Economic outlook for Poland

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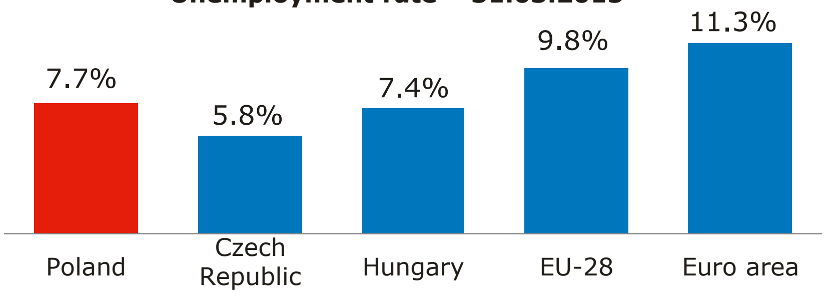
Grow your business in Switzerland through investments in Poland.

Zurich, June 24th 2015.

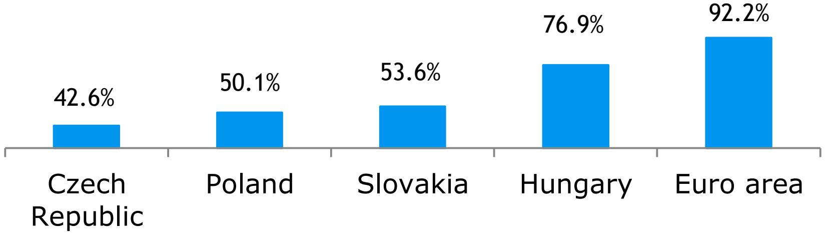
Poland: strong position among regional peers.

- The largest economy in the CEE with almost 50% of region's gross domestic product[1]
- Track record of steady growth despite prolonged turmoil on the international financial markets
- Reform-oriented policies supporting ambitious fiscal targets and stable/positive rating outlook (confirmed by agencies and recent fiscal data). Low public debt.
- Broad based GDP growth profile (solid domestic demand).
- Strong labor market but still operating at wages running at 1/3 of EU average.
- The most liquid financial market in the region.
- So far politically stable (8 years of lull).

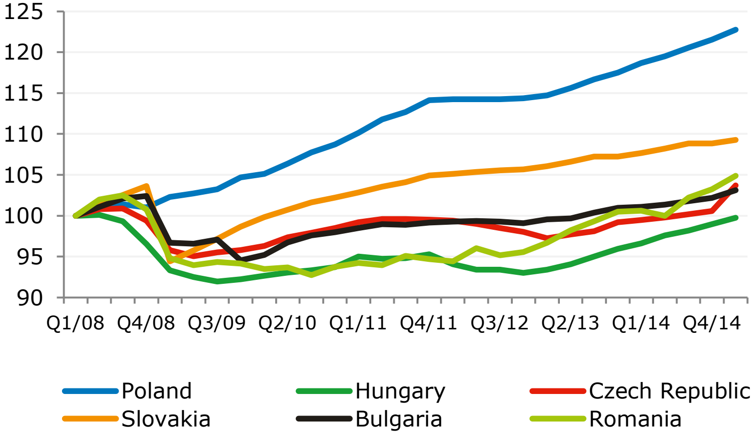
Unemployment rate – 31.03.2015



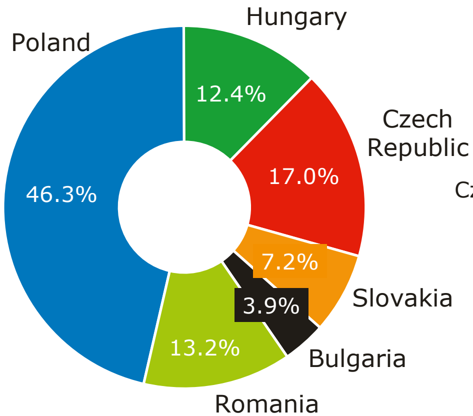
General government debt (% of GDP) - 2014



