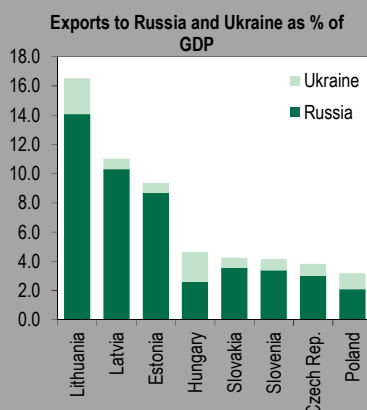
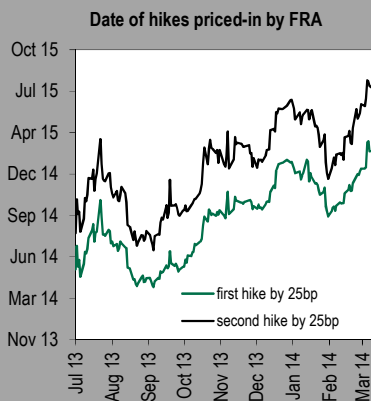


MACROscope

Polish Economy and Financial Markets

March 2014

Rise of uncertainty in the East



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■ **Flash quarterly data confirmed an acceleration of economic growth in Poland to 2.7%YoY at the end of 2013 and a gradual increase of role of domestic demand** (private consumption grew by 2.1%YoY and fixed investments by 1.3%YoY). Recent monthly data, especially leading indicators, confirm that the economy is on an upward path, which should bring the GDP growth up to 3.5% in the whole year. We are particularly optimistic about the labour market, as recent data are suggesting that recovery in this sector is gaining steam and may be a positive surprise. At the same time, external imbalance of the Polish economy is improving quickly – thanks to a considerable trade surplus the current account deficit shrank in 2013 to 1.5% of GDP (lowest level since 1995) and in our view upcoming quarters should bring a continuation of this trend.

■ **Despite positive tendencies in economic activity, there are no traits of inflationary pressure so far and CPI growth remains low.** Scenario of non-inflationary economic recovery is suggested by results of new NBP projection, which shows that inflation rate should remain below official target at 2.5% almost until end of 2016, despite expected economic recovery, based mostly on reviving domestic demand. Our inflation forecasts are not as optimistic as these presented by the NBP and we assume that price growth will accelerate earlier than suggested by the projection. This will be partially due to improvement on the labour market, accompanied by recovery in consumption and investment.

■ **Results of the new NBP projection unexpectedly encouraged the Monetary Policy Council to extend its forward guidance, i.e. horizon of declared flat-rate period, at least until 3Q2014.** At the same time, NBP president and other MPC members clearly suggested that hiking cycle will not begin immediately after forward guidance comes to an end. This means that probability of an interest rate hike already this year scaled back considerably, which made us revise our expectations about monetary policy – we move our forecast of first hike to the beginning of 2015. FRA market is currently pricing-in a roughly similar scenario.

■ **Events in Ukraine were in the centre of attention of investors in recent weeks, triggering another wave of sell-off on the currency market.** Uncertainty was caused by risk of military conflict with Russia on one hand and by threat of economic deterioration in Poland's Eastern neighbouring countries on the other. Worsening relations between Russia and the West can also possibly affect the pace of recovery in Europe. It is difficult to forecast further development of situation in Ukraine, but exposition of Polish economy and generally of the European Union to Russia and Ukraine is not high. We think that possible disruptions in energy commodities supply can be most serious, but we do not view this as a very likely scenario

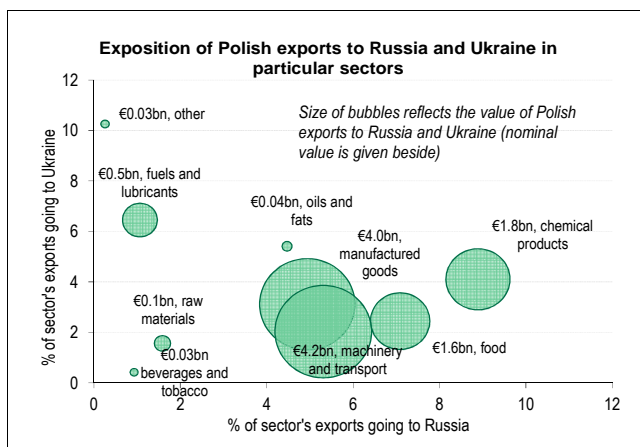
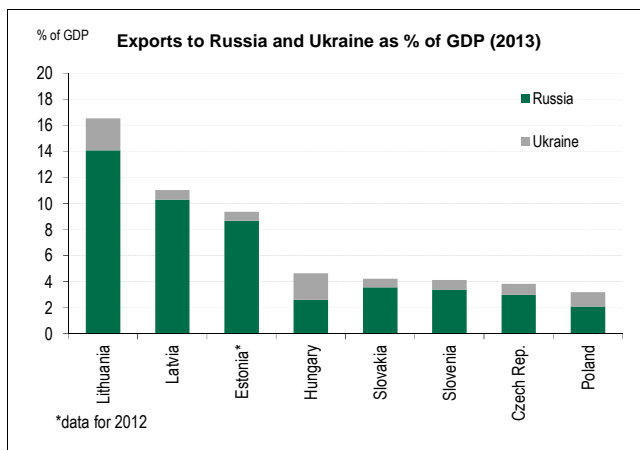
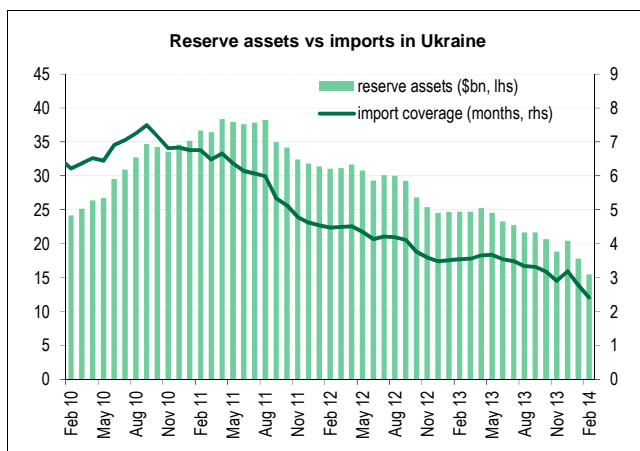
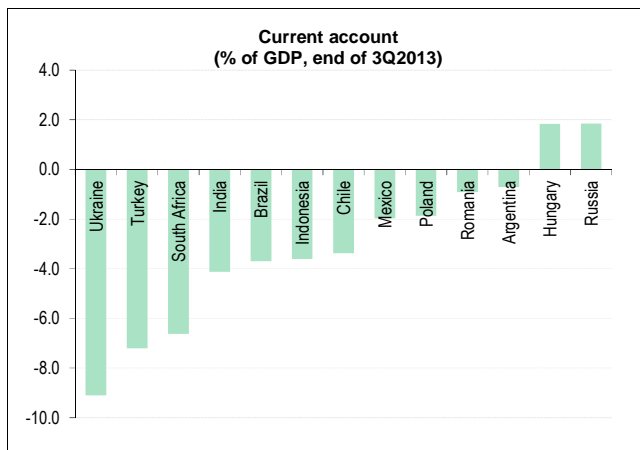
■ **High uncertainty about development of situation in the East can still weigh on financial market mood in the upcoming weeks.** Even assuming that political crisis and Russia-EU tensions do not escalate, the CEE currencies may remain under negative pressure for a few weeks. We believe that the zloty will be strengthening in the medium term, thanks to improving macro conditions (faster growth, narrowing current account deficit) and positive investors' interpretation of Polish economic performance versus other economies.

Financial market on 11 March 2014:

| | | | | | |
|--------------------|------|------------------------|------|--------|--------|
| NBP deposit rate | 1.00 | WIBOR 3M | 2.71 | EURPLN | 4.2171 |
| NBP reference rate | 2.50 | Yield on 2-year T-bond | 2.96 | USDPLN | 3.0449 |
| NBP lombard rate | 4.00 | Yield on 5-year T-bond | 3.62 | CHFPLN | 3.4626 |

This report is based on information available until 11.03.2014

Special topic: Crisis in Ukraine



Risk of economic crisis in Ukraine

Events in Ukraine became recently one of the main market movers. Potential military conflict with Russia is one major threat but the risk of economic crisis in Ukraine is another one. The Ukrainian economy, which was in stagnation for the last two years, can possibly fall into a deep recession due to recent events. One of the major problems is a deep imbalance on current account (over 9% of GDP at the end of 3Q2013) and quickly evaporating international reserves, which currently are enough to cover only ca. 2 months of imports of goods. Additionally, according to words of the new Ukrainian prime minister Arseniy Yatsenyuk, treasury of the state proved empty. It is estimated that Ukraine needs ca. \$20-25bn of immediate external help to refinance the maturing debt and service international liabilities. Default is a risk scenario and it would probably trigger a crisis of the banking system. However, recent actions of Russia caused that Western countries are more eager to deliver financial assistance for Ukraine – EU's approval for help worth €11bn and declarations from the IMF and the USA improve chances that the pessimistic scenario assuming default will be avoided. Moreover, conditional rescue packages may force necessary economic reforms, neglected in previous years.

However, concern about Ukraine is not the whole story. Conflict with Russia and introduction of political and financial sanctions may undermine the economic bonds between the European Union and Russia: hikes of gas and oil prices or breaks in supply are possible (yet seems not very probable right now), as well as trade war (embargo or higher custom duties on EU products), which would negatively affect the economic growth in Europe. Even if it is not the case, then elevated uncertainty on the markets can temporarily cause a rise in commodity prices and weigh on business sentiment.

