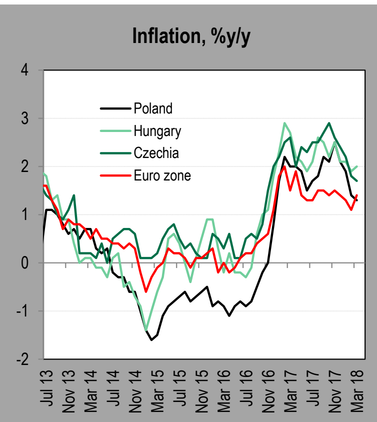
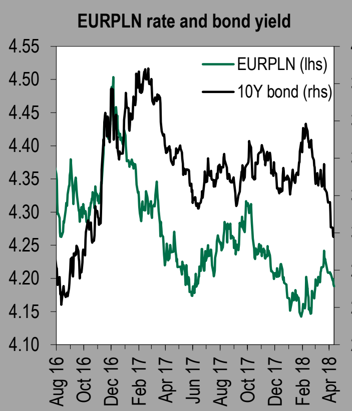
# MACROscope

Polish Economy and Financial Markets

April 2018

## Nominal descent




**While the pace of real economic activity growth in Poland remains strong (with GDP growth probably still near 5% y/y in 1Q18), we have seen a number of nominal variables declining in recent weeks.** The most striking example was the headline CPI inflation, which dropped to 1.3% y/y in March, significantly underperforming market forecasts for the second time in a row. The most puzzling part of the surprise was that the deviation from expectations was triggered mainly by the core inflation, which according to our estimate fell to 0.6% y/y in March, its one-year low. Interestingly, in contrast to the previous two months, such inflation behaviour in March was not a common phenomenon in Europe as some countries recorded a rebound. It is yet to be seen what factor exactly caused the surprising drop and how persistent it may be. We think that next few months are likely to show a slight rebound in inflation. But still, it seems that the entire inflation path for this year will be slightly lower than we estimated before.

Nominal wage growth in February also proved lower than expected, slowing to 6.8% y/y. In this case, we think the surprise was caused mainly by one-off factor, i.e. change of timing of bonus payments in mining, and **there is no other way for average salaries to go up faster and faster in the coming months due to deepening labour shortages**. We think that the pace of wage acceleration will be a surprise for the Polish central bank, which does not belie it may exceed 7% y/y for good.

So far, the NBP Governor Adam Glapiński triumphed at the last Monetary Policy Council's press conference, after the surprising inflation decline. The message from the central bank seemed even more dovish than before and the suggested period of interest rate stabilisation was extended until 2020. However, the NBP head didn't go so far to suggest that the next MPC decision could be a rate cut, as in his view any further rate reduction from current level would be problematic for the banking system. **We still believe the next move will be a rate hike, but it will take place no earlier than in November 2019, after the central bank sees in black and white the evidence that inflation pressure has materialised and is persistent.**

Public debt and deficit were also among nominal variables that recorded declines, but in 2017. The still positive economic growth outlook for the coming quarters makes us believe that the fiscal situation will remain under control and the debt level may drop further in 2018, if not in nominal terms then at least as a relation to GDP.

**Lower inflation, dovish central bank and improving fiscal position – it all supported Polish bonds in recent weeks, leading to sharp reduction of yields.** In the coming weeks we expect to see a correction, amid profit taking after recent rally and in reaction to mounting inflation and wage growth. Short end of the curve should remain supported by the low supply/demand ratio and a substantial bond redemption at the end of April.

**The EURPLN has been hovering near 4.20 for some time and we think it should continue doing so in the nearest future.** Concerns about global economic growth, rising geopolitical tensions and dovish signals from the Polish central bank are likely to keep the zloty near recent levels in the weeks to come.

### In this issue:



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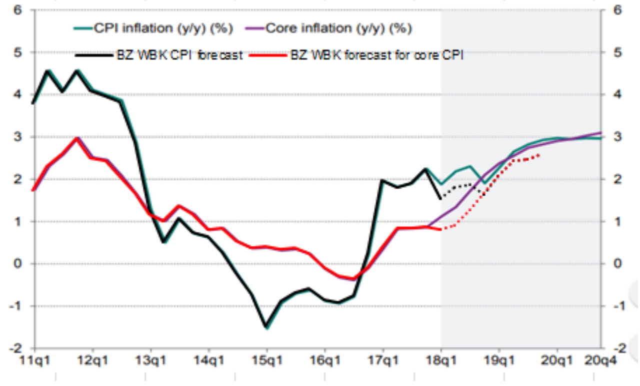
**Financial market on April 11, 2018:**

| | | | | | |
|---|---|---|---|---|---|
| NBP deposit rate | 0.50 | WIBOR 3M | 1.70 | EURPLN | 4.1857 |
| NBP reference rate | 1.50 | Yield on 2-year T-bond | 1.48 | USDPLN | 3.3833 |
| NBP lombard rate | 2.50 | Yield on 10-year T-bond | 2.97 | CHFPLN | 3.5293 |

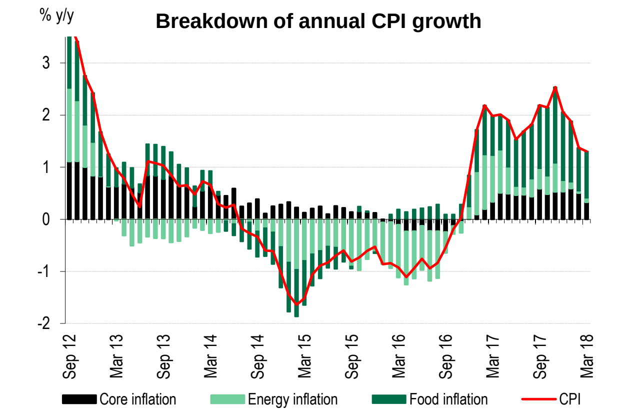
This report is based on information available until 11.04.2018.

# Economic update

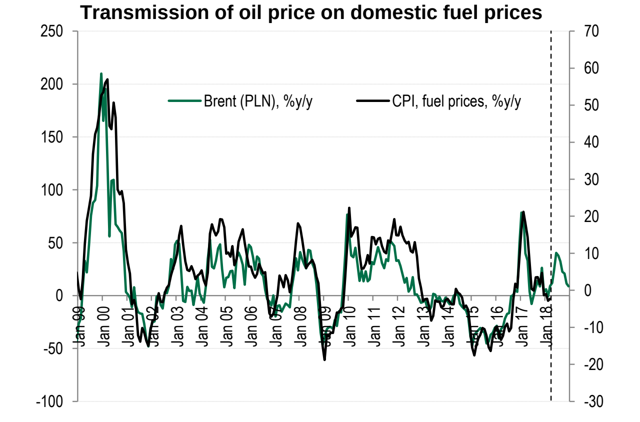
**March NBP inflation projection vs 1Q18 result**



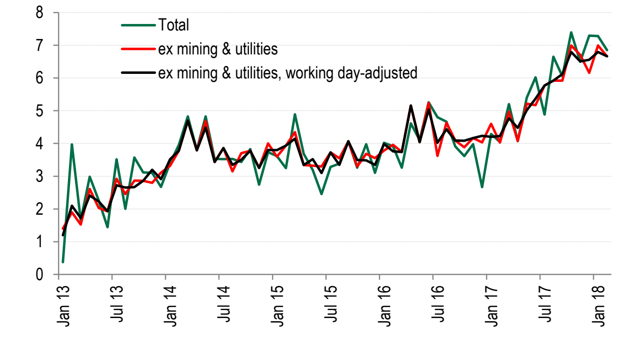

**Breakdown of annual CPI growth**




**Transmission of oil price on domestic fuel prices**




**Wage growth in the corporate sector, % y/y**




Source: GUS, NBP, Eurostat, BZ WBK.