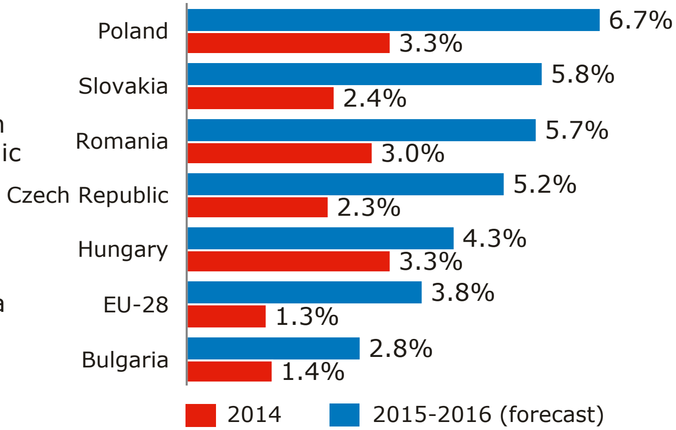
GDP index (2008=100)



2013 Nominal GDP share



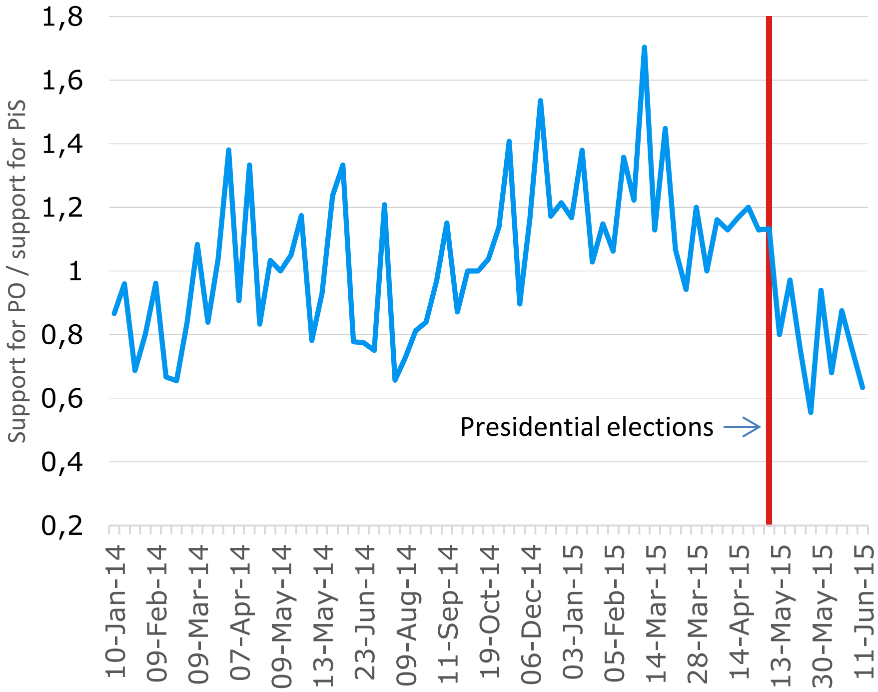
Real GDP growth



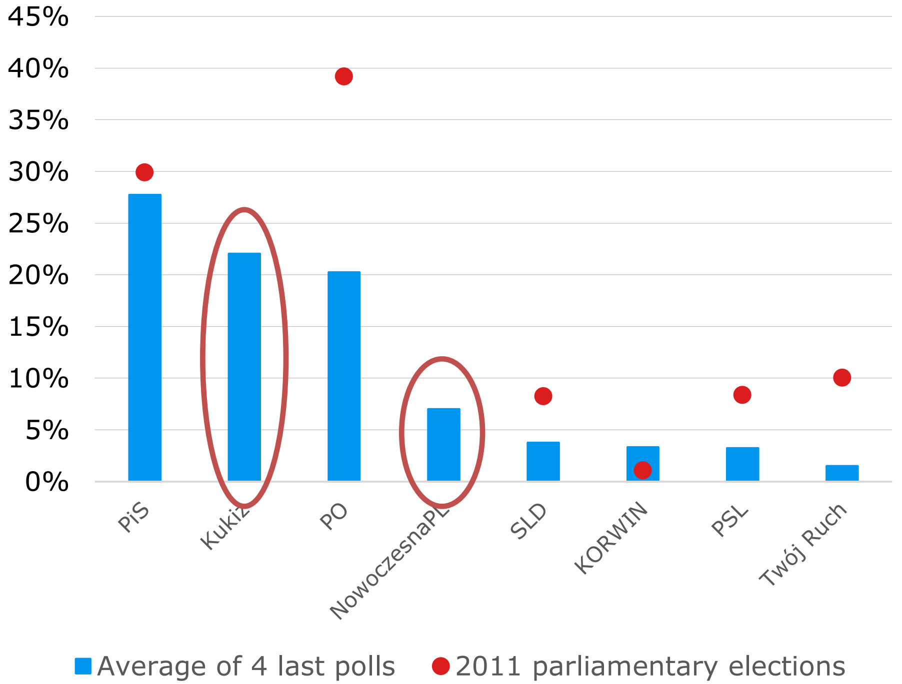
Source: Central Statistical Office of Poland, Eurostat. [1] Share of 2013 Nominal GDP of CEE region defined as: Bulgaria, Czech Republic, Hungary, Poland, Romania and Slovakia

