain	141	5	20	61	-13	-11
Ireland	69	-7	12	55	-10	-6
Portugal	357	-19	1	231	-39	-29
Italy	188	-5	26	131	-30	-11
France	65	-6	16	30	-12	-4
Germany	-	-	-	17	-3	-3

Source: Ministry of Finance, Reuters, BZ WBK.

VAT revenues high at the start of the year

- The Ministry of Finance informed that after January the budgetary surplus was cPLN6.75bn and that was the best result in January ever. The budget revenue was nearly PLN37bn and accounted for 11.4% of the plan for this year, while the budget expenses totalled PLN30.2bn, i.e. nearly 8% of the plan. As compared to January 2016, income growth was recorded in all categories with VAT income growing the most (by 25.3% y/y or by PLN4.4bn). This stemmed mainly from acceleration of VAT returns in December 2016.
- According to Puls Biznesu daily, VAT revenues after two months of the year were by 40% higher y/y. Such a good result is a combination of several factors, including faster VAT refunds in December, quickly rising consumption, but also cancelation of quarterly VAT settlements since January (now companies have to settle their VAT payments on a monthly basis). In the coming months, tax incomes will not grow as quickly as in January-February, in our view, but the delivery of this year's budget is not under threat.

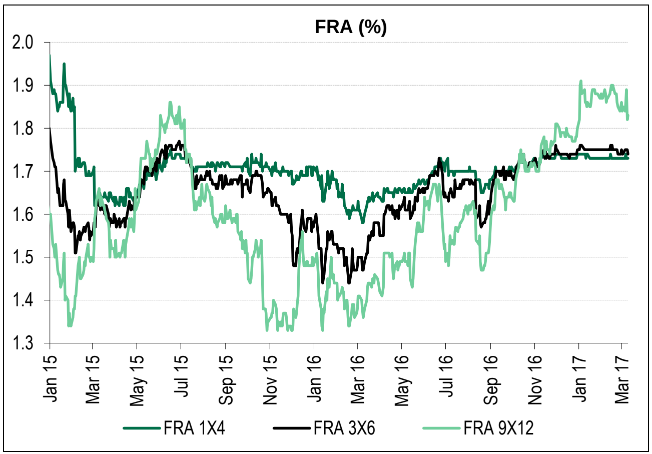
Poland likely to cover 50% of total gross borrowing needs

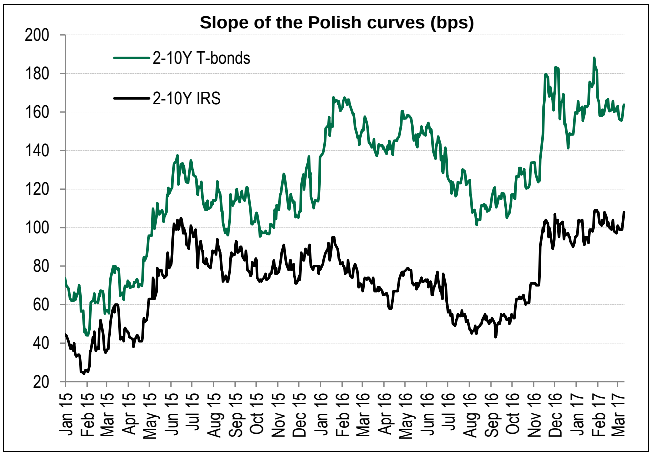
- At the end of February, Poland's Ministry of Finance sold T-bonds worth cPLN30bn on the primary market, representing 78% of the 1Q17 issuance plan. Demand recorded at auction was solid and mainly concentrated on bonds with longer maturity (in particular, the 10Y benchmark DS0727). This allowed the ministry to launch bonds at prices close to or even slightly above the levels reported on the secondary market.
- As expected, the issuance plan for March is quite limited as compared to previous two months. The ministry plans only two auctions, i.e. switch and regular with T-bond supply at PLN3-5bn. The switch tender was pretty successful as the Ministry of Finance purchased the debt maturing in 2017 for PLN 4.77bn and sold bonds for PLN 5.24bn. The demand again focused on the long end: the Ministry gained PLN 2.24bn only from the sale of DS0727. Consequently, year-to-date completion rate of the 2017 gross borrowing needs has amounted to 46%.
- We believe that at the end of March Poland is likely to cover c50% of the 2017 target. It is not that far behind the levels observed in the previous two years (c54.5% on average).