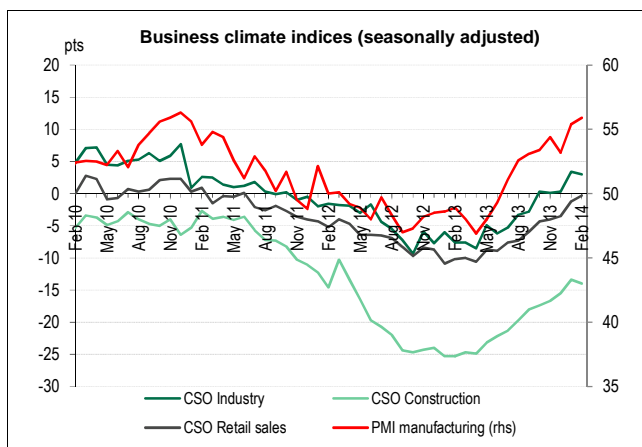
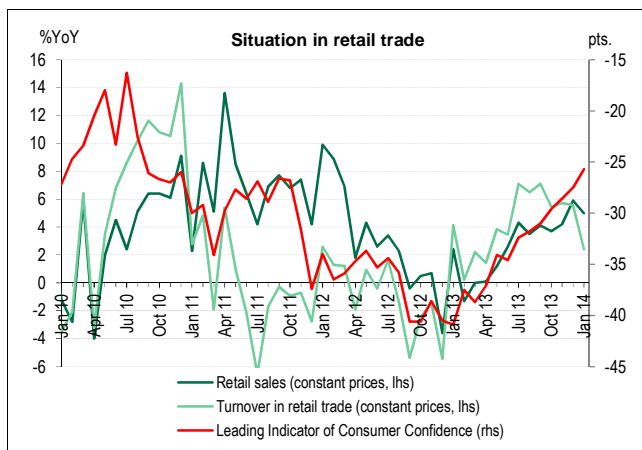
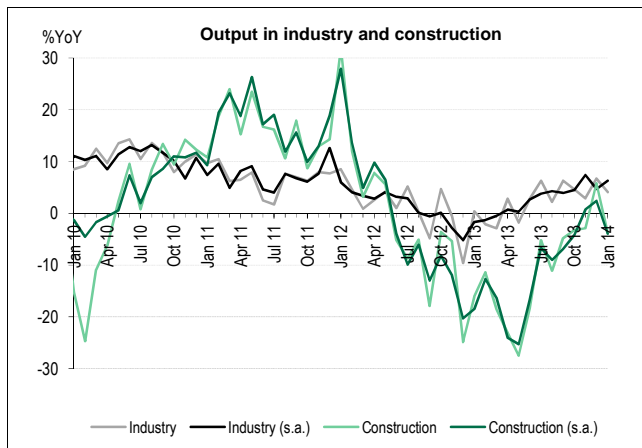
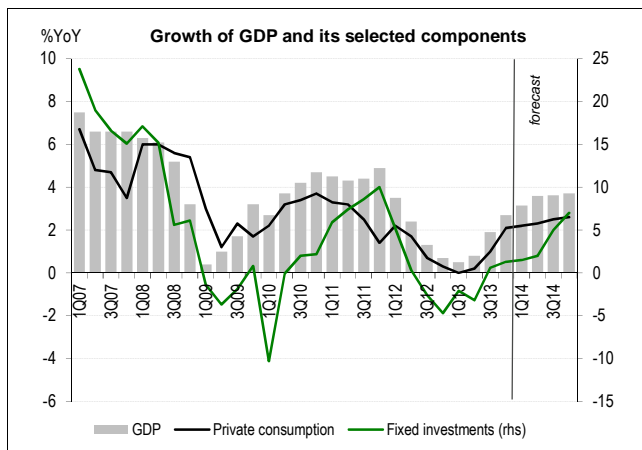
Exposition of EU countries to Russia and Ukraine is not high

Russia is the fifth biggest receiver of Polish exports (in 2013 €8.1bn, 5.3%-share), while Ukraine ranked eighth (€4.3bn with share of 2.8%). Total exports to Russia and Ukraine makes 3.2% of Polish GDP and this is more than average in the EU, but still Polish exposition to both countries is not high and considerably lower than in case of Lithuania, Latvia and Estonia (which would really suffer in case of trade war with Russia) as well as lower than in the Czech Republic and Hungary (4.6% and 3.8% of GDP, respectively). According to words of minister of economy Janusz Piechociński, at the start of the year Polish exports to Ukraine tumbled by ca. 10%. Depreciation of the Ukrainian currency versus the zloty and likely economic recession will probably accelerate this decline, so we are estimating that this factor can deduct ca. 0.1-0.2 percentage points from Polish GDP. Most considerable consequences for Poland may be caused by disruptions in energy commodities supply from Russia. However, it is worth noting that energy commodities make up ca. 2/3 of Russian exports and this country simply cannot afford cutting gas supplies to Europe.

Reduction of exports to Russia and Ukraine can imply asymmetric effects for various sectors of the Polish economy. For example, fuels and lubricants sector is highly dependent on Ukrainian demand – as much as 6.5% of Polish exports of this sector go to this country (we are exporting mainly fuels and coal to Ukraine). On the other hand, disruptions in trade with Russia may considerably affect the chemical industry and food producers (Russia purchases 8.9% of Polish chemical products' exports and 7.1% of food exports). Russia and Ukraine receive also a lot of Polish machinery, vehicles and manufactured goods. However, as regards the whole economy, the deterioration of situation in Eastern markets can be easily offset by rising trade volumes with the European Union, currently entering a period of accelerating economic growth.

Source: CSO, Eurostat, Bloomberg, BZ WBK

Economic update



Source: CSO, Markit, BZ WBK

Rising role of domestic demand

▪ GDP growth in 4Q2013 reached 2.7%YoY (as compared to 1.9%YoY in Q3). Seasonally adjusted growth amounted to 2.2%YoY and 0.6%QoQ (i.e. slightly less than in 3Q2013: 0.7%QoQ).

▪ Private consumption increased by 2.1%YoY in real terms, at the fastest pace since 1Q2012. Let us remind that yet at the beginning of the past year the consumer demand was in stagnation (three consecutive quarters of roughly zero growth). We expect private consumption to strengthen later in the year, mainly due to observed improvement in the labour market. A revival was also recorded in investment activity – gross capital formation increased by 1.3%YoY. This is not an outstanding result, but it is worth to be aware that this result is dragged down by falling (for a second consecutive year) public investments. This means that private investments could have expanded by 4-5%YoY at the end of 2013. Domestic demand increased 1.2%YoY in total.

▪ Net exports added 1.5pp to the pace of GDP growth showing that it remains the main engine of the economic revival. It is worth to mention that contribution of domestic demand was similar (1.2pp) so we may say that there is no longer only one engine working in the Polish economy. Domestic demand is still driven mainly by private consumption (which added 1.1pp to GDP growth), but we expect investments to join in the course of the coming quarters.

▪ We expect further acceleration of economic growth in coming quarters, to ca. 4%YoY at the end of the year and 3.5%YoY on average in 2014, with growing role of domestic demand, especially fixed investments.

Industry goes strong, but construction disappoints

▪ Industrial output increased by 4.1%YoY in January (as compared to 6.6%YoY in December). Seasonally adjusted growth amounted to 6.3%YoY as compared to 5.2%YoY in the previous month. Increase in monthly terms amounted to 2.3%YoY and this was the highest growth rate since December 2011 (however, this may be due to low base effect in December 2011, when favourable weather conditions undermined energy output).

▪ Construction and assembly output disappointed with decline by 3.9%YoY. Seasonally adjusted growth also amounted to -3.9%YoY. Main factor that weighed on the headline was a plunge in units dealing with civil engineering (-10.1%YoY).

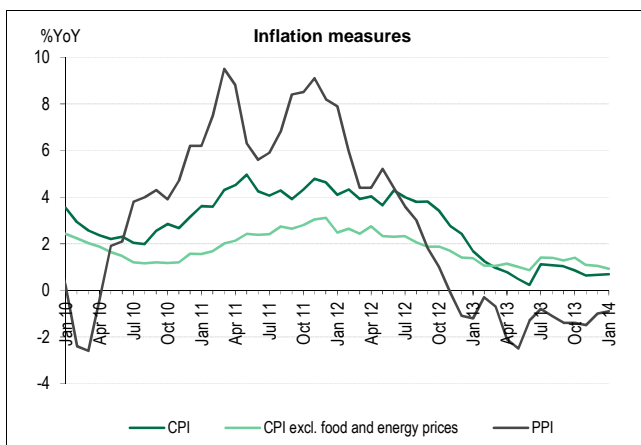
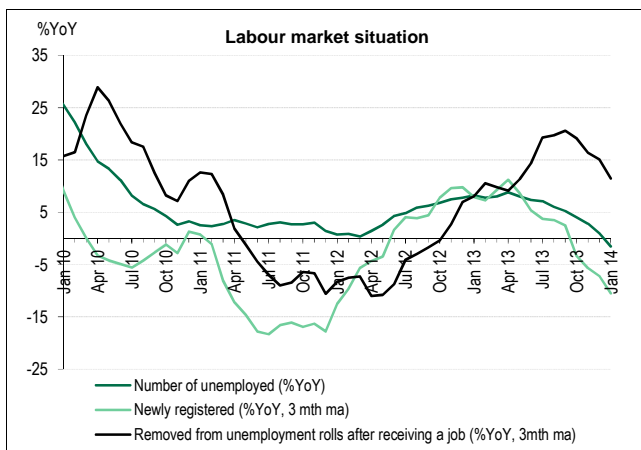
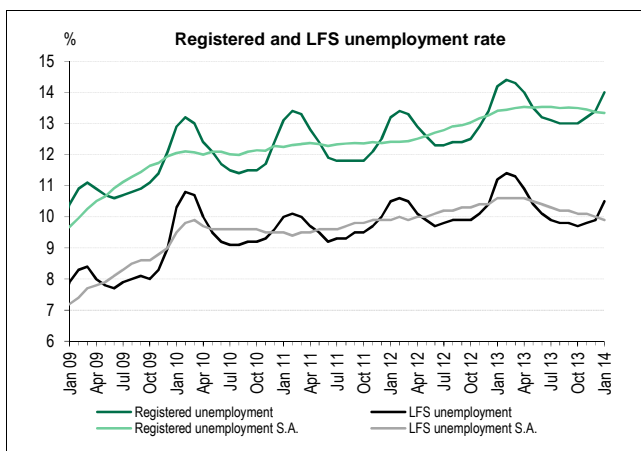
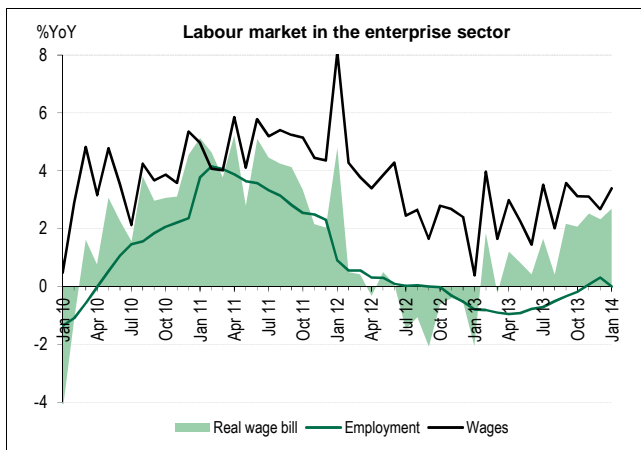
Retail sales advances at a decent pace

▪ Retail sales expanded in January by 4.8%YoY, faster than expected. The result was weaker than in December, but in our view this was mainly due to base effect. In general, statistics are suggesting a continuation of positive tendencies in retail trade and an accelerating growth rate of consumer demand.