2015 brings the return of political risk. Polish assets may suffer. Real economy expected to be (so far) mostly only under the spell of uncertainty.

Support for the Civic Platform (PO) is clearly on the decline

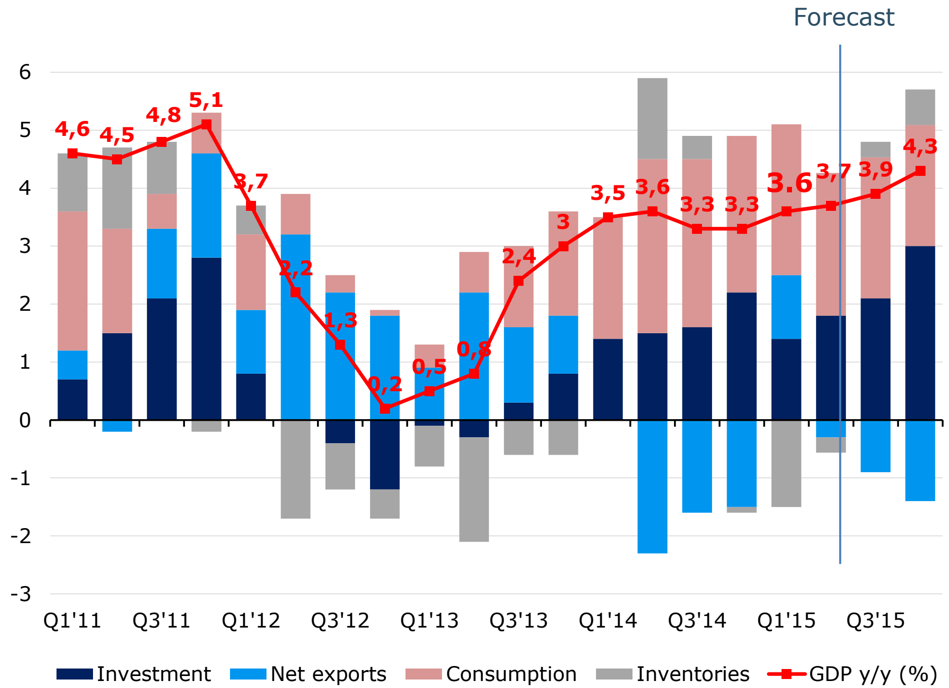


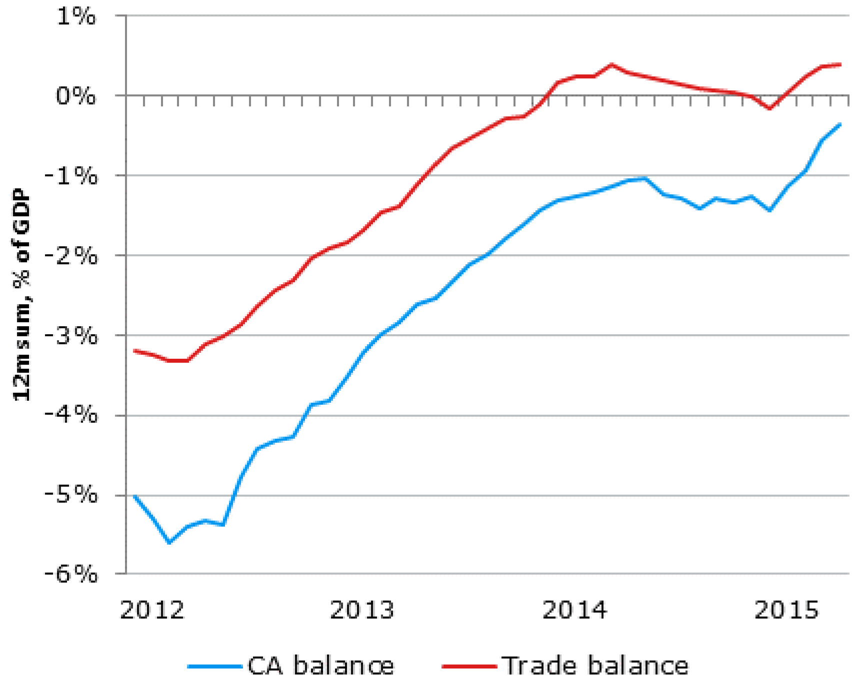
New political parties are emerging



- Following the recent presidential elections, there has been a significant decline in support for the ruling coalition. PO has fallen behind its main competitor, PiS. Recent polls see PO trailing ca. 7-10 pp. Behind PIS. The political scene (until now 2 main parties + 2-3 little ones) is set to be transformed by at least two new parties: one formed by Mr Kukiz, one by Mr Petru (NowoczesnaPL).
- The former is still largely a question mark (esp. the programme) but it's likely to have strongly populist features, making it similiar to e.g. Spain's Podemos or Italy's Five Star Movement (negative for Polish assets).
- Proposals from PiS and the new party are significant: levy on bank assets, forced conversion of FX loans. Further risks include: rollback of pension reforms, complete overhaul of private pension fund system. Such expectations may dominate market thinking in Autumn (negative for Polish assets).
- Impact on macro aggregates of potential political change in Autumn will be rather moderate (modest fiscal expansion but lower absorption of EU funds initially due to reshufle in gov. agencies; uncertainty possibly affecting investment decisions of individual firms).

GDP growth is set to remain strong this year. 3.8-3.9% on average is within reach. Economy is as balanced as ever.

