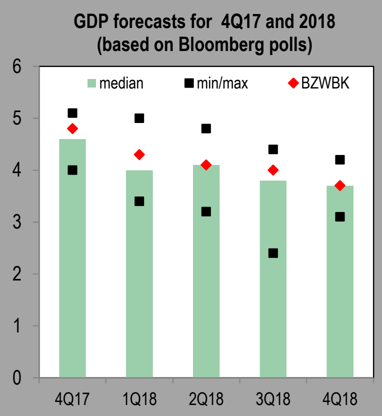
Bank Zachodni WBK
Grupa Santander

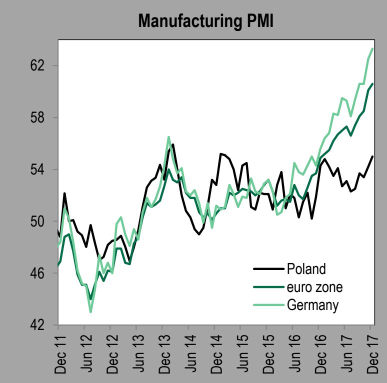
MACROscope

Polish Economy and Financial Markets

January 2018

A Rising Tide Lifts our Boat





■ The process of upward revisions of economic forecasts for Poland continues as the local economic data still provide positive surprises and the global economic outlook is also improving, with economic climate indicators climbing to record high levels. Recently the World Bank has lifted its GDP growth forecast for Poland to 4.5% in 2017 and 4.0% y/y in 2018, which is in line with our view presented in the 2018 Outlook in December. The first estimate of GDP growth for 2017 will be released at the end of January and, although we keep our forecast unchanged since December, we would not rule out another positive surprise as GDP growth in the final quarter of last year could have remained close to 5% y/y.

■ The situation on the labour market remains a big puzzle. Although the rising share of companies are complaining that the supply of workers is drying up and the shortage of labour is the top obstacle constraining their business expansion, the statistical data show that employment growth not only remains strong but even accelerated in recent months. According to the Social Insurance Institution (ZUS) the number of new old-age pensions granted after the reduction of retirement age exceeded 300k, which implies – according to our estimates – that at least 90k people had to quit their jobs at least for a while. And yet, this has failed to disrupt the positive trend in employment. Possibly, vast majority of new retirees resumed the professional activity very shortly (even one day) after getting the pension eligibility. Another explanation could be higher inflow of workers from Ukraine or a rise in labour participation rate. Nevertheless, we still expect that building labour market pressures will push wage growth up significantly this year, even to double-digit levels.

■ The headline inflation rate has dropped in December to 2.0% from 2.5% y/y in November, in line with our forecast and due to very high base effect. We think that the statistical effects will keep affecting inflation this year, and after a temporary rise above the 2.5% target in mid-year, the CPI growth will descend once again towards 2% by year-end. At the same time, core inflation should be mounting gradually throughout the year, to c.2% y/y in December.

■ The fluctuation of the headline inflation in 2018 without a clear upward trend will be probably a good enough excuse for the central bank to keep interest rates on hold for as long as possible. The January MPC's press conference was a show of dovishness and we still assume the first rate hike to take place not earlier than in November 2018.

■ The zloty was gaining at the turn of the year amid high demand for risky assets. However, early 2018 saw Polish currency giving up part of recent gains mainly owing to stronger dollar, in our view. We expect this trend to continue in the weeks to come as the US currency might become stronger in the short term.

■ Core debt markets started 2018 with rising yields, while Polish bonds remained more stable. We expect strengthening of short-term and floating-coupon bonds in the coming weeks, due to dovish MPC rhetoric and limited bonds supply in January. Long end of the curve may remain under pressure of situation on the core markets.

In this issue:

ECONOMIC ANALYSIS DEPARTMENT:

al. Jana Pawła II 17, 00-854 Warszawa fax +48 22 5868340

email: ekonomia@bzwbk.pl Website: skarb.bzwbk.pl

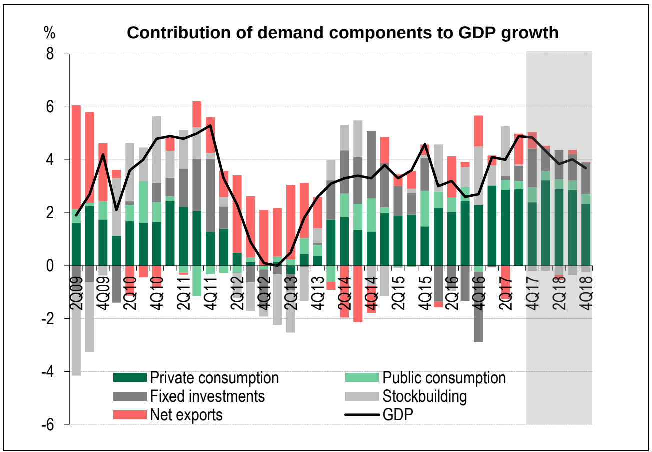
Maciej Reluga (chief economist)	+48 22 534 18 88
Piotr Bielski	+48 22 534 18 87
Marcin Luziński	+48 22 534 18 85
Grzegorz Ogonek	+48 22 534 19 23
Konrad Soszyński	+48 22 534 18 86
Marcin Sulewski	+48 22 534 18 84

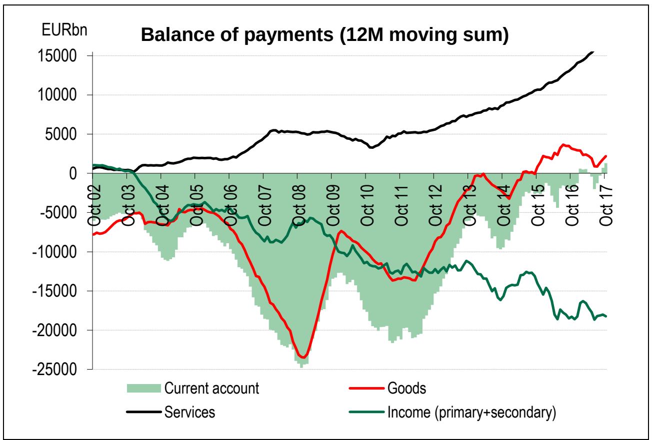
Financial market on January 11, 2018:

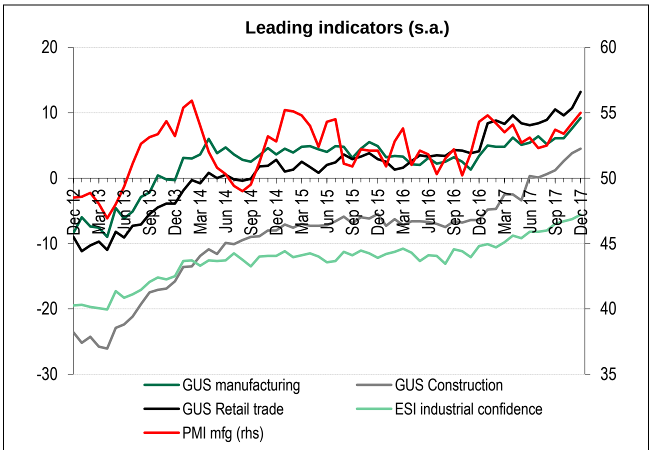
NBP deposit rate	0.50	WIBOR 3M	1.72	EURPLN	4.1758
NBP reference rate	1.50	Yield on 2-year T-bond	1.61	USDPLN	3.4950
NBP lombard rate	2.50	Yield on 10-year T-bond	3.34	CHFPLN	3.5683

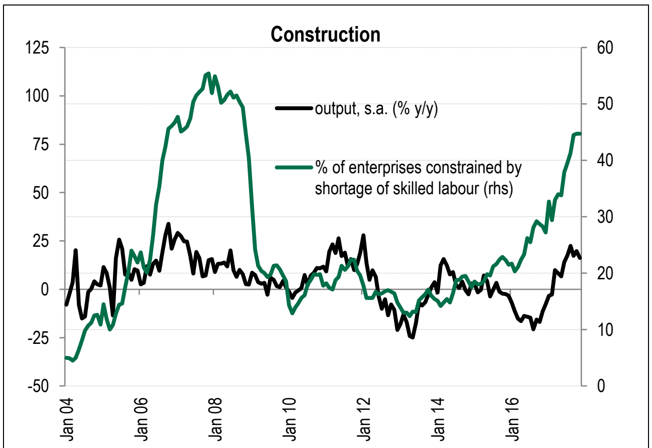
This report is based on information available until 11.01.2018.

