Bank Zachodni WBK
Grupa Santander

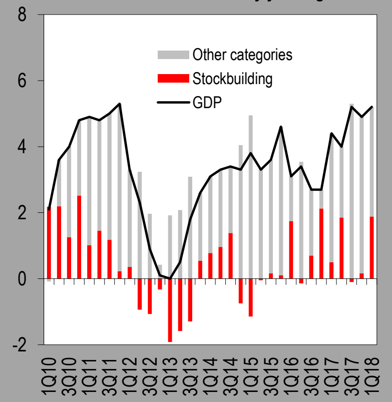
# MACROscope

Polish Economy and Financial Markets

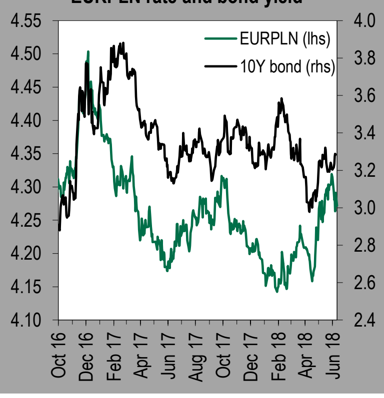
June 2018

## Stockpiles of economic growth

Contribution of inventories to y/y GDP growth




EURPLN rate and bond yield




■ **While most of the European economies experienced a soft patch in 1Q18, Poland managed to surprise to the upside once again, with GDP growth reaching 5.2% y/y, or 1.6% q/q in seasonally adjusted terms** (one of the four best results in the last ten years). Such result placed us again at the top of the economic growth rank in the European Union. The breakdown of GDP growth was equally interesting as the number itself, as the surge in inventories appeared to be the main factor behind the positive surprise, adding almost 2pp to the GDP increase, while the remaining components fell short of expectations. We think, however, that the data broadly confirm our expected economic scenario, where private consumption remains the main engine of growth and fixed investments recover gradually from a prolonged stagnation. Although the five-percent GDP growth will be hard to sustain, the pace of expansion should remain decent, with the domestic demand playing first fiddle. Given the better than expected starting point and improving fiscal performance (which leaves more room for public consumption expansion, in our view), **we decided to up slightly our GDP growth forecast for this year, from 4.3% to 4.5%**.

■ Despite the economic growth surprising to the upside, inflation continues to disappoint. The downward trend in CPI reversed temporarily due to a spike in fuel prices, which was in line with our expectations, but it seems that the rebound will be quite weak and short-lived, with CPI getting only a notch above 2% y/y mark in June and then retreating back to 1.5% by year-end. As we wrote recently in the research note – **it seems the price pressure should be going up in a few quarters' time, but not earlier, as companies still have buffers thanks to positive results built in the last two years**.

■ This leaves us with the unchanged conclusion that **the Polish central bank will not be in a hurry to change the monetary policy stance**. The recent comments from the Monetary Policy Council confirmed, in our view, that the first interest rate hike is unlikely before the very late 2019.

■ The superb economic and fiscal performance did not shield the Polish financial market perfectly from the risk aversion that has dominated the emerging markets universe in the recent weeks. The political heat in Italy, worries about global trade wars, the strengthening US dollar and expected further policy normalisation by the world's main central banks resulted in a general sell-off in emerging markets, which hit the most the countries with large current account gaps and high USD debt exposure. Although Poland is not in the most exposed group, **the fact that EM countries have tightened monetary policy 22 times in 2018 to defend against a capital outflow, with the Polish MPC maintaining the very dovish policy outlook, could be among factors limiting Polish assets' lure to foreign investors**.

■ Although the zloty recovered somewhat at the beginning of June, it is still the seventh weakest currency among its emerging market peers when we look at performance since mid-April. **We see some room for further zloty strengthening in the short run** (June-July), as the dollar depreciation, stabilisation of global moods and solid local data can give the currency some relief. August usually is a period when Polish currency weakens.

■ As regards the debt market, **we expect a moderate decline of yields after the FOMC and ECB meetings in mid-June**, as, in our view, the messages from the central banks press conferences should calm down investors' excessive concerns about the end of ultra-easy money era.

### In this issue:

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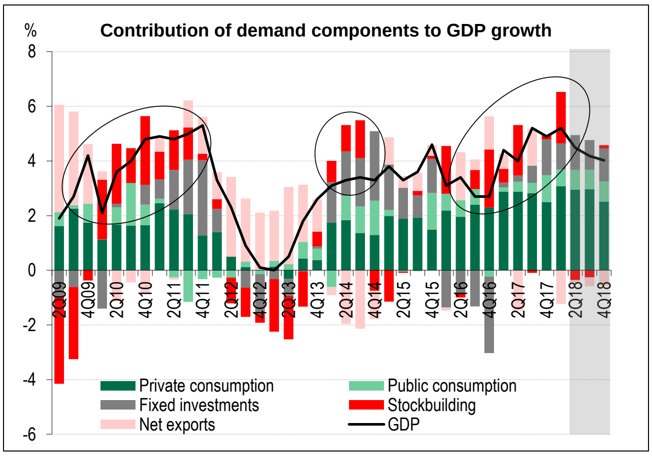
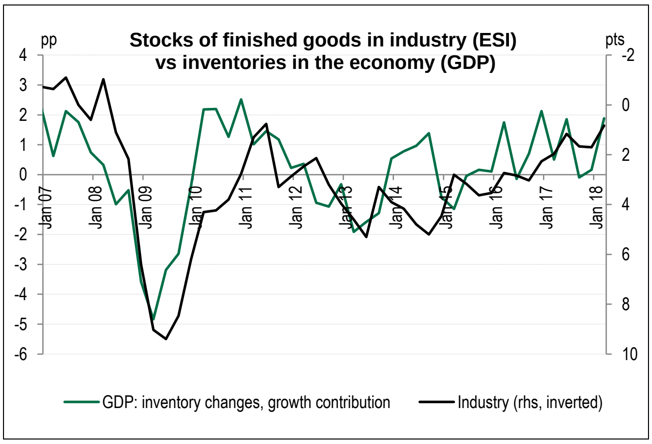
**Financial market on June 11, 2018:**

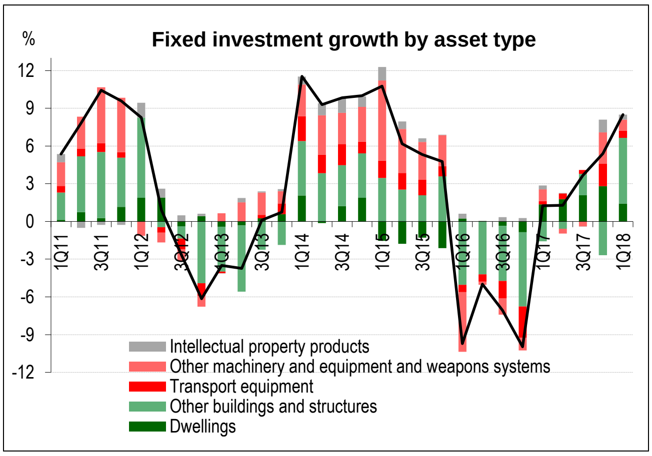
| | | | | | |
|---|---|---|---|---|---|
| NBP deposit rate | 0.50 | WIBOR 3M | 1.70 | EURPLN | 4.2717 |
| NBP reference rate | 1.50 | Yield on 2-year T-bond | 1.57 | USDPLN | 3.6247 |
| NBP lombard rate | 2.50 | Yield on 10-year T-bond | 3.28 | CHFPLN | 3.6760 |

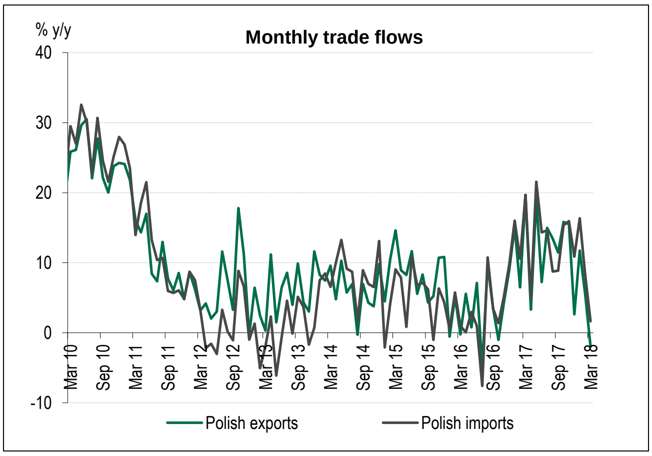
This report is based on information available until 11.06.2018.

# Economic update




Source: Statistics Poland, Eurostat, European Commission, NBP, BZ WBK.