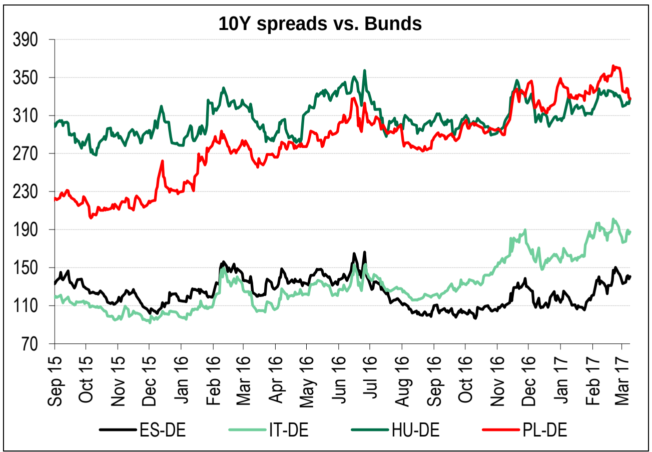
Political factors to influence investors' mood

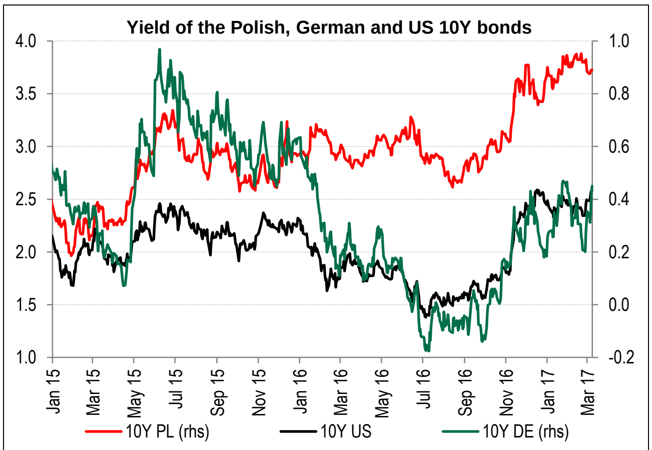
- Early March both core and peripheral yields increased markedly after quite favourable February when yields fell by 15-35bp and in the case of the 10Y Greek benchmark even by nearly 70bp. Upward move of yields resulted from many factors, including profit taking, approaching FOMC meeting and election in Netherlands. However, market slightly rebounded after the March ECB meeting. In the meantime, risk premia for peripheral debt narrowed somewhat after significant widening in February.
- In our view, worries about political risk in Europe should result in quite high volatility of yields and, consequently, spread between peripheral and Bund may remain elevated. The result of election in the Netherlands (March, 15) and opinion polls before the presidential election in France might set market direction in the short run. However, FOMC decision on rates will also be important. Market has fully priced in rate hike by 25bp this month, so we see a limited room for upward move in yield curves in case such scenario materialises. On the other hand, lack of monetary tightening in the USA can be a big positive surprise for global bond markets.

Interest rate market









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

Favourable start of March …

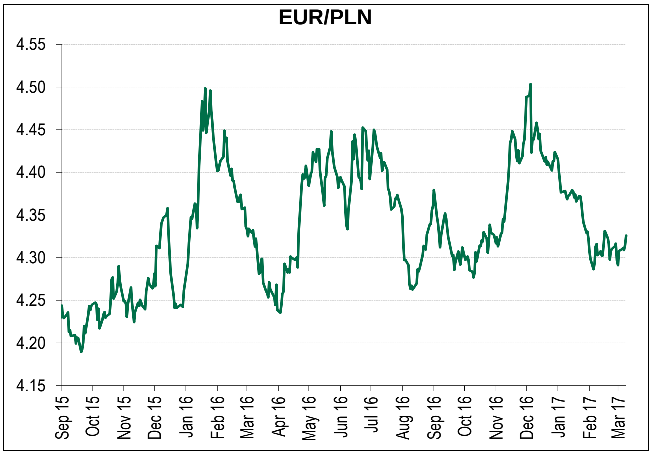
- Start of March brought quite visible decrease in Polish yields, and it was a continuation of gradual downward trend observed in February. Belly and the long end of the curve benefited the most, while the front end was more stable. As regards IRS, the situation did not change much in early March after significant decline in February (by 5-15bp across the board, with the highest drop in long-term rates). This was more or less similar to tendencies on core and peripheral debt markets. On the other hand, Poland's debt market response to domestic macro data was limited and only short-lived. The March MPC decision to keep rates stable and its rhetoric (still quite dovish) were rather neutral for the Polish debt market.
- In early March, a bull flattener developed on the T-bond market, with the 2-10Y spread tightening to nearly 155bp (for a while). In the meantime, the risk premia for Poland's assets, reflected in the spread over Bund, fell temporarily to 335bp. On the other hand, T-bond market gained more than IRS and, as a consequence, asset swap spread narrowed after significant widening in February (to 68bp from 85 at the end of February).
- As in the previous months, the money market saw some changes on the FRA curve. In early March investors scaled down expectations for monetary policy tightening by the MPC. The FRA curve slightly shifted down, in particular on the long end. Consequently, the date of the first rate hike priced-in by the swap market moved in time towards June 2018.