Economic update









Source: GUS, Eurostat, NBP, European Commission, Markit, BZ WBK.

Another positive GDP surprise coming?

▪ Economic activity data in October and November remained strong, suggesting another high GDP reading in 4Q. Average growth of industrial output in 4Q should be around 7.9% y/y vs 6.4% in 3Q, and real growth of retail sales might have averaged at 8.6% y/y vs 7.1% in 3Q. Foreign trade data surprised positively when it comes to trade balance in 3Q and in October. Various business sentiment indicators showed continued improvement. All this suggests we could see another outstanding GDP result in 4Q, despite a record-long phase of recovery, which encourages to search for signs of stabilization, and despite high base from 4Q16 when GDP rose 1.8% q/q. Our forecast for 4Q GDP is 4.8% y/y, but we would not rule out another positive surprise, as the risk is clearly skewed to the upside.

Very good foreign trade balance in 4Q

▪ Trade balance in both goods (cEUR+0.6bn) and in services (cEUR+1.6bn) for October was the highest among all Octobers since at least 2004. While in all months of 1H17 imports grew faster in y/y terms than exports, in 2H so far it was the other way round. Export growth accelerated from 10% y/y to 15.4% in October while import growth from 7.5% to 12.9%. This bodes well for net exports contribution to 4Q GDP growth, which should stay positive, but just not as high as in 3Q. The trade balance in goods and services for 4Q might be near EUR+5.8bn, compared to EUR+3.2bn in 4Q16.

Strong signal from sentiment indicators

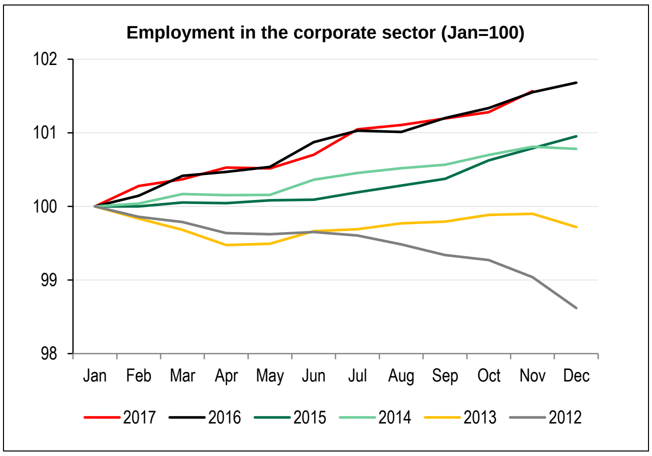
▪ According to the Stats Office, business sentiment was on the rise in both November and December in manufacturing, construction and trade sectors. All the European Commission's sectoral indices of economic sentiment also rose in Poland in December. Such outcomes are in line with the improvement registered by the PMI for this month: the index finally broke above the January top and since autumn it started to rise in line with systematic improvement in German and euro zone indicators, while in 1H17 it clearly lagged behind them. New orders were particularly strong recently, and in many aspects business sentiment is now the strongest since 2008.

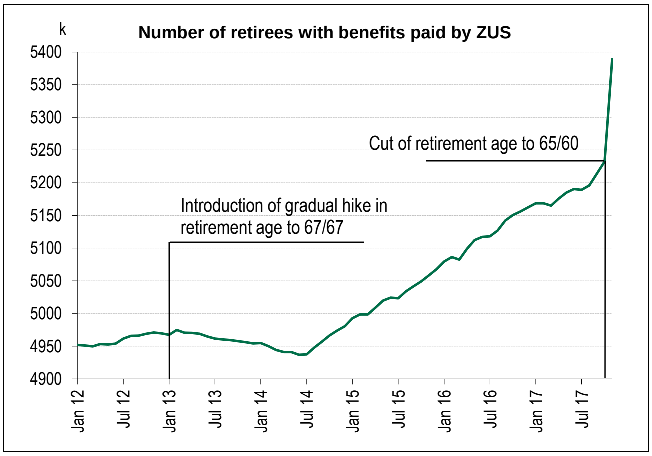
▪ The tight labour market situation continued to manifest itself in the survey-based indicators. The employment component in industry, describing labour demand, rose to the strongest level since January 2008. Construction enterprises were more and more preoccupied with labour shortages with every month of 2H17 and according to ESI survey in December 42.4% of the sector considered lack of workers to be a factor limiting current activity. Apparently, the labour market issue did not however put a cap yet on overall sentiment and current output of economic sectors. Construction and retail were the two main sectors where business sentiment improved the most during 2017.

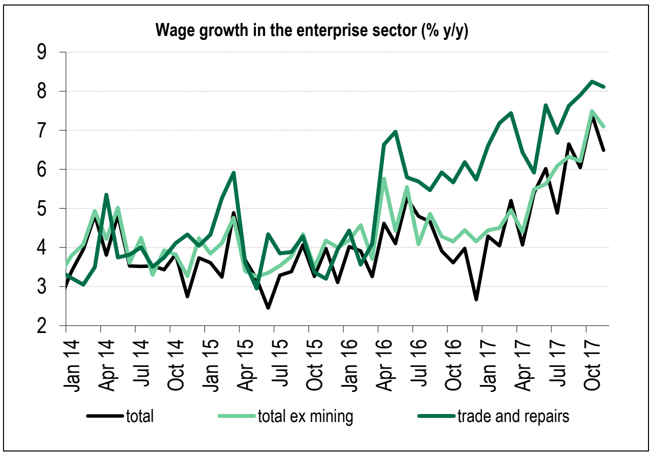
Investment push

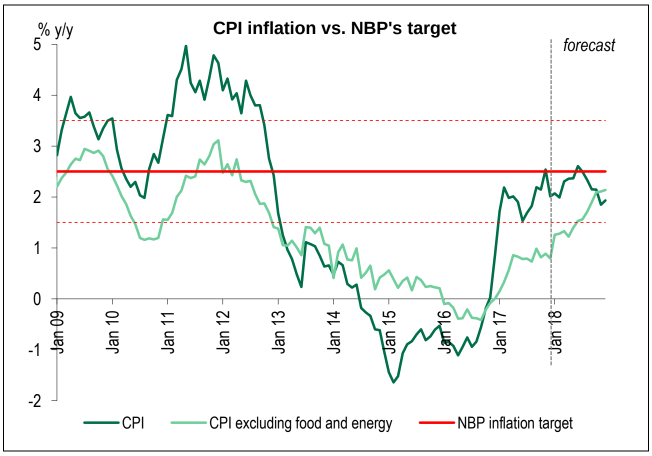
▪ We remain of the view that 2018 will be quite challenging for the building sector, because of not only scarce unutilized labour resources, but also cost issues: pressure on wage hikes and building materials getting more expensive. As a consequence, the contribution of the construction sector to GDP growth in all quarters of 2018 may be lower than in 3Q (1.3 pp), despite the sectoral value added still growing at a solid double-digit pace. That said, the 4Q17 was surprisingly strong as far as construction output is concerned, with November reading defying the negative base effect (19.8% y/y vs. market expectations at 14%) and above 20% y/y in October. This suggests that finally there could be a meaningful input from investments to y/y economic growth in 4Q (in 3Q it was still only 0.6 pp, below the long-term average). We think fixed investments grew by 6% y/y in this period.

Economic update









Source: GUS, NBP, ZUS, BZ WBK,.