**GDP growth back at the peak in 1Q18**

- In 1Q18, GDP growth reached 5.2% y/y. It was widely expected that the slowdown phase had already started in early 2018 after reaching a 5.2% peak in 3Q17. In contrast, it turned out that GDP managed to re-accelerate again, back to the peak value in this cycle. After the seasonal adjustment, GDP growth accelerated to 5.0% y/y from 4.4% vs. peak growth of 5.4% in 3Q17. Seasonally-adjusted q/q growth was 1.6% and this was the fourth strongest quarter in this respect since the global financial crisis (which hit 40 quarters ago).

**Strong inventories do not spell trouble**

- The impressive return of GDP growth above 5% y/y in 1Q18 seemed based on unstable foundations though. The growth breakdown was somewhat disappointing as the surge in inventories was the only source of the positive surprise adding as much as 1.9pp. vs. just 0.2pp in 4Q17. This is not bad news for the coming quarters in itself. After all, in 2Q17 the change in inventories also added 1.9pp to the GDP growth, a quarter ahead of the strongest reading in this cycle. In 4Q16 the contribution of this category was 2.1pp (out of 2.7% y/y of economic growth), but a quarter later the GDP accelerated to 4.4% y/y. Actually, high contribution to GDP growth from inventories is a natural element of the high phase of the business cycle in Poland.
- The strong build-up of inventories in 1Q18 may look like a risk factor because of the surprising soft patch in the euro zone in this period, which might have left the Polish economy with much larger stock of unsold finished goods. This was also confirmed by industrial sentiment indicators on inventory changes. But there is an alternative explanation. Higher inventories may actually be unfinished investments in buildings and structures, at a too early stage of completion to be counted as investments yet. We cannot also rule out that the surprisingly high growth of inventories in 1Q18 is a result of difficulties with proper data classification by the statistical office. Next revisions may show again that part of inventories growth will be re-allocated to other categories, for example to investments or private consumption (especially that these categories looked underrated in 1Q). This was already the case in the past.

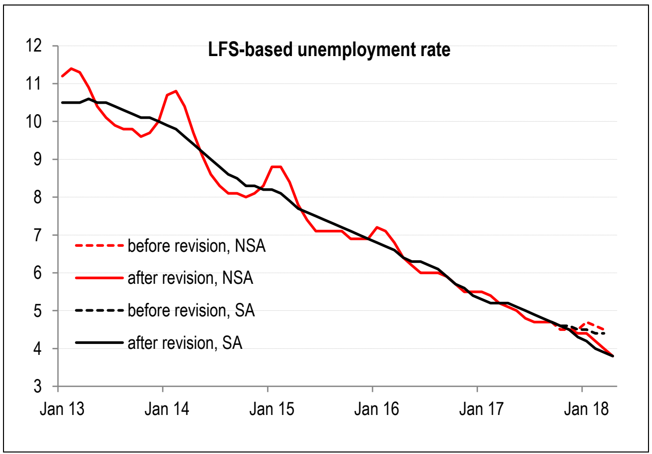
**Underestimation of other GDP components?**

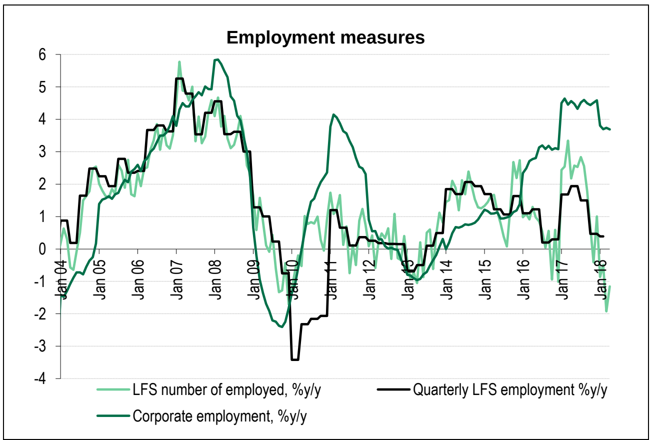
- Private consumption growth decelerated to 4.8% y/y from 5.0% y/y in 4Q17. The accelerating growth of households income and record high consumer confidence provide good arguments to expect private consumption to continue growing at c5% y/y. This is why we see its 1Q slowdown as a temporary, probably one-off distortion.
- Gross investments growth accelerated to 8.1% y/y from 5.4% in 4Q17, which was a pretty good result, but we had expected an even stronger growth (+10%). Local governments investments are responsible for c3pp of this growth, having risen by 83% y/y in 1Q. We think private investments started to revive as well but only gradually (by no more than 5% y/y). A breakdown by type of investments showed that 1Q was mostly about infrastructure, with a lower contribution than previously from machinery and equipment.
- Exports and imports growth fell sharply - exports growth from 8.2% y/y in 4Q17 to 1.1% y/y, its slowest since 2009 and imports from 8.9% to 3.5% y/y. As a result, net exports deducted 1.2pp from the headline GDP figure. Exports were below consensus between December and February and 3-month sum of negative surprises in this variable was markedly higher than in any point in 2016 or 2017. The weakness was seen mainly in sectors being part of global production chains. In March exports exceeded forecasts, but for the first time in 1.5 years showed a y/y decline (-2%).

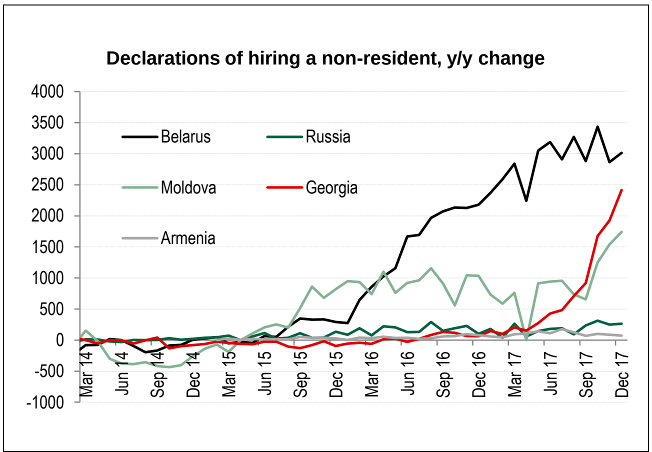
**We raised our 2018 GDP growth forecast**

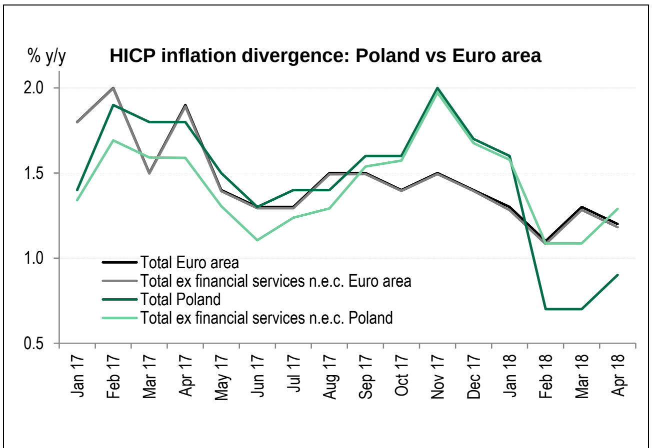
The positive GDP surprise in 1Q raises the starting point for this year's path and the superb fiscal performance made us push up our 4Q forecast, assuming strong public consumption to utilize budget spending limits (this would require an amendment, as in 2017). As a result, our 2018 GDP forecast went up from 4.3% to 4.5%.

# Economic update




Source: Statistics Poland, Eurostat, BZ WBK.