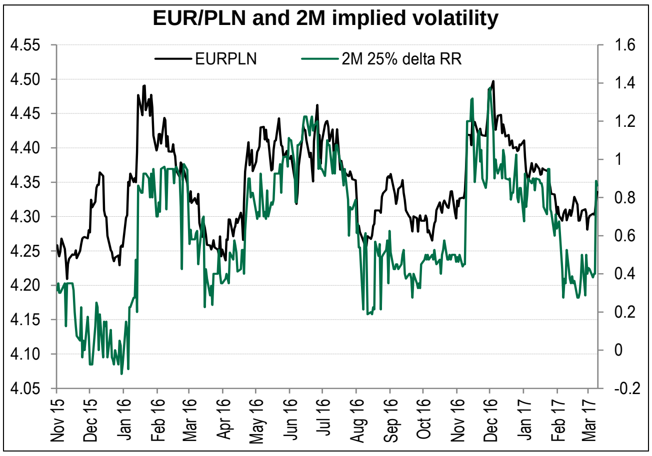
… but downward trend lost steam

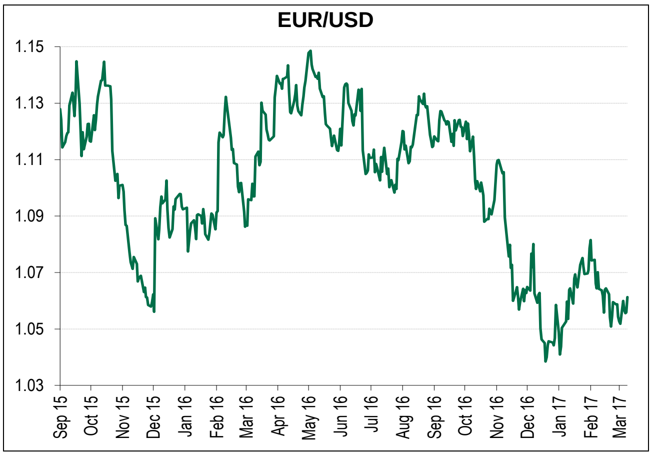
- In our view, money market rates should remain quite stable in upcoming months. There are several reasons supporting such scenario. Firstly, the MPC declaration to keep NBP rates unchanged at least until the end of this year, and even longer (throughout whole 2018) if situation evolves in line with the current NBP's projection. Secondly, the MPC rhetoric suggests that the Council is not worried that the period of negative real interest rates will be longer than earlier expected. All in all, we expect WIBORs to remain stable, while FRAs may be more vulnerable to macro data releases. In our view, February macro data will be much less impressive than those released in the previous month, which may push FRA curve slightly down.
- The front end of the curves, similarly to the money market, will remain more sensitive to domestic events. The CPI rise to (or even slightly above) 2% y/y is widely expected, and is not likely to change the dovish MPC stance. Thus, in our view, the yield of 2Y benchmark should remain in horizontal trend, staying close to the current level.

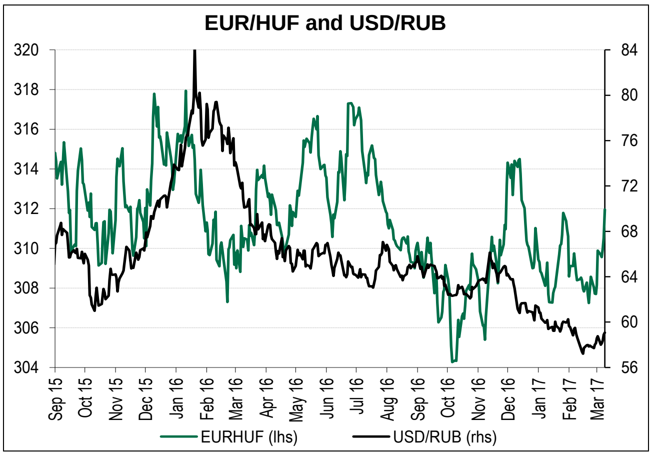
As in the previous months, the situation on the belly and the long end of curves may be more volatile, strongly dependent on external factors. Currently, the market is focusing on FOMC meeting and upcoming elections in the Netherlands (March, 15) and France (April, 23). The lack of interest rate hike by Fed at its March meeting would be very positive for debt markets across the world, but this scenario is not very likely to materialise, in our view. However, we expect a rather muted response to FOMC monetary tightening as market has already fully priced-in such scenario. Rising political risk in Europe may add to market volatility. While the results of Dutch election can be overshadowed by the FOMC decision to some extent, investors will still focus on opinion polls regarding support for Le Pen's candidacy for President in France. In our view, downward trend in Polish yields/IRS rates is losing steam, therefore any downward correction should be insignificant and only short-lived. In our view, consolidation or even gradual upward move are a more probable scenario.