PMI still goes up

▪ PMI index for Polish manufacturing climbed in February to 55.9pts from 55.4pts in January, despite decline of analogous indices for Germany and the euro zone. Further rise was caused by new orders, advancing at the fastest pace since April 2004. This category was positively affected by both domestic and foreign demand (the export orders indicator was rising at the second fastest pace in more than three years). Thanks to that, February's output expanded at the strongest pace since November 2010. Data on employment are still surprising to the upside. Subindex for this category – after a strong acceleration in January – fell, but remained at a high level in February. Apart from showing an improving economic climate, data confirmed there is no inflationary pressure at this stage of economic recovery. The survey showed that input prices fell most considerably since April 2013.

Economic update



Source: CSO, NBP, BZ WBK

Employment in firms weak, but labour market recovery present

- Pace of growth of employment reached 0.0%YoY in January (vs. 0.3%YoY in December), below even the lowest forecast on the market. Only 15.1k of workplaces were added in January, and this was the weakest increase in January in 10 years.

- The CSO corporate sector covers only a part of the labour market, i.e. units employing over 9 persons. Every January CSO updates its sample, excluding units, in which employment decreased below the threshold of 10 persons and adding these in which employment increased above it in the course of the last year. Detailed data on employment in corporate sector showed that the negative surprise was caused by construction. After revision of the sample, employment in this sector declined by 22k in monthly terms (-9.3%YoY). Situation was much better in other sectors, e.g. employment in manufacturing climbed by 0.8%YoY (vs. 0.5%YoY in December). Construction was in dire straits at the beginning of 2013, many companies of this sector went bankrupt. Moreover, construction companies are on average smaller than other firms (average employment in construction company sits at 40, while mean for the whole sector is at 70), so there is a higher risk of dropping out from the sample. We think that negative surprise in employment might be an echo of the weak situation on labour market in the first half of 2013, especially in construction and it is rather a one-off effect. Thus, we expect an improvement on the labour market in the upcoming months, to ca. 1.0% growth rate at the year-end.

- Average wages in corporate sector climbed in January by 3.4%YoY. We are forecasting that wage growth will moderately accelerate in the following months. Wage bill in corporate sector advanced by 3.4%YoY in nominal terms and by 2.7%YoY in real terms (as compared to 3.0% and 2.3% in December and 2.0% and 1.1% in entire 2013), so real growth rate of consumers' income is accelerating.

- Registered unemployment rate climbed in January to 14.0% from 13.4% in December. Thus, unemployment has fallen in YoY terms for the first time since Feb 2009 (down from 14.2% in Jan 2013). Declines were also shown by the total number of jobseekers (-1.5%YoY) and number of new unemployment claims (-15.4%YoY). On the other hand, number of people removed from unemployment rolls after taking up non-subsidized job expanded by 8.5%YoY. Data from the Ministry of Labour suggest that in February registered unemployment rate stayed at January's level, while number of the unemployed declined, which is unusual for the second month of the year and is suggesting that recovery on the Polish labour market is gaining steam.

- LFS data for 4Q2013 showed that the labour market may have recovered faster than it was suggested by monthly data. The survey showed that, number of employees in the economy advanced by 0.5%YoY while number of jobseekers fell by 3.5%YoY.

- In general, labour market data show a further improvement of situation in the sector. Better conditions on this market will be supporting a further acceleration of private consumption.

Inflation still low, basket reweighing will not change much

- Inflation rate stayed unchanged in January, at 0.7%YoY. When compared to December, prices rose mainly in case of food (1.4%MoM) and alcohol and tobacco (0.8%MoM). Also costs related to housing increased (0.2%MoM) due to, among others, higher prices of sewerage services, water, gas and heating. On the other hand, prices of waste management and electricity declined.

- In March the CSO will show February's inflation reading and revised estimate for January after reweighing of the CPI basket. According to our estimates, this factor can add ca. 0.04 percentage points to the CPI, so it will not affect the inflation path significantly.

- Core inflation gauges, PPI and price subindices of PMI are running at low levels, suggesting a lack of inflationary pressure.

Monetary policy watch

Fragments of MPC communiqué after March's meeting

Growth in global economic activity remains moderate, although the economic situation varies across countries. (...) Moderate growth in global economic activity is conducive to maintaining low inflation in many countries.

Data on domestic economic activity confirm a continuation of the gradual recovery in Poland. The gradual recovery at the beginning of 2014 is indicated by a further growth in industrial output and retail sales in January 2014. (...) Yet, business climate indicators suggest that recovery will continue in the coming quarters

The gradual economic recovery is contributing to an improvement in labour market conditions. According to the LFS, in 2014 Q4 the number of persons working in the economy was higher than a year before. This helped to reduce somewhat the unemployment rate, which however remained elevated. Unemployment persisting at heightened levels is hampering wage pressure in the economy.

According to preliminary data, CPI inflation stood at 0.7% in January 2014, thus remaining markedly below the NBP inflation target of 2.5%. This was accompanied by a decline in core inflation, which confirms that demand pressure continues to be weak. In turn, weak cost pressure in the economy is manifested by a further drop in producer prices. This is accompanied by low inflation expectations.

In the opinion of the Council, gradual economic recovery is likely to continue in the coming quarters, however, inflationary pressures will remain subdued. Such assessment is confirmed by the March projection. Therefore, the Council decided to keep NBP interest rates unchanged. **In the Council's assessment NBP interest rates should be kept unchanged for a longer period of time, i.e. at least until the end of the third quarter of 2014.**

Longer period of stable rates

▪ One month ago we had suggested that March's meeting of the Monetary Policy Council will be more interesting than a few previous ones. However, we did not expect a marked change of rhetoric in this month. Meanwhile, contrary to our expectations, the MPC made the decision to prolong the suggested flat-rate period (so-called *forward guidance*) – to at least the end of 3Q2014 from end of 2Q2014. Such a decision was justified by the new NBP projection, showing inflation below target almost until end of 2016 despite economic recovery (see below) and – as suggested by Marek Belka at the press conference – by recent events in Ukraine, up to a certain extent.

▪ Analysis of recent MPC actions (changes of behaviour after projections – introduction of *forward guidance* in July 2013, extension in November 2013 and again in March 2014) suggests that July's meeting will be next one worth paying attention to. At that time, based on new projection, the MPC will either extend its flat-rate period until the year-end or will tighten its tone, not ruling out a hike. This will depend on macroeconomic data, which will be released until this time.

▪ In our view, rebound of inflation may come earlier than suggested by the central bank's forecasts. Still, tone of the March's MPC statement and recent comments of NBP president and MPC members (see next page) are clearly suggesting that prospects for a hike receded.

▪ Thus, we are assuming that official NBP rates will remain unchanged until the end of 2014. However, in 1Q2015 the MPC will begin its tightening cycle, given strengthening economic recovery and inflation climbing above the inflation target.

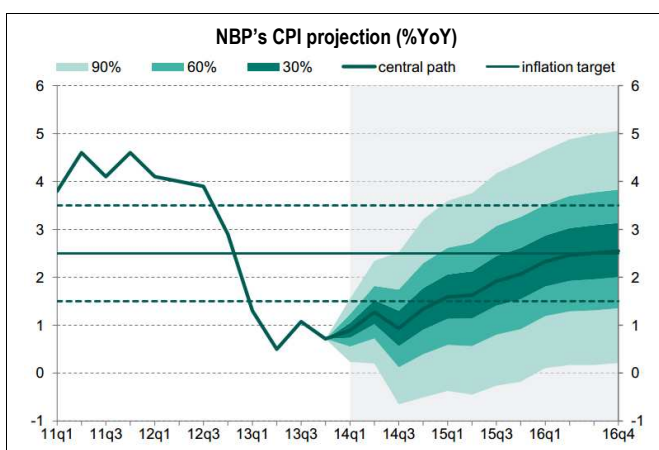
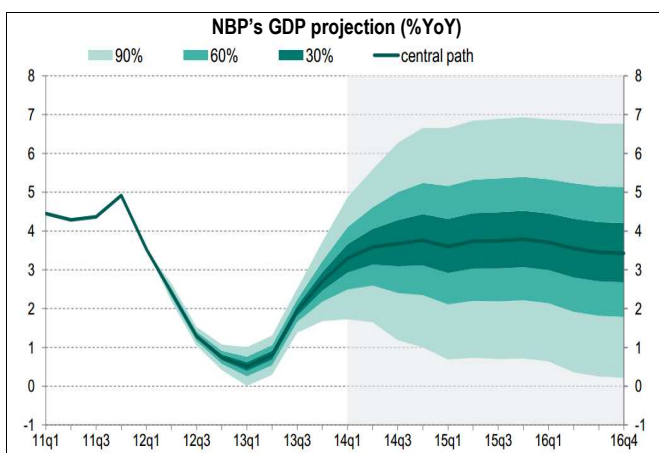
NBP projection: non-inflationary economic recovery

▪ New NBP projection is forecasting a higher economic growth path in the upcoming years as compared with November's edition – mean forecast for 2014 is at 3.6% (vs. 2.5% earlier), which is in line with our forecast (and above consensus). According to the NBP, an important role in the economic recovery will be played by accelerating domestic demand (expected growth rates of consumption and investment sit above our forecasts). Somewhat quicker GDP growth is expected in 2015 (3.7%) and then growth will decelerate a bit (to 3.5%), mainly due to expected slowdown of investment growth in 2016 after EU fund from the last financial perspective (2007-2013) extinguish.

▪ NBP estimates assume a gradual closing of demand gap, which should turn positive at the start of 2015. Last projection assumed that the output gap may remain negative until end of 2015.

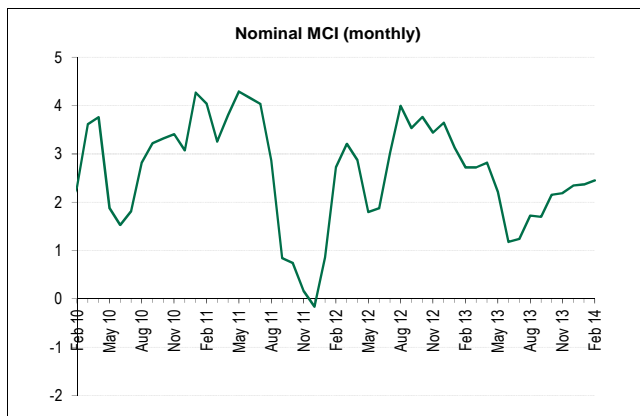
▪ Despite quite optimistic prospects of economic recovery, the NBP projection assumes that inflation will remain below target in 2014-2015 (similarly as in the previous edition) and will rise towards target in 2016. This is primarily due to a considerable downward revision of energy prices as compared with the previous edition. Core inflation path for 2014 is lower than expected in November, among other factors due to lower starting point, but is above last forecast in 2015.

▪ NBP projection does not take into account political risks like Russian embargo on EU pork meat or conflict in Ukraine. These risks can move the GDP growth path lower, but their impact on inflation may act in both directions, yet should remain insignificant.