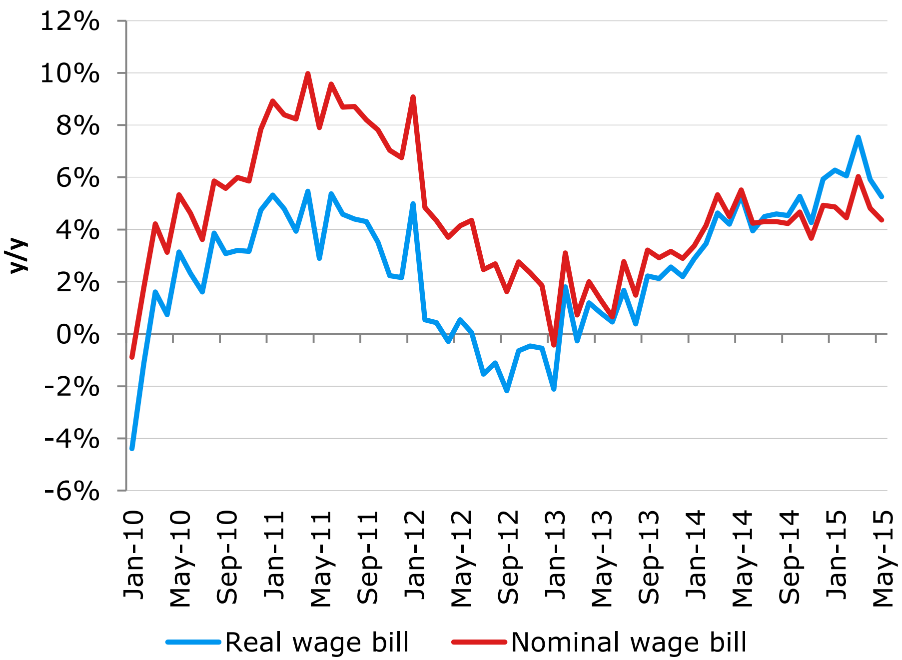




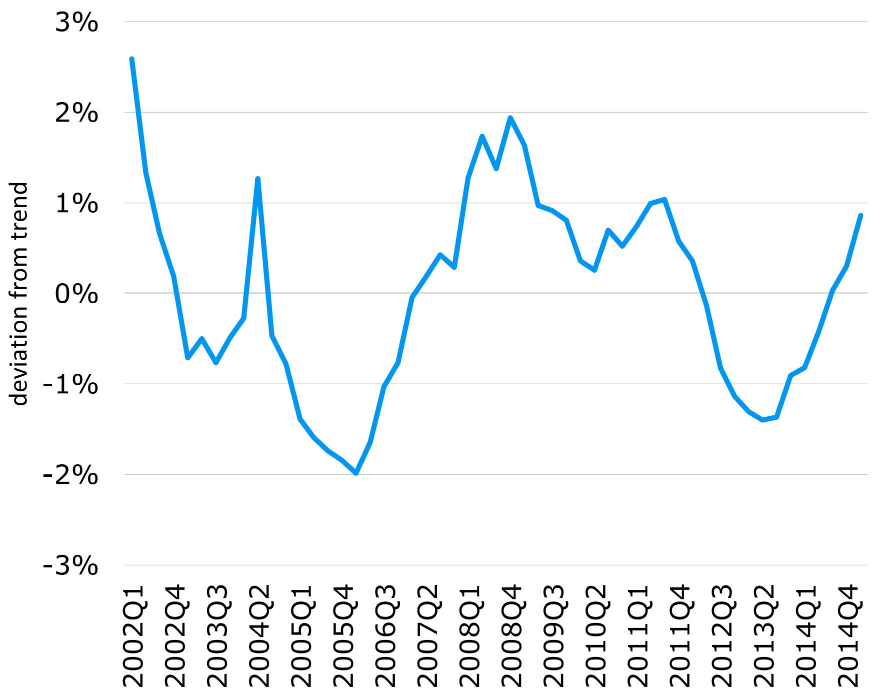
- We expect growth to remain strong in the next quarters, fuelled by domestic demand.
- GDP stays below (or only close to) potential GDP = no inflationary pressures.
- Economy is not booming which brings external balance (C/A is in surplus, quite a new phenomenon).