Foreign exchange market









Sources: Reuters, Bloomberg, Markit, BZ WBK.

More evidence for weaker zloty

- In February, the zloty remained fairly stable vs the euro (at around 4.31), dollar (near 4.05), franc (close to 4.04) and pound (near 5.05). Last month we suggested that there was a limited room for further appreciation of the Polish currency and since then it has not gained despite the continued rally on the global equity market, some strengthening of domestic bonds and sound macro data confirming that the Polish economy has already passed the through of the cycle.
- In February we pointed out that the zloty's appreciation had been too excessive. Now, after a month of stabilization, we would like to point out that the 1M and 2M implied volatilities have reached their local bottoms (see the second chart). The past experience shows that the spikes in volatility which occurred from these levels have been accompanied by zloty's depreciation. Note that periods of volatility staying low were rather short and perhaps the abovementioned rise has already started and the EUR/PLN might start a fast upside trend.
- In mid-March the Netherlands will hold a parliamentary elections and so far the anti-euro party have a big support in the polls. We think that the uncertainty surrounding European politics might encourage investors to take profit after the recent equities rally which could be negative for the zloty. Also, despite the recent pretty fast rise in inflation, Polish MPC does not seem to hurry with the interest rate hikes that could be supportive for the domestic currency.
- All in all, we still see limited potential for a restart of the EUR/PLN downward trend and, in our view, there is a pretty high risk for the zloty's short-term weakening. Later in the year, when the economic recovery strengthens, the Polish currency should gain.

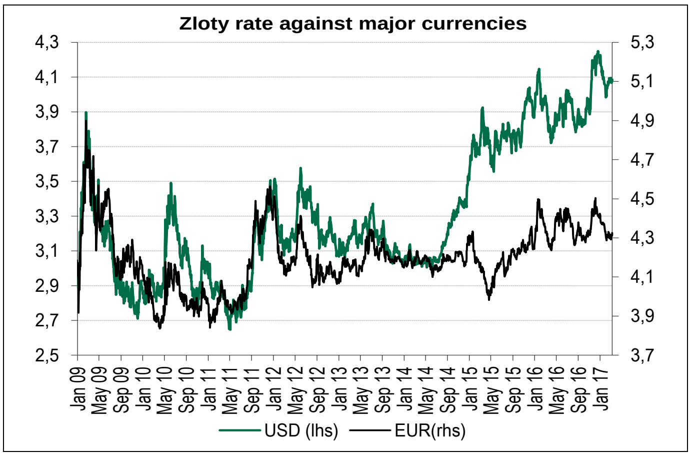
Beware of March 15

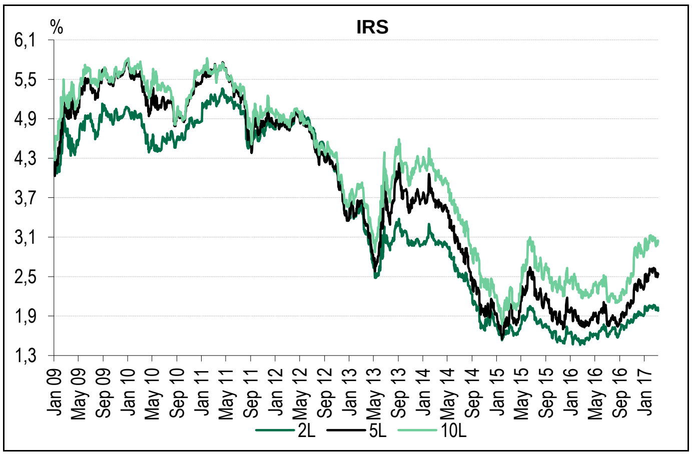
- EUR/USD stayed in a horizontal trend around 1.055 for the better part of the past month. The US macro data were pretty encouraging and comments made by FOMC members sounded hawkish but did not provide any sustainable support for the dollar. At the same time, concerns about the European political scene amid looming elections in the Netherlands, France and Germany failed to weigh on the euro.
- The most important events for EUR/USD in the coming weeks will be the parliamentary elections in the Netherlands and the FOMC decision on rates, both on March 15. According to Bloomberg, the market has already priced in the March 25bp Fed rate hike (and two more later in the year) so delivery should not boost the dollar. However, the scale of any potential increase could be limited by the results of Dutch elections. Currently, polls show that support is spread across many parties and it may be difficult to form a government, regardless of who wins.
- We are leaving our EUR/USD forecasts unchanged.