Sources: NBP, BZ WBK

Restrictiveness of the Monetary Policy (Council)



MCI slightly up

- Monetary policy restrictiveness index, MCI, increased marginally in February due to some appreciation of the zloty and higher WIBOR rates.
- The index may decline this month as the zloty depreciated. We expect more tight monetary conditions in the longer term as WIBOR is likely to increase due to looming first rate hike and appreciation of the domestic currency amid improvement of economic situation and positive market sentiment. However, the path of MCI increase will be less steep than we had expected so far due to extended forward guidance by the MPC and postponing the rate hikes.



Rzońca (1,44)

Winiecki (1,45)

Bratkowski (0,58)

Kaźmierczak (1,41)

Hausner (1,03)

Belka (0,96)

Zielińska-Głębocka (0,81)

Osiatyński

Glapiński (1,38)

Chojna-Duch (0,73)



Index is between 0 and 2. A vote for the majority view is given a score of 1. A vote for a more hawkish (less dovish) decision than the majority view has a score of 2 and a vote for a less hawkish (more dovish) decision than the majority view has a score of 0. Value of the index for a given MPC member is a weighted average of points for all votes. Recent votes have higher weights, more distant – lower.

Numbers directly by the name are values of the index for period since the beginning of current term of office of the current MPC and NBP governor.

Direction of the restrictiveness axis reflects our expectations regarding direction of interest rate changes in the nearest 12 months.

As there was no vote on the rate change for a long time, the positioning of MPC members on the axis is based mainly on our assessment, as we took into account comments of MPC members in recent period.

The MPC will not hike rates immediately after Q3

NBP governor Marek Belka said during the press conference that the key paragraph of the statement – that communicates the forward guidance is extended – includes also a new element: “interest rates should be kept unchanged for a longer period of time”. Belka stressed this is a signal that the market should not expect hikes immediately after the end of Q3. He reiterated this very clearly soon after the MPC meeting in the interview for *ObserwatorFinansowy.pl*. Similar opinions were expressed also by other Council’s members (E. Chojna-Duch, A. Zielińska-Głębocka, A. Glapiński, A. Kaźmierczak). Some of the MPC members still think that forward guidance may be extended until the end of the year as there is no inflation pressure and an economic situation “seems not to be like a solid recovery”. Marek Belka admitted that the Council considered extending the forward guidance until the end of the year but decided for a shorter period of time due to high uncertainty.

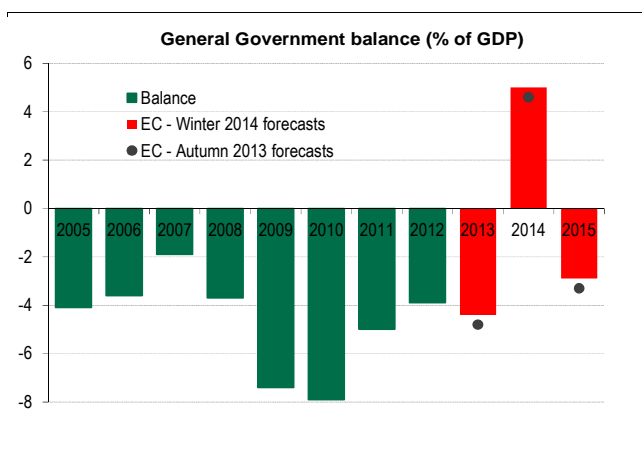
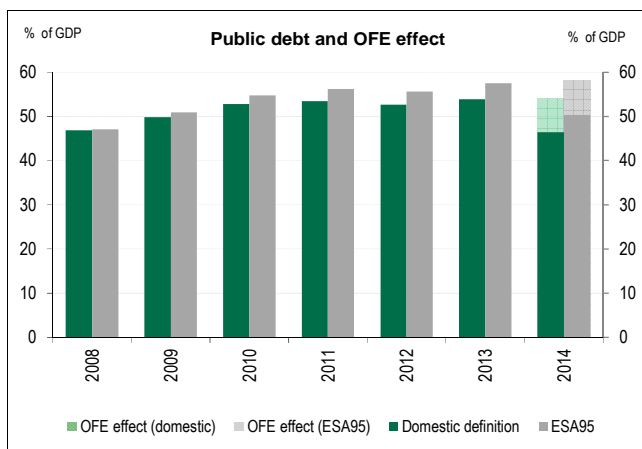
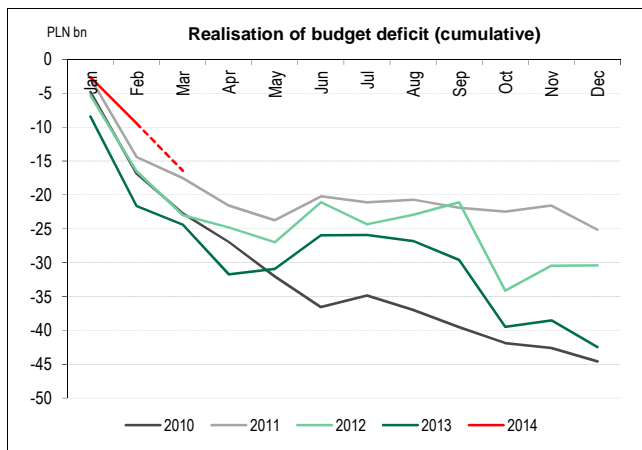
According to president Belka, extension of forward guidance was justified by projection results that show there is no inflation pressure on the horizon during coming few quarters. At the same time there was no reason to keep financial markets in uncertainty. NBP president added also that this decision was accelerated by situation in Ukraine as the MPC wanted to show that it does not see any significant risks for the monetary policy and express their trust to fundamentals of the Polish economy and the strength of the zloty.

Three MPC members suggested before the last meeting that monetary policy tightening should not be excluded this year. Marek Belka said, however, that the decision on extending the forward guidance until at least Q3 was unanimous. Adam Glapiński said later that the “significant majority” supported March decision. We do not know so far how the opinion of A. Bratkowski, J. Hausner and A. Rzońca evolved under the impact of recent information and their fresh comments may be particularly interesting in the context of the monetary policy outlook.

... but there are no chances for rate cuts

Even though the NBP president noted that the statement includes no clear mention that the next change in interest rates will be a rate hike, at the same time he suggested that cuts should not be taken under consideration – in his opinion, monetary easing amid robust economic recovery would be a “strange” procyclical behaviour and a mistake.

Fiscal policy watch



| | Spread vs. Bunds (10Y) in bp | | | CDS (5Y USD) | | |
|----------|------------------------------|-----------------------|-----------------------|--------------|-----------------------|-----------------------|
| | 11.03 | change since 10.02.14 | change since 31.12.13 | 11.03 | change since 10.02.13 | change since 31.12.13 |
| Poland | 261 | -15 | 23 | 80 | -1 | 1 |
| Czech | 57 | -5 | -2 | 59 | 0 | -2 |
| Hungary | 437 | -11 | 60 | 240 | -21 | -16 |
| Greece | 532 | -80 | -129 | 67 | 14 | 31 |
| Spain | 167 | -24 | -53 | 117 | -12 | -37 |
| Ireland | 142 | -20 | -11 | 88 | -13 | -32 |
| Portugal | 270 | -58 | -139 | 211 | -53 | -136 |
| Italy | 175 | -27 | -40 | 138 | -24 | -31 |
| France | 57 | -2 | 8 | 50 | -4 | -4 |
| Germany | - | - | - | 24 | -1 | -2 |

Source: MoF, GUS, EC, Reuters, BZ WBK

State budget benefits from economic recovery

- In January budget deficit amounted to PLN2.6bn and accounted for 5.6% of annual plan, while after February it reached the level of ca PLN9.5bn or 20% of this year target. This is the lowest level of deficit completion after two months since 2008 (for example in 2013 budget gap was at PLN21.7bn after February). According to the unofficial information budget revenues amounted to ca. PLN51bn, with VAT inflows at PLN25bn (21.6% of the plan), CIT incomes at PLN3.85bn (16.6%) and PIT at PLN9.4bn (14.8%). Budget expenses amounted to ca. PLN60.44bn. However, one should notice that the newest MF's estimate suggests a bit higher gap (PLN11bn).

- Flash estimates show a considerable improvement of budget revenues, and their realisation after two months stands considerably higher than average in 2010-2013 (18.4% of the plan vs. 15.5%). This is due, among other factors, to higher VAT revenues, which showed almost 30% annual growth rate. This is a positive forecast for the future. We maintain our view that this year's budget realisation will be lower than planned.

The European Commission is more optimistic

- The European Commission (EC) revised upward its forecast of GDP growth for Poland in its Winter 2014 edition of macroeconomic projections. EC expects Poland's economic activity to accelerate to 2.9%YoY in 2014 and to 3.1%YoY in 2015 (up from 2.5% and 2.9% previously expected). Better prospects of economic growth came from the improvement of economic outlook in the main trading partners, which consequently resulted in pick-up of Polish exports. As a result these are set to invigorate private investment and the labour market, which in turn is expected to support the recovery of private consumption.

- The newest EC forecasts show one-off improvement in fiscal measures for Poland in 2014, which mainly results from the pension reform. In 2014 the general government budget balance is projected to turn into a surplus of 5% of GDP under ESA95 (slightly higher than we expected of 4.4% of GDP). The transfer of pension fund assets to ZUS worth PLN146bn should result in the general government debt decline to 50.3% of GDP this year (down from 57.8% of GDP expected for 2013). In 2015 the general government budget balance is expected to return into the red, posting a deficit of 2.9% of GDP under ESA95 (below the reference level), while debt to GDP ratio should increase again to 51%.

- EU Commissioner Olli Rehn said that The European Commission will comment in June on the possibility of lifting the excessive deficit procedure from Poland, after it receives the update to Poland's convergence plan. The updated Convergence Programme should be prepared till end-April.