Employment puzzle

- After the lowering of retirement age at the start of October, it is even harder to make a consistent story from the labour market data. Despite all the complaints of companies expressed in business sentiment surveys about the drying supply of workers and with the shortage of labour as the top obstacle constraining their business expansion, the statistical data show that employment growth not only remains strong but even accelerated in recent months. Since the Polish transformation, the only November when corporate employment growth was as strong as last year was in 2006, when the economy was booming.
- Polish Social Insurance Institution (ZUS) informed that the number of pension applications received after the reduction of retirement age reached 395k until December, which implies that almost all eligible people decided to apply for retirement. The old-age pension was granted for as much as 313k people. According to ZUS, c.53% of applying people were inactive on the labour market. It implies that 186k people were economically active when applying, of which 54k still have their pensions rights suspended as they have not quit their current jobs. We estimate that c40k applicants were unemployed and have been removed from registers. This would leave some 90k new retirees who were employed when applying and had to quit their jobs to acquire the pension right. And yet, this has failed to disrupt the positive trend in employment, at least in November.
- Possibly, the 90k resumed their professional activity very shortly (even one day) after acquiring the right to pension. Another explanation why employment was strong in these circumstances could be higher inflow of workers from Ukraine or a rise in labour participation rate. Nevertheless, we still expect that labour market pressures are building up and will push wage growth up significantly this year, even to double-digit levels. We consider the November decline in corporate wage growth from 7.4% y/y to 6.5% just a one-off aberration.

Inflation surprised both ways

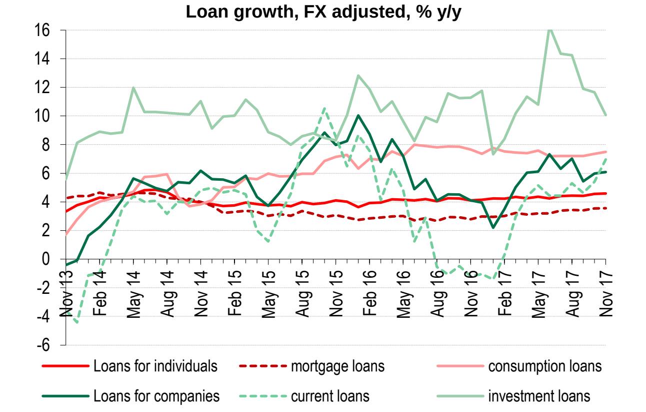
- The headline inflation rate dropped in December to 2.0% from 2.5% y/y in November, in line with our forecast and due to very high base effect. The market underestimated both the November surge of CPI and the scale of correction in December, expecting 2.1% y/y. As for the 2018 outlook, inflation should be ready for a rollercoaster ride. We think that the statistical effects will keep CPI near 2% in 1Q18, then inflation should pick up, breaching the 2.5% target in mid-year, only to descend again back towards 2% in the final months of the year – again, owing to base effects. At the same time, core inflation should be mounting gradually throughout the year, to c.2% y/y in December. This means core CPI would be responsible for more and more of the headline inflation as the year progresses.
- So far, in December core CPI most likely moved back form 0.9% y/y to 0.8%, leaving March 2017 as the last month when there was a substantial and lasting rise in this measure of inflation trend. However, three other core CPI measures were trending higher in y/y terms, in 2H17 gaining 0.5pp (CPI ex most volatile items), 0.7pp (trimmed mean CPI) and 1.2pp (CPI ex administered prices). Two of them were at c2% y/y in November while one topped CPI (reaching 2.7%).

Monetary policy watch

Excerpts from the MPC's official statement after its January meeting
The global economic conditions continue to improve. Data in the euro area signal further economic recovery, driven by an improvement in the labour market conditions, very good sentiment of economic agents, and a stronger world trade growth. Also in the United States economic conditions remain favourable. In China, in turn, incoming data indicate a slight slowdown in GDP growth.
Despite ongoing global recovery, inflation abroad remains moderate, on the back of persistently low domestic inflationary pressure in many countries. At the same time, prices of certain commodities, including oil, have risen in recent months.
The European Central Bank keeps interest rates close to zero, including the deposit rate below zero, while still purchasing financial assets. The US Federal Reserve increased interest rates in December and continues to shrink its balance sheet.
In Poland, incoming data point to continued good economic conditions. Growth continues to be driven primarily by consumer demand, supported by rising employment and wages, disbursement of benefits and very good consumer sentiment. This is accompanied by a recovery in investment, mainly in the public sector. Growth in economic activity is also supported by strong external demand, reflected in significant exports growth.
Annual consumer price growth declined and stands at a moderate level. At the same time – although wage growth is faster than in the previous quarters – core inflation net of food and energy prices remains low. In the Council's assessment, favourable economic conditions in the Polish economy will continue in the next quarters. Yet, GDP growth will probably be lower than in the second half of 2017. Taking into account the current information, the Council judges that inflation will remain close to the inflation target over the projection horizon. As a result, the current level of interest rates is conducive to keeping the Polish economy on the sustainable growth path and maintaining macroeconomic stability.

Labour productivity vs wages

Loan growth, FX adjusted, % y/y



Sources: GUS, NBP, Eurostat, BZ WBK.

Blunted claws of MPC's hawks…

▪ The Monetary Policy Council kept the main interest rates unchanged in January, with the reference rate at 1.5%. The official MPC communique did not change significantly, with the most important part stating that inflation will remain close to the inflation target over the projection horizon, so the current level of interest rates is conducive to keeping the Polish economy on the sustainable growth path and maintaining macroeconomic stability.

▪ Eugeniusz Gatnar, one of the most hawkish MPC members, was present at the conference and he presented a rather dovish view, in contrast to his earlier quite hawkish remarks. According to Gatnar, December's inflation (2.0% y/y) was lower than expected (a bit earlier Glapiński said it was exactly in line with forecasts of central banks' analytical team) and this encouraged him to revise view presented in November that rates could be hiked in 1Q18. Currently, Gatnar would like to wait until March's projection to see what is happening with the inflation trends. MPC member said also that CPI in 2.0-3.5% range would not worry him.

▪ Data released in December (lower inflation and wage growth) were generally supportive for the Council's rhetoric and did not provide hawks with any new arguments. NBP president Adam Glapiński reiterated his claim that interest rates should remain on hold until the end of 2018 and even extended this period into 2019.

▪ Jerzy Kropiwnicki, also present at the press conference, argued that labour market trends are moderate and contained, generating no risk for price growth. Kropiwnicki also claimed that wage growth in Poland is slower than productivity growth, which is clearly at odds with the statistical data.

▪ January's meeting clearly showed that the hawkish faction of in the Monetary Policy Council has lost strength. Meanwhile, the NBP president Adam Glapiński is extremely satisfied with the current monetary policy and called its current state "wait and support".

… So rates will remain on hold

▪ In our view the wage pressure in Polish economy will intensify and next months will see a gradual acceleration of wage growth due to deepening labour shortage. The underlying inflationary pressure will also build gradually, which will be reflected in a steadily mounting core inflation (ex food and energy) towards 2% at the year-end. However, due to the statistical effects the headline CPI rate will be jumping up and down during the year without a clear trend. And it should be good enough argument for the dovish Monetary Policy Council to keep interest rates on hold, at least until November 2018.

No significant change in loans and deposits

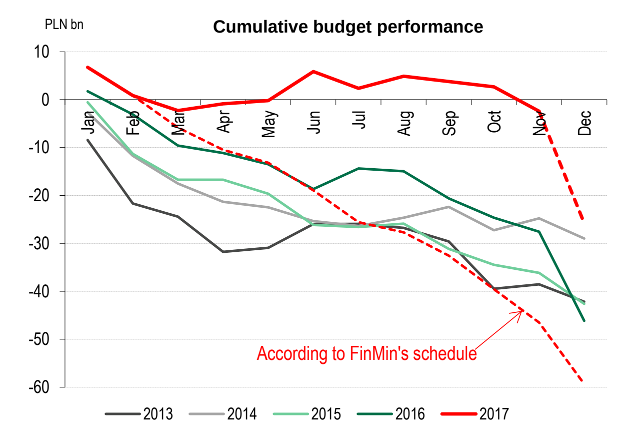
▪ The second half of 2017 saw no significant changes in trends on loan and deposit market in Poland.