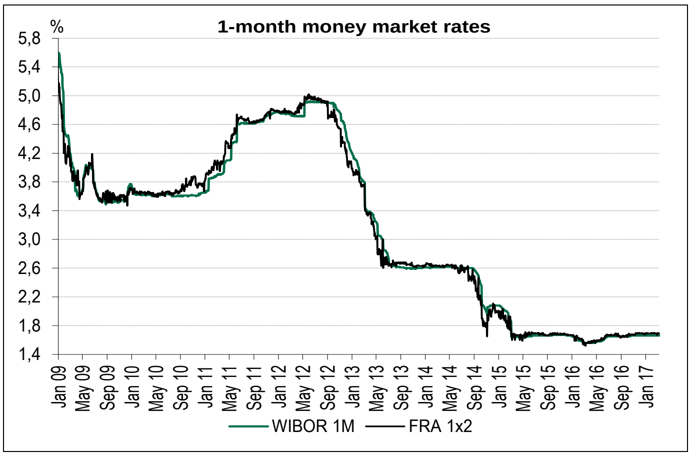
Ruble and forint likely to be under pressure

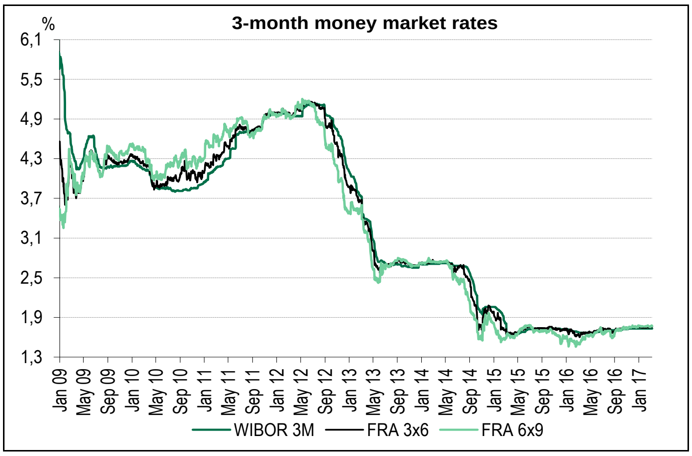
- In February, USD/RUB tried to continue the downside move but no more increase in oil prices and foreign currencies buying by the Russian ministry of finance prevented the ruble from appreciation. The exchange rate managed to set fresh 2017 low at 56.54 but in early March it is already above 59. We think the Russian currency will remain under pressure at least in the short term.
- EUR/HUF also did not move much last month with the exchange rate staying in the 307-312 range. Hungarian central bank (MNB) repeated that it was ready to ease monetary policy further if needed and the 4Q16 GDP data surprised to the downside which did not allow forint to benefit from positive sentiment persisting on the global market. We think that there is a risk for a short-term weakening of the forint.