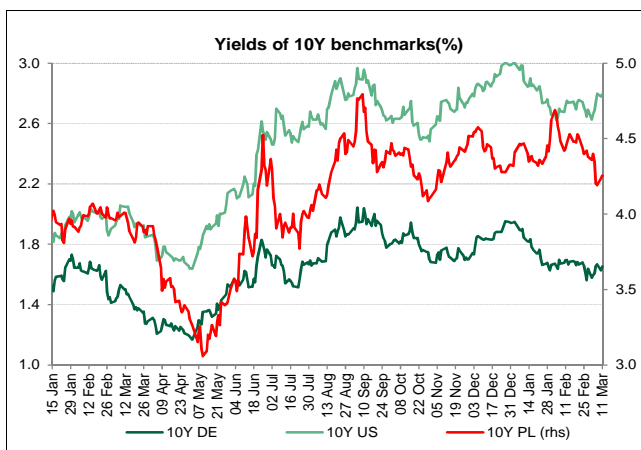
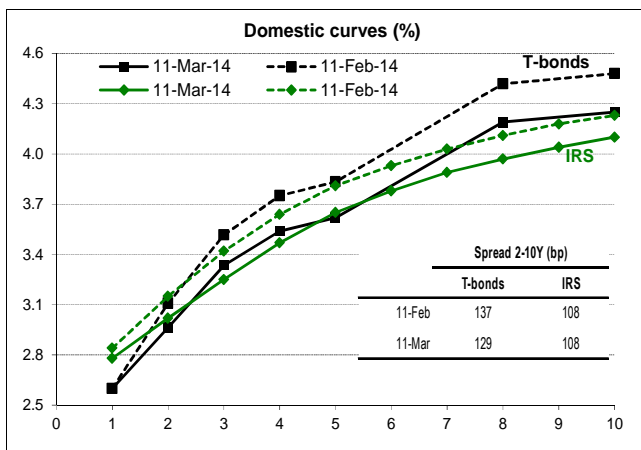
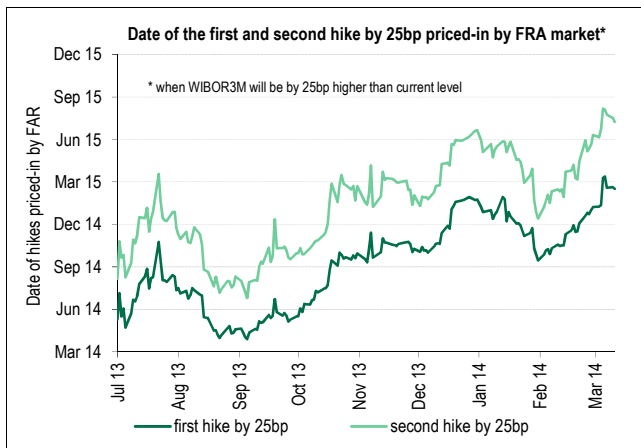
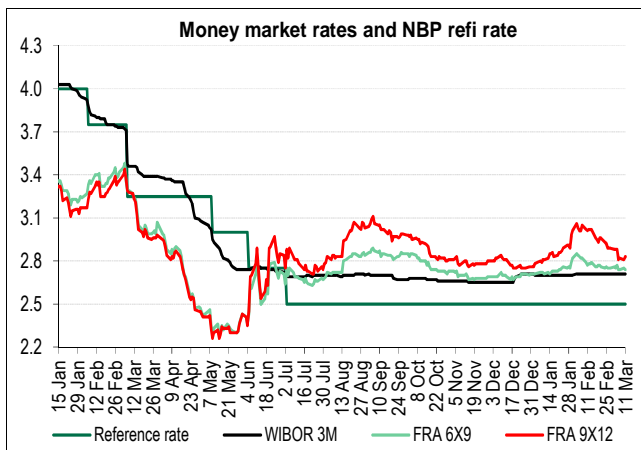
Uncertainty on Ukraine supports demand for safe assets

- The first half of February saw some increase in yields on the core markets after the January's rally. But tensions in Ukraine and other EM markets supported demand for safe assets later in the month. This tendency has strengthened at the beginning of March.

- Peripheral debt strengthened in February. Implemented political changes in Italy have been carried out smoothly and fast while Moody's agency upgraded Spanish rating by one notch, to Baa2, and changed outlook for Italy to positive, which brought additional impulse to yields decline for these countries.

- This month FOMC meeting (18-19 March) may be the key event for core market, but also peripheral ones. During this meeting Fed will know the new forecast for the American economy, which may influence further action of the US central bank. Last data clearly suggest that Fed will continue its tapering (we see the Fed's bond purchases being trimmed by a further \$10bn per FOMC). On the other hand prolonged uncertainty in Ukraine should support demand for safe heaven assets, resulting in further decline in long-dated UST and Bunds.

Interest rate market



Source: Reuters, BZ WBK

Market backtracks on rates hikes this year

- In February WIBOR rates remained unchanged, while FRAs declined substantially, mainly for longer tenors. It came from lower than expected macroeconomic data releases for January (in particular inflation) and from IRS rates decline. Consequently, spread between FRA and WIBOR3M narrowed, particularly for 9x12 tenor. It reached the level of 17bp at the end of February, down from 35bp at the end of January.

- Market conditions changed significantly after March's MPC meeting, when the Council decided to extend the period of stable NBP's rates (at least) until the end of 3Q. In reaction to this decision FRAs adjusted to a new circumstance, especially for longer tenors. As a consequence, spread between FRA9x12 and WIBOR 3M narrowed further to ca. 7bp, which clearly suggests that investors again backtrack on rate hikes this year.

- Changes in the MPC's rhetoric and comments from the Council's members (Hausner, Glapiński, Chojna-Duch, Kaźmierczak), suggesting longer than presented in forward guidance period of stable rates, allow us to revise our outlook for official interest rates and money market rates till year end and further quarters. Currently, we are expecting the first rate hike in 1Q 2015. Taking into account that rates will remain stable and slightly lower CPI path than we previously expected, we foresee WIBOR 3M to increase moderately to 2.80% till year-end (average for December). It is more or less in line with market expectations – investors are pricing-in increase in WIBOR3M by more than 25bp in one year period.

MPC supports market – new this year's minimum reached

- The domestic debt market rebounded due to global investors mood improvement at the beginning of February. Consequently, yields of T-bonds and IRS rates fell considerably (by 19-42bp for T-bonds and by 25-41bp for IRS), with the biggest decline on the mid and long end of curves. Due to lower risk aversion, curves flattened, mainly due to 2-5Y spread narrowing.

- The beginning of March brought another wave of risk aversion due to risk of military intervention on Crimea. However, this risk factor was fully balanced by the MPC's decision to extend its forward guidance by one quarter. As a consequence yield of 10Y benchmark declined temporarily to 4.13% (the lowest level since October 2013). But ECB's decision to keep monetary conditions unchanged and zloty weakening due to uncertainty on Ukraine caused some profit taking after earlier strengthening.

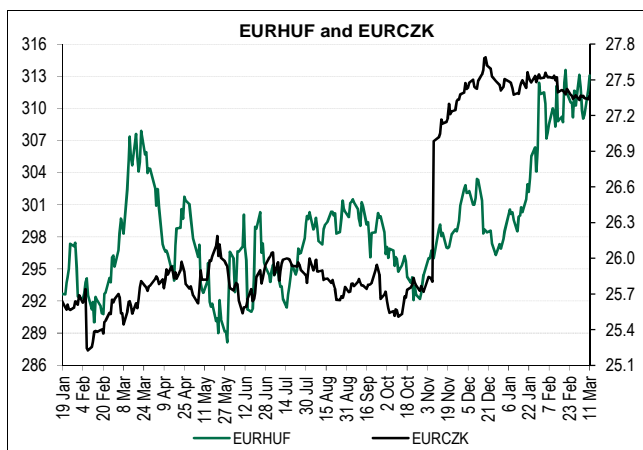
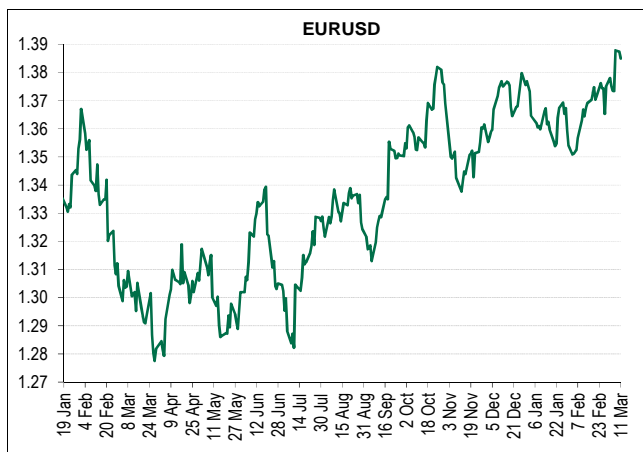
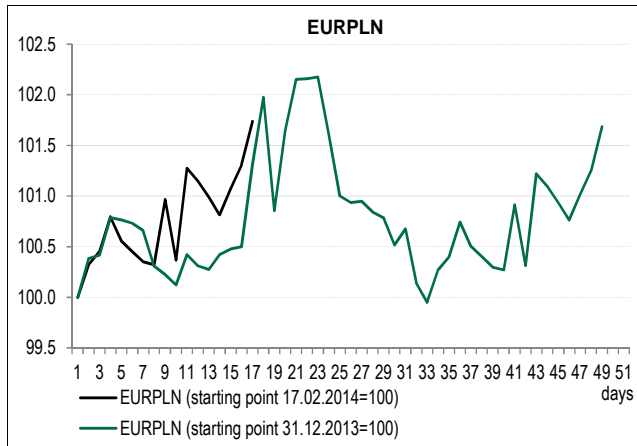
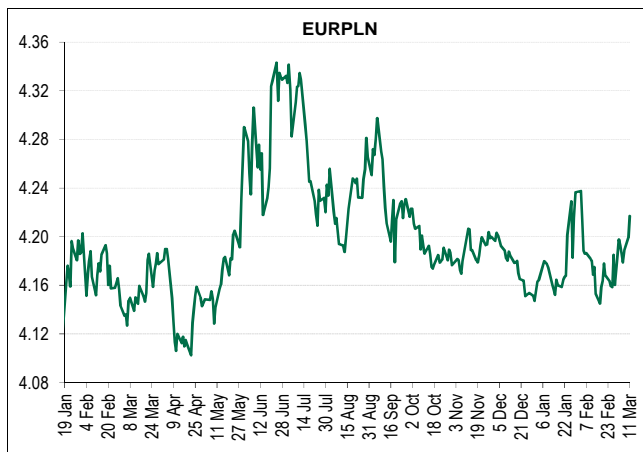
- It is worth to notice that serious worries that absence of the biggest domestic player on the debt market (OFE) might lead to elevated volatility in yields did not materialise. Despite lack of pension funds, the demand recorded at bond auctions was solid. It allowed the Ministry to finance nearly 65% of this year's borrowing requirements.

Market volatility will remain high

- We decide to revise downward our yields forecasts due to decline of our interest rate path not only till year-end, but also next quarters. In line with our changes we predict yield of 2Y benchmark to increase gradually towards 3.20% (average in December). However, in coming month we expect the front end of curve to anchor near 3%.

- The mid and long end of curves will remain more vulnerable. Both 5Y and 10Y sectors should be under influence of core markets, where situation is strongly depended on central bank's actions, mainly Fed. In our opinion further continuations of tapering in the same scale and scope as in previous months should result in yields increase on core markets in medium term. One should notice that upward trend of both Bunds and UST was halted due to higher risk aversion, which increased demand on safety heaven assets (the Ukrainian effect). All in all we expect yield of 10Y benchmark to shift up slightly above 4.60% at the end of the year, following yields increase on core markets.

Foreign exchange market



Sources: CSO, Reuters, BZ WBK

Zloty may gain at slower pace

▪ In the second half of February, just like in the first month of the year, market sentiment in emerging markets deteriorated quite significantly. First wave of depreciation of EM currencies originated from worries over further QE3 tapering (after FOMC minutes released last week) and situation in the Chinese economy (further decline of PMI for manufacturing). Additional factor that had contributed to investors' withdrawal from our region was the crisis in Ukraine and gradual heating up of situation in this country. Consequently, EURPLN surged to 4.23 vs. even 4.14 in mid-February.