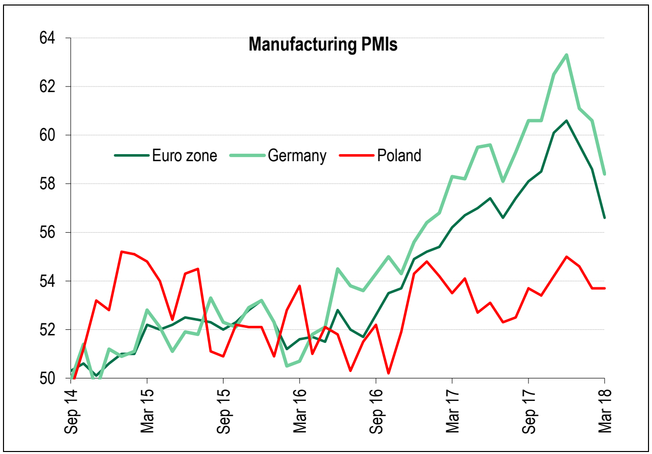
**Fading inflation… for good?**

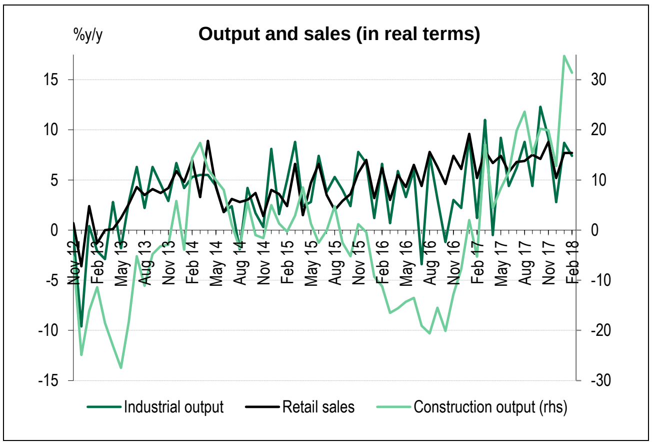
- We are only a month away from the March inflation projection and CPI has already sunk deep below the NBP forecast, and also below the forecasts of private sector economists. Polish inflation unexpectedly declined in February from 1.9% y/y to 1.4% (market expected 1.8%) and once again in March, to 1.3% (market consensus was 1.6-1.7% and we expected 1.6%).
- Food prices surprised negatively in February and March, dropping in m/m terms in both months and deviating significantly from the seasonal pattern. They were also well below our estimates based on observations of market prices. We suspect that food prices will continue contributing to lower inflation rate later this year. Even though the world food prices started rebounding from the local bottom recently, the zloty firmed versus the dollar, which should keep the imported food prices at bay, and the effect of high 2017 base will depress the y/y growth rates in this category.
- Drop in fuel prices helped in reducing inflation in 1Q18, but it is likely to reverse soon, as mounting geopolitical tension pushed the crude oil price to its highest since late 2014 and prices at the pump are likely to follow the upward trend in the coming weeks.
- However, the most surprising was the fact that CPI drop in Q1 was not only about prices of food and fuels, but also largely due to decline in underlying inflation. According to our estimate, core inflation excluding food and energy prices dropped to 0.6% y/y in March, while a rise to 0.9% was expected. The suspects behind the core inflation decline are financial services (Eurostat showed a considerable drop in this category in February's HICP) and 'clothing and footwear' category. The prices of the latter usually rise in March, but this time the effect might have been distorted by the long winter, which delayed the introduction of new spring collections to the boutiques. Additionally, the Statistics Office introduced a methodological change in this category. What this would also mean is that there should be a strong swing of clothing and footwear in the other direction in April, once the new collection makes it to the boutiques, so the directional forecast for a rising core CPI this year should not be scrapped just yet.
- The surprising decrease of the headline and the core measures of inflation did not come from annual revision of CPI basket weights. Introduction of new weights brought our Mar-Nov 2018 y/y inflation forecasts down by no more than 0.04pp and our core CPI path by no more than 0.09pp. The annual weight revision affected mostly the forecasts for the months of 3Q18.
- We expect CPI inflation to rebound in the coming months and reach the local peak of around 2% y/y in June-July. After that, inflation should retreat below 2% again in the second year-half, mainly due to the very high base effect in food and fuels. As regards core inflation, the trend should be only one way – up. However, the lower starting point could imply that reaching 2% by December could be not so easy.

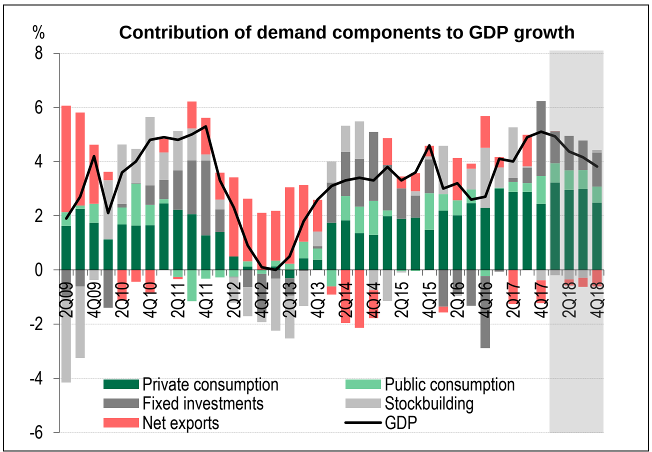
**Nominal wage growth met resistance**

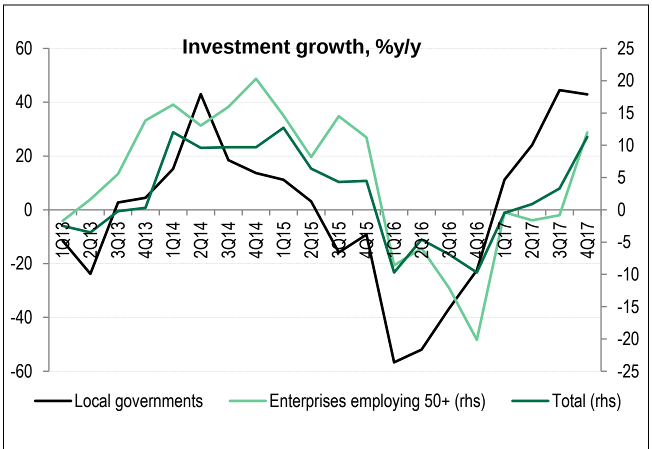
- CPI was not the only nominal macroeconomic variable to have decreased unexpectedly of late. Nominal wage growth in the enterprise sector, excluding the mining (which may disturb the trends due to high, irregular additional payments) fell from 7.5% y/y to 6.9% in February. The weaker dynamics was partly triggered by difference in business days. We corrected the wage data for working day effects and also excluded utilities, which, like mining, has a moving month of bonus payments. The picture stays the same – with smooth acceleration of y/y nominal wage growth in 1Q-3Q17 and steady pace since then, despite further signs of labour shortages. It should be noted, though, that in the manufacturing sector alone, wages accelerated from 7.4% y/y to 7.6% over the same time and in our opinion this dynamics is likely to accelerate even further this year, taking the headline growth with it.

# Economic update




Source: GUS, Markit, Finance Ministry, BZ WBK.

**Worrying streak of Eurozone macro underperformance**

- On one hand the switch from a period of consecutive positive surprises with soft (i.e. survey-based) and hard data to a period of repeated disappointments is a quite natural phenomenon around the peak of the business cycle. On the other, the scale of negative surprises is worrying. Luckily, we are not talking about Polish figures, but those for the Eurozone (and Germany in particular), but given the close ties between the two, the economic slowdown in the latter can bring about weakness in the former.
- This is not to say that activity level in the Eurozone is slipping – it is still respectable. The data do however confirm that the peak is behind us, and if we were to judge the asymmetry of risks to our forecasts of economic activity data then the decline of business climate indicators among Polish main trade partners may mean less boost to Polish GDP growth from foreign trade than we assumed earlier.

**Current output of construction and industry remained strong**

- Construction output rose in February by 31.4% y/y vs. 29.8% expectations. Industrial production (7.4% y/y) was below market expectations (8.1% y/y), while we forecasted a slowdown to 6.7% y/y. Civil engineering output rose by 65% y/y, despite the extremely low temperatures in the lasting for a half of the month. It shows the strength of demand ahead of the local government elections (planned for autumn) and due to the stronger utilisation of EU funds vs. year ago. However, we still do not expect that the pace of growth above 30% recorded in the first two months of the year could be maintained. In January-February, the level of activity is relatively low comparing to the rest of the year which makes it easier for the sector to achieve a high rate of growth. In the next months, the construction output will likely be limited by the supply side. Going forward, the construction sector should be facing further capacity constraints.
- After seasonal adjustment, February's industrial output growth recorded 7.3% y/y, roughly equal to 2H17 average and well above January's 6.2%. Detailed data showed that production of energy had a big positive contribution which might have been due to the cold weather. Production of machinery and equipment, that is largely exports-oriented, was very strong growing 20.5% y/y. This, however, may not only mean that external demand is strong, but also that investments are reviving in Poland. However, as we noted, we should now be careful about extrapolation of strong demand from abroad given the negative prints of the recent Eurozone data.
- We keep our view that pace of the GDP growth in 1Q18 will be comparable or slightly below 5.1% y/y recorded in 4Q17.