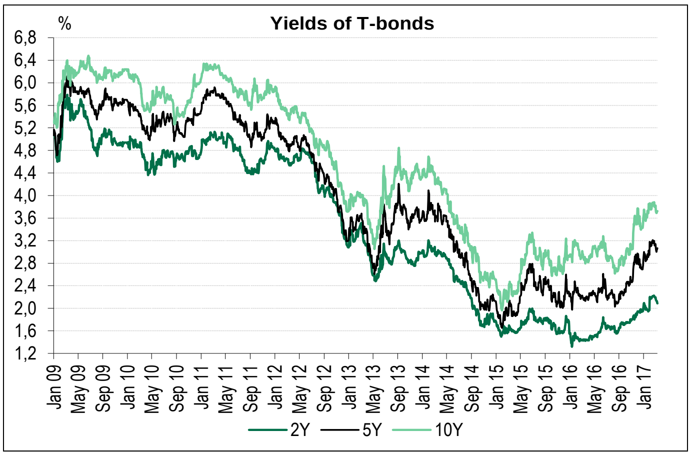
Market monitor

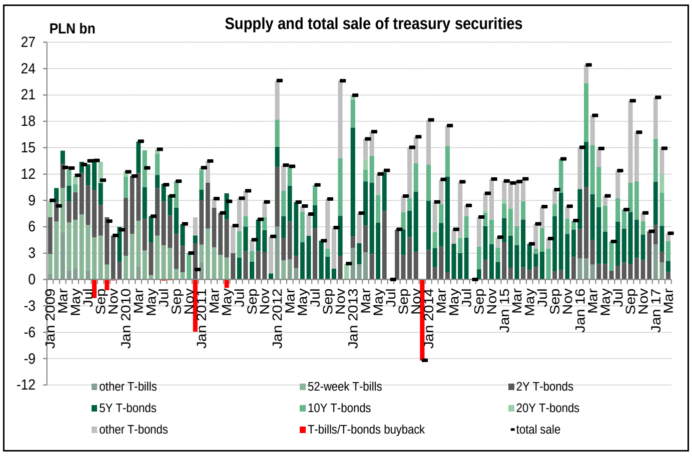












Treasury bond auctions in 2016/2017 (PLN mn)

Month	First Auction				Second Auction				Switch Auction		
	Date	T-bonds	Offer		Date	T-bonds	Offer		Date	T-bonds	Offer
March '16	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	WZ0120/PS0721/WZ0126	5000-8000	8534.7			
May	5.05	OK1018/DS0726	2500-4500	4703.9	25.05	PS0721/IZ0823	2000-4000	4801.7			
June	9.06	OK1018/DS0726	3000-4000	4321.7					27.06	OK0716/IZ0816/PS1016	Cancelled
July	7.07	OK/DS/WS	3000-6000	4431.9	28.07	PS0721/WZ1122/WZ0126	5000-8000	7950.9			
August	18.08	OK/PS/DS	5000-8000	7949.4							
September	1.09	OK/DS/WZ	4000-7000	7593.5					22.09	PS1016/WZ0117/PS0417	PS0721/WZ0120/WZ0126
October	6.10	OK1018/DS0727	3000-6000	6806.5	21.10	WZ0121/PS0422/WZ1122	6000-10000	9943.1			
November	17.11	PS/WZ	3000-5000	3694.0					3.11	WZ0117/PS0417/DS1017	OK1018/IZ0823/DS0727
December									15.12	WZ0117/PS0417/DS1017	OK0419
January '17	5.01	OK/PS/WZ/DS	3000-5000	6004.0	23.01	OK/PS/WZ/DS/	6000-9000	10684.7			
February	2.02	OK/PS/WZ/DS	3000-5000	5964.3	16.02	OK/PS/WZ/DS/WS	3000-7000	7000.2			
March	23.03	OK/PS/WZ/DS/WS/IZ	3000-5000						2.03	PS0417/OK0717/DS1017	OK/PS/WZ/DS

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

Source: Finance Ministry, Reuters, BZ WBK.

Economic calendar

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

Source: CSO, NBP, Bloomberg.