**Labour market: more data, less clarity**

- The seasonally-adjusted LFS unemployment rate fell in April to all-time low at 3.8%. At the same time, Eurostat markedly revised values for the previous months. March reading at 4.4% went down to 3.9%, a few previous months were also corrected, yet less significantly. Over the last 12 months, the unemployment rate fell in Poland by 1.4pp, vs. 0.7pp drop in the euro zone. Before the revision the data were showing the four-year trend almost coming to a halt. This has been replaced with a path showing its continuation.
- Non-seasonally-adjusted number of the unemployed was at 643k in April, down by 242k y/y. This corresponds to our remarks from December 2015, that with the positive tendency holding the figure may become virtually zero in four years. 2.5 years later Poland is still on track to achieve such super tight labour market. This already translates to strong labour shortages and wage pressure. Having oscillated around 4% y/y in 2014-2016, corporate wage growth is now approaching 8% y/y.
- Employment data show diverging trends, most likely due to methodological differences. Quarterly LFS statistics (exclusive of non-residents) indicate a deceleration to almost 0% y/y, monthly data based on LFS are already showing significant y/y declines, but corporate employment (which does not exclude immigrants) is still exhibiting 3.7% y/y growth. It seems that mostly non-residents get hired now, pushing up labour force numbers. While wage growth moderated somewhat before going up to 7.8% y/y in April, we think that further acceleration is almost certain given the circumstances.
- The number of the economically active, based on LFS data, fell by 432k y/y. There was however no rapid decline after the lowering of the retirement age in October 2017. Many new pensioners returned to previous occupations, instead of turning economically inactive. Other factors made the number of the economically active fall for several quarters now, like the introduction of "500+" child benefits. The seasonally adjusted participation rate declined in 3Q17 and 4Q17, and stayed unchanged in 1Q18 (dropping by 0.5pp to 56.2% since 2Q17). Luckily, the labour market cycle is in high phase, with a tempting wage growth, encouraging people to stay active and getting others out of inactivity.
- It also seems the stream of foreigners coming to the Polish labour market will not dry out. While the growth rate of arriving Ukrainians has decreased, this still means a steady inflow in headcount terms. Several other nations seem now more interested in the Polish labour market, helping to overcome the labour shortage problem. The government plans to open the market more to foreign workforce by extending the period of legal work on one visa and by allowing the spouse of a legally working immigrant to get a job in Poland without additional paperwork.

**CPI below expectations, again**

- According to flash estimates, CPI rose in May to 1.7% y/y from 1.6%. Inflation went higher amid a surge in fuel prices (5.4% m/m) due to more expensive crude oil and weaker zloty. Still, the CPI rise was lower than our forecast and market consensus, both at 1.9% y/y, mainly due to the unexpected drop in food prices by 0.3% m/m. We estimate that core CPI was unchanged in May at 0.6% y/y. We expect that in June-July inflation will rise slightly above 2% only to return below that 2% mark later this year amid high base effect.
- The downside deviation of Polish HICP inflation from what happens in the euro zone is mostly a consequence of the intriguing behaviour of prices in one category - financial services, reporting a 13-14% y/y drop since February.
- We wrote a research note to provide one explanation why wage growth was benign in the recent years and why, when wage acceleration finally came, it did not translate to higher inflation, as we expected on the back of historical data relations. The behaviour of financial results of enterprises was crucial to our line of thought.

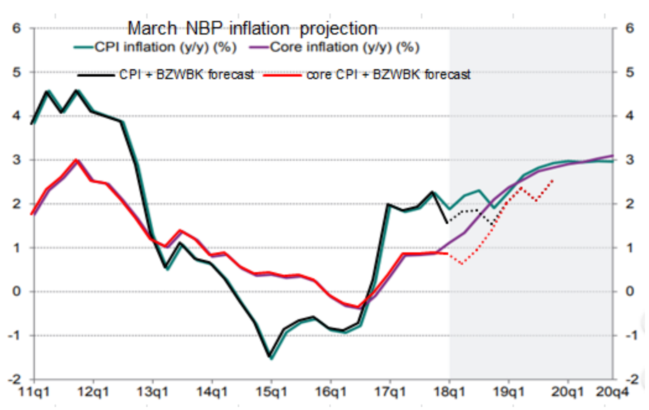
# Monetary policy watch

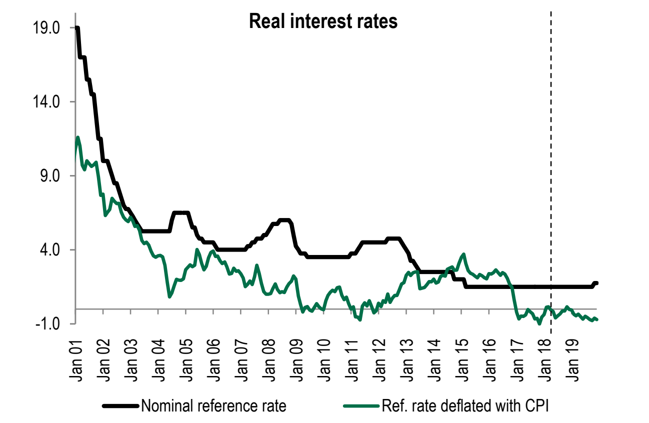
**Excerpts from the MPC's official statement after its June meeting**

Despite favourable global economic conditions, **inflation abroad remains moderate** on the back of **persistently low domestic inflationary pressure across many countries**. At the same time, oil prices – even with a recent decline – are still significantly higher than a year ago.

Notwithstanding relatively high economic growth and wages rising faster than in the previous year, **consumer price growth remains moderate**. **Inflation net of food and energy prices stays low**

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.**




Sources: Statistics Poland, NBP, PAP, Reuters, BZ WBK.

### MPC still preferring stable rates

▪ MPC left rates unchanged in June, in line with expectations. The statement was shortened further, which we read as a signal that the internal consensus of the Council to keep rates stable for a long time is quite broad. CPI is still seen by the MPC as moderate and core inflation as low.

▪ During the press conference, NBP governor Adam Glapiński stated that higher oil prices, wage growth and weaker zloty had not put upward pressure on inflation. In his view, July update of CPI projection could be lower than the previous one and we read this remark as an attempt to add more dovish flavour to the press conference tone. Such opinion did not fall far from market expectations given the negative surprises with monthly CPI readings this year.

▪ Glapiński remarked that wage growth had decreased recently, which is not what we saw in the data (corporate wages up from 6.7% y/y to 7.8% in April, more than expected). In his view, stable rates in the monetary policy horizon are obvious, unless there are shocks.

▪ Eugeniusz Gatnar, seen as a hawk, said during the press conference he would consider a rate hike if inflation intensified, but there are no signs this could happen anytime soon, and wage pressure is weaker than he had expected.

### Insights from Zubelewicz unconfirmed

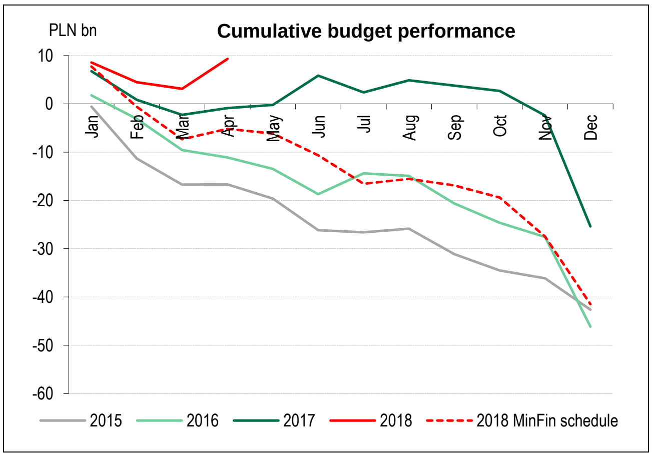
▪ Before the June meeting, MPC's Kamil Zubelewicz made a few interesting remarks. In his view, chances for a rate hike rose recently but no change should be expected within the current monetary policy horizon. According to Zubelewicz, the balance of opinions within the Council changed, which was reflected in governor Glapiński rejecting the idea of rate cuts at the May press conference. Zubelewicz said that there are fewer reasons for a rate cut now amid higher oil price and bigger budget expenditures. In his view, rates should have been increased long time ago and they should be now at 2.0% with the core CPI above 1.50% being a potential reason for more hikes. With these remarks, Zubelewicz confirmed he is the most hawkish MPC member.

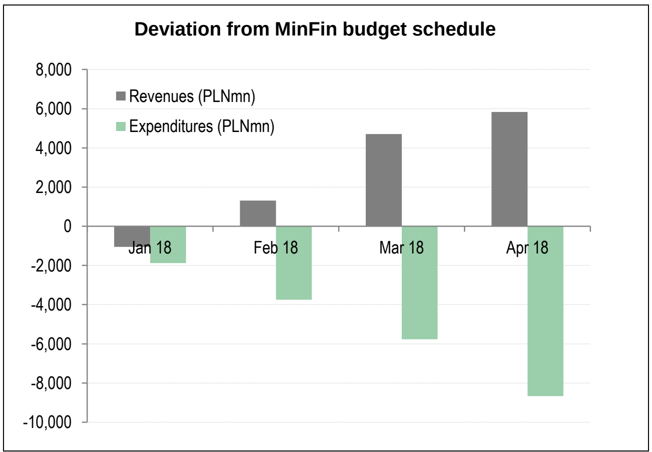
▪ Zubelewicz's words found no support in the June MPC statement and in the minutes from the May meeting. On one hand, the minutes saw a reinstatement of a sentence that some MPC members would like to consider rate hikes if the wage growth strengthens and inflation expectations rise. At the other hand, however, there was also opinion about mulling potential rate cuts if the sentiment and the economy collapses. Such statements were not present in the April's minutes, but appeared in the previous months. The oil price growth registered in the last months revived the discussion, however the MPC members' opinions were divided regarding the answer to the question if it will have a permanent impact on inflation and inflation expectations.