**4Q17 investment surge in detail**

- Investment in local governments went up by 42.9% y/y in nominal terms, in line with our expectations and similar to growth in 3Q17 (44.5% y/y). In general, local governments contributed 4 percentage points to total investment growth (11.3% y/y). We do not know yet what happened in the two other sectors (central government and private companies), but anecdotal evidence suggests that private investment remained sluggish at the end of 2017. Local governments increased their use of EU funds. EU-financed investment amounted to PLN5.4bn in 4Q17, up 247.8% y/y. We expect local governments to continue reporting strong growth of investment in 1H18, contributing about 3-4 percentage points to total investment growth.
- Capital expenditures of enterprises with staff numbers over 50 grew in real terms by 12% y/y in 4Q17 with more than half of that growth (6.4pp) represented by investments in buildings and structures and 3.8 pp by purchases of machines, equipment and devices. The structure of investment growth in large companies proves that the rebound in 4Q was not one-off. We assume that in 1Q18 investments in the entire economy will grow by around 10% y/y in real terms.

# Monetary policy watch

**Excerpts from the MPC's official statement after its April meeting**

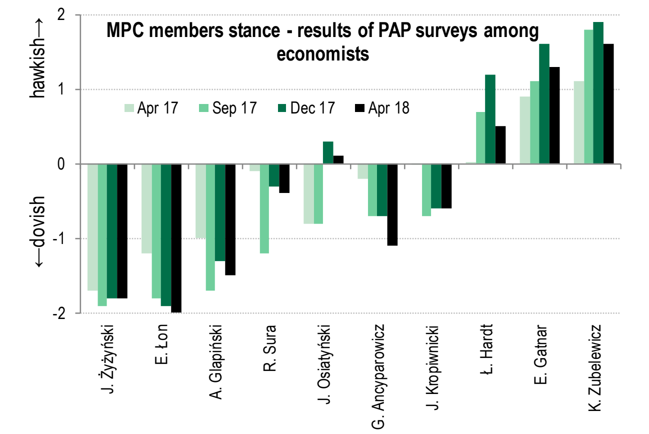
Global economic conditions remain favourable. In the euro area, incoming data signal the continuation of a relatively robust economic growth, despite somewhat weaker corporate sentiment. Economic conditions also remain favourable in the United States, although monthly data point to a temporary slowdown of GDP growth in 2018 Q1. In China, in turn, economic growth continues at a fairly stable pace.

Despite the ongoing global recovery, inflation abroad remains moderate on the back of the persistently low domestic inflationary pressure across many countries. In addition, agricultural commodity prices are still lower than a year ago, whereas oil prices have recently slightly increased.

In Poland, the annual GDP growth in 2018 Q1 was probably close to that recorded in the previous quarter. Economic growth is supported by rising consumption, fuelled by increasing employment and wages, disbursement of benefits and very strong consumer sentiment. At the same time, a marked recovery in investment is observed, benefiting from the increasing absorption of EU funds, a favourable demand outlook and high capacity utilisation. The rise in investment outlays is observed both in public sector – mainly in local government units - and in corporate sector. Favourable economic conditions abroad continue to support domestic activity growth

In the Council's assessment, current data continue to point to a favourable outlook for economic activity growth in Poland, despite the expected slight slowdown in GDP growth in the coming years. In line with the available forecasts, inflation will remain close to the target in the monetary policy transmission horizon. As a result, the Council judges that the current level of interest rates is conducive to keeping the Polish economy on a sustainable growth path and maintaining macroeconomic stability.

FRA-implied timing of the first 25bp rate hike by the Polish MPC



MPC members stance - results of PAP surveys among economists

Sources: NBP, PAP, Reuters, BZ WBK.

### Triumph of the doves

▪ The surprising inflation drop in the first quarter of the year has reassured the Polish Monetary Policy Council that its patient wait-and-see approach was a correct strategy. The April's MPC meeting obviously ended with no change of main interest rates. The official post-meeting statement remained very similar in climate to the previous one but the tone of the press conference revealed even more dovish approach than before.

▪ The NBP Governor Adam Glapiński said at the press conference that in his view the period when main interest rates can remain stable was extended to two years from now. In his view the possible timing of interest rate hikes was delayed so much that we may finally arrive to the point when the economic growth starts deteriorating and no policy tightening will be needed. However, asked if the next decision could be a rate cut he downplayed such possibility saying that the structure of Polish banking system makes such move of rates from the current level always a very difficult decision. Please recall that the MPC did not want to lower interest rates in 2016, despite slowing economic growth and prolonging deflation, and the concerns about banking system stability were among the main arguments for that. NBP president suggested that if GDP growth outlook deteriorates the central bank could think about other ways of economic stimulation than rates reduction.

▪ Adam Glapiński pointed to signals that the peak in global economic cycle is probably behind us and that in particular German economy started slowing. But in his view this situation is still not very worrying for Poland. He suggested that the next central bank's projection will show lower inflation and higher GDP growth than the March one.

▪ One thing is certain: we still have long period of stable interest rates ahead. We keep our forecast that the next MPC decision will be a rate hike, most likely in November 2019, as we believe that mounting labour market pressures will push the wage growth in the coming quarters way above the 7% y/y assumed by the central bank. And quickly mounting labour costs will eventually trigger a substantial rise in core inflation. However, as we reiterated last month, the central bank will remain patient and it will have to see strong evidence of inflation breaching the target for good before it starts mulling monetary policy tightening.

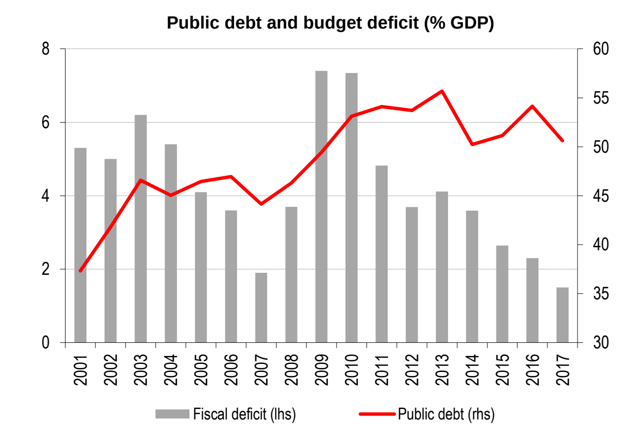
### No country for hawkish men

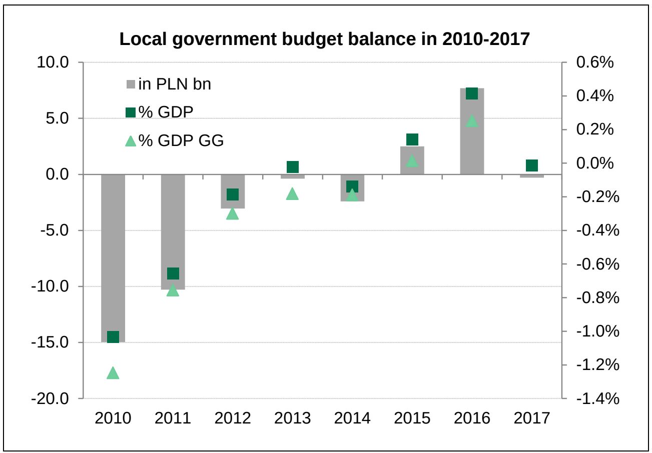
▪ The survey made by the Polish Press Agency (PAP) among sell-side economists just before the last MPC meeting showed that most of the Council members were viewed as significantly more dovish than before. It is the first such change in this survey's history (in the previous three editions the individual ranks were gradually shifting towards more hawkish). This comes as no surprise, to be honest, given a clear change of MPC's rhetoric in the last few months. It is enough to say that as much as three MPC members (Eryk Łon, Jerzy Żyżyński, Jerzy Kropiwnicki) have suggested in last few weeks that the next MPC decision may be a rate cut, not a hike.

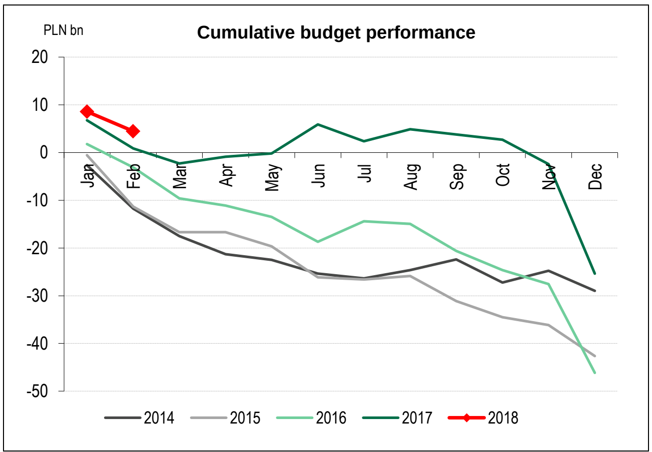
▪ After the last MPC press conference it seems clear that the central bank turned even more dovish. The NBP Governor hinted that those MPC members, who earlier saw some risk for inflation stemming from the tightening labour market, have changed their views after the recent CPI release and their concerns have disappeared.