Calendar of MPC meetings and data releases for 2017

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
ECB meeting	19	-	9	27	-	8	20	-	7	26	-	14
MPC meeting	10-11	7-8	7-8	4-5	11-12	6-7	4-5	-	5-6	3-4	7-8	4-5
MPC minutes	26	23	23	21	25	22	-	24	21	19	23	21
Flash GDP*		14			16			16			14	
GDP*		28			31			31			30	
CPI	13	13	14	11	12	12	11	11	11	12	13	11
Core inflation	16		15	12	15	13	12	14	12	13	14	12
PPI	19	17	17	20	19	20	19	18	19	18	20	19
Industrial output	19	17	17	20	19	20	19	18	19	18	20	19
Retail sales	19	17	17	20	19	20	19	18	19	18	20	19
Gross wages,employment	18	16	16	19	18	19	18	17	18	17	17	18
Foreign trade					about 50 working days after reported period							
Balance of payments*			31									
Balance of payments	13	13	16	13								
Money supply	13	14	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 16	Mar 16	Apr 16	May 16	Jun 16	Jul 16	Aug 16	Sep 16	Oct 16	Nov 16	Dec 16	Jan 17	Feb 17E	Mar 17E
PMI	pts	52.8	53.8	51.0	52.1	51.8	50.3	51.5	52.2	50.2	51.9	54.3	54.8	54.2	53.5
Industrial production	% YoY	6.8	0.7	6.0	3.2	6.0	-3.4	7.5	3.2	-1.3	3.1	2.1	9.0	0.8	5.9
Construction production	% YoY	-10.5	-15.8	-14.9	-13.7	-13.0	-18.8	-20.5	-15.3	-20.1	-12.8	-8.0	2.1	-3.5	2.4
Retail sales [a]	% YoY	3.9	0.8	3.2	2.2	4.6	2.0	5.6	4.8	3.7	6.6	6.4	11.4	9.1	8.2
Unemployment rate	%	10.2	9.9	9.4	9.1	8.7	8.5	8.4	8.3	8.2	8.2	8.3	8.6	8.5	8.2
Gross wages in corporate sector	% YoY	3.9	3.3	4.6	4.1	5.3	4.8	4.7	3.9	3.6	4.0	2.7	4.3	3.9	4.1
Employment in corporate sector	% YoY	2.5	2.7	2.8	2.8	3.1	3.2	3.1	3.2	3.1	3.1	3.1	4.5	4.5	4.3
Exports (€)	% YoY	5.4	0.0	4.0	1.4	6.0	-5.2	9.2	2.7	-2.3	4.7	6.7	15.5	3.8	6.8
Imports (€)	% YoY	7.4	0.9	0.0	2.5	0.8	-6.9	10.8	3.1	2.1	6.2	9.0	16.7	10.1	3.3
Trade balance	EUR mn	200	337	487	375	641	-327	-409	2	-128	151	-151	354	-688	895
Current account balance	EUR mn	-652	-217	691	1,392	-723	-993	-739	-445	-531	-188	-533	2,079	-887	551
Current account balance	% GDP	-0.5	-0.8	-0.9	-0.8	-0.5	-0.5	-0.5	-0.5	-0.6	-0.6	-0.5	-0.2	-0.3	-0.1
Budget deficit (cumulative)	PLN bn	-3.1	-9.6	-11.1	-13.5	-18.7	-14.4	-14.9	-20.6	-24.6	-27.6	-46.3	6.7	2.0	-3.0
Budget deficit (cumulative)	% of FY plan	5.7	17.5	20.3	24.6	34.1	26.3	27.3	37.7	45.0	50.4	84.6	-11.4	-3.4	5.1
CPI	% YoY	-0.8	-0.9	-1.1	-0.9	-0.8	-0.9	-0.8	-0.5	-0.2	0.0	0.8	1.8	2.0	2.1
CPI excluding food and energy	% YoY	-0.1	-0.2	-0.4	-0.4	-0.2	-0.4	-0.4	-0.4	-0.2	-0.1	0.0	0.1	0.1	0.3
PPI	% YoY	-1.5	-1.9	-1.2	-0.4	-0.8	-0.5	-0.1	0.2	0.6	1.8	3.2	4.1	4.6	5.2
Broad money (M3)	% YoY	10.1	9.1	11.6	11.6	11.4	10.7	10.1	9.4	8.7	9.7	9.6	8.5	8.3	8.2
Deposits	%YoY	10.4	9.4	11.6	11.8	11.3	10.6	9.9	9.1	8.7	9.6	9.1	8.2	7.7	7.6
Loans	%YoY	5.8	4.4	6.7	5.0	4.6	4.7	3.7	3.7	3.9	4.8	4.7	3.4	3.1	3.6
EUR/PLN	PLN	4.40	4.29	4.31	4.41	4.40	4.40	4.30	4.32	4.31	4.39	4.44	4.37	4.31	4.33
USD/PLN	PLN	3.96	3.87	3.80	3.90	3.92	3.98	3.84	3.86	3.91	4.07	4.20	4.11	4.05	4.11
CHF/PLN	PLN	3.99	3.93	3.94	3.99	4.04	4.05	3.96	3.96	3.96	4.08	4.13	4.08	4.04	4.00
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	%	1.69	1.67	1.67	1.67	1.69	1.71	1.71	1.71	1.72	1.73	1.73	1.73	1.73	1.73
Yield on 2-year T-bonds	%	1.46	1.44	1.48	1.54	1.70	1.66	1.61	1.71	1.75	1.85	1.95	2.01	2.20	2.10
Yield on 5-year T-bonds	%	2.26	2.18	2.25	2.24	2.38	2.24	2.14	2.26	2.43	2.74	2.80	2.94	3.15	3.10
Yield on 10-year T-bonds	%	3.03	2.88	2.95	3.04	3.11	2.89	2.71	2.85	3.01	3.41	3.55	3.69	3.82	3.75