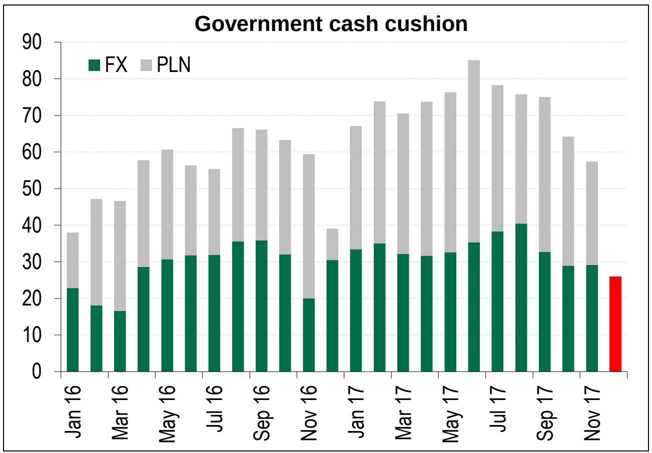
▪ Loans for individual clients slowed down at the end of last year, but mainly due to zloty appreciation, while the FX-adjusted pace of growth remained stable, according to our estimates, at slightly above 4% y/y. Mortgage credit (after FX adjustment) was accelerating slightly in recent months, with PLN-denominated loans rising 11% y/y in November. Consumer loans stabilised in 7-7.5% y/y range. As regards loans for companies, investment loans decelerated slightly (from over 16% y/y in the middle of the year to 10% in November), while current loans accelerated from 4.4% y/y in June to 7% in November.

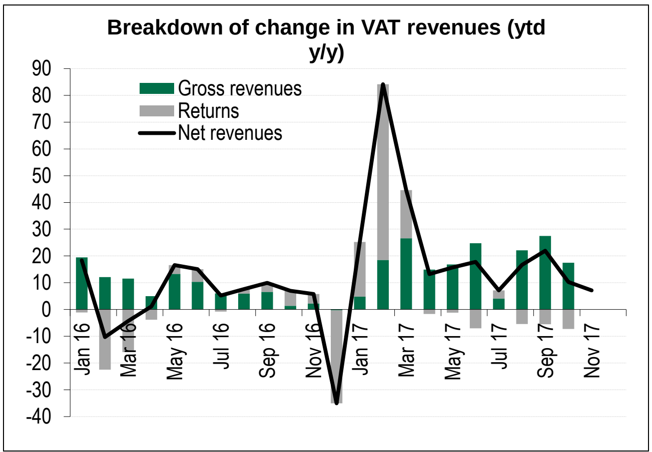
▪ The deposit growth has stabilized near 5% y/y, with a continuing shift from term to on-demand deposits.

▪ Environment remains supportive for some rebound in credit growth, in our view, as investment demand seems to be high as well as consumer propensity to consume. Meanwhile, personal deposits should be strongly supported by acceleration of households' labour income.

Fiscal policy watch







Upcoming rating reviews

Agency	Rating	Date
S&P	Foreign currency: BBB+ Outlook: neutral	13 Apr, 12 Oct
Fitch	Foreign currency: A- Outlook: neutral	8 Jun, 12 Oct
Moody's	Foreign currency: A2 Outlook: neutral	23 Mar, 14 Sep

Source: Finance Ministry, Bloomberg, S&P, Fitch, Moody's, BZ WBK.

Major rise in deficit at year-end

- After November, the Polish central budget recorded a deficit of PLN2.4bn. In monthly terms, the balance deteriorated by PLN5bn, less than assumed in the MinFin schedule, but more than in the previous years. In December we are expecting the deficit to rise to PLN25bn (Finance Minister said it will be lower than PLN30bn) with the general government deficit close to 2% of GDP.
- In December, the government cash cushion dropped from PLN57.4bn to PLN25.9bn. A part of this sum was spent on debt buybacks (net debt issuance was negative in December at –cPLN4bn), but in our view a lion's share was used to finance expenditure and higher tax returns.
- Net VAT revenues grew by 7% y/y in November, which was one of the lowest rate recorded in 2017. It is likely that VAT growth rate was undermined by higher VAT returns. Data on VAT returns, which we acquired from the Finance Ministry, showed a strong rise already in October (+16.0% y/y / PLN1bn), while gross VAT revenues were rising steadily at about 12% y/y. In our view, in 2017 the Ministry accelerated VAT returns as it did in December 2016 in order to improve its fiscal stance at the start of 2018.
- It seems that spending gained speed in November. Even though it was still lower than planned in the schedule (96.2% of the plan), it was markedly higher than in the previous months (94.6% on average). It is likely that expenditures went up due to the budget amendment approved in November, elevating spending limits for some categories, e.g. health by PLN9-11bn in total.

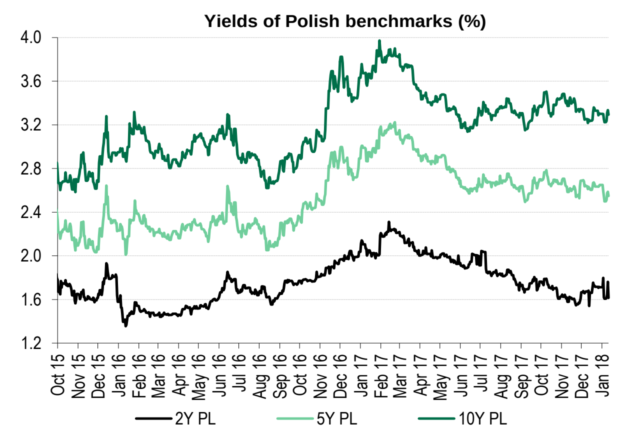
Government revamp

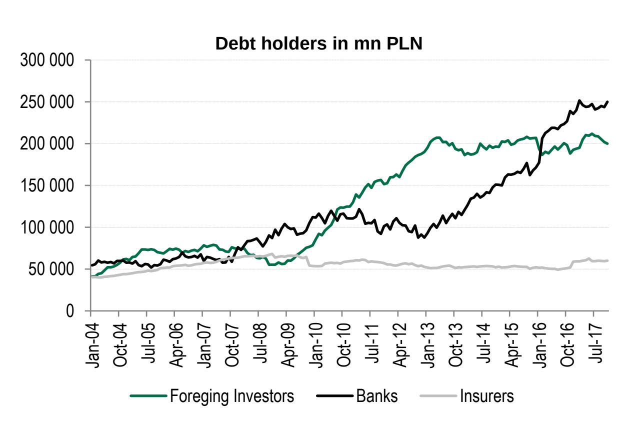
- On 9 Jan 2018 prime minister Mateusz Morawiecki presented his refreshed cabinet, with Teresa Czerwińska responsible for finance, Janusz Kwieciński for investment and development, Jadwiga Emilewicz for entrepreneurship and technology, Łukasz Szumowski for health, Henryk Kowalczyk for environment, Joachim Brudziński for internal affairs, Mariusz Błaszczak for national defence and Jacek Czaputowicz for foreign affairs.
- Teresa Czerwińska served as deputy finance minister responsible for the budget since June 2017. In our view, the finance minister will not be a creator of economic policies but rather a guardian of the fiscal discipline. Thus, we expect the revamp to have no major impact on the economic policy.