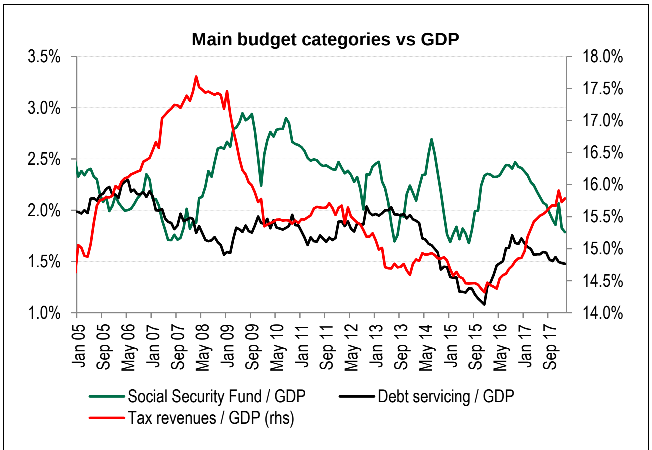
▪ The recent data did not support the hawks' argumentation indeed. However, we still think this may change as the labour market tensions are strong enough to push wage growth well above levels expected by the central bank. MPC's Eugeniusz Gatnar hinted in one of recent interviews about NBP's alternative scenario, estimated during the last projection round in March. It assumed higher wage growth and higher transmission from the labour market to inflation (with core CPI rising to 4% by 2020). In our view, wage acceleration in the coming months may suggest that such scenario is not as unlikely as it seems right now.

# Fiscal policy watch




Source: GUS, Finance Ministry, BZ WBK.

## Fiscal year 2017 above expectations…

- In 2017, performance of the public finance was positive. General government deficit fell from 2.3% of GDP in 2016 to 1.5% of GDP in 2017, the lowest level since comparable data are available (1995). This result was recorded thanks to rapid growth of tax revenues, stemming from strong consumption and improvement in tax collection, as well as thanks to low debt servicing and social security costs (results of low interest rates and favourable labour market situation). In our view, in 2018 the GG deficit will be a bit higher (above 2.0% of GDP), but will remain low by historical standards.
- According to Ministry of Finance estimates, in 2017 the VAT gap fell to 14% of the potential revenues from 20% in 2016. In nominal terms, the gap fell by about PLN10bn from PLN32bn estimated for 2016. Such an improvement in tax collection is in line with our estimates presented in October 2017 MACROscope.
- The general government debt fell to 50.6% of GDP in 2017 from 54.2% in 2016. Interestingly, debt fell also in nominal terms: by mere PLN3bn, but this was the first fall in y/y terms since comparable data are available. A considerable reduction of debt/GDP ratio was possible thanks to low deficit, high nominal GDP growth (6.7% - the most since 2011) and strengthening of the zloty in relation to the euro and the dollar. In 2018, we are expecting a further drop of debt-to-GDP ratio, to about 50.0% of GDP. Lower public sector indebtedness would be an important argument for a rating upgrade (recently Moody's put forward such an argument), as long as this tendency is viewed as persistent and not resulting only from cyclical factors.
- Local governments ended 2017 with a deficit of PLN280mn, in line with our expectations. Revenues amounted to PLN229.9bn (+7.7% y/y) and spending was PLN230.2bn (+11.9% y/y). In 4Q17 alone, revenues rose 9.1% y/y and spending rose 13.4% y/y.

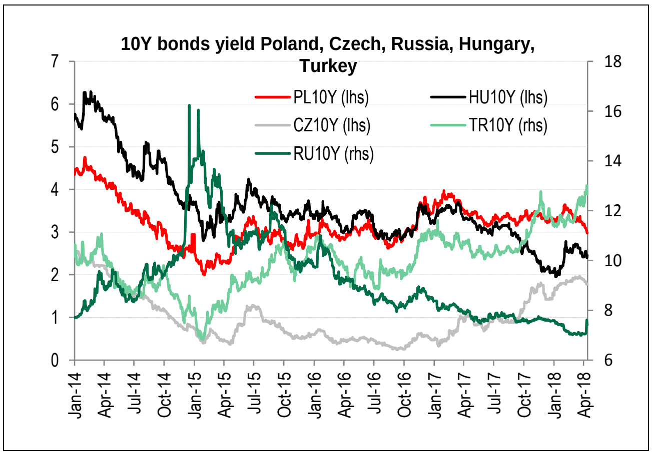
## … and start into 2018 is strong

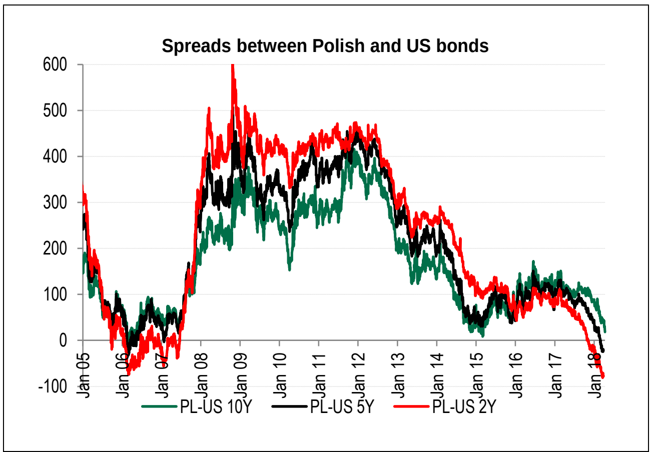
- At the end of February 2018, the central budget recorded a surplus of PLN4.5bn (year-to-date) as compared to a planned deficit of PLN0.6bn. Year-to-date revenues amounted to PLN62.0bn (102.2% of the plan for February) and spending was PLN57.6bn (93.9% of the plan). February alone showed strong growth of tax revenues, with VAT adding c13% y/y, PIT 13% y/y and CIT 25.4% y/y. In general, revenues in February were higher than in the corresponding periods of previous years and were PLN2.8bn higher than in February 2017. The spending side saw a reduction in Social Security Fund subsidies (-19.6% y/y) thanks to a positive labour market situation, but in total were PLN1.0bn higher than in February 2017. The deficit in February alone reached PLN4.1bn and was the lowest for that month in years.
- In our view, the relatively strong economic growth, favourable labour market situation and rising corporate profits should continue to support robust revenue growth in the coming months. If these positives hold throughout 2018, it is very likely that the year could end with a deficit markedly lower than the plan of PLN41.5bn.

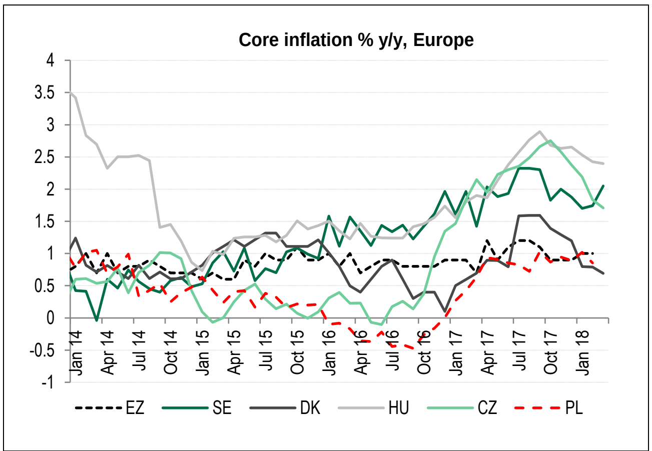
## Polish government made a step back in judiciary

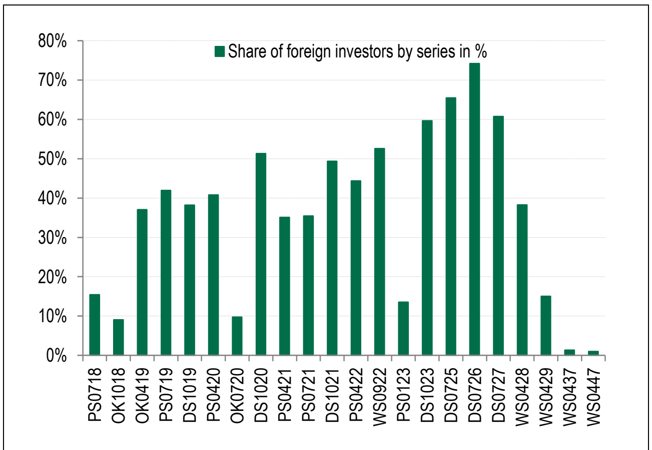
- The ruling Law and Justice (PiS) has recently submitted amendments to judicial laws addressing some of the European Commission's recommendations: publication of the three unpublished sentences of the Constitutional Tribunal from 2016, and introduction of two-step consultations in the process of removal of heads and deputy heads of courts.
- If the EC welcomes those moves, saying that it is enough to lift the rule of law procedure, then the risk of cutting the EU funds for Poland would decrease, which should be positive for Polish assets. The Vice-President of the European Commission was positive about the Poland's initiative and about starting the "genuine dialogue". Moreover, according to anonymous EU's top executive cited by Reuters the EU may end the row with Poland on the rule of law "very soon", welcoming the concessions from Poland even if they would not change the essence of the judiciary reforms.