▪ Since the last decade of February, the pace of zloty's depreciation driven by the "Ukrainian factor" (that joined worries over QE3 tapering and uncertainty over Chinese economy) is similar as at the beginning of the year. Situation beyond Polish eastern border is rather unlikely to stabilize during the next few weeks and this will prevent the domestic currency from any visible appreciation. Additionally, it is worth to notice that worries about emerging markets are present since the beginning of the year (with some short breaks) and new sources of uncertainty are still rising (like protests in Venezuela, Thailand, new threads of corruption scandal in Turkey). Many developing countries face also elections in the first half of the year. Let us also remind that according to the IMF, this year the spread between economic growth in emerging markets and core markets will sit at the lowest level since 2001. After the March MPC meeting it seems also that there will be no rate hikes this year that could provide support for the zloty. All these factors can cause that pace of PLN appreciation, expected by us, will be weaker than we were hoping so far..

Restraint ECB supports the euro

▪ EURUSD continued the upward move initiated in early February. Significant factor pushing the exchange rate above 1.39 (to the highest level since November 2011) was the outcome of the March ECB meeting. The central bank left monetary policy parameters unchanged and – in contrast to expectations – did not take any additional actions that could support the economy. ECB reiterated at the same time, that it is ready to implement nonstandard measures if needed.

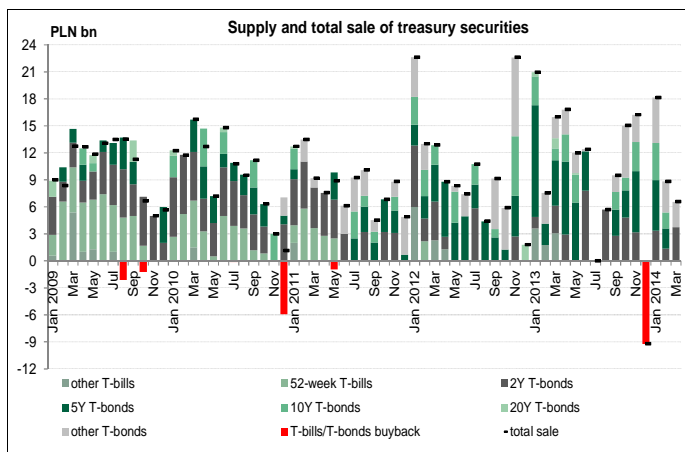
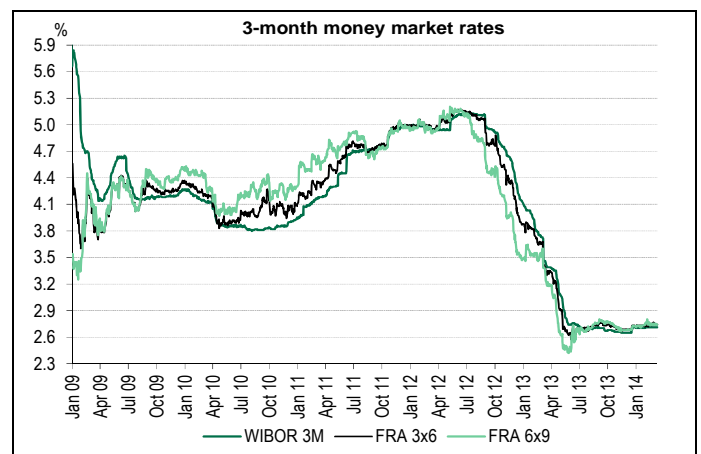
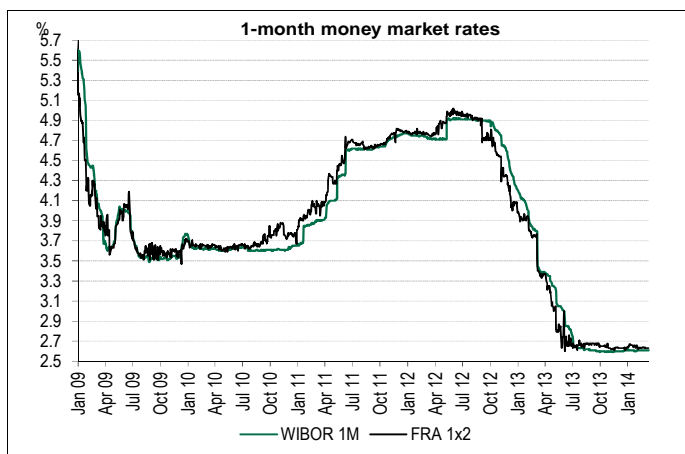
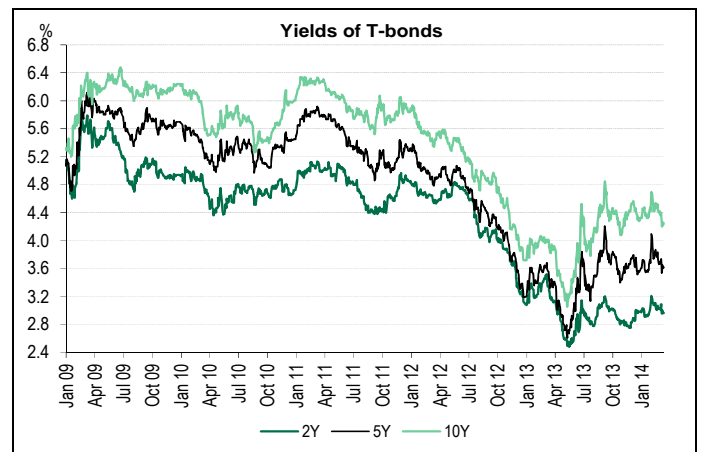
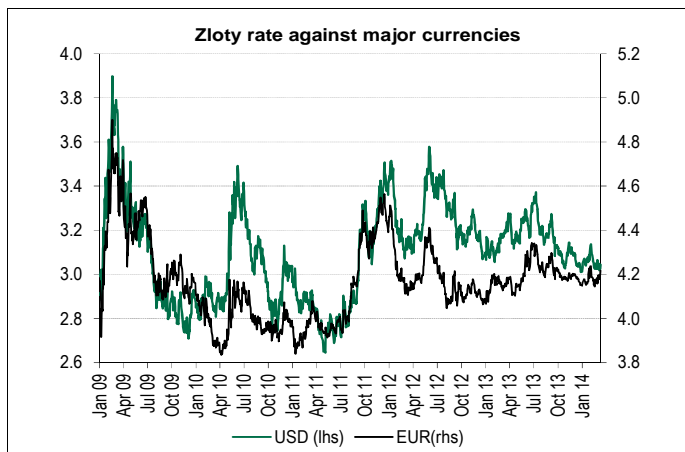
▪ The ECB has revised up its GDP growth forecast for 2014 from 1.1% to 1.2%, keeping 2015 forecast at 1.5%. CPI forecast for 2014 has been reduced slightly to 1.0% (from earlier 1.1%), while in the following years a gradual rise is predicted (to 1.3% in 2015 and 1.5% in 2016). This implies that the inflation rate will remain below the ECB target in the forecast horizon.

▪ The stance of the ECB – showing its readiness to act only verbally – should be supportive for the single currency. On the other hand, the central bank is rather unlikely to allow any significant increase of EURUSD due to persistently low inflation. Thus, comments of the ECB officials may emerge in the following weeks reminding that further easing of the monetary policy is still on the table.

Forint and koruna in the horizontal trends

▪ EURHUF and EURCZK stayed in the horizontal trend during the past few weeks. The former remained slightly below the highest level since January 2012 (ca. 315). After significant weakening suffered at the beginning of the year, the forint did not depreciate further amid tensions in Ukraine. Also the decision of the Hungarian central bank put only little pressure on the currency. In February the MNB surprised one again by cutting rates by 15bp versus 10bp cut expected by the market. Main interest rate is now at 2.70%, the lowest level in history. Statement read that decision on the continuation of the monetary policy easing cycle will be taken in March after fresh economic forecasts for Hungary will be available for the central bank. This will be vital factor driving the forint in March, next to global sentiment.

Market monitor



Treasury bill auctions in 2012/2013 (PLNm)

| Auction date | OFFER | DEMAND/SALE |
|--------------|--------------------|-------------|
| 09.01.2012 | 49-week: 1000-2000 | 5402/2223 |
| 30.01.2012 | 30-week: 1000-2000 | 3249/1997 |
| 30.01.2012 | 51-week: 1000-2000 | 4225/1592 |
| 27.02.2012 | 52-week: 1000-2000 | 6711/2190 |
| 26.03.2012 | 52-week: 1000-3000 | 5402/2223 |
| 23.04.2012 | 31-week | 3117/1332 |
| 07.01.2013 | 20-week: 2000-3000 | 10967/3602 |
| 04.02.2013 | 20-week: 1000-2000 | 7728/1747 |
| 04.03.2013 | 25-week: 2000-3000 | 7324/3084 |

* based on data of the Ministry of Finance

Treasury bond auctions in 2012/2013 (PLNm)

| month | date | First auction | | | Second auction | | | Switch auction | | | |
|-------------|-------|---------------|-----------|--------|----------------|----------------------|------------|----------------|----------------------|---------------|-----------------|
| | | T-bonds | offer | | date | T-bonds | offer | date | T-bonds | offer | |
| March '13 | 20.03 | OK/PS/WZ | 2000-6000 | 8080.6 | | | | 7.03 | PS0413/OK0713/DS1013 | DS/WS/WZ | |
| April | 11.04 | DS1023/WZ0124 | 3000-5000 | 5029.1 | 23.04 | OK/WZ/PS | 5000-10000 | 11788.6 | | | |
| May | 9.05 | PS0718 | 3500-5500 | 6498.0 | 16.05 | DS/WZ/WS | 2000-6000 | 5505.4 | | | |
| June | 6.06 | PS0718/WZ0119 | 3000-5000 | 4606.5 | | | | | 19.06 | OK0713/DS1013 | |
| July | - | - | - | - | | | | | | | |
| August | 7.08 | OK0116 | 3000-5000 | 5695.0 | | | | | | | |
| September | 5.09 | OK0112/PS0718 | 5000-7000 | 5706.8 | | | | | 25.09 | DS1013/OK0114 | WZ0119/DS1023 |
| October | 3.10 | PS0718 | 2500-4500 | 3008.0 | 22.10 | OK0116/IZ0823/DS1023 | 6000-12000 | 12019.9 | 16.10 | EUR20140203** | 445.0 |
| November | 7.11 | OK0116/PS0718 | 4000-7000 | 7964.2 | 13.11 | USD20140115** | 100 | 132.2 | 20.11 | OK0114/PS0414 | DS1023/WS/WZ/IZ |
| December | | | | | | | | | 5.12 | OK0114/PS0414 | PS0416/WZ0119 |
| January '14 | 9.01 | PS0718/WZ0124 | 3000-5000 | 6013.0 | 23.01 | OK/PS/WZ/DS | 6000-10000 | 12129.7 | | | |
| February | 6.02 | OK0716/WZ0119 | 2000-4000 | 4810.0 | 13.02 | PS0718/DS1013 | 3000-5000 | 4011.0 | | | |
| March | 6.03 | OK0716/WZ0119 | 2500-5500 | 6573.0 | | | | | 20.03 | PS0414/OK0714 | |