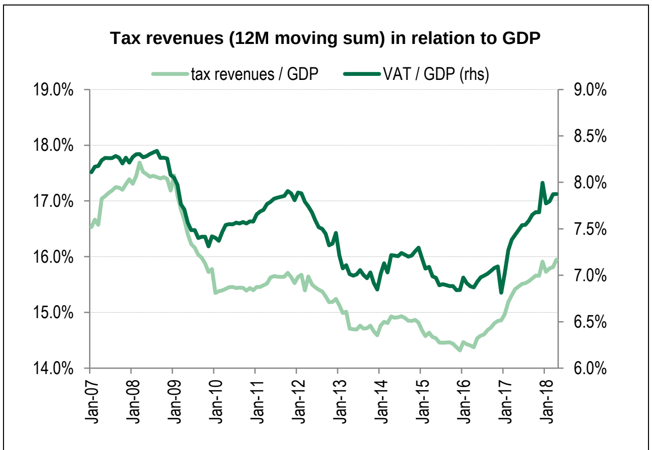
### Next rate hike in late 2019

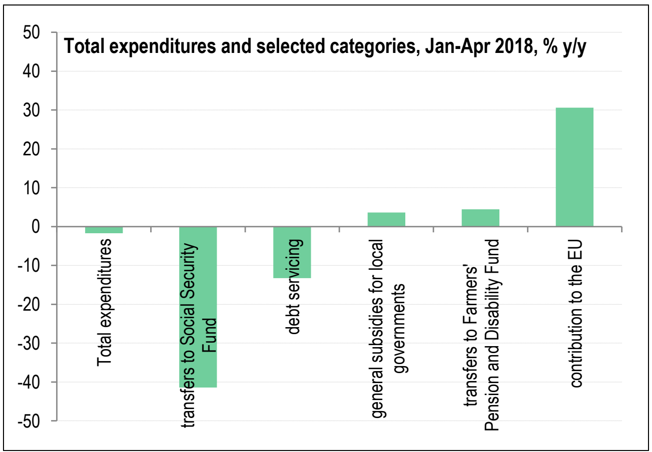
▪ Summing up, the recent MPC documents and the last press conference have not given us an impression there is a shift in views within the Council. There is a broad and steady support for keeping interest rates stable in the foreseeable future, while the members that could later propose a rate hike still do not have enough leverage in the current data to try to convince colleagues to join their camp. As a consequence we stick to our view that the next rate move may be a rate hike in late 2019, provided that wage growth keeps accelerating, while CPI and core CPI both approach 2.5% y/y by that time, and projections signal their further rise in 2020.

# Fiscal policy watch




Source: Statistics Poland, Finance Ministry, BZ WBK.

### 2018 deficit likely to be halved

- After April, Poland's central budget showed a surplus of PLN9.3bn. Budget inflows amounted to PLN125.2bn (104.9% of the schedule), while expenditures to PLN115.8bn (93.0% of the plan). In April alone, the budget balance amounted to +PLN6.2bn and this was the best April in years (average for 2010-2017 is -PLN2.7bn).
- In April alone, CIT revenues rose by 71.8% y/y, but it was due to shift in payments: as 31st March was on Saturday, companies were allowed to make final 2017 CIT payments in April. PIT increased by 21.4% y/y and VAT by 2.2% y/y.
- In year-to-date terms, PIT and CIT revenues are growing at a healthy double-digit rate. However, VAT receipts are weak and actually only 1.1% higher than in the corresponding period of 2017. In the first few months of the year, the annual growth rate was undermined by a high base effect due to shifts in VAT returns at the turn of 2016 and 2017. However, paltry results in April suggest it is unlikely to repeat success of 2017, when VAT growth rate hit 25% y/y.
- Spending is so far lower than planned mostly due to a lower Social Security Fund subsidy (-41.4% y/y in Jan-April) and lower cost of debt servicing (-13.3% y/y in Jan-April), results of the strong labour market and low interest rates. In our view, these results will hold in the months to come.
- Start of the year is extraordinarily positive for the budget, with only VAT being a fly in the ointment. In our view, it cannot be ruled out that at the year-end the deficit will be by half lower than assumed (PLN41.5bn).

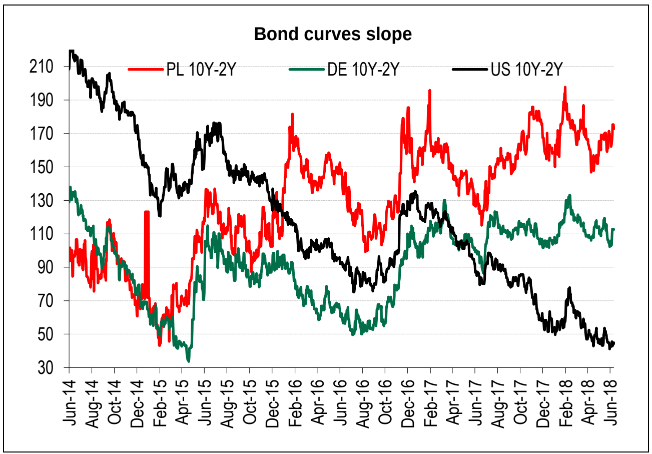
### Major cuts in Cohesion and Agriculture Funds

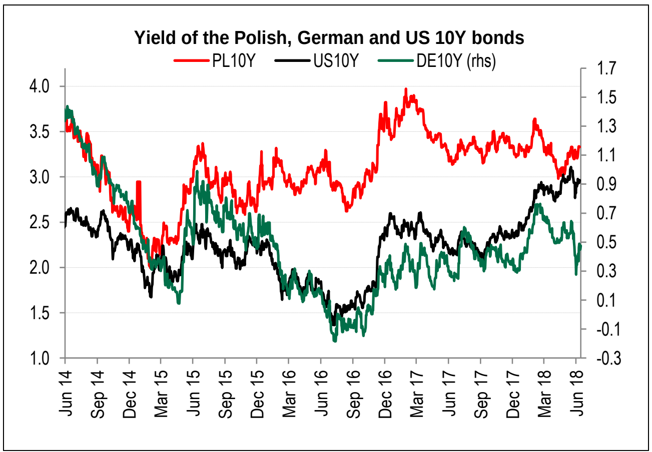
- According to the European Commission proposal on new EU framework 2021-2017, total Cohesion Funds are to be cut by c10% in real terms. Poland will lose as much as 23% of its funds, mostly due to its robust economic expansion over the last years and higher weight of non-GDP indicators, such as youth unemployment, attained education or immigration. Proposal assumes around 20% cut in cohesion funds for many other countries (Czechia, Estonia, Lithuania, Hungary, Malta, Slovakia and Germany), so it is difficult to say that the reduction for Poland was exceptionally strong.
- The Common Agricultural Policy budget is to be cut by 12% in constant prices. Poland's budget for direct payments to farmers will go down by 14% in constant prices. Rural Development Programme for Poland will go down by 25% (other countries are to see reductions by 23-27%). The Commission also plans changes in disbursement rules for beneficiaries, like payment cap for one farm, degressive rate per hectare for bigger farms and lower possibility to juggle means between programmes.
- Now the budget and the allocation will be negotiated and talks may last at least until 2019. The budget needs to be approved unequivocally, but the allocation by a qualified majority. Polish PM Mateusz Morawiecki already announced he had no intention to back the EC proposal. The European Parliament was also negative about this plan.