# Interest rate market




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

**Bonds on the (dis)inflation wave**

▪ Last weeks, we have been observing dramatic slid of yields of Polish t-bonds, especially on the belly and the long end of the curve. The curves drop was triggered by unexpectedly low inflation readings in Poland and rest of European Union as well as series of lower than expected European (real side economy) data release and good domestic fiscal data. Moreover, the Polish t-bonds were positively affected by the information about the announcement of the low level of debt supply at the April auction as well as an improvement of mood for CEE region bonds. It is worth pointing out that the prices of Polish T-bonds were rising amid the stabilization of yield of core market bonds. The strong yield falls led the yields of 5-10Y bonds to the level last seen in September 2016, that it's before the series of TV debates between Trump and Clinton -autumn 2016 (where Trump criticized Janet Yellen's ultra-low interest rates policy). Simultaneously, the asset swap spreads (ASW) narrowed massively: ASW10Y to 26bp – last seen in July 2015, ASW5Y to -3bp last seen at the turn of 2013 and 2014.

**Spreads over US treasuries returned to 2007 level**

▪ The biggest surprise was a massive fall of spreads over the US Treasuries and Bunds. The spread over the US Treasuries decreased below the level last seen in the 2006-2007 when in Poland the GDP was rising by 6-7% and debt to GDP ratio decreased to 44.2% (2007) from 47.2% (2006). Currently, debt to GDP ratio decreased from 54,2% (4Q16) to 50.6% (4Q17). It is worth stressing that, for the first time in the history, we see a negative spread between Polish and US sovereign bonds in 7Y segment.

**Long end of the curve to return above 3%**

▪ Over the next 4-5 weeks, we expect a rebound on the debt market and the 5-10Y bonds yields increase (no more than 10bp). Expected sell-off will likely be a result of profit taking, after the last Polish t-bonds rally. We believe that CPI reading in the following months (up to June-July we forecast gradually increase of CPI y/y) will additionally negatively affect Polish t-bonds. In our opinion, the sell-off will be triggered by the rating review (S&P has scheduled the rating day for April 13). In our opinion, S&P will decide to maintain the rating (at BBB+) and outlook (as neutral) and simultaneously will signal an increase of probability of rating/outlook increase in the next iteration. On the short end of the curve, we expect the downward move at the end of the month as a reaction of bond buy-back (PLN11,5bn of PS0418 scheduled at 25 April), and the upward correction at the beginning of May.

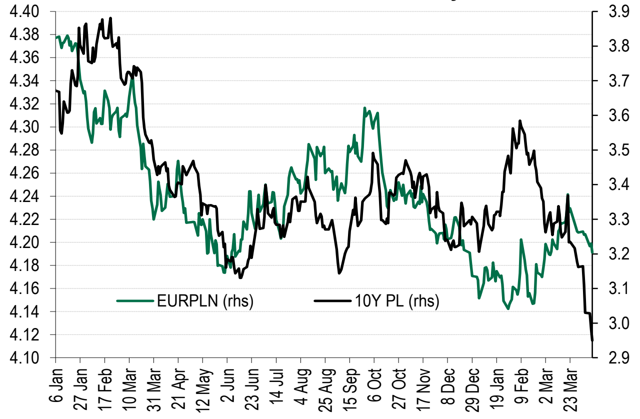
▪ In the mid-year perspectives, we expect a gradual increase of yields, 10Y to c3.10% at the end of June. We believe that domestic debt still will be positively influenced by solid fiscal positions, over-liquidity on the financial market and positive mood of the European bond market. We expect a short-term stabilization of euro-yields, partly due to slightly weaker Eurozone data release than in the 1Q18, partly due to the high level of geopolitical uncertainty. Moreover, the domestic yields will be anchored thanks to MPC communication. Investors interpreted last conference statements and remarks as a suggestion of maintaining the interest rates on the current level in the extended period and increasing of probability that the next move of MPC will be interest rates cut.

**Planned auctions**

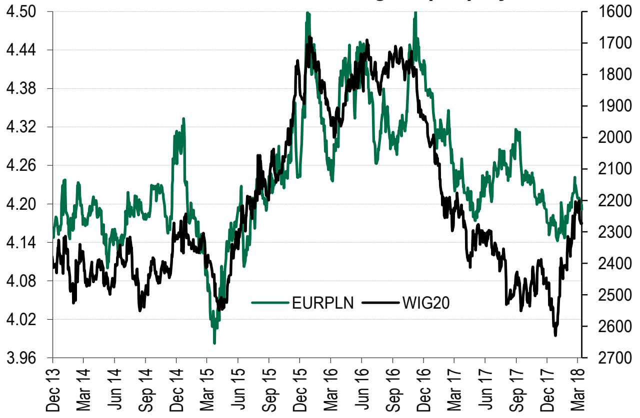
▪ The In April, we expect only one regular debt auction (scheduled for 27 April), on which Ministry of Finance announced PLN4-8bn supply. On the auction, the Ministry of Finance is going to offer OK0720, PS0123, WZ0524, WS0428 and WZ0528. We expect the biggest demand for the short end bonds (OK0720 2Y zero-coupon).

# Foreign exchange market

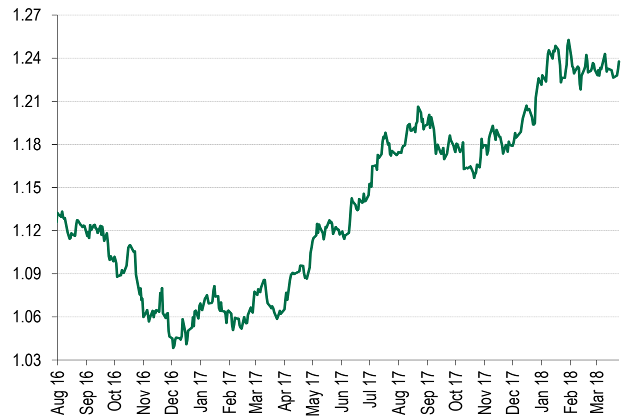
EURPLN and Polish 10Y bond yield



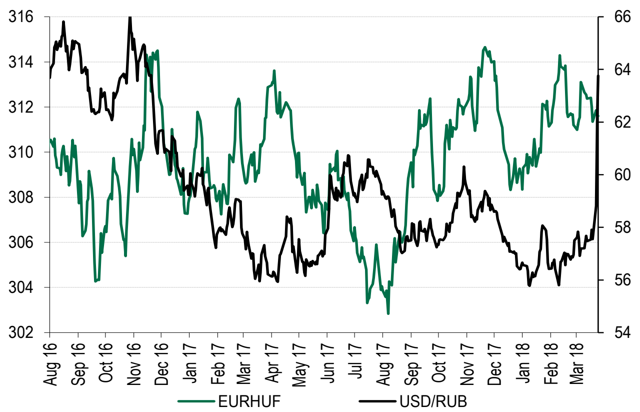

EURPLN and Polish WIG20 large cap equity index




EURUSD




EURHUF and USDRUB




Sources: Reuters, Bloomberg, BZ WBK.

### Zloty weaker amid external and internal factors

- In the first part of March, EURPLN continued its upside impulse fuelled by concerns about global economic growth persisting on the global market and dovish rhetoric of Polish MPC accompanied by the surprisingly low inflation readings. As a result, the exchange rate neared 4.25, reaching its highest since November. USDPLN rose somewhat slower (it climbed to nearly 3.46) as the dollar remained under pressure of US plans to impose tariffs.
- Charts show that the zloty is moving pretty closely with stocks and Polish bonds. We see, however, that although 10Y yields broke their local lows, EURPLN remains above its 2018 bottom. Bonds gains are driven by both low inflation numbers and weaker outlook for the global economy and the latter might be curbing zloty gains. The most recent global data have shown some moderation in pace of economic growth and the trade wars are rather unlikely to improve the market sentiment.
- The first quarter of 2018 has passed and we can see how the major EM currencies have performed in the last three months. According to Bloomberg, slightly less than a half of them gained vs the euro and only several lost vs the dollar. In our 2018 Outlook, we claimed that it could be difficult for the zloty to gain this year after it has performed very well in 2017 and became expensive vs its EM peers. Looking at 1Q18 best performers, all but one in Top10 vs the euro have lost in 2017 suggesting that our guess that there may be a capital shift from 2017 outperformers to underperformers might be correct. In 2017, the zloty gained c5% vs the euro and ended the 1Q18 with a 0.66% loss.
- In sum, we think that concerns about global economic growth and dovish signals from Poland are likely to keep EURPLN near recent peak in the weeks to come.
- On April 13, the S&P's rating review for Poland is scheduled. Since their last review, domestic fiscal and economic picture has improved noticeably. We do not expect a change in rating or outlook, but the chances for the latter are non-negligible. If it happens, the zloty could gain at least for some time.