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

Source: MoF, Reuters, BZ WBK

Economic calendar

| MONDAY | TUESDAY | WEDNESDAY | THURSDAY | FRIDAY |
|---|--|--|---|---|
| 10 March CZ: CPI (Feb) | 11 DE: Exports (Jan) HU: CPI (Feb) | 12 EZ: Industrial output (Jan) | 13 US: Retail sales (Feb) | 14 PL: CPI (Feb) PL: Money supply (Feb) CZ: Industrial output (Jan) US: Flash Michigan (Mar) |
| 17 PL: Core inflation (Feb) PL: Balance of payments (Jan) EZ: HICP (Feb) US: Industrial output (Feb) | 18 PL: Wages and employment (Feb) DE: ZEW index (Mar) US: CPI (Feb) US: House starts / Building permits (Feb) | 19 PL: Industrial output (Feb) PL: PPI (Feb) US: Fed decision | 20 PL: MPC minutes US: Philly Fed index (Mar) US: Home sales (Feb) | 21 |
| 24 CN: Flash PM – manufacturing (Mar) DE: Flash PMI – manufacturing (Mar) EZ: Flash PMI – manufacturing (Mar) | 25 PL: Retail sales (Feb) PL: Unemployment rate (Feb) DE: Ifo (Mar) US: Consumer confidence index (Mar) US: New home sales (Feb) HU: Central bank decision | 26 US: Durable goods orders (Feb) | 27 CZ: Central bank decision US: Final GDP (Q4) US: Pending home sales (Feb) | 28 US: Personal income (Feb) US: Consumer spending (Feb) US: Michigan index (Mar) |
| 31 PL: Balance of payments (Q4) PL: Inflation expectations (Mar) EZ: Flash HICP (Mar) | 1 April PL: PMI – manufacturing (Mar) CN: PMI – manufacturing (Mar) DE: PMI – manufacturing (Mar) EZ: PMI – manufacturing (Mar) US: ISM – manufacturing (Mar) CZ: Final GDP (Q4) | 2 US: ADP report (Mar) US: Industrial orders (Feb) | 3 EZ: ECB decision EZ: PMI – services (Mar) DE: PMI – services (Mar) | 4 DE: Industrial orders (Feb) US: Non-farm payrolls (Mar) US: Unemployment rate (Mar) |
| 7 CZ: Industrial output (Feb) DE: Industrial output (Feb) | 8 | 9 PL: MPC decision DE: Exports (Feb) CZ: CPI (Mar) US: FOMC minutes | 10 PL: Balance of payments (Feb) HU: CPI (Mar) | 11 US: Flash Michigan (Apr) |
| 14 PL: Money supply (Mar) EZ: Industrial output (Feb) US: Retail sales (Mar) | 15 PL: CPI (Mar) DE: ZEW index (Apr) US: CPI (Mar) | 16 PL: Core inflation (Mar) PL: Wages and employment (Mar) EZ: HICP (Mar) US: House starts (Mar) US: Building permits (Mar) US: Industrial output (Mar) US: Fed Beige Book | 17 PL: Industrial output (Mar) PL: PPI (Mar) PL: MPC minutes US: Philly Fed index (Apr) | 18 |

MPC meetings and data release calendar for 2014

| | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec |
|--------------------------|---|-----------------|-----------------|-----|-----|-----|-----|-----|-----|-----|-----|-----|
| ECB meeting | 8 | 6 | 6 | 3 | 8 | 5 | 3 | 7 | 4 | 2 | 6 | 4 |
| MPC meeting | 7-8 | 4-5 | 4-5 | 8-9 | 6-7 | 2-3 | 1-2 | 19 | 2-3 | 7-8 | 4-5 | 2-3 |
| MPC minutes | 23 | 20 | 20 | 17 | 22 | 20 | - | 21 | 18 | 23 | 20 | 18 |
| Flash GDP* | - | 14 | - | - | 15 | - | - | 14 | - | - | 14 | - |
| GDP* | - | 28 | - | - | 30 | - | - | 29 | - | - | 28 | - |
| CPI | 15 | 14 ^a | 14 ^b | 15 | 14 | 13 | 15 | 13 | 15 | 15 | 13 | 15 |
| Core inflation | 16 | - | 14 | 16 | 15 | 16 | 16 | 14 | 16 | 15 | 17 | 16 |
| PPI | 21 | 19 | 19 | 17 | 20 | 18 | 17 | 20 | 17 | 17 | 20 | 17 |
| Industrial output | 21 | 19 | 19 | 17 | 20 | 18 | 17 | 20 | 17 | 17 | 20 | 17 |
| Retail sales | 24 | 24 | 25 | - | - | - | - | - | - | - | - | - |
| Gross wages, employment | 20 | 18 | 18 | 16 | 19 | 17 | 16 | 19 | 16 | 16 | 19 | 16 |
| Foreign trade | about 50 working days after reported period | | | | | | | | | | | |
| Balance of payments* | 2 | | 31 | | | 30 | | | | | | |
| Balance of payments | 17 | 12 | 17 | 11 | 15 | 13 | | | | | | |
| Money supply | 14 | 14 | 14 | 14 | 14 | 13 | | | | | | |
| Business climate indices | 23 | 21 | 21 | 23 | 22 | 23 | 22 | 22 | 22 | 22 | 21 | 19 |

* quarterly data. ^a preliminary data for January. ^b January and February; Source: CSO, NBP, Ministry of Finance, Reuters, Bloomberg

Economic data and forecasts

Monthly economic indicators

| | | Feb 13 | Mar 13 | Apr 13 | May 13 | Jun 13 | Jul 13 | Aug 13 | Sep 13 | Oct 13 | Nov 13 | Dec 13 | Jan 14 | Feb 14 | Mar 14 |
|--|--------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| PMI | pts | 48.9 | 48.0 | 46.9 | 48.0 | 49.3 | 51.1 | 52.6 | 53.1 | 53.4 | 54.4 | 53.2 | 55.4 | 55.9 | 55.2 |
| Industrial production | %YoY | -2.1 | -2.9 | 2.8 | -1.8 | 2.8 | 6.3 | 2.2 | 6.3 | 4.6 | 2.9 | 6.7 | 4.1 | 6.1 | 6.8 |
| Construction production | %YoY | -11.4 | -18.5 | -23.1 | -27.5 | -18.3 | -5.2 | -11.1 | -4.8 | -3.2 | -2.9 | 5.8 | -3.9 | 4.1 | 7.6 |
| Retail sales ^a | %YoY | -0.8 | 0.1 | -0.2 | 0.5 | 1.8 | 4.3 | 3.4 | 3.9 | 3.2 | 3.8 | 5.8 | 4.8 | 6.2 | 1.8 |
| Unemployment rate | % | 14.4 | 14.3 | 14.0 | 13.5 | 13.2 | 13.1 | 13.0 | 13.0 | 13.0 | 13.2 | 13.4 | 14.0 | 14.0 | 13.8 |
| Gross wages in enterprises sector ^a | %YoY | 4.0 | 1.6 | 3.0 | 2.3 | 1.4 | 3.5 | 2.0 | 3.6 | 3.1 | 3.1 | 2.7 | 3.4 | 3.5 | 5.0 |
| Employment in enterprises sector | %YoY | -0.8 | -0.9 | -1.0 | -0.9 | -0.8 | -0.7 | -0.5 | -0.3 | -0.2 | 0.1 | 0.3 | 0.0 | 0.3 | 0.4 |
| Export (€) | %YoY | 4.3 | -1.2 | 11.0 | 0.3 | 5.4 | 6.6 | 1.9 | 8.1 | 0.7 | 1.7 | 10.6 | 6.7 | 6.5 | 19.5 |
| Import (€) | %YoY | -6.2 | -1.3 | 1.6 | -6.1 | -1.9 | 2.8 | -0.9 | 3.2 | 2.8 | -0.7 | 1.6 | 3.5 | 6.8 | 10.4 |
| Trade balance | EURm | 426 | -502 | 630 | 1 | 570 | 78 | 264 | 677 | 68 | 64 | -232 | 314 | 419 | 612 |
| Current account balance | EURm | -668 | -272 | 569 | -176 | 100 | -661 | -533 | -877 | -213 | -957 | -843 | -898 | 175 | 337 |
| Current account balance | % GDP | -3.3 | -3.1 | -2.8 | -2.8 | -2.3 | -1.9 | -2.0 | -1.9 | -1.8 | -1.7 | -1.5 | -1.4 | -1.2 | -1.0 |
| Budget deficit (cumulative) | PLNbn | -21.7 | -24.4 | -31.7 | -30.9 | -26.0 | -25.9 | -26.8 | -29.6 | -39.5 | -38.5 | -42.5 | -2.6 | -9.4 | -16.4 |
| Budget deficit (cumulative) | % of FY plan | 42.0 | 47.3 | 61.6 | 60.0 | 50.4 | 50.3 | 51.9 | 57.4 | 76.6 | 74.7 | 82.4 | 5.6 | 19.9 | 34.6 |
| CPI | %YoY | 1.3 | 1.0 | 0.8 | 0.5 | 0.2 | 1.1 | 1.1 | 1.0 | 0.8 | 0.6 | 0.7 | 0.7 | 0.8 | 0.9 |
| CPI excluding prices of food and energy | %YoY | 1.1 | 1.0 | 1.1 | 1.0 | 0.9 | 1.4 | 1.4 | 1.3 | 1.4 | 1.1 | 1.0 | 0.9 | 1.2 | 1.2 |
| PPI | %YoY | -0.3 | -0.7 | -2.1 | -2.5 | -1.3 | -0.8 | -1.1 | -1.4 | -1.4 | -1.5 | -1.0 | -0.9 | -1.3 | -0.7 |
| Broad money (M3) | %YoY | 5.5 | 6.6 | 7.4 | 6.5 | 7.0 | 6.6 | 6.1 | 6.1 | 5.9 | 5.7 | 6.2 | 5.5 | 5.6 | 5.3 |
| Deposits | %YoY | 5.2 | 6.6 | 7.1 | 6.0 | 6.5 | 5.6 | 5.8 | 6.0 | 5.9 | 5.2 | 6.0 | 5.0 | 4.8 | 4.3 |
| Loans | %YoY | 3.7 | 3.5 | 2.3 | 1.4 | 3.5 | 3.7 | 3.3 | 3.7 | 2.9 | 3.8 | 4.0 | 4.3 | 5.2 | 5.1 |
| EUR/PLN | PLN | 4.17 | 4.16 | 4.14 | 4.18 | 4.28 | 4.28 | 4.23 | 4.24 | 4.19 | 4.19 | 4.18 | 4.18 | 4.18 | 4.22 |
| USD/PLN | PLN | 3.12 | 3.21 | 3.18 | 3.22 | 3.25 | 3.27 | 3.18 | 3.17 | 3.07 | 3.10 | 3.05 | 3.07 | 3.06 | 3.07 |
| CHF/PLN | PLN | 3.39 | 3.39 | 3.39 | 3.36 | 3.47 | 3.46 | 3.43 | 3.43 | 3.40 | 3.40 | 3.41 | 3.39 | 3.42 | 3.46 |
| Reference rate ^b | % | 3.75 | 3.25 | 3.25 | 3.00 | 2.75 | 2.50 | 2.50 | 2.50 | 2.50 | 2.50 | 2.50 | 2.50 | 2.50 | 2.50 |
| WIBOR 3M | % | 3.80 | 3.48 | 3.29 | 2.86 | 2.74 | 2.70 | 2.70 | 2.69 | 2.67 | 2.65 | 2.67 | 2.70 | 2.71 | 2.71 |
| Yield on 2-year T-bonds | % | 3.36 | 3.26 | 2.89 | 2.55 | 2.86 | 2.87 | 2.98 | 3.07 | 2.90 | 2.80 | 2.94 | 2.99 | 3.06 | 3.00 |
| Yield on 5-year T-bonds | % | 3.56 | 3.46 | 3.03 | 2.80 | 3.43 | 3.36 | 3.67 | 3.86 | 3.62 | 3.64 | 3.65 | 3.67 | 3.79 | 3.75 |
| Yield on 10-year T-bonds | % | 4.00 | 3.93 | 3.50 | 3.28 | 3.95 | 3.97 | 4.31 | 4.50 | 4.28 | 4.38 | 4.41 | 4.42 | 4.47 | 4.30 |