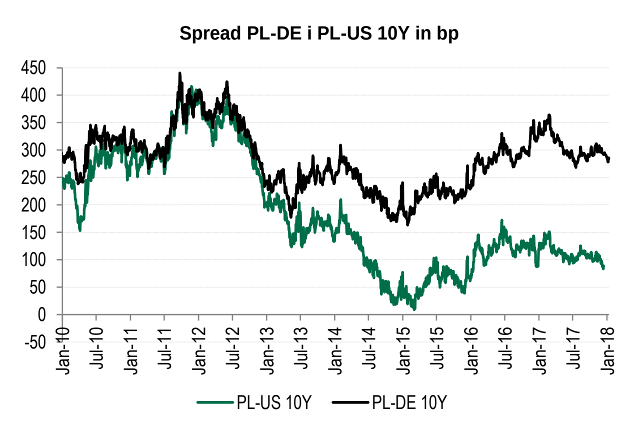
No rating changes expected

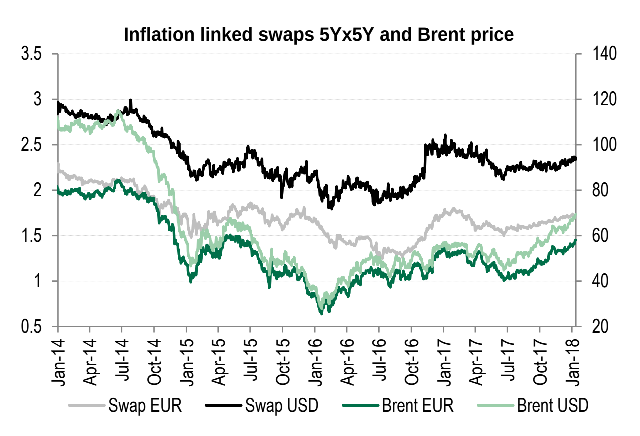
- We are not expecting changes in Poland's credit rating in 2018. Even though 2017 was better than expected in terms of economic growth and deficit, encouraging rating agencies to revise their forecasts for Poland, changes in the judiciary and conflict with the EU are likely to weigh on Poland's institutional strength assessment.
- The S&P agency lowered its forecasts of Poland's debt and deficit. General government deficit is expected at 2.0% of GDP in 2018 (vs 2.8% expected earlier) and at 2.5% until 2020. Debt-to-GDP is expected at 48.6% in 2020 (vs. 50.3% in previous forecast GDP forecast is above 4% in 2018. The agency assessed that the Polish economy is close to overheating. Demographic situation is the main factor limiting the economic growth.
- The Fitch agency assessed that launch of Article 7 procedure generates no short-term impact on public finance and GDP growth. However, according to the agency, risk of lower EU funds for Poland in the new financial framework 2021-2027 can weigh on the budget. Draft EU budget is to be presented by the European Commission in May 2018. The Fitch warned also of slowing potential growth in Poland. According to the agency, this is a result of population ageing and lower productivity. Moreover, Fitch analysts view that higher social spending and lower retirement age are negative for the labour activity.

Interest rate market









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

The yields went down driven by excellent budget results

- At The end of 2017 and beginning of the current year were marked by falling domestic yield curve, with simultaneous yields of core markets bonds increases. Only for a moment in mid-December, we saw temporary upshift of the long end of the yield curve as a reaction to the stronger move on the same segment of the core markets yield curve. Regardless of that, over the whole period, we have been observing spread compression against the Bunds and US-treasuries. The reason for the fall in spreads were expected improvement of the budget result at the end of the year and information about marketable sovereign debt decrease. Moreover, the domestic bonds were supported by information about inflation slide to 2.0% y/y in December from 2.5% y/y in November. This information was reflected in strong demand on the first this year regular bond auction, where a bid to cover ratio was 2.3 (vs. 2.1 average in 2017). As a result, since the beginning of December, the yield curve has moved down by 4 bp in the 2Y segment, 7 bp in 5Y and remained stable in 10Y.

In January, the low level of net debt supply to help the short-term bonds

- This month, we expect increases in Polish bond prices, mainly in the segment up 5Y and in the floating-coupon bonds. Bond prices rise should be favoured by the calendar of auctions and redemption, which do not leave too much room for strong yields increases due to the very limited increase in net debt this month. The differences between announced maximum debt supply (PLN9bn) on the regular auction and face value of matured bonds (PLN8.6bn), in January, will likely be less than PLN0.5bn. In our opinion, expected gradual increase of the share of short-term deposits and rising banking sector balance sheet will be reasons for the solid demand for liquid assets (i.e. t-bonds). Alternatives for T-bonds would be the t-bills or NBP-bills. However, lack of issue of t-bills and higher taxation (income tax and assets tax) of NBP-bills (the nominal yield of NBP-bill is 1.5%, while the after-tax yields are slightly below 1.0%) cause that t-bonds remain the most attractive choice for the banking sector.

The longer bonds could be hit by rising yield of the core markets

- The bonds with maturity above 5Y could become slightly cheaper in the short term. We think that it will be driven by last days increase of 10Y core bonds yield, especially after the Bank of Japan decision to join the central banks which decided to scale back their balance sheets. Moreover, since late summer last year, the increase in inflation-linked swap rates has been progressing with the increase in raw material prices (especially the oil) and, as a consequence, the rise of long-term yields of bonds. However, we think that perspectives for the increases of yields of the domestic long-term bond are limited. Forced by the policy of low-interest rates, the shift in the structure of buyers of bonds towards a larger share of domestic financial institutions will, in our opinion, be an effective blockade against strong increases of yields. This factor is already reflected in the compression of 10Y PL bond spread to the corresponding Bunds and US-treasuries.

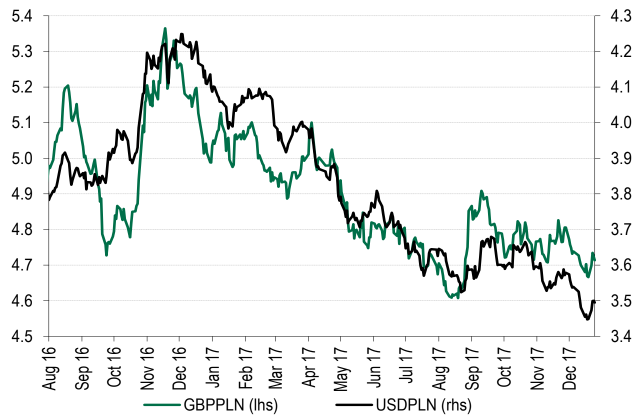
In February, the shorter bonds could temporarily suffer

- At the end of the quarter horizon, we see some room for falling prices of bonds from short and middle part of the curve. Main reason of that will be that net supply of bonds in the following months is likely to be noticeably higher than in January (we estimate that it will amount to PLN 10-20 billion in February, compared to January PLN5.5-6.5bn). However, the bonds depreciation should not be large due to the expected increase in demand from the banking sector.
- We still see some room for IRS rates falls, which will likely be driven by the strong central bank declaration to remain rates on hold until the end of 2018 or even into 2019.

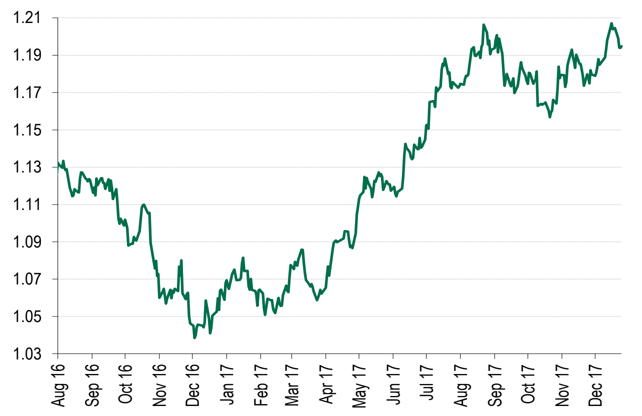
Foreign exchange market

EURPLN

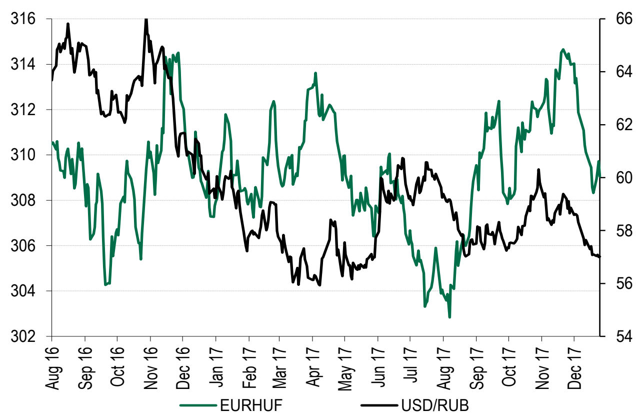
USDPLN and GBPPLN



EURUSD



EURHUF and USDRUB



Sources: Reuters, Bloomberg, BZ WBK.

Zloty may give up part of recent gains

- EURPLN stayed in the down trend at the turn of the year amid high demand for risky assets. The media reported that the Ministry of Finance was active on the FX market, selling euros in late 2017 which may have contributed to stronger zloty during lower liquidity at the year-end. The Decision of the European Commission to launch the procedure in Article 7 of the EU Treaty triggered only a marginal reaction. As a result, in early 2018 EURPLN broke the May's bottom and temporarily fell to 4.14, its lowest since August 2015.
- USDPLN plummeted to 3.44 (its lowest since late 2014), GBPPLN reached 4.66 (last seen in September). CHFPLN dropped to 3.52 which means that the zloty has recovered all losses suffered vs the Swiss franc on 15 of January 2015 when the SNB abandoned 1.20 floor on the EURCHF market.
- However, the next days of 2018 saw zloty giving up part of recent gains (mainly owing to stronger dollar, in our view) and we expect this trend to continue in the weeks to come.
- Technical analysis oscillators show EURPLN is oversold and implied volatilities are running at a multi-month lows. The 3M 25 delta risk reversal implied volatility is at the level last seen in late December 2015 (which is the lowest reading since 2008) and early 2016 showed a sharp rise of EURPLN to 4.50 from 4.20.
- We cannot see any factor that could trigger such a big move this time as in 2015 but this is yet another reason for us to stay cautious when betting for further zloty appreciation in the short term. Additionally, we think that the dollar could recover in the coming weeks (details below), weighing on the EM currencies.