- Growth will moderate a bit in 2016 but 3.5% still feasible. Next slides explain the reasons.

By historical standards, consumption growth stays moderate.

Nominal earnings are stable, inflation rising = no additional boost to consumption



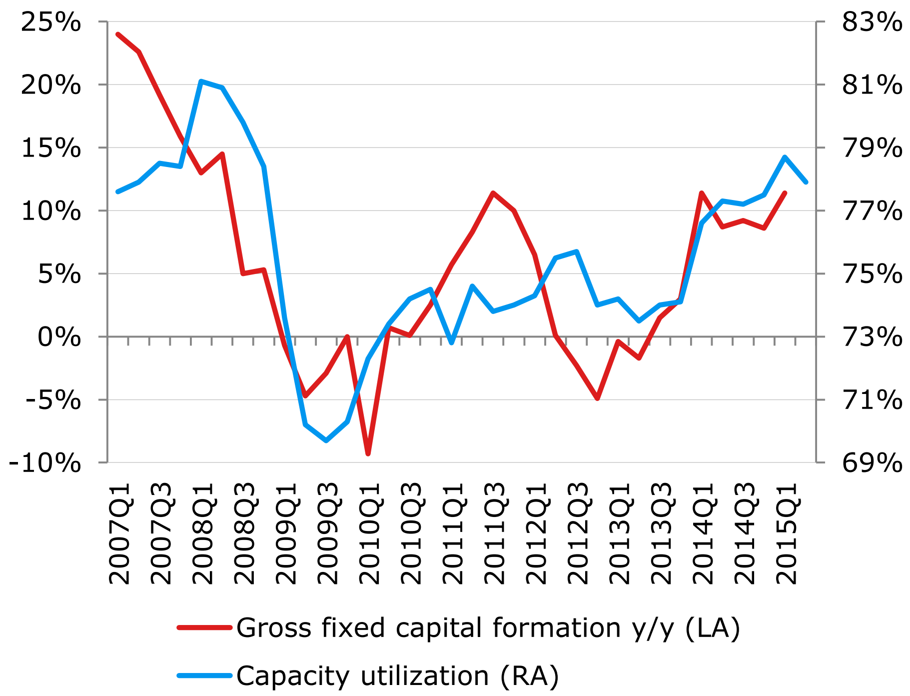
The upswing in consumption is, by historical standards, quite advanced already