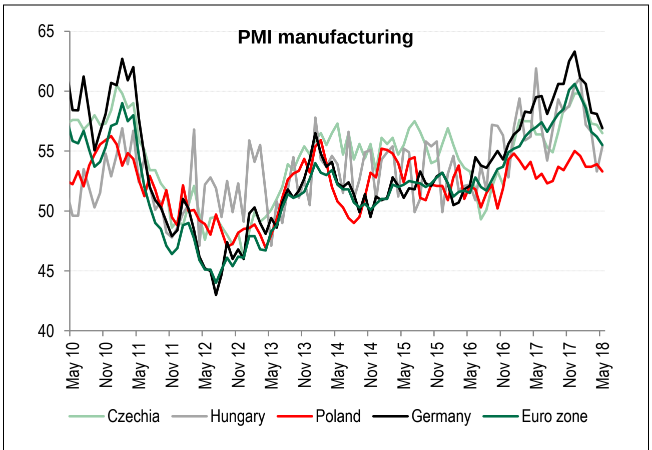
### Fitch Ratings kept Poland at A- with stable outlook

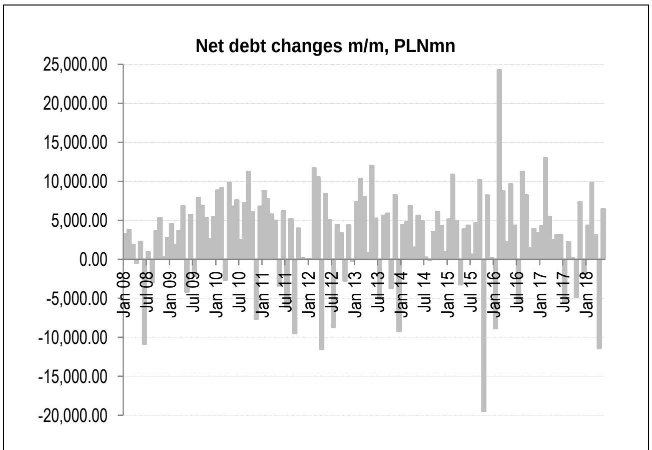
- The agency raised GDP forecasts for 2018 from 3.9% to 4.4% and for 2019 from 3.2% to 3.4%. Predictions for public debt were decreased clearly - to 49.3% of GDP in 2019 from 52% expected in December. The statement said that the election cycle could put pressure on the budget spending and the agency had doubts regarding Poland's determination to keep fiscal deficit below 3% of GDP. Fitch also underscored once again that factors working against the rating upgrade are the level of external debt (higher vs peers with the same grade) and relatively low GDP per capita.

# Interest rate market




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

### Geopolitics and higher GDP growth affected Polish debt

- Domestic yields were rising since the end of April until the second decade of May, translating into an upward shift of the domestic curve by above 20 bp in the 5Y segment and by c30 bp in the 10Y one. This was caused by rising geopolitical tension, positively surprising 1Q18 GDP data from Poland, rising oil prices and concerns regarding the Italian government. Some easing came in late May/early June, once the situation of appointing a new government in Italy was cleared. As a result, the yield curve increased by 4 bp in the middle and on the long end, and ASW10PL rates returned to +20 bp, after a rise from +20 to +36 bp, while the 5Y lowered to -5 bp. Changes on the short end of the yield curve did not exceed 5bp.

### Polish bonds between ECB and domestic data

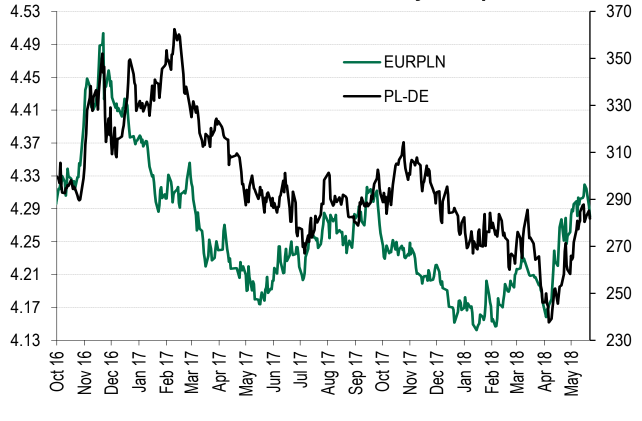
- We expect the curve to remain at the current or slightly lower levels until mid-June and to decline by 10-15bp in the 5-10Y segment in the following weeks. For the short end of the curve we expect a decline by 1-2bp. In this scenario we assume that until mid-June the expectations of ECB conference will have a negative effect on debt. At this conference the ECB may confirm it will start to tapper its bond-buying program in September and will suggest the conclusion of its QE programme in December 2018. We think that in the short term by then speculations regarding further normalisation of the ECB's monetary policy and "trade war story" will become more important for the market than the published data. We also believe that the Fed meeting scheduled a day earlier, which should increase the rates from 1.75% to 2.0% (fully priced in by the market) will have no impact on the valuation of Polish debt. Looking forward, we expect that in the second half of June the market's attention will focus on incoming data, including domestic ones. We are expecting worse industrial data in Poland (following lower May PMI readings). The readings will reflect negative one-off factors (two long weekends). In respect of the remaining figures (retail sales, construction and assembly production or wages) we think that the data will exceed market expectations. Bearing in mind, however, that the fast growth of wages and salaries observed since mid-2017 has yet to translate into higher inflation or a considerable acceleration of retail sales, we do not expect investors to respond negatively. Polish bonds should be further supported by the low supply on the auction that will take place at the end of June (PLN0-3bn).
- Also the data to arrive from abroad in the second half of the month should not adversely affect the debt market. We expect that PMI's from the European service and industrial sectors will be similar to the May readings. Regarding inflation data from the euro zone, we expect the preliminary readings from May to be confirmed. Detailed figures should confirm that the jump of inflation towards the ECB's inflation target in May was mainly caused by fuels, and the outlook for underlying inflation increases (from the current very low levels) are limited.
- Risk factors continue to include the geopolitical situation, including in Europe (the new eurosceptic government in Italy), which will be reflected in 5Y/10Y spread being higher than at the turn of March and April, higher ASWPL10L spreads and a higher spread of Polish 10Y bonds above respective German and US Treasuries.

### June auctions

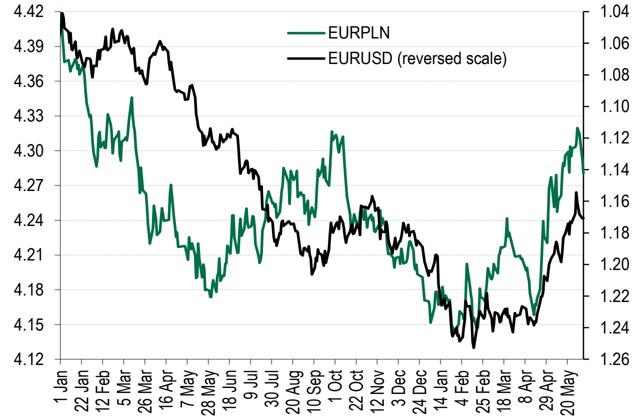
- There is only one regular auction scheduled for June (28 June). At this auction the Ministry of Finance is going to offer OK0720, PS0123, WZ0524, WS0428 and WZ0528 to the tune of PLN0-3 bn. Moreover, the Ministry has announced a switch auction (15 June) to sell OK0720, PS0123, WZ0524, WS0428 and WZ0528 in return for PS0718 (available volume: PLN13.457bn), OK1018 (PLN16.671bn) and WZ0119 (PLN21.090bn).

# Foreign exchange market

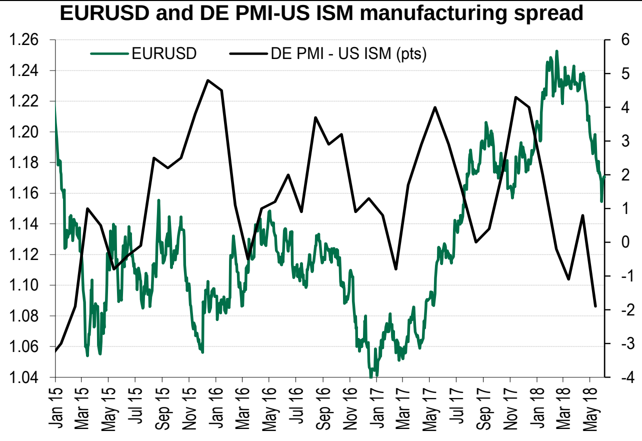
**EURPLN and PL-DE 10Y bond yield spread**



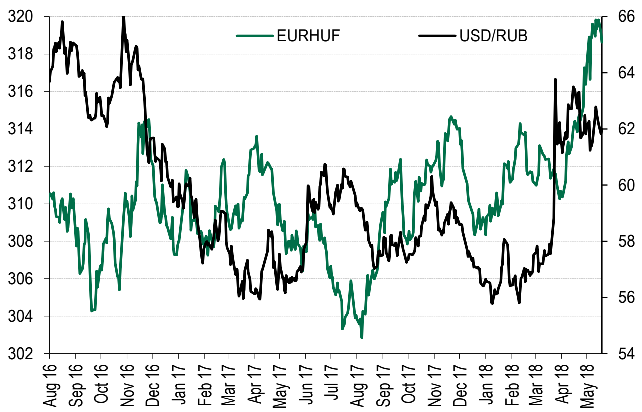

**EURPLN and EURUSD**




**EURUSD and DE PMI-US ISM manufacturing spread**




**EURHUF and USDRUB**




Sources: Reuters, Bloomberg, BZ WBK.