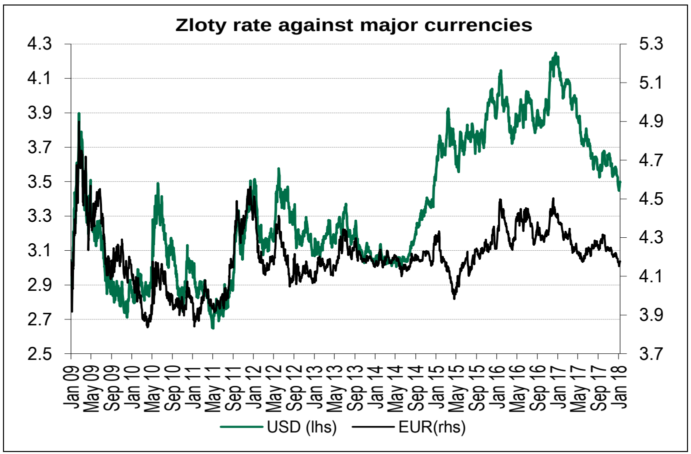
Time to take profit from EURUSD rally

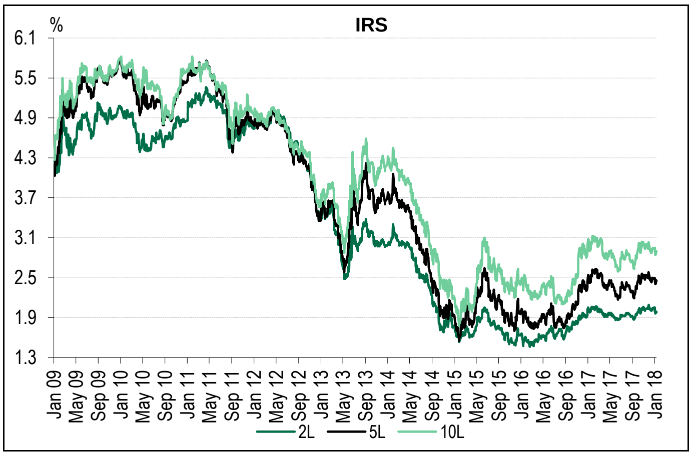
- Recent weeks have seen euro gaining vs the dollar thanks to strong European economic activity data, hawkish tone of the ECB minutes and progress in German coalition talks. At the same time, FOMC delivered a “dovish” hike in December which weighed on the US currency. As a result, EURUSD broke the 2017 peak at just below 1.21 and reached 1.204.
- The euro looks overbought given the monetary policy outlook and political situation in Europe.
- Angela Merkel may finally manage to form a government after the September parliamentary elections. However, in the short term the market may focus on the uncertainty related to the progress in the further Brexit negotiations. Also, it seems that EURUSD is too high given the Fed rate hikes are likely later in the year while the ECB is still in an easing-mode. We expect the exchange rate to correct to c1.15 until March and only then resume the upside trend.

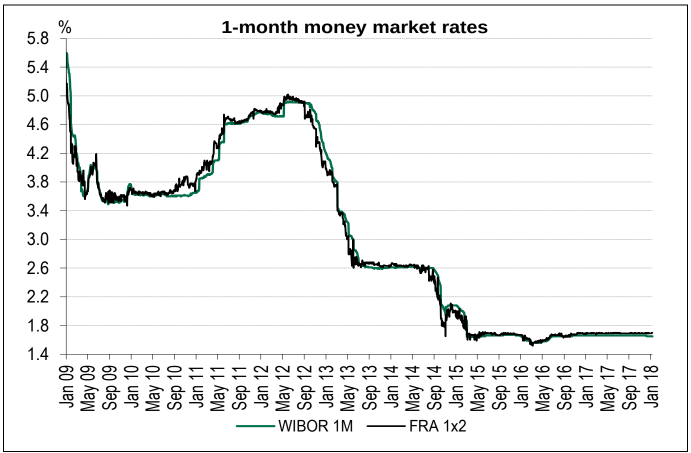
Volatile turn of year in CEE region

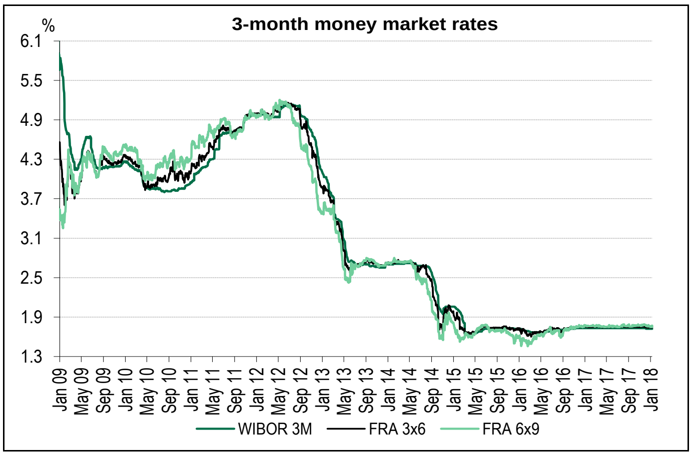
- EURCZK was pretty volatile at the year-end but this was the result of commercial bank's activity related to the balance sheet management. The exchange rate first jumped to 25.95 in the last days of 2017 and in mid-January is back close to 25.5. The Czech central bank refrained from a rate hike in December citing strong koruna as a reason for a pause. However, the policy normalization cycle should resume soon, providing mild support for the Czech currency.
- In November, the Hungarian central bank decided to take action aimed at reviving fixed rate mortgages. It decided to start buying fixed-income mortgage bonds in order to lower yields. This decision had only temporary negative impact on the forint – EURHUF rose to 315 in the weeks after the MNB decision and in mid-January the exchange rate is back close to 308.
- Since mid-November, USDRUB fell to 56.8 from 60.4 thanks to rising oil prices and weaker dollar worldwide.