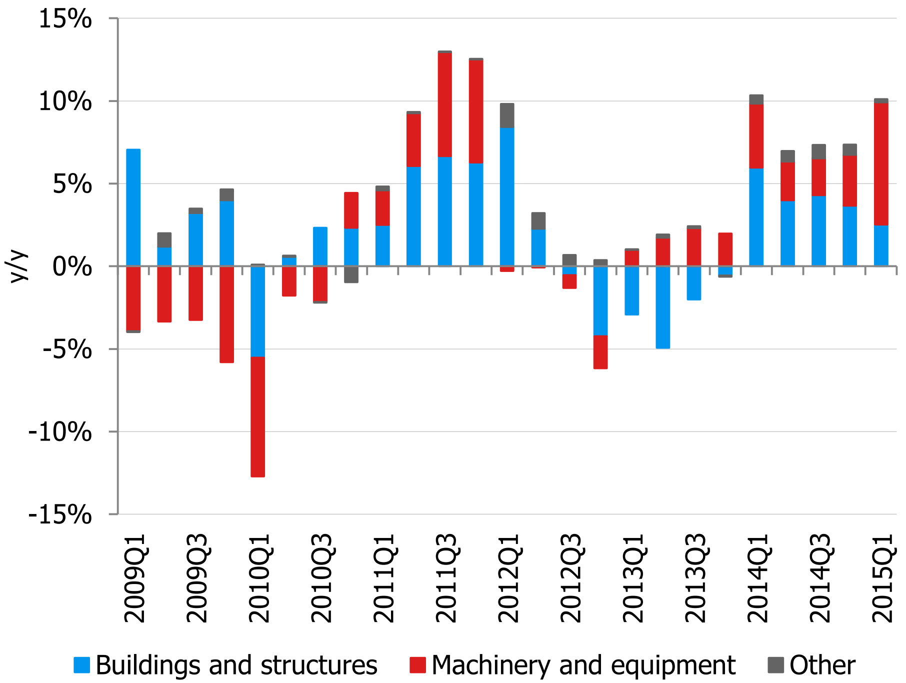
- Real income growth probably peaked in Q1 – inflation will rise from now on and nominal wages are not accelerating a lot (shadow labor force, firm reach for workers from abroad).
- Additionally, consumption growth has been quite strong in recent quarters and the cycle looks mature.
- No boom in consumption can be expected (skewed distribution of income, households are mostly saturated with typical home appliances = no catching up). Consumers may have high propensity to save.
- Some more expansive fiscal policy in 2016 (higher minimum wage, public sector wage unfreeze).

Private investment activity to remain solid but growth might have peaked.

