



Poland: Weekly Macroeconomic Update

LAST WEEK:

In the period of January-April 2018 there was PLN9.3bn surplus in **central budget** after PLN3.1bn surplus in the period of January-March this year. Budget revenues in January-April were PLN125.2bn (or 35.2% of the plan for 2018) while budget expenditures were PLN115.8bn (29.2% of plan). Revenues from indirect taxes were PLN79.9bn (33.6% of annual plan), revenues from PIT were PLN18.9bn (34% of the plan) and revenues from CIT were PLN15.1bn (or as much as 46.8% of annual plan). Expenditures on public debt servicing were PLN8.5bn (27.8% of plan), subsidy to state pension fund FUS amounted to PLN 7.8bn (16.8% of plan), subsidies to local government were PLN24.1bn (42.6% of annual plan).

The European Commission proposed new method of distribution of **EU funds** under regional aid, shifting part of funds from Eastern Europe to Southern Europe that face unemployment and migration challenges. New indicators would take into account youth unemployment, low level of education, greenhouse gas emissions and migration. Financial framework 2021-2027 comprises a proposal to cut cohesion funds by 7% in order to, among others, compensate for a drop in revenues by about EUR10bn per annum stemming from Brexit. According to the proposal, funding to Poland (excluding CAP) would be curbed by 23.3% to EUR64.4bn (in 2018 prices) from EUR84bn in the current financial framework. Transfers to Hungary would be cut by 24% to EUR17.9bn. PM Morawiecki said that Poland for sure would not accept lowering regional aid in the financial framework 2021-2027 and underlined that he expected other 8-9 countries negatively affected by the proposal to veto it. Minister of Investments and Development Kwiecinski stated that EC proposals significantly delayed the possibility to reach agreement on EU budget in the second quarter of 2019 and added that such agreement was almost impossible. He added that reduction of cohesion funds for Poland and other countries of Central Europe and increase of funds for rich countries of the Southern Europe was unacceptable.

In May flash **inflation** was 0.1% mom and 1.7% yoy, below market consensus view.

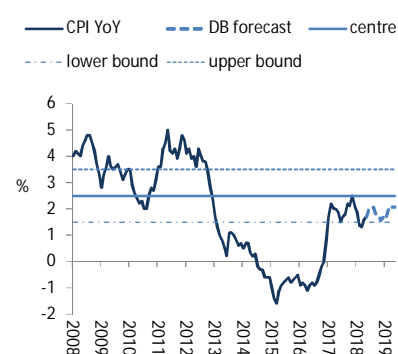
The Central Statistical Office (GUS) revised **GDP** growth to 5.2% yoy in Q1 from 5.1% in the first estimate. Households' consumption rose by 4.8% yoy, gross accumulation was as much as 21% up yoy, but gross fixed investment outlays were only 8.1% up yoy what means very strong inventory investment (that generated as much as 1.9 perc. point of GDP growth versus 0.9 p.p. of GDP growth generated by fixed investments). In Q1 net exports were negative and subtracted 1.2 p.p. from GDP growth while households consumption generated 3 p.p. od GDP growth.

Manufacturing PMI for May declined to 53.3 from 53.9 in April. In May industrial sector in Poland was still in an expansion phase, but a pace of output growth had been the slowest in 9 months. In May the number of new export orders declined that resulted in a decline of orders' growth below trend. The decline of PMI in May stemmed from slower pace of growth of output and slower growth in employment in manufacturing sector. In May backlogs has been at the highest level since December 2010 partially explained by increased purchasing activity of companies. In May costs of production were high due to higher prices of steel and weaker the zloty but output prices declined slightly, remaining still at elevated level.

THIS WEEK:

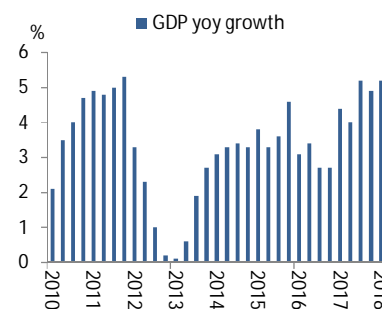
On Wednesday the MPC ends two-day policy meeting. We expect the MPC to keep interest rates unchanged and to maintain their guidance for steady rates through 2019.

Figure 1: Inflation



Source: GUS, Deutsche Bank Polska S.A.

Figure 2: GDP growth (yoy)



Source: GUS

Figure 3. Manufacturing PMI



Source: Markit



DIARY (this week)

Date	GMT	Release/Event	DB Expected	Actual	Consensus
Jun-6		MPC decision	1.50%		1.50%
Jun-7	12:00	Official reserve assets			

Source: Deutsche Bank Estimates, Reuters and Bloomberg Finance LP

FX and interest rate forecasts

	EUR/PLN	USD/PLN	CHF/PLN	GBP/PLN	EUR/USD	WIBOR 3M	EURIBOR 3M	LIBOR USD 3M	CPI (Poland)
	(end of period)								
Jun-18	4.270	3.634	3.697	4.895	1.175	1.70	-0.33	2.35	2.0
Jul-18	4.247	3.539	3.640	4.770	1.200	1.70	-0.33	2.38	2.1
Aug-18	4.223	3.448	3.584	4.651	1.225	1.70	-0.32	2.41	2.1
Sep-18	4.200	3.360	3.529	4.536	1.250	1.70	-0.32	2.44	1.8
Oct-18	4.187	3.332	3.489	4.531	1.257	1.70	-0.31	2.47	1.8
Nov-18	4.173	3.303	3.449	4.526	1.263	1.70	-0.30	2.50	1.6
Dec-18	4.160	3.276	3.410	4.520	1.270	1.70	-0.30	2.53	1.7
Jan-19	4.157	3.256	3.389	4.504	1.277	1.70	-0.28	2.56	1.6
Feb-19	4.153	3.236	3.368	4.488	1.283	1.70	-0.25	2.59	1.9
Mar-19	4.150	3.217	3.347	4.472	1.290	1.70	-0.25	2.62	2.1
Apr-19	4.147	3.198	3.326	4.456	1.297	1.70	-0.20	2.65	2.1
May-19	4.143	3.179	3.306	4.440	1.303	1.70	-0.15	2.68	2.1

Source: Deutsche Bank Polska S.A.



Appendix 1

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Additional information available upon request

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