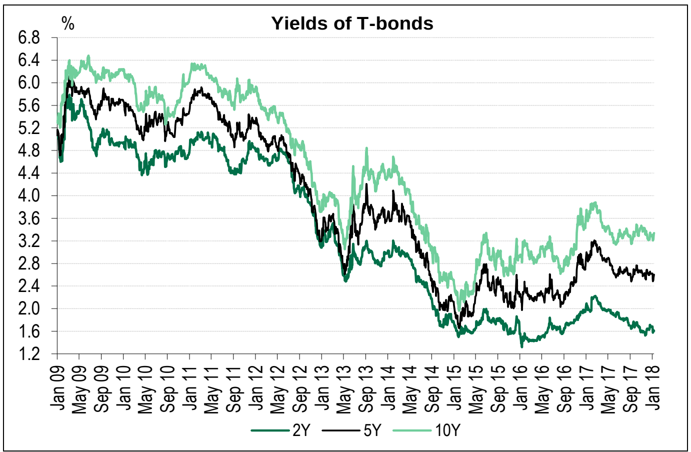
Market monitor

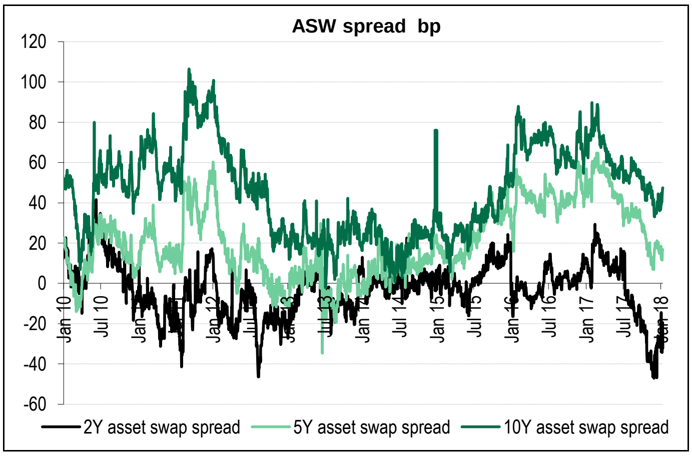




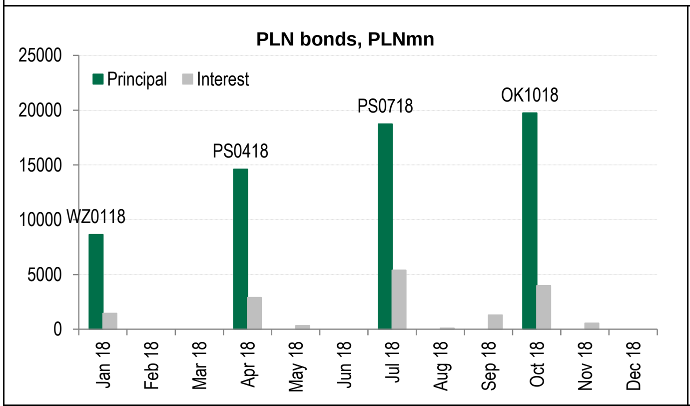


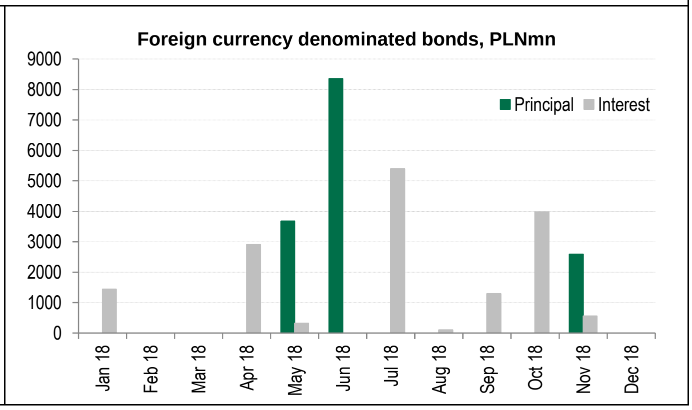






Principal and interest payments





Source: Finance Ministry, Reuters, BZ WBK.

Economic calendar

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
15 January ***PL: CPI (Dec)*** ***PL: Balance of payments (Nov)***	**16** ***PL: Core inflation (Dec)***	**17** ***PL: Wages and employment (Dec)*** EZ: CPI (Dec) US: Industrial output (Dec) US: Fed Beige Book	**18** US: House starts (Dec) US: Building permits (Dec) US: Philly Fed index (Jan)	**19** ***PL: Industrial output (Dec)*** ***PL: Retail sales (Dec)*** ***PL: PPI (Dec)*** US: Flash Michigan (Jan)
22	**23** ***PL: Money supply (Dec)*** DE: ZEW index (Jan)	**24** ***PL: Unemployment rate (Dec)*** DE: Flash PMI – services (Jan) DE: Flash PMI – manufacturing (Jan) EZ: Flash PMI – manufacturing (Jan) EZ: Flash PMI – services (Jan) US: Home sales (Dec)	**25** EZ: ECB decision DE: Ifo index (Jan) US: New home sales (Dec)	**26** US: Advance GDP (Q4) US: Durable goods orders (Dec)
29 US: Personal income (Dec) US: Consumer spending (Dec)	**30** ***PL: Flash GDP (2017)*** EZ: Flash GDP (Q4) US: Consumer confidence index (Jan) HU: Central bank decision	**31** EZ: Flash CPI (Jan) US: ADP report (Jan) US: Pending home sales (Dec) US: Decyzja FOMC	**1 February** ***PL: PMI – manufacturing (Jan)*** EZ: PMI – manufacturing (Jan) DE: PMI – manufacturing (Jan) US: ISM – manufacturing (Jan) CZ: Central bank decision	**2** US: Non-farm payrolls (Jan) US: Unemployment rate (Jan) US: Industrial orders (Dec) US: Michigan index (Jan)
5 DE: PMI – services (Jan) EZ: PMI – services (Jan) EZ: Retail sales (Dec) US: ISM – services (Jan)	**6** DE: Industrial orders (Nov) CZ: Industrial output (Dec)	**7** ***PL: MPC decision*** DE: Industrial output (Dec)	**8** DE: Exports (Dec)	**9**
12	**13** ***PL: Balance of payments (Nov)*** HU: CPI (Jan)	**14** ***PL.DE. EZ. HU: Flash GDP (Q4)*** US: CPI (Jan) US: Retail sales (Jan) EZ: Industrial output (Dec) CZ: CPI (Jan)	**15** ***PL: CPI (Jan)*** US: Philly Fed index (Feb) US: Industrial output (Jan)	**16** ***PL: Wages and employment (Jan)*** CZ: Flash GDP (Q4) US: House starts (Jan) US: Building permits (Jan) US: Flash Michigan (Feb)

Source: GUS, NBP, Bloomberg.

Calendar of MPC meetings and data releases for 2018

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
ECB decision	25	-	8	26	-	14	26	-	13	25	-	13
MPC decision	10	7	7	11	16	6	11	-	5	3	7	5
MPC minutes	-	22	29	27	-	21	-	23	20	25	22	20
Flash GDP*	30	14	-	-	15	-	-	14	-	-	14	-
GDP*	-	28	-	-	30	-	-	31	-	-	30	-
CPI	15	15	15	12	11	11	12	10	11	12	12	11
Core inflation	16	-	16	13	14	12	13	13	12	15	13	12
PPI	19	20	19	19	21	19	18	20	19	17	20	19
Industrial output	19	20	19	19	21	19	18	20	19	17	20	19
Retail sales	19	20	20	20	22	20	19	21	20	18	21	20
Gross wages,employment	17	16	16	18	18	18	17	17	18	16	19	18
Foreign trade					about 50 working days after reported period							
Balance of payments*	-	-	30									
Balance of payments	15	13	16	13								
Money supply	23	22	22	24								