High capacity utilization puts pressure on enterprises to continue investing



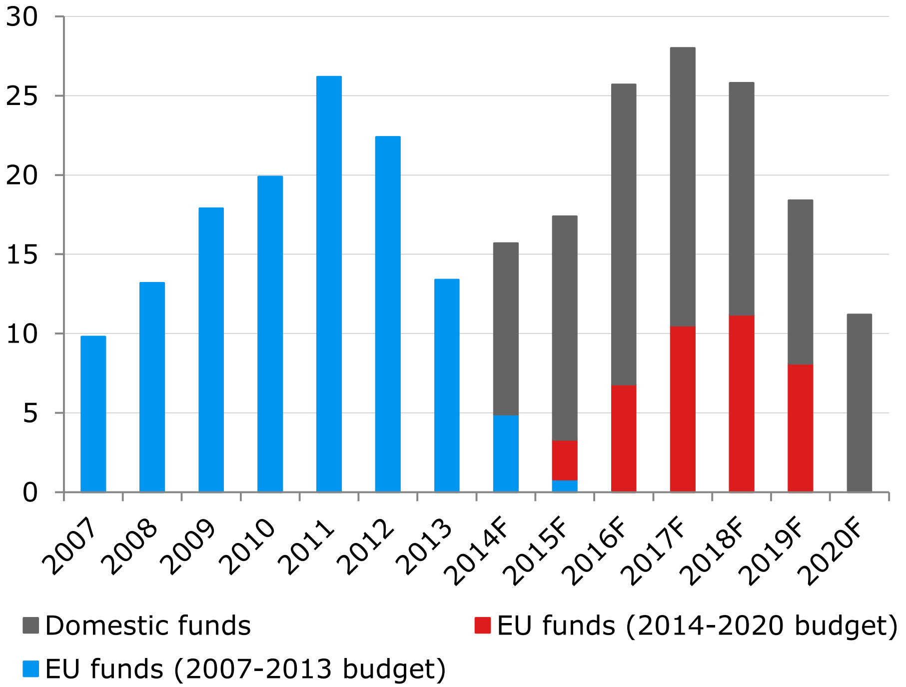
Investment growing very fast even without significant contribution from construction



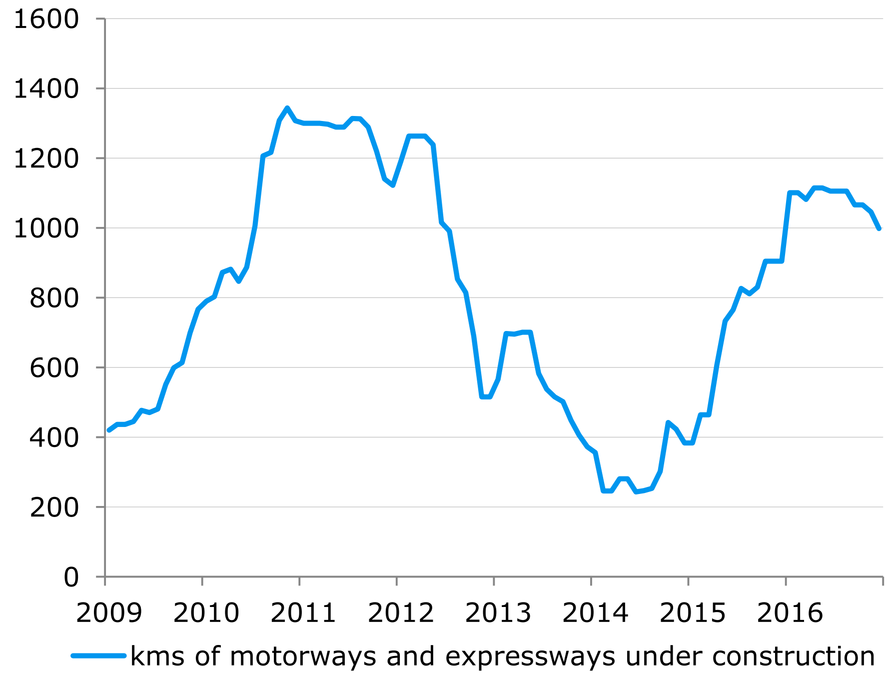
- Investment grew by 11% in Q1 (massively beating expectations), probably driven by private investment. Breakdown of investment by asset types reveals that machinery and transport equipment constitutes the bulk of current investment activity.
- Several reasons suggest that investment should slow down in late 2015 and 2016: projects started in the previous years will be finished, thereby increasing capacity and lowering the need for further investment, uncertainty surrounding political issues, some reversal in growth of investment outlays in energy sector.

Public consumption to be complemented by a new round of infrastructure investment.

More money to be spent on infrastructure. Poland is yet about to see the peak in spending.