### No more pain (in the short run)

- The zloty got hit versus main currencies in the recent weeks amid dollar sharp appreciation fuelled by political situation in Europe. As a result, EURPLN jumped temporarily to 4.34, USDPLN broke 3.76, CHFPLN rebounded to 3.81 and GBPPLN neared 5.0.
- Although the zloty recovered somewhat at the beginning of June, the Polish currency is still the seventh weakest among its emerging market peers when we look at performance since mid-April. Within this time frame, however, we saw some pretty encouraging news flow from Poland. 1Q18 GDP surprised to the upside, CPI rebounded and is expected to rise to 2% in the months to come and the state budget keeps its outstanding performance. Thus, we think the recent zloty depreciation could be utilized to enter the Polish market if the global sentiment remains calm.
- We see the Polish bonds as pretty attractive with the PL-DE 10Y bond yield spread having approached c300bp in late May, its highest for nearly a year. The foreign investors' demand for the domestic debt could be among factors supporting the zloty.
- Furthermore, it looks like EURUSD has started to bottom out (details below) and weaker dollar could give a further relief for the zloty and its EM peers.
- Also, technical analysis suggests the zloty could recover in the months to come, probably until August that is a statistically negative month for the Polish currency.

### Politics and poor data hit euro

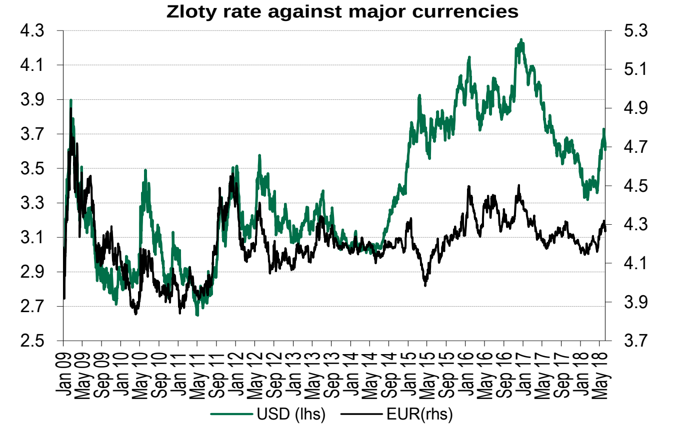
- EURUSD stayed in the down trend as the US data continued to look better than the European ones and amid political tensions in euro zone. As a result, the exchange rate plummeted to 1.15 after a six consecutive weeks of a decline reaching its lowest since July 2017.
- In early June EURUSD is back above 1.17 and we expect the euro to recover in the weeks to come. The political situation in Italy seems to have stabilized at last for now which could give some relief to the single currency. Also, the ECB is expected to give some guidance on the process of QE program termination which could be positive for the euro. The ECB Chief Economist, Peter Praet, has recently said that inflation is heading towards its target suggesting that the central bank rhetoric may be tilted towards hawkish at the June press conference. In our view, however, for the uptrend to be sustainable, the European data need to improve in the coming weeks in order to support the scenario of moderate economic growth.

### Ruble outperforms its CEE peers

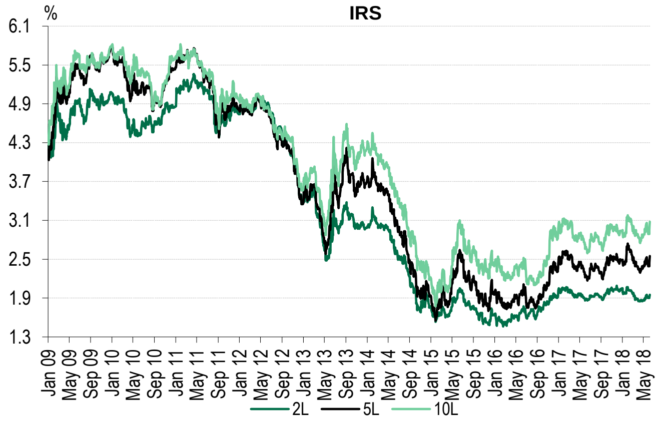
- Among the CEE currencies, the ruble performed the best in the recent weeks as the dollar appreciation was neutralized by rising oil prices. As a result, USDRUB held near 62-63. The geopolitical issues seem to have calmed a bit and we assume that oil prices will be the main factor driving the Russian currency in the nearest future. The Brent oil price fell to $US75/bbl from $US80/bbl and this is the biggest down correction since January in the uptrend suggesting the pace of this tendency could fade in the short term. Should this happen, there looks to be little room for USDRUB to fall.
- The forint and koruna were under pressure for the better part of May amid elevated risk aversion persisting on the global market. As a result, EURCZK neared 25.95 (its highest since late 2017) while EURHUF rose temporarily above 320 (level last time seen in mid-2016). Dovish rhetoric of the Hungarian central bank added pressure on the forint while hawkish remarks by Czech central bankers helped the koruna to recover faster. We expect both currencies could stay strong in the coming weeks.