Source: CSO, NBP, Finance Ministry, BZ WBK own estimates; ^a in nominal terms, ^b at the end of period

Quarterly and annual economic indicators

| | | 2011 | 2012 | 2013 | 2014 | 1Q13 | 2Q13 | 3Q13 | 4Q13 | 1Q14 | 2Q14 | 3Q14 | 4Q14 |
|--|-------|---------|---------|---------|---------|--------|-------|--------|--------|-------|-------|-------|--------|
| GDP | PLNbn | 1 523.2 | 1 595.2 | 1 631.8 | 1 706.0 | 377.9 | 395.7 | 404.3 | 453.9 | 392.5 | 414.2 | 422.3 | 477.0 |
| GDP | %YoY | 4.5 | 1.9 | 1.6 | 3.5 | 0.5 | 0.8 | 1.9 | 2.7 | 3.1 | 3.6 | 3.6 | 3.7 |
| Domestic demand | %YoY | 3.6 | -0.2 | -0.1 | 3.0 | -0.9 | -1.7 | 0.5 | 1.2 | 1.5 | 3.5 | 3.0 | 3.7 |
| Private consumption | %YoY | 2.6 | 0.8 | 0.8 | 2.4 | 0.0 | 0.2 | 1.0 | 2.1 | 2.2 | 2.3 | 2.5 | 2.6 |
| Fixed investments | %YoY | 8.5 | -0.8 | -0.4 | 4.6 | -2.1 | -3.2 | 0.6 | 1.3 | 1.5 | 2.0 | 5.0 | 7.0 |
| Industrial production | %YoY | 7.7 | 1.0 | 2.3 | 5.9 | -2.0 | 1.2 | 4.9 | 4.7 | 5.7 | 5.5 | 5.5 | 6.6 |
| Construction production | %YoY | 12.3 | -1.0 | -10.3 | 10.7 | -15.6 | -22.9 | -7.0 | 0.0 | 2.9 | 13.4 | 13.9 | 9.9 |
| Retail sales ^a | %YoY | 11.2 | 6.0 | 2.6 | 5.6 | 0.9 | 0.8 | 4.0 | 4.5 | 4.4 | 5.4 | 5.2 | 7.2 |
| Unemployment rate ^b | % | 12.5 | 13.4 | 13.4 | 12.6 | 14.3 | 13.2 | 13.0 | 13.4 | 13.8 | 12.6 | 12.3 | 12.6 |
| Gross wages in national economy ^a | %YoY | 5.2 | 3.7 | 3.4 | 4.7 | 2.6 | 3.3 | 4.0 | 3.6 | 4.2 | 4.9 | 4.7 | 4.8 |
| Employment in national economy | %YoY | 0.6 | 0.0 | -0.8 | 0.4 | -0.7 | -1.1 | -1.2 | -0.1 | 0.1 | 0.4 | 0.5 | 0.5 |
| Export (€) | %YoY | 12.1 | 5.9 | 4.5 | 11.6 | 3.2 | 5.5 | 5.6 | 3.7 | 11.0 | 11.4 | 11.8 | 12.0 |
| Import (€) | %YoY | 12.2 | 2.3 | -0.3 | 9.6 | -2.0 | -2.2 | 1.7 | 1.2 | 7.0 | 11.0 | 10.0 | 10.5 |
| Trade balance | EURm | -10 059 | -5 175 | 1 981 | 5 153 | -139 | 1 203 | 1 017 | -100 | 1 345 | 1 489 | 1 829 | 490 |
| Current account balance | EURm | -18 519 | -14 191 | -5 912 | -2 580 | -2 313 | 486 | -2 072 | -2 013 | -386 | -60 | -849 | -1 285 |
| Current account balance | % GDP | -5.0 | -3.7 | -1.5 | -0.6 | -3.1 | -2.3 | -1.9 | -1.5 | -1.0 | -1.1 | -0.8 | -0.6 |
| General government balance | % GDP | -5.0 | -3.9 | -4.4 | 4.4 | - | - | - | - | - | - | - | - |
| CPI | %YoY | 4.3 | 3.7 | 0.9 | 1.1 | 1.3 | 0.5 | 1.1 | 0.7 | 0.8 | 1.1 | 0.9 | 1.7 |
| CPI ^b | %YoY | 4.6 | 2.4 | 0.7 | 1.9 | 1.0 | 0.2 | 1.0 | 0.7 | 0.9 | 1.4 | 1.2 | 1.9 |
| CPI excluding food and energy prices | %YoY | 2.4 | 2.2 | 1.2 | 1.2 | 1.2 | 1.0 | 1.4 | 1.2 | 1.1 | 1.3 | 1.1 | 1.5 |
| PPI | %YoY | 7.6 | 3.4 | -1.3 | 0.1 | -0.7 | -2.0 | -1.1 | -1.3 | -1.0 | 0.0 | 0.0 | 1.4 |
| Broad money (M3) ^b | %YoY | 12.5 | 4.5 | 6.2 | 7.2 | 6.6 | 7.0 | 6.1 | 6.2 | 5.3 | 5.0 | 6.4 | 7.2 |
| Deposits ^b | %YoY | 11.7 | 4.7 | 6.0 | 6.9 | 6.6 | 6.5 | 6.0 | 6.0 | 4.3 | 4.2 | 5.5 | 6.9 |
| Loans ^b | %YoY | 14.4 | 1.2 | 3.6 | 4.8 | 3.5 | 3.5 | 3.7 | 4.0 | 5.1 | 4.0 | 4.1 | 4.8 |
| EUR/PLN | PLN | 4.12 | 4.19 | 4.20 | 4.09 | 4.16 | 4.20 | 4.25 | 4.19 | 4.19 | 4.14 | 4.04 | 3.99 |
| USD/PLN | PLN | 2.96 | 3.26 | 3.16 | 2.97 | 3.15 | 3.22 | 3.21 | 3.08 | 3.07 | 3.02 | 2.93 | 2.87 |
| CHF/PLN | PLN | 3.34 | 3.47 | 3.41 | 3.28 | 3.38 | 3.41 | 3.44 | 3.40 | 3.43 | 3.37 | 3.22 | 3.11 |
| Reference rate ^b | % | 4.50 | 4.25 | 2.50 | 2.50 | 3.25 | 2.75 | 2.50 | 2.50 | 2.50 | 2.50 | 2.50 | 2.50 |
| WIBOR 3M | % | 4.54 | 4.91 | 3.02 | 2.74 | 3.77 | 2.96 | 2.70 | 2.66 | 2.71 | 2.72 | 2.74 | 2.78 |
| Yield on 2-year T-bonds | % | 4.81 | 4.30 | 2.98 | 3.10 | 3.29 | 2.77 | 2.98 | 2.88 | 3.02 | 3.07 | 3.13 | 3.18 |
| Yield on 5-year T-bonds | % | 5.44 | 4.53 | 3.46 | 3.82 | 3.49 | 3.09 | 3.63 | 3.64 | 3.73 | 3.94 | 3.86 | 3.73 |
| Yield on 10-year T-bonds | % | 5.98 | 5.02 | 4.04 | 4.43 | 3.95 | 3.58 | 4.26 | 4.36 | 4.40 | 4.37 | 4.40 | 4.57 |

Source: CSO, NBP, Finance Ministry, BZ WBK own estimates;

^a in nominal terms, ^b at the end of period

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EXPLANATION OF THE RECOMMENDATION SYSTEM

| DIRECTIONAL RECOMMENDATIONS IN BONDS | | DIRECTIONAL RECOMMENDATIONS IN SWAPS | |
|--------------------------------------|--|--------------------------------------|--|
| | Definition | | Definition |
| Long / Buy | Buy the bond for an expected average return of at least 10bp in 3 months (decline in the yield rate), assuming a directional risk. | Long / Receive fixed rate | Enter a swap receiving the fixed rate for an expected average return of at least 10bp in 3 months (decline in the swap rate), assuming a directional risk. |
| Short / Sell | Sell the bond for an expected average return of at least 10bp in 3 months (increase in the yield rate), assuming a directional risk. | Short / Pay fixed rate | Enter a swap paying the fixed rate for an expected average return of at least 10bp in 3 months (increase in the swap rate), assuming a directional risk. |

RELATIVE VALUE RECOMMENDATIONS

| | Definition |
|---|---|
| Long a spread / Play steepeners | Enter a long position in a given instrument vs a short position in another instrument (with a longer maturity for steepeners) for an expected average return of at least 5bp in 3 months (increase in the spread between both rates). |
| Short a spread / Play flatteners | Enter a long position in given an instrument vs a short position in other instrument (with a shorter maturity for flatteners) for an expected average return of at least 5bp in 3 months (decline in the spread between both rates). |

FX RECOMMENDATIONS

| | Definition |
|---------------------|--|
| Long / Buy | Appreciation of a given currency with an expected return of at least 5% in 3 months. |
| Short / Sell | Depreciation of a given currency with an expected return of at least 5% in 3 months. |

NOTE: Given the recent volatility seen in the financial markets, the recommendation definitions are only indicative until further notice.

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