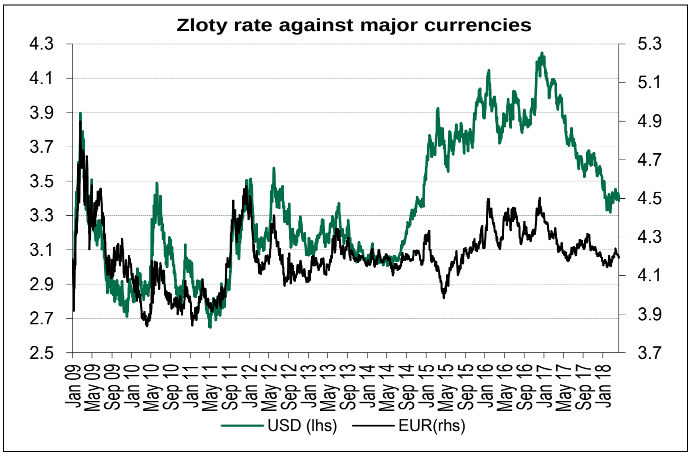
### EURUSD still waiting for trigger

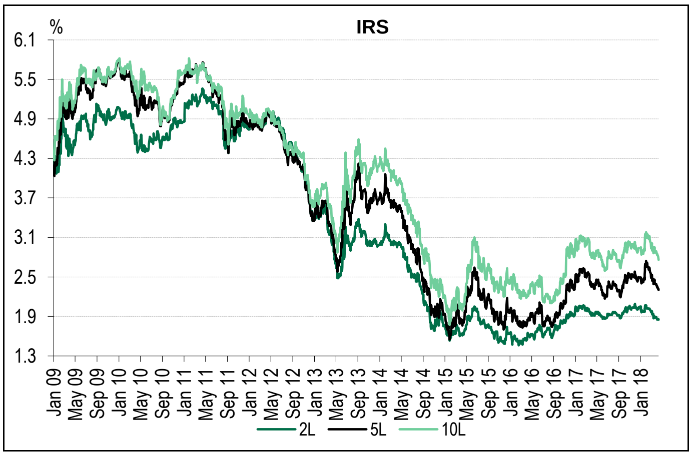
- In the last weeks, EURUSD remained in the 1.22-1.25 horizontal trend. The dollar was hit by Fed March dovish hike and tensions between the US and its trading partners but the euro did not manage to extend its gains as the European data showed a slower economic activity.
- Market positioning data show that net EURUSD longs are close to their record high suggesting there is a limited room for the stronger euro in the short term.
- It seems worth mentioning that EURUSD has remained stable since the beginning of the year. Looking only at the open/close prices, the exchange rate is holding within the range from the second week of February. Periods of low volatility are followed by sharp swings and we expect that soon some bigger move could start. In the short-term, we assume EURUSD could remain fairly stable while later in the year the euro could resume the appreciation trend.

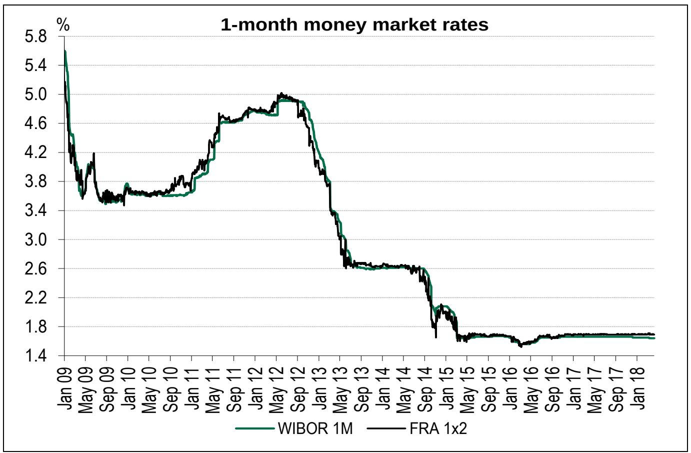
### Ruble hit by US sanctions

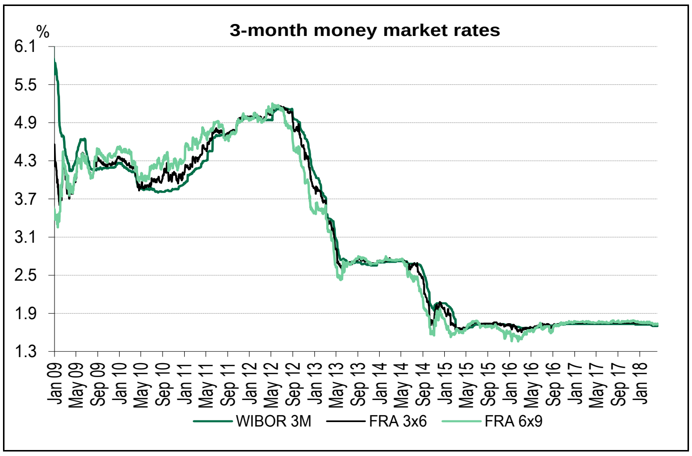
- Elsewhere in the CEE region, the biggest changes were recorded for USDRUB that skyrocketed to above 64 (reaching its highest since December 2016) from c57.5 in reaction to more sanctions imposed by the US on Russia. It appears that geopolitical issues could be the main drivers for the ruble in the nearest future.
- According to most recent results of Hungarian parliamentary elections, the ruling Fidesz party won 3rd time in a row gaining 133 seats in 199 seat parliament. There was no persistent reaction of the forint so far.

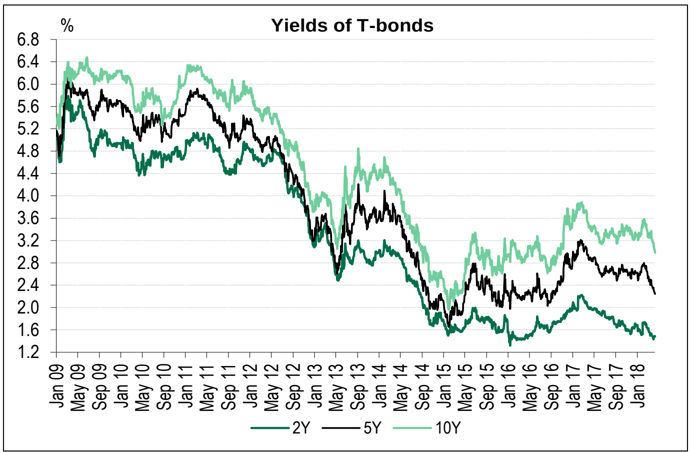
# Market monitor

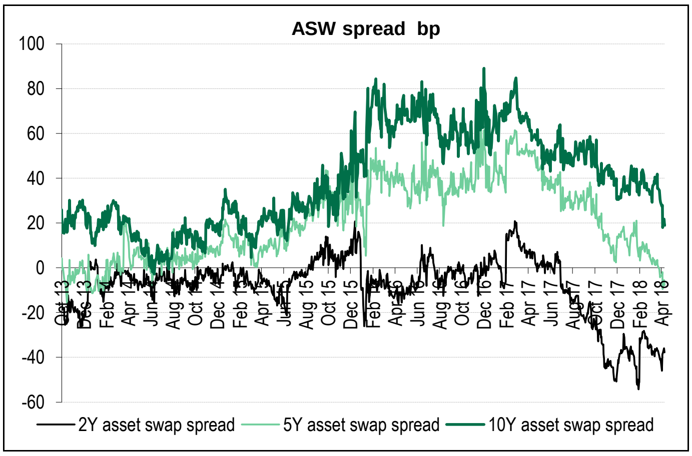


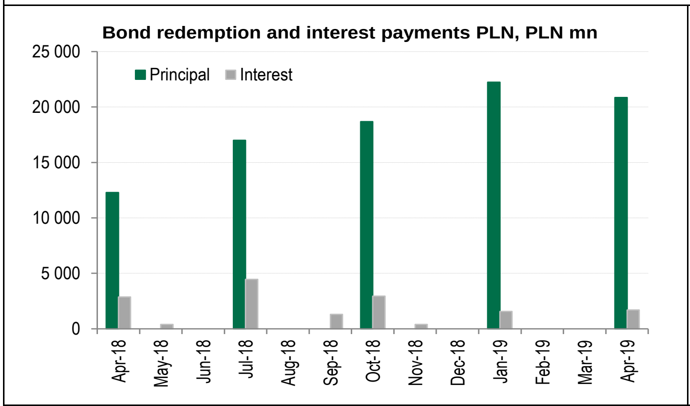



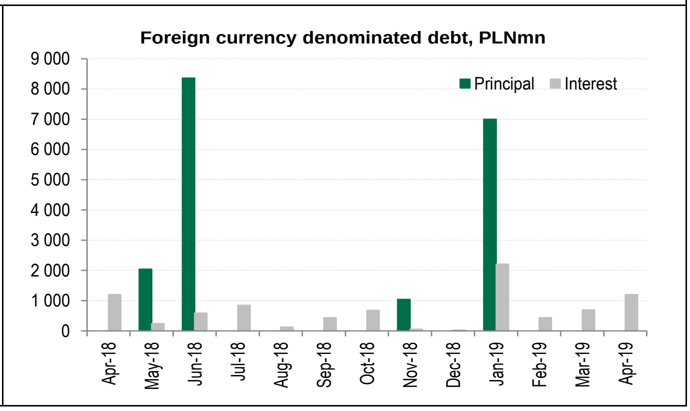




## Principal and interest payments




Source: Finance Ministry, Reuters, BZ WBK.

