



Poland: Weekly Macroeconomic Update

LAST WEEK:

The **MPC**, as expected, didn't change monetary policy settings, keeping the main reference rate at 1.50%. The communique after the meeting was very similar to that of the previous month. The MPC again underlined low internal inflationary pressure in many countries abroad and no impact, as for now, of rising wages on consumer inflation and low core inflation in Poland. The MPC said that GDP growth in Q1 2018 was close to that of Q4 2017 with rising consumption and recovery in investments. The Council pointed to significant positive contribution of inventory investments to GDP growth in Q1 but regarded it as transitory factor that would not impact GDP much in coming quarters. The MPC added that contribution of net exports to GDP growth was negative. The MPC expects GDP growth to remain solid in the coming years, despite expected moderately slower growth in the years ahead. The Council stated that inflation in the horizon of projection would remain within target and thus the current level of interest rates was appropriate. At press conference NBP President Glapinski reiterated that in his view interest rates would remain unchanged till 2020. The MPC maintained its guidance for no change in interest rates until the end of 2019. NBP President said that recent PLN weakening had only marginal impact on consumer inflation in Poland and added he expected lowering of inflation path in July's NBP projection. In our view, given lack of domestic inflationary pressure, the MPC will be paying more attention to inflation abroad, in the eurozone in particular. As a consequence the MPC is likely to be more responsive to changes in monetary policy of the ECB that are expected in the second half of 2019.

The Sejm adopted resolution that says GDP per capita should remain the main criterion of distribution of **EU cohesion funds**. There were 270 votes for the resolution, 30 votes against and 125 abstaining. The Sejm expressed a conviction that maintaining of EU regional development policy and funding of it from the EU budget would significantly help fulfilling EU policy goals without creating "Europe of different speeds". The Sejm stated that cohesion policy should be significant part of EU budget, comprising all regions. In the resolution the Sejm underlined that there were no clear criterions neither precise definition of rule of law what raises concerns of assessment process being arbitrary and politicised. The Sejm added it would be the precedent of creation of political instrument not rooted in the EU treaties.

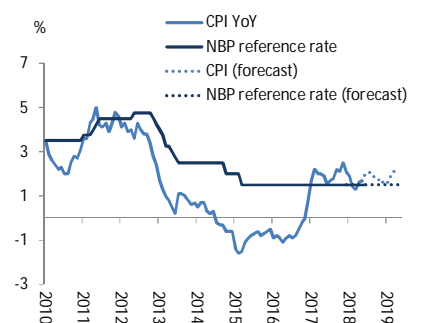
In 2017 **local government deficit** was PLN-0.3bn versus envisaged deficit of PLN-13.1bn. According to the Finance Ministry in 2018 deficit of local governments is envisaged at PLN-6.05bn and in 2020 local governments' debt is likely to decline to PLN70.3bn or 4.8% down versus 2017 level.

Fitch Ratings affirmed Poland's rating at 'A-' with a stable outlook. Fitch Ratings said that Poland's rating reflected its strong macro fundamentals, supported by a sound monetary framework and solid banking sector. The ratings are constrained by weak GDP per capita relative to the peer median and high albeit declining net external debt. Fitch Ratings forecast GDP growth of 4.4% in 2018 and 3.4% in 2019. Public debt to GDP ratio is expected to decline from 50.6% at end of 2017 to 49.3% at end of 2019 while foreign debt to GDP ratio is forecast to decline to 25% in 2019 from 30% in 2017.

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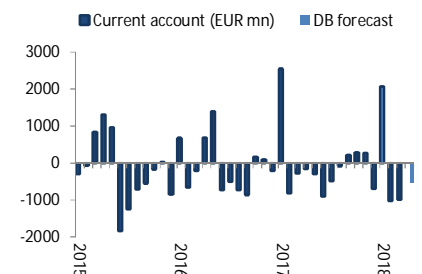
On Wednesday the NBP will release **balance of payments** data for April (we expect the current account gap of EUR530mn). On Thursday the GUS will release **final inflation** for May (our forecast is 0.1% mom and 1.7% yoy). On Friday the NBP will release **core inflation** for May (we expect -0.1% mom and 0.6% yoy).

Figure 1: NBP reference rate and inflation



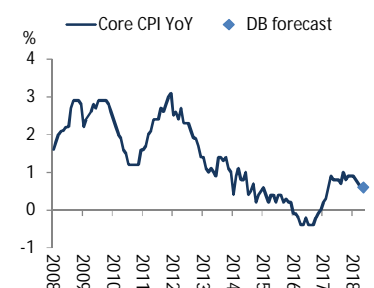
Source: GUS, NBP, Deutsche Bank Polska S.A.

Figure 2: Balance of payments (EURmn)



Source: NBP, Deutsche Bank Polska S.A.

Figure 3: Core inflation



Source: NBP, Deutsche Bank Polska S.A.



DIARY (this week)

Date	GMT	Release/Event	DB Expected	Actual	Consensus
Jun-13	14:00	Ccurrent account (Apr)	EUR-530mn		EUR-253mn
Jun-13	14:00	Trade balance (Apr)	EUR290mn		EUR-76mn
Jun-14	10:00	Inflation (May)	0.1% (1.7%)		0.1% (1.7%)
Jun-15	14:00	Core inflation (May)	-0.1% (0.6%)		0.1% (0.6%)

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	3.625	3.678	4.857	1.178	1.70	-0.33	2.35	2.0
Jul-18	4.253	3.553	3.633	4.773	1.197	1.70	-0.33	2.38	2.1
Aug-18	4.237	3.484	3.589	4.692	1.216	1.70	-0.32	2.41	2.1
Sep-18	4.220	3.417	3.546	4.613	1.235	1.70	-0.32	2.44	1.8
Oct-18	4.200	3.378	3.500	4.594	1.243	1.70	-0.31	2.47	1.8
Nov-18	4.180	3.340	3.455	4.575	1.252	1.70	-0.30	2.50	1.6
Dec-18	4.160	3.302	3.410	4.556	1.260	1.70	-0.30	2.53	1.7
Jan-19	4.157	3.279	3.389	4.537	1.268	1.70	-0.28	2.56	1.6
Feb-19	4.153	3.258	3.368	4.517	1.275	1.70	-0.25	2.59	1.9
Mar-19	4.150	3.236	3.347	4.498	1.283	1.70	-0.25	2.62	2.1
Apr-19	4.147	3.214	3.326	4.479	1.290	1.70	-0.20	2.65	2.1
May-19	4.143	3.193	3.306	4.460	1.298	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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