# Market monitor

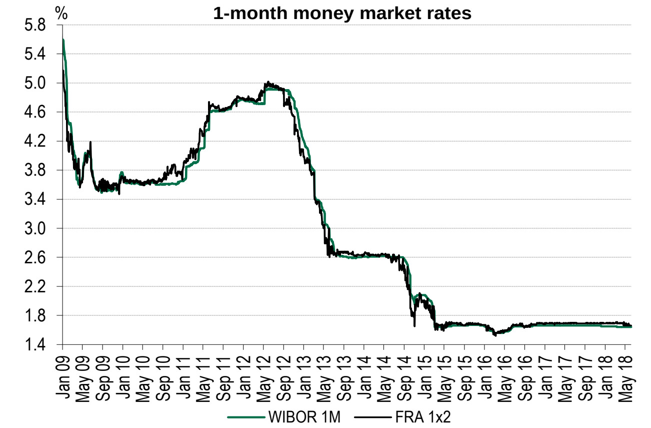
Zloty rate against major currencies



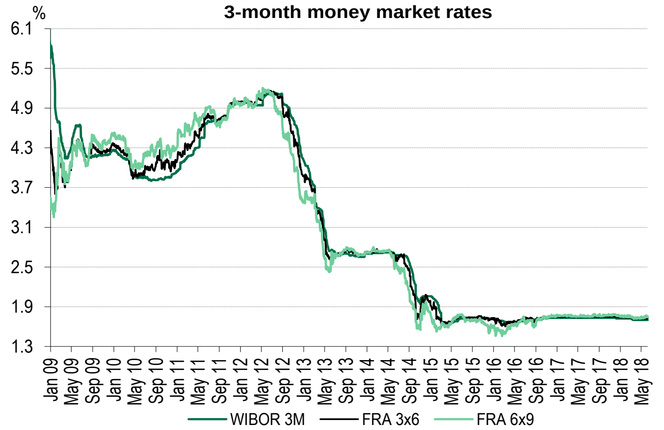

IRS



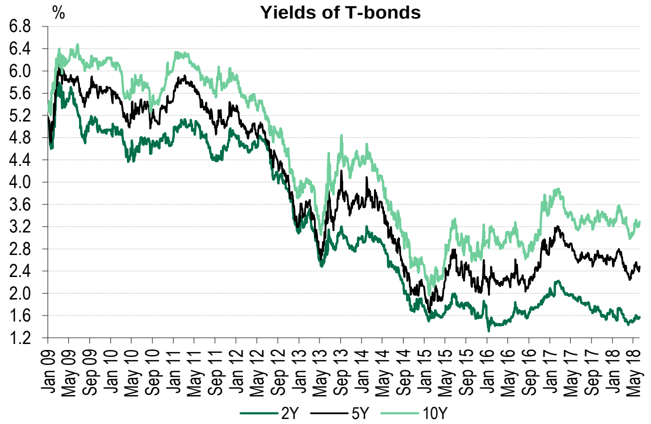

1-month money market rates



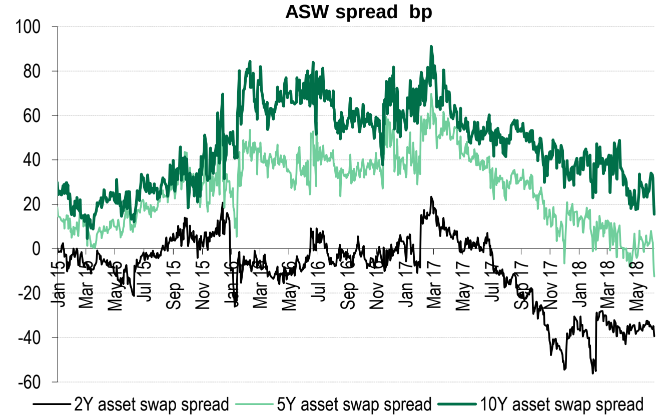

3-month money market rates




Yields of T-bonds

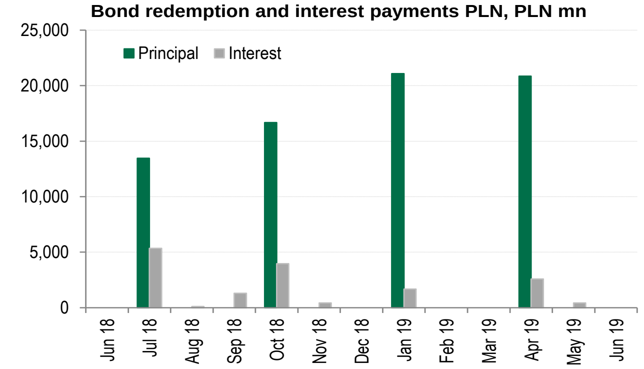



ASW spread  bp

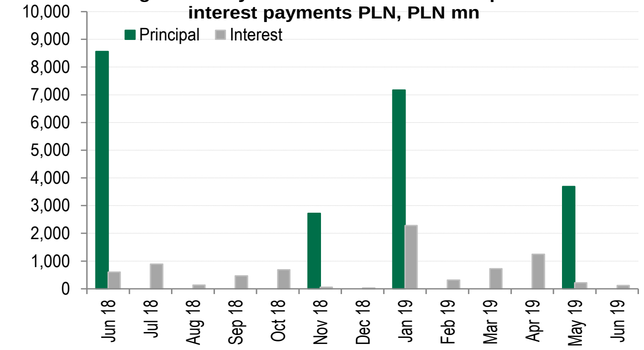



## Principal and interest payments

Bond redemption and interest payments PLN, PLN mn




Foreign currency denominated bond redemption and interest payments PLN, PLN mn




Source: Finance Ministry, Reuters, BZ WBK.

# Economic calendar

| MONDAY | TUESDAY | WEDNESDAY | THURSDAY | FRIDAY |
|---|---|---|---|---|
| **11 June**<br>CZ: CPI (May) | **12**<br>DE: ZEW index (Jun)<br>US: CPI (May) | **13**<br>***PL: Balance of payments (Apr)***<br>EZ: Industrial output (Apr)<br>US: FOMC decision | **14**<br>***PL: CPI (May)***<br>EZ: ECB decision<br>US: Retail sales (May) | **15**<br>***PL: Core inflation (May)***<br>EZ: CPI (May)<br>US: Industrial output (May)<br>US: Flash Michigan (Jun) |
| **18**<br>***PL: Wages and employment (May)*** | **19**<br>***PL: Industrial output (Apr)***<br>***PL: PPI (Apr)***<br>HU: Central bank decision<br>US: House starts (May) | **20**<br>US: Home sales (May) | **21**<br>***PL: Retail sales (May)***<br>US: Philly Fed index (Jun) | **22**<br>***PL: Money supply (May)***<br>DE: Flash PMI – services (Jun)<br>DE: Flash PMI – manufacturing (Jun)<br>EZ: Flash PMI – manufacturing (Jun)<br>EZ: Flash PMI – services (Jun) |
| **25**<br>***PL: Unemployment rate (May)***<br>DE: Ifo index (Jun)<br>US: New home sales (May) | **26**<br>US: Consumer confidence index (Jun) | **27**<br>CZ: Central bank decision<br>US: Durable goods orders (May)<br>US: Pending home sales (May) | **28**<br>US: Finalny GDP (Q1) | **29**<br>CZ: GDP (Q1)<br>EZ: Flash CPI (Jun)<br>US: Consumer income (May)<br>US: Consumer spending (May)<br>US: Michigan index (Jun) |
| **2 July**<br>***PL: PMI – manufacturing (Jun)***<br>***PL: Flash CPI (Jun)***<br>EZ: PMI – manufacturing (Jun)<br>DE: PMI – manufacturing (Jun)<br>US: ISM – manufacturing (Jun) | **3**<br>US: Industrial orders (May) | **4**<br>DE: PMI – services (Jun)<br>EZ: PMI – services (Jun) | **5**<br>DE: Industrial orders (May)<br>US: ADP report (Jun)<br>US: ISM – services (Jun)<br>US: FOMC minutes | **6**<br>DE: Industrial output (May)<br>HU: Industrial output (May)<br>US: Non-farm payrolls (Jun)<br>US: Unemployment rate (Jun) |
| **9**<br>DE: Exports (May)<br>CZ: Industrial output (May) | **10**<br>DE: ZEW index (Jul)<br>HU: CPI (Jun) | **11**<br>***PL: MPC decision***<br>CZ: CPI (Jun) | **12**<br>EZ: Industrial output (May)<br>US: CPI (Jun) | **13**<br>***PL: CPI (Jun)***<br>US: Flash Michigan (Jul) |

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**

| | | May 17 | Jun 17 | Jul 17 | Aug 17 | Sep 17 | Oct 17 | Nov 17 | Dec 17 | Jan 18 | Feb 18 | Mar 18 | Apr 18 | May 18E | Jun 18E |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| PMI | pts | 52.7 | 53.1 | 52.3 | 52.5 | 53.7 | 53.4 | 54.2 | 55.0 | 54.6 | 53.7 | 53.7 | 53.9 | 53.3 | 52.9 |
| Industrial production | % y/y | 9.2 | 4.4 | 6.2 | 8.8 | 4.4 | 12.3 | 9.2 | 2.8 | 8.7 | 7.3 | 1.6 | 9.3 | 3.9 | 5.3 |
| Construction production | % y/y | 8.3 | 11.6 | 19.8 | 23.6 | 15.3 | 20.2 | 19.9 | 12.8 | 34.7 | 31.3 | 16.1 | 19.7 | 20.8 | 18.0 |
| Retail sales [a] | % y/y | 8.4 | 6.0 | 7.1 | 7.6 | 8.6 | 8.0 | 10.2 | 6.0 | 8.2 | 7.9 | 9.2 | 4.6 | 8.1 | 7.7 |
| Unemployment rate | % | 7.3 | 7.0 | 7.0 | 7.0 | 6.8 | 6.6 | 6.5 | 6.6 | 6.9 | 6.8 | 6.6 | 6.3 | 6.1 | 5.9 |
| Gross wages in corporate sector | % y/y | 5.4 | 6.0 | 4.9 | 6.6 | 6.0 | 7.4 | 6.5 | 7.3 | 7.3 | 6.8 | 6.7 | 7.8 | 7.6 | 7.5 |
| Employment in corporate sector | % y/y | 4.5 | 4.3 | 4.5 | 4.6 | 4.5 | 4.4 | 4.5 | 4.6 | 3.8 | 3.7 | 3.7 | 3.7 | 3.8 | 3.7 |
| Exports (€) | % y/y | 19.1 | 7.2 | 15.0 | 13.4 | 11.5 | 15.8 | 15.5 | 2.6 | 11.7 | 5.5 | -2.0 | 9.3 | 3.0 | 7.4 |
| Imports (€) | % y/y | 21.5 | 14.3 | 14.6 | 8.7 | 8.9 | 15.4 | 15.9 | 10.9 | 16.3 | 8.3 | 1.6 | 12.8 | 5.0 | 9.4 |
| Trade balance | EUR mn | -70 | -202 | -136 | 288 | 479 | 284 | 208 | -1,175 | -156 | -601 | -317 | -20 | -409 | -554 |
| Current account balance | EUR mn | -202 | -902 | -296 | 311 | 218 | 436 | 278 | -699 | 2,072 | -972 | -982 | -237 | -328 | -1,512 |
| Current account balance | % GDP | 0.0 | -0.4 | -0.2 | 0.0 | 0.3 | 0.4 | 0.4 | 0.3 | 0.2 | 0.1 | -0.1 | -0.2 | -0.2 | -0.4 |
| Budget balance (cumulative) | PLN bn | -0.2 | 5.9 | 2.4 | 4.9 | 3.8 | 2.7 | -2.4 | -25.4 | 8.6 | 4.5 | 3.1 | 9.3 | 10.3 | 5.8 |
| Budget balance (cumulative) | % of FY plan | 0.3 | -9.9 | -4.0 | -8.2 | -6.4 | -4.5 | 4.1 | 42.7 | -20.6 | -10.8 | -7.5 | -22.5 | -24.9 | -14.0 |
| CPI | % y/y | 1.9 | 1.5 | 1.7 | 1.8 | 2.2 | 2.1 | 2.5 | 2.1 | 1.9 | 1.4 | 1.3 | 1.6 | 1.7 | 2.1 |
| CPI excluding food and energy | % y/y | 0.8 | 0.8 | 0.8 | 0.7 | 1.0 | 0.8 | 0.9 | 0.9 | 1.0 | 0.8 | 0.7 | 0.6 | 0.5 | 0.7 |
| PPI | % y/y | 2.4 | 1.8 | 2.2 | 3.0 | 3.2 | 3.0 | 1.8 | 0.3 | 0.2 | -0.1 | 0.5 | 1.1 | 2.7 | 3.0 |
| Broad money (M3) | % y/y | 6.3 | 5.0 | 5.0 | 5.4 | 5.4 | 5.7 | 4.5 | 4.6 | 4.8 | 4.9 | 5.8 | 5.7 | 5.9 | 6.5 |
| Deposits | % y/y | 5.7 | 4.5 | 4.6 | 5.0 | 5.0 | 5.3 | 4.2 | 4.1 | 4.5 | 4.6 | 5.1 | 5.1 | 5.4 | 6.0 |
| Loans | % y/y | 4.8 | 4.5 | 4.5 | 5.0 | 5.1 | 4.7 | 3.7 | 3.6 | 4.0 | 4.2 | 4.3 | 3.7 | 4.4 | 4.8 |
| EUR/PLN | PLN | 4.20 | 4.21 | 4.24 | 4.26 | 4.27 | 4.26 | 4.23 | 4.20 | 4.16 | 4.16 | 4.21 | 4.19 | 4.28 | 4.28 |
| USD/PLN | PLN | 3.80 | 3.75 | 3.68 | 3.61 | 3.59 | 3.63 | 3.60 | 3.55 | 3.41 | 3.37 | 3.41 | 3.42 | 3.63 | 3.64 |
| CHF/PLN | PLN | 3.85 | 3.87 | 3.83 | 3.74 | 3.73 | 3.69 | 3.63 | 3.60 | 3.55 | 3.61 | 3.60 | 3.53 | 3.64 | 3.69 |
| 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 | 1.72 | 1.72 | 1.72 | 1.71 | 1.70 | 1.70 | 1.70 |
| Yield on 2-year T-bonds | % | 1.98 | 1.94 | 1.89 | 1.80 | 1.73 | 1.71 | 1.60 | 1.69 | 1.62 | 1.73 | 1.56 | 1.52 | 1.57 | 1.54 |
| Yield on 5-year T-bonds | % | 2.81 | 2.62 | 2.67 | 2.67 | 2.61 | 2.69 | 2.62 | 2.64 | 2.63 | 2.73 | 2.46 | 2.33 | 2.49 | 2.42 |
| Yield on 10-year T-bonds | % | 3.37 | 3.21 | 3.32 | 3.35 | 3.27 | 3.39 | 3.40 | 3.29 | 3.34 | 3.51 | 3.27 | 3.08 | 3.23 | 3.14 |