# Economic calendar

| MONDAY | TUESDAY | WEDNESDAY | THURSDAY | FRIDAY |
|---|---|---|---|---|
| **16 April**<br>***PL: Core inflation (Mar)***<br>US: Retail sales (Mar) | **17**<br>DE: ZEW index (Apr)<br>US: House starts (Mar)<br>US: Building permits (Mar)<br>US: Industrial output (Mar) | **18**<br>***PL: Wages and employment (Mar)***<br>US: Fed Beige Book | **19**<br>***PL: Industrial output (Mar)***<br>***PL: PPI (Mar)***<br>US: Philly Fed index (Apr) | **20** |
| **23**<br>***PL: Retail sales (Mar)***<br>DE: Flash PMI – services (Apr)<br>DE: Flash PMI – manufacturing (Apr)<br>EZ: Flash PMI – manufacturing (Apr)<br>EZ: Flash PMI – services (Apr)<br>US: Home sales (Mar) | **24**<br>***PL: Money supply (Mar)***<br>DE: Ifo index (Apr)<br>HU: Central bank decision<br>US: New home sales (Mar)<br>US: Consumer confidence index (Apr) | **25** | **26**<br>EZ: ECB decision<br>US: Durable goods orders (Mar) | **27**<br>***PL: MPC minutes***<br>US: Advance GDP (Q1)<br>US: Michigan index (Apr) |
| **30**<br>***PL: Flash CPI (Apr)***<br>CN: PMI – manufacturing (Apr)<br>US: Consumer income (Mar)<br>US: Consumer spending (Mar)<br>US: Pending home sales (Mar) | **1 May**<br>US: ISM – manufacturing (Apr) | **2**<br>***PL: PMI – manufacturing (Apr)***<br>EZ: PMI – manufacturing (Apr)<br>DE: PMI – manufacturing (Apr)<br>US: FOMC decision<br>US: ADP report (Apr) | **3**<br>EZ: Flash CPI (Apr)<br>CZ: Central bank decision<br>US: ISM – services (Apr)<br>US: Industrial orders (Mar) | **4**<br>DE: PMI – services (Apr)<br>EZ: PMI – services (Apr)<br>US: Non-farm payrolls (Apr)<br>US: Unemployment rate (Apr) |
| **7**<br>DE: Industrial orders (Mar)<br>CZ: Industrial output (Mar) | **8**<br>DE: Exports (Mar)<br>DE: Industrial output (Mar) | **9**<br>HU: CPI (Apr) | **10**<br>CZ: CPI (Apr)<br>US: CPI (Apr) | **11**<br>US: Flash Michigan (May) |
| **14**<br>***PL: Balance of payments (Mar)*** | **15**<br>***PL: CPI (Apr)***<br>***PL: Flash GDP (Q1)***<br>DE: ZEW index (May)<br>EZ: Industrial output (Mar) | **16**<br>***PL: MPC decision***<br>***PL: Core inflation (Apr)***<br>EZ: CPI (Apr)<br>US: House starts (Apr)<br>US: Building permits (Apr)<br>US: Industrial output (Apr) | **17**<br>US: Philly Fed index (May) | **18**<br>***PL: Wages and employment (Apr)*** |

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

| | | Mar 17 | Apr 17 | May 17 | Jun 17 | Jul 17 | Aug 17 | Sep 17 | Oct 17 | Nov 17 | Dec 17 | Jan 18 | Feb 18 | Mar 18E | Apr 18E |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| PMI | pts | 53.5 | 54.1 | 52.7 | 53.1 | 52.3 | 52.5 | 53.7 | 53.4 | 54.2 | 55.0 | 54.6 | 53.7 | 53.7 | 53.4 |
| Industrial production | % YoY | 11.0 | -0.5 | 9.2 | 4.4 | 6.2 | 8.8 | 4.4 | 12.3 | 9.2 | 2.8 | 8.7 | 7.4 | 4.5 | 10.9 |
| Construction production | % YoY | 17.1 | 4.4 | 8.3 | 11.6 | 19.8 | 23.6 | 15.3 | 20.2 | 19.9 | 12.8 | 34.7 | 31.4 | 16.1 | 20.9 |
| Retail sales [a] | % YoY | 9.7 | 8.1 | 8.4 | 6.0 | 7.1 | 7.6 | 8.6 | 8.0 | 10.2 | 6.0 | 8.2 | 7.9 | 8.9 | 8.0 |
| Unemployment rate | % | 8.0 | 7.6 | 7.3 | 7.0 | 7.0 | 7.0 | 6.8 | 6.6 | 6.5 | 6.6 | 6.9 | 6.8 | 6.6 | 6.3 |
| Gross wages in corporate sector | % YoY | 5.2 | 4.1 | 5.4 | 6.0 | 4.9 | 6.6 | 6.0 | 7.4 | 6.5 | 7.3 | 7.3 | 6.8 | 7.0 | 8.0 |
| Employment in corporate sector | % YoY | 4.5 | 4.6 | 4.5 | 4.3 | 4.5 | 4.6 | 4.5 | 4.4 | 4.5 | 4.6 | 3.8 | 3.7 | 3.7 | 3.6 |
| Exports (€) | % YoY | 19.7 | 3.3 | 19.1 | 7.2 | 15.0 | 13.4 | 11.5 | 15.8 | 15.5 | 2.6 | 10.5 | 9.1 | 6.0 | 12.2 |
| Imports (€) | % YoY | 19.7 | 5.0 | 21.5 | 14.3 | 14.6 | 8.7 | 8.9 | 15.4 | 15.9 | 10.9 | 15.4 | 10.0 | 5.7 | 16.1 |
| Trade balance | EUR mn | 344 | 472 | -70 | -202 | -136 | 288 | 479 | 284 | 208 | -1,175 | -204 | -310 | 415 | -69 |
| Current account balance | EUR mn | -280 | 284 | -202 | -902 | -296 | 311 | 218 | 436 | 278 | -699 | 2,005 | -544 | 57 | -98 |
| Current account balance | % GDP | 0.2 | 0.1 | 0.0 | -0.4 | -0.2 | 0.0 | 0.3 | 0.4 | 0.4 | 0.3 | 0.2 | 0.1 | 0.2 | 0.1 |
| Budget deficit (cumulative) | PLN bn | -2.3 | -0.9 | -0.2 | 5.9 | 2.4 | 4.9 | 3.8 | 2.7 | -2.4 | -25.4 | 8.6 | 4.5 | 0.5 | 6.5 |
| Budget deficit (cumulative) | % of FY plan | 3.8 | 1.5 | 0.3 | -9.9 | -4.0 | -8.2 | -6.4 | -4.5 | 4.1 | 42.7 | -20.6 | -10.8 | -1.1 | -15.6 |
| CPI | % YoY | 2.0 | 2.0 | 1.9 | 1.5 | 1.7 | 1.8 | 2.2 | 2.1 | 2.5 | 2.1 | 1.9 | 1.4 | 1.3 | 1.6 |
| CPI excluding food and energy | % YoY | 0.6 | 0.9 | 0.8 | 0.8 | 0.8 | 0.7 | 1.0 | 0.8 | 0.9 | 0.9 | 1.0 | 0.8 | 0.6 | 0.7 |
| PPI | % YoY | 4.8 | 4.2 | 2.4 | 1.8 | 2.2 | 3.0 | 3.2 | 3.0 | 1.8 | 0.3 | 0.2 | -0.2 | 0.1 | 0.6 |
| Broad money (M3) | % YoY | 7.8 | 6.7 | 6.3 | 5.0 | 5.0 | 5.4 | 5.4 | 5.7 | 4.5 | 4.6 | 4.8 | 4.9 | 5.7 | 5.5 |
| Deposits | %YoY | 7.3 | 6.1 | 5.7 | 4.5 | 4.6 | 5.0 | 5.0 | 5.3 | 4.2 | 4.1 | 4.5 | 4.6 | 5.1 | 4.9 |
| Loans | %YoY | 5.3 | 4.5 | 4.8 | 4.5 | 4.5 | 5.0 | 5.1 | 4.7 | 3.7 | 3.6 | 4.0 | 4.2 | 4.2 | 3.6 |
| EUR/PLN | PLN | 4.29 | 4.24 | 4.20 | 4.21 | 4.24 | 4.26 | 4.27 | 4.26 | 4.23 | 4.20 | 4.16 | 4.16 | 4.21 | 4.21 |
| USD/PLN | PLN | 4.02 | 3.96 | 3.80 | 3.75 | 3.68 | 3.61 | 3.59 | 3.63 | 3.60 | 3.55 | 3.41 | 3.37 | 3.41 | 3.42 |
| CHF/PLN | PLN | 4.01 | 3.95 | 3.85 | 3.87 | 3.83 | 3.74 | 3.73 | 3.69 | 3.63 | 3.60 | 3.55 | 3.61 | 3.60 | 3.59 |
| 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 | 1.72 | 1.72 | 1.72 | 1.71 | 1.70 |
| Yield on 2-year T-bonds | % | 2.08 | 1.98 | 1.95 | 1.94 | 1.89 | 1.80 | 1.73 | 1.71 | 1.60 | 1.66 | 1.63 | 1.66 | 1.62 | 1.47 |
| Yield on 5-year T-bonds | % | 3.02 | 2.87 | 2.79 | 2.61 | 2.65 | 2.65 | 2.61 | 2.69 | 2.62 | 2.63 | 2.68 | 2.72 | 2.62 | 2.25 |
| Yield on 10-year T-bonds | % | 3.66 | 3.42 | 3.35 | 3.19 | 3.30 | 3.33 | 3.27 | 3.39 | 3.40 | 3.27 | 3.25 | 3.40 | 3.37 | 3.02 |