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

		2014	2015	2016	2017E	1Q16	2Q16	3Q16	4Q16	1Q17E	2Q17E	3Q17E	4Q17E
GDP	PLN bn	1,719.7	1,798.3	1,852.5	1,942.2	428.3	449.4	453.4	521.4	447.7	471.1	476.7	546.7
GDP	% YoY	3.3	3.9	2.8	2.9	3.0	3.1	2.5	2.7	2.7	2.9	3.3	2.8
Domestic demand	% YoY	4.7	3.4	2.8	2.9	3.9	2.2	2.9	2.4	2.7	3.1	3.1	2.8
Private consumption	% YoY	2.6	3.2	3.6	4.1	3.2	3.3	3.9	4.2	4.2	4.2	4.0	4.0
Fixed investments	% YoY	10.0	6.1	-5.5	2.0	-2.2	-5.0	-7.7	-5.8	-3.0	-1.0	3.5	5.0
Industrial production	% YoY	3.4	4.8	2.9	4.1	3.0	5.7	2.5	1.5	5.2	2.2	4.6	4.3
Construction production	% YoY	4.3	0.3	-14.6	4.2	-12.2	-13.9	-18.1	-13.2	0.4	0.6	7.1	6.4
Retail sales [a]	% YoY	3.1	1.5	3.9	8.0	1.9	3.5	4.1	5.6	9.6	9.3	7.6	5.8
Unemployment rate [b]	%	11.4	9.7	8.3	7.2	9.9	8.7	8.3	8.3	8.2	7.3	7.1	7.2
Gross wages in the national economy [a]	% YoY	3.6	3.3	3.8	4.6	3.1	4.3	4.1	3.7	4.1	4.1	3.8	5.7
Employment in the national economy	% YoY	0.2	0.9	2.3	3.3	2.1	2.4	2.4	2.3	3.3	3.1	3.0	2.6
Exports (€)	% YoY	6.4	8.5	2.5	6.6	1.4	3.8	1.9	2.9	8.5	4.0	7.0	7.0
Imports (€)	% YoY	8.3	5.0	2.9	7.5	2.9	1.1	1.9	5.7	9.7	5.5	7.7	7.2
Trade balance	EUR mn	-3,255	2,213	1,616	156	976	1,503	-735	-128	560	917	-1,092	-229
Current account balance	EUR mn	-8,534	-2,653	-2,261	-979	-186	1,357	-2,180	-1,252	1,743	879	-2,443	-1,158
Current account balance	% GDP	-2.1	-0.6	-0.5	-0.2	-0.8	-0.5	-0.5	-0.5	-0.1	-0.2	-0.2	-0.2
General government balance	% GDP	-3.4	-2.6	-2.8	-3.2	-	-	-	-	-	-	-	-
CPI	% YoY	0.0	-0.9	-0.6	2.0	-0.9	-0.9	-0.8	0.2	2.0	2.0	2.0	1.9
CPI [b]	% YoY	-1.0	-0.5	0.8	1.6	-1.1	-0.8	-0.5	0.8	2.1	1.8	2.1	1.6
CPI excluding food and energy	% YoY	0.6	0.3	-0.2	0.9	-0.1	-0.3	-0.4	-0.1	0.2	0.7	1.0	1.5
PPI	% YoY	-1.5	-2.2	-0.2	3.9	-1.5	-0.8	-0.1	1.9	4.6	4.3	4.1	2.8
Broad money (M3) [b]	% oY	8.2	9.1	9.6	9.0	9.1	11.4	9.4	9.6	9.4	9.3	9.1	9.0
Deposits [b]	%YoY	9.0	9.0	9.1	9.1	9.4	11.3	9.1	9.1	9.1	9.1	9.1	9.1
Loans [b]	%YoY	7.2	6.9	4.7	4.3	4.4	4.6	3.7	4.7	4.6	4.5	4.4	4.3
EUR/PLN	PLN	4.18	4.18	4.36	4.33	4.37	4.37	4.34	4.38	4.34	4.35	4.32	4.30
USD/PLN	PLN	3.15	3.77	3.95	4.00	3.96	3.87	3.89	4.06	4.09	4.07	3.94	3.89
CHF/PLN	PLN	3.45	3.92	4.00	3.94	3.98	3.99	3.99	4.06	4.04	3.96	3.91	3.86
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
3M WIBOR	%	2.52	1.75	1.70	1.73	1.69	1.68	1.71	1.73	1.73	1.73	1.73	1.73
Yield on 2-year T-bonds	%	2.46	1.70	1.63	2.23	1.45	1.57	1.66	1.85	2.10	2.17	2.27	2.37
Yield on 5-year T-bonds	%	2.96	2.21	2.35	3.19	2.23	2.29	2.22	2.66	3.06	3.17	3.23	3.28
Yield on 10-year T-bonds	%	3.49	2.69	3.04	3.86	2.98	3.04	2.82	3.32	3.75	3.85	3.90	3.93

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 10.03.2017 has been prepared by:

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