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 | 1Q18 | 2Q18E | 3Q18E | 4Q18E |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| GDP | PLN bn | 1,799.4 | 1,858.5 | 1,982.1 | 2,090.3 | 456.7 | 476.6 | 490.2 | 558.7 | 485.4 | 503.9 | 514.5 | 586.5 |
| GDP | % y/y | 3.8 | 3.0 | 4.6 | 4.5 | 4.4 | 4.0 | 5.2 | 4.9 | 5.2 | 4.5 | 4.2 | 4.0 |
| Domestic demand | % y/y | 3.3 | 2.2 | 4.7 | 5.2 | 4.1 | 5.8 | 4.0 | 5.1 | 6.8 | 4.8 | 4.7 | 4.7 |
| Private consumption | % y/y | 3.0 | 3.9 | 4.8 | 4.9 | 4.5 | 4.9 | 4.7 | 5.0 | 4.8 | 5.0 | 5.0 | 5.0 |
| Fixed investments | % y/y | 6.1 | -8.2 | 3.4 | 6.4 | 1.4 | 1.3 | 3.6 | 5.4 | 8.1 | 7.9 | 6.4 | 4.9 |
| Industrial production | % y/y | 4.8 | 2.9 | 6.5 | 5.5 | 7.3 | 4.2 | 6.3 | 8.4 | 5.6 | 6.1 | 6.8 | 3.6 |
| Construction production | % y/y | 0.3 | -14.5 | 13.7 | 14.0 | 5.6 | 8.3 | 19.3 | 17.1 | 25.6 | 19.4 | 12.6 | 6.5 |
| Retail sales [a] | % y/y | 1.5 | 3.9 | 8.2 | 7.1 | 9.6 | 7.6 | 7.9 | 8.0 | 8.4 | 6.7 | 8.4 | 5.3 |
| Unemployment rate [b] | % | 9.7 | 8.2 | 6.6 | 5.9 | 8.0 | 7.0 | 6.8 | 6.6 | 6.6 | 5.9 | 5.8 | 5.9 |
| Gross wages in the national economy [a] | % y/y | 3.3 | 3.8 | 5.7 | 7.5 | 4.1 | 5.0 | 4.9 | 7.1 | 6.2 | 7.1 | 7.2 | 8.6 |
| Employment in the national economy | % y/y | 0.9 | 2.3 | 3.7 | 2.8 | 3.2 | 3.0 | 3.6 | 3.4 | 2.8 | 2.7 | 2.5 | 2.4 |
| Exports (€) | % y/y | 8.5 | 3.1 | 12.0 | 5.6 | 13.8 | 9.6 | 13.3 | 11.5 | 4.7 | 6.5 | 7.0 | 4.4 |
| Imports (€) | % y/y | 5.0 | 2.7 | 13.4 | 8.7 | 15.5 | 13.5 | 10.7 | 14.1 | 8.3 | 9.0 | 10.3 | 7.3 |
| Trade balance | EUR mn | 2,213 | 2,935 | 821 | -5,212 | 655 | 204 | 634 | -672 | -1,074 | -983 | -929 | -2,226 |
| Current account balance | EUR mn | -2,405 | -1,254 | 1,497 | -4,600 | 2,047 | -816 | 243 | 23 | 118 | -2,077 | -1,745 | -896 |
| Current account balance | % GDP | -0.6 | -0.3 | 0.3 | -0.9 | 0.2 | -0.4 | 0.3 | 0.3 | -0.1 | -0.4 | -0.8 | -0.9 |
| General government balance | % GDP | -2.6 | -2.3 | -1.7 | -2.0 | - | - | - | - | - | - | - | - |
| CPI | % y/y | -0.9 | -0.6 | 2.0 | 1.6 | 2.0 | 1.8 | 1.9 | 2.2 | 1.5 | 1.8 | 1.8 | 1.5 |
| CPI [b] | % y/y | -0.5 | 0.8 | 2.1 | 1.5 | 2.0 | 1.5 | 2.2 | 2.1 | 1.3 | 2.1 | 1.6 | 1.5 |
| CPI excluding food and energy | % y/y | 0.3 | -0.2 | 0.7 | 0.9 | 0.3 | 0.8 | 0.8 | 0.9 | 0.8 | 0.6 | 0.9 | 1.4 |
| PPI | % y/y | -2.2 | -0.2 | 2.9 | 1.6 | 4.4 | 2.8 | 2.8 | 1.7 | 0.2 | 2.2 | 2.3 | 1.6 |
| Broad money (M3) [b] | % y/y | 9.1 | 9.6 | 4.6 | 6.9 | 7.8 | 5.0 | 5.4 | 4.6 | 5.2 | 5.8 | 6.4 | 6.9 |
| Deposits [b] | % y/y | 9.0 | 9.1 | 4.1 | 6.8 | 7.3 | 4.5 | 5.0 | 4.1 | 4.8 | 5.5 | 6.1 | 6.8 |
| Loans [b] | % y/y | 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 | 4.23 | 4.32 | 4.22 | 4.26 | 4.23 | 4.18 | 4.25 | 4.27 | 4.23 |
| USD/PLN | PLN | 3.77 | 3.95 | 3.78 | 3.47 | 4.06 | 3.83 | 3.63 | 3.59 | 3.40 | 3.56 | 3.53 | 3.38 |
| CHF/PLN | PLN | 3.92 | 4.00 | 3.84 | 3.60 | 4.04 | 3.89 | 3.77 | 3.64 | 3.59 | 3.62 | 3.63 | 3.55 |
| 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 | % | 1.73 | 1.66 | 1.89 | 1.55 | 2.13 | 1.98 | 1.81 | 1.67 | 1.64 | 1.54 | 1.50 | 1.50 |
| Yield on 5-year T-bonds | % | 2.24 | 2.37 | 2.78 | 2.41 | 3.06 | 2.77 | 2.65 | 2.65 | 2.61 | 2.41 | 2.29 | 2.33 |
| Yield on 10-year T-bonds | % | 2.70 | 3.05 | 3.44 | 3.25 | 3.74 | 3.34 | 3.31 | 3.36 | 3.37 | 3.15 | 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 11.06.2018 has been prepared by: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# IMPORTANT DISCLOSURES

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