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 | 2017 | 2018E | 1Q17 | 2Q17 | 3Q17 | 4Q17 | 1Q18E | 2Q18E | 3Q18E | 4Q18E |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| GDP | PLN bn | 1,798.3 | 1,858.6 | 1,982.3 | 2,097.8 | 456.0 | 476.2 | 487.4 | 562.7 | 484.7 | 504.0 | 515.4 | 593.7 |
| GDP | % YoY | 3.8 | 2.9 | 4.6 | 4.3 | 4.1 | 4.0 | 4.9 | 5.1 | 4.9 | 4.4 | 4.2 | 3.8 |
| Domestic demand | % YoY | 3.3 | 2.2 | 4.9 | 4.8 | 3.9 | 5.5 | 3.9 | 6.1 | 5.1 | 4.8 | 4.7 | 4.6 |
| Private consumption | % YoY | 3.0 | 3.9 | 4.8 | 5.0 | 4.7 | 4.9 | 4.8 | 4.9 | 5.0 | 5.0 | 5.0 | 5.0 |
| Fixed investments | % YoY | 6.1 | -7.9 | 5.2 | 6.7 | -0.5 | 0.9 | 3.3 | 11.3 | 10.1 | 7.9 | 6.4 | 4.9 |
| Industrial production | % YoY | 4.8 | 2.9 | 6.5 | 6.6 | 7.3 | 4.2 | 6.3 | 8.4 | 6.7 | 7.5 | 7.3 | 4.8 |
| Construction production | % YoY | 0.3 | -14.5 | 13.7 | 16.6 | 5.6 | 8.3 | 19.3 | 17.1 | 25.7 | 22.1 | 15.8 | 9.5 |
| Retail sales [a] | % YoY | 1.5 | 3.9 | 8.2 | 7.5 | 9.6 | 7.6 | 7.9 | 8.0 | 8.3 | 8.0 | 8.5 | 5.4 |
| Unemployment rate [b] | % | 9.7 | 8.2 | 6.6 | 5.7 | 8.0 | 7.0 | 6.8 | 6.6 | 6.6 | 5.8 | 5.6 | 5.7 |
| Gross wages in the national economy [a] | % YoY | 3.3 | 3.8 | 5.7 | 7.6 | 4.1 | 5.0 | 4.9 | 7.1 | 6.8 | 7.2 | 7.3 | 8.7 |
| Employment in the national economy | % YoY | 0.9 | 2.3 | 3.7 | 2.8 | 3.2 | 3.0 | 3.6 | 3.4 | 2.8 | 2.7 | 2.4 | 2.3 |
| Exports (€) | % YoY | 8.5 | 3.1 | 12.0 | 9.6 | 13.8 | 9.6 | 13.3 | 11.5 | 8.4 | 10.2 | 10.7 | 9.1 |
| Imports (€) | % YoY | 5.0 | 2.7 | 13.4 | 11.5 | 15.5 | 13.5 | 10.7 | 14.1 | 10.1 | 12.1 | 13.2 | 10.5 |
| Trade balance | EUR mn | 2,213 | 2,935 | 821 | -2,806 | 655 | 204 | 634 | -672 | -99 | -726 | -502 | -1,479 |
| Current account balance | EUR mn | -2,405 | -1,254 | 1,497 | 267 | 2,047 | -816 | 243 | 23 | 1,518 | -1,171 | -642 | 563 |
| Current account balance | % GDP | -0.6 | -0.3 | 0.3 | 0.1 | 0.2 | -0.4 | 0.3 | 0.3 | 0.2 | 0.1 | -0.1 | 0.1 |
| General government balance | % GDP | -2.6 | -2.3 | -1.5 | -2.0 | - | - | - | - | - | - | - | - |
| CPI | % YoY | -0.9 | -0.6 | 2.0 | 1.7 | 2.0 | 1.8 | 1.9 | 2.2 | 1.5 | 1.8 | 1.9 | 1.7 |
| CPI [b] | % YoY | -0.5 | 0.8 | 2.1 | 1.7 | 2.0 | 1.5 | 2.2 | 2.1 | 1.5 | 1.8 | 1.9 | 1.7 |
| CPI excluding food and energy | % YoY | 0.3 | -0.2 | 0.7 | 1.1 | 0.3 | 0.8 | 0.8 | 0.9 | 0.8 | 0.9 | 1.3 | 1.6 |
| PPI | % YoY | -2.2 | -0.2 | 2.9 | 1.2 | 4.4 | 2.8 | 2.8 | 1.7 | 0.0 | 1.4 | 1.8 | 1.4 |
| Broad money (M3) [b] | % oY | 9.1 | 9.6 | 4.6 | 7.3 | 7.8 | 5.0 | 5.4 | 4.6 | 5.3 | 6.0 | 6.6 | 7.3 |
| Deposits [b] | %YoY | 9.0 | 9.1 | 4.1 | 7.1 | 7.3 | 4.5 | 5.0 | 4.1 | 4.9 | 5.6 | 6.4 | 7.1 |
| Loans [b] | %YoY | 6.9 | 4.7 | 3.6 | 7.8 | 5.3 | 4.5 | 5.1 | 3.6 | 4.7 | 5.7 | 6.8 | 7.8 |
| EUR/PLN | PLN | 4.18 | 4.36 | 4.26 | 4.21 | 4.32 | 4.22 | 4.26 | 4.23 | 4.18 | 4.22 | 4.24 | 4.22 |
| USD/PLN | PLN | 3.77 | 3.95 | 3.78 | 3.42 | 4.06 | 3.83 | 3.63 | 3.59 | 3.40 | 3.44 | 3.45 | 3.38 |
| CHF/PLN | PLN | 3.92 | 4.00 | 3.84 | 3.58 | 4.04 | 3.89 | 3.77 | 3.64 | 3.59 | 3.60 | 3.61 | 3.54 |
| 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 |
| 3M WIBOR | % | 1.75 | 1.70 | 1.73 | 1.70 | 1.73 | 1.73 | 1.73 | 1.73 | 1.72 | 1.70 | 1.70 | 1.70 |
| Yield on 2-year T-bonds | % | 1.70 | 1.63 | 1.88 | 1.53 | 2.10 | 1.96 | 1.81 | 1.66 | 1.64 | 1.47 | 1.50 | 1.50 |
| Yield on 5-year T-bonds | % | 2.21 | 2.35 | 2.77 | 2.39 | 3.03 | 2.76 | 2.64 | 2.65 | 2.67 | 2.26 | 2.29 | 2.33 |
| Yield on 10-year T-bonds | % | 2.69 | 3.04 | 3.42 | 3.22 | 3.72 | 3.32 | 3.30 | 3.35 | 3.34 | 3.05 | 3.18 | 3.32 |

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 11.04.2018 has been prepared by:

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