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

Economic data and forecasts for Poland

Monthly economic indicators

		Dec 16	Jan 17	Feb 17	Mar 17	Apr 17	May 17	Jun 17	Jul 17	Aug 17	Sep 17	Oct 17	Nov 17	Dec 17E	Jan 18E
PMI	pts	54.3	54.8	54.2	53.5	54.1	52.7	53.1	52.3	52.5	53.7	53.4	54.2	55.0	55.2
Industrial production	% YoY	2.1	9.1	1.1	11.1	-0.6	9.2	4.4	6.2	8.7	4.2	12.3	9.1	2.2	9.4
Construction production	% YoY	-8.0	2.1	-5.3	17.2	4.3	8.4	11.6	19.8	23.5	15.3	20.3	19.8	10.2	15.3
Retail sales [a]	% YoY	6.4	11.4	7.3	9.7	8.1	8.4	6.0	7.1	7.6	8.6	8.0	10.2	10.9	8.9
Unemployment rate	%	8.2	8.5	8.4	8.0	7.6	7.3	7.0	7.0	7.0	6.8	6.6	6.5	6.6	6.9
Gross wages in corporate sector	% YoY	2.7	4.3	4.0	5.2	4.1	5.4	6.0	4.9	6.6	6.0	7.4	6.5	7.5	7.8
Employment in corporate sector	% YoY	3.1	4.5	4.6	4.5	4.6	4.5	4.3	4.5	4.6	4.5	4.4	4.5	4.6	2.3
Exports (€)	% YoY	9.0	15.1	6.4	19.7	3.2	19.2	7.2	13.3	11.5	10.0	15.4	13.2	8.5	11.4
Imports (€)	% YoY	9.8	16.0	10.5	19.8	4.6	21.7	14.5	13.2	7.8	7.5	12.9	11.0	12.2	12.9
Trade balance	EUR mn	48	477	-169	330	519	-83	-235	-172	162	466	597	608	-495	314
Current account balance	EUR mn	-106	2,548	-514	-405	350	-264	-892	-203	189	120	575	881	51	1,081
Current account balance	% GDP	-0.3	0.1	0.1	0.1	0.0	-0.1	-0.5	-0.3	-0.1	0.2	0.3	0.5	0.5	0.2
Budget deficit (cumulative)	PLN bn	-46.2	6.7	0.9	-2.3	-0.9	-0.2	5.9	2.4	4.9	3.8	2.7	-2.4	-25.8	7.5
Budget deficit (cumulative)	% of FY plan	84.3	-11.4	-1.4	3.8	1.5	0.3	-9.9	-4.0	-8.2	-6.4	-4.5	4.1	43.4	-18.1
CPI	% YoY	0.8	1.7	2.2	2.0	2.0	1.9	1.5	1.7	1.8	2.2	2.1	2.5	2.0	2.1
CPI excluding food and energy	% YoY	0.0	0.2	0.3	0.6	0.9	0.8	0.8	0.8	0.7	1.0	0.8	0.9	0.8	1.3
PPI	% YoY	3.2	4.0	4.5	4.8	4.2	2.4	1.8	2.2	3.0	3.2	3.0	1.8	0.6	0.5
Broad money (M3)	% YoY	9.6	8.5	8.2	7.8	6.7	6.3	5.0	5.0	5.4	5.4	5.7	4.5	4.2	4.7
Deposits	%YoY	9.1	8.3	7.7	7.3	6.1	5.7	4.5	4.6	5.0	5.0	5.3	4.2	4.8	5.2
Loans	%YoY	4.7	3.5	4.8	5.3	4.5	4.8	4.5	4.5	5.0	5.1	4.7	3.7	3.9	4.1
EUR/PLN	PLN	4.44	4.37	4.31	4.29	4.24	4.20	4.21	4.24	4.26	4.27	4.26	4.23	4.20	4.17
USD/PLN	PLN	4.20	4.11	4.05	4.02	3.96	3.80	3.75	3.68	3.61	3.59	3.63	3.60	3.55	3.50
CHF/PLN	PLN	4.13	4.08	4.04	4.01	3.95	3.85	3.87	3.83	3.74	3.73	3.69	3.63	3.60	3.57
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	%	1.73	1.73	1.73	1.73	1.73	1.73	1.73	1.73	1.73	1.73	1.73	1.73	1.72	1.73
Yield on 2-year T-bonds	%	1.95	2.01	2.20	2.08	1.98	1.95	1.94	1.89	1.80	1.73	1.71	1.60	1.66	1.66
Yield on 5-year T-bonds	%	2.80	2.94	3.15	3.02	2.87	2.79	2.61	2.65	2.65	2.61	2.69	2.62	2.63	2.68
Yield on 10-year T-bonds	%	3.55	3.69	3.82	3.66	3.42	3.35	3.19	3.30	3.33	3.27	3.39	3.40	3.27	3.25

Note: [a] in nominal terms, [b] at the end of the period.
Source: GUS, NBP, Finance Ministry, BZ WBK estimates.

Quarterly and annual economic indicators

		2015	2016	2017E	2018E	1Q17	2Q17	3Q17	4Q17E	1Q18E	2Q18E	3Q18E	4Q18E
GDP	PLN bn	1,798.3	1,858.6	1,983.7	2,107.9	456.0	476.2	487.4	564.1	486.7	506.4	518.6	596.1
GDP	% YoY	3.8	2.9	4.5	4.0	4.1	4.0	4.9	4.8	4.3	3.8	4.0	3.7
Domestic demand	% YoY	3.3	2.2	4.4	4.1	3.9	5.5	3.9	4.4	4.4	4.2	4.0	3.8
Private consumption	% YoY	3.0	3.9	4.8	4.9	4.7	4.9	4.8	4.8	5.0	4.9	4.8	4.7
Fixed investments	% YoY	6.1	-7.9	3.2	5.9	-0.5	0.9	3.3	6.0	7.2	6.9	5.9	4.8
Industrial production	% YoY	4.8	2.9	6.4	7.5	7.3	4.2	6.3	7.9	6.5	7.0	9.4	7.0
Construction production	% YoY	0.3	-14.6	13.3	8.6	5.6	8.4	19.3	16.0	12.9	14.2	8.2	3.3
Retail sales [a]	% YoY	1.5	3.9	8.7	10.8	9.6	7.6	7.9	9.8	10.9	12.2	12.8	7.7
Unemployment rate [b]	%	9.7	8.2	6.6	5.8	8.0	7.0	6.8	6.6	6.7	5.9	5.7	5.8
Gross wages in the national economy [a]	% YoY	3.3	3.8	5.7	8.3	4.1	5.0	4.9	7.1	7.6	8.0	8.0	9.4
Employment in the national economy	% YoY	0.9	2.3	3.7	1.1	3.2	3.0	3.6	3.4	1.4	1.2	0.9	0.7
Exports (€)	% YoY	8.5	3.1	11.9	9.2	13.8	9.6	11.6	12.4	10.0	9.0	9.0	9.0
Imports (€)	% YoY	5.0	2.7	12.6	9.6	15.5	13.5	9.4	12.0	10.0	9.5	9.5	9.5
Trade balance	EUR mn	2,213	2,935	2,015	1,462	641	204	460	710	705	-23	263	517
Current account balance	EUR mn	-2,405	-1,254	2,478	2,621	1,659	-799	112	1,506	2,149	-1,236	115	1,592
Current account balance	% GDP	-0.6	-0.3	0.5	0.5	0.1	-0.4	0.2	0.5	0.6	0.5	0.5	0.5
General government balance	% GDP	-2.6	-2.5	-1.9	-2.2	-	-	-	-	-	-	-	-
CPI	% YoY	-0.9	-0.6	2.0	2.2	2.0	1.8	1.9	2.2	2.1	2.4	2.3	2.0
CPI [b]	% YoY	-0.5	0.8	2.0	2.0	2.0	1.5	2.2	2.0	2.1	2.4	2.3	2.0
CPI excluding food and energy	% YoY	0.3	-0.2	0.7	1.6	0.3	0.8	0.8	0.8	1.3	1.4	1.7	2.1
PPI	% YoY	-2.2	-0.2	3.0	2.2	4.4	2.8	2.8	1.8	0.8	2.5	3.0	2.4
Broad money (M3) [b]	% oY	9.1	9.6	4.2	8.7	7.8	5.0	5.4	4.2	5.3	6.4	7.6	8.7
Deposits [b]	%YoY	9.0	9.1	4.8	10.9	7.3	4.5	5.0	4.8	6.4	7.9	9.4	10.9
Loans [b]	%YoY	6.9	4.7	4.8	6.3	5.3	4.5	5.1	4.8	5.2	5.5	5.9	6.3
EUR/PLN	PLN	4.18	4.36	4.26	4.23	4.32	4.22	4.26	4.23	4.18	4.23	4.27	4.24
USD/PLN	PLN	3.77	3.95	3.78	3.60	4.06	3.83	3.63	3.59	3.56	3.65	3.63	3.57
CHF/PLN	PLN	3.92	4.00	3.84	3.61	4.04	3.89	3.77	3.64	3.59	3.63	3.63	3.56
Reference rate [b]	%	1.50	1.50	1.50	1.75	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.75
3M WIBOR	%	1.75	1.70	1.73	1.76	1.73	1.73	1.73	1.73	1.73	1.73	1.73	1.87
Yield on 2-year T-bonds	%	1.70	1.63	1.88	1.92	2.10	1.96	1.81	1.66	1.70	1.90	2.04	2.04
Yield on 5-year T-bonds	%	2.21	2.35	2.77	2.88	3.03	2.76	2.64	2.65	2.71	2.84	2.91	3.08
Yield on 10-year T-bonds	%	2.69	3.04	3.42	3.51	3.72	3.32	3.30	3.35	3.28	3.44	3.64	3.70

Note: [a] in nominal terms, [b] at the end of period. Source: GUS, NBP, Finance Ministry, BZ WBK estimates.

This analysis is based on information available until 11.01.2018 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*	– Director	(+48) 22 534 1887
Marcin Luziński*	– Economist	(+48) 22 534 1885
Grzegorz Ogonek*	– Economist	(+48) 22 534 1923
Konrad Soszyński*	– Economist	(+48) 22 534 1886
Marcin Sulewski*	– Economist	(+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 4456

Warszawa

al. Jana Pawła II 17
00-854 Warszawa

tel. (+48) 22 586 83 20/38

fax (+48) 22 586 8340

Wrocław

ul. Rynek 9/11
50-950 Wrocław

tel. (+48) 71 369 9400

fax (+48) 71 370 2622

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