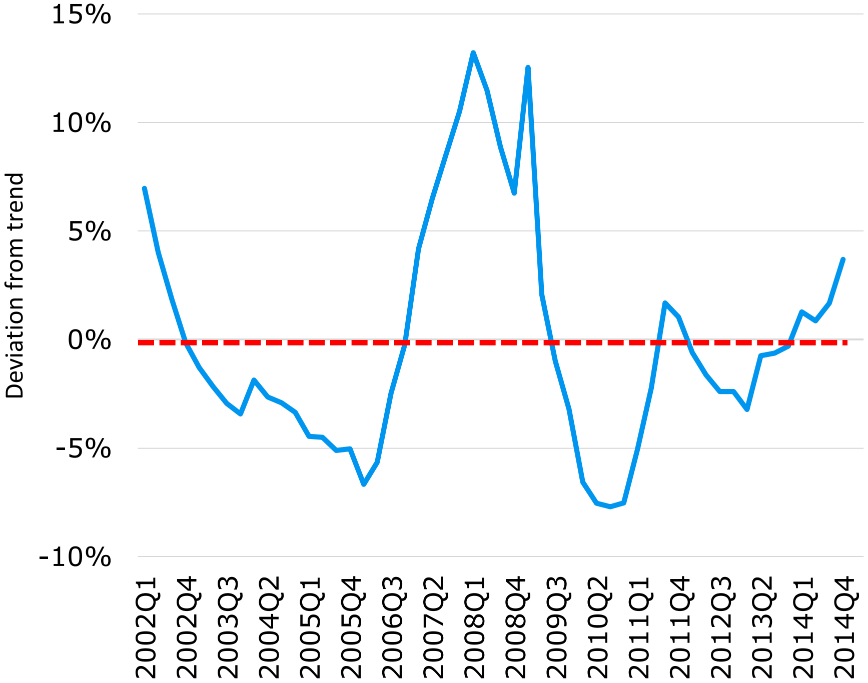
And the number of open tenders indicate that a binge in construction is coming



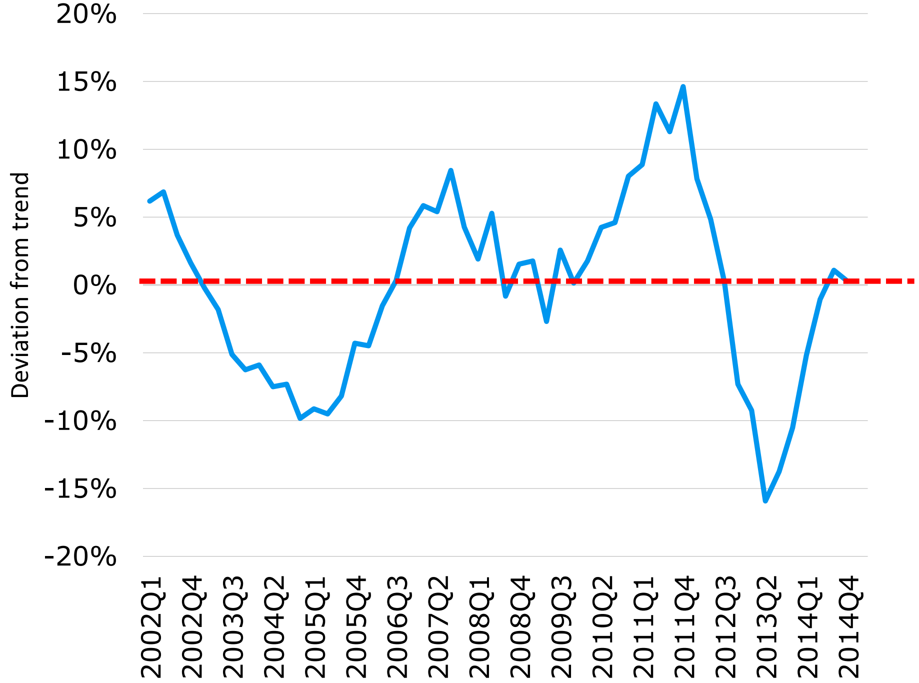
- Public investment, after two years of contraction, began to grow again in 2014.
- Public investment is set to take over – we expect a surge in public investment in late 2015 / early 2016, concentrated mainly in the transport sector (however, mind the risk of a change of the government mentioned earlier).
- Year end acceleration of spending highly possible.

Different fortunes of investment. Mind the gap between public and private spending in cyclical terms.

Private investment has grown robustly and might be close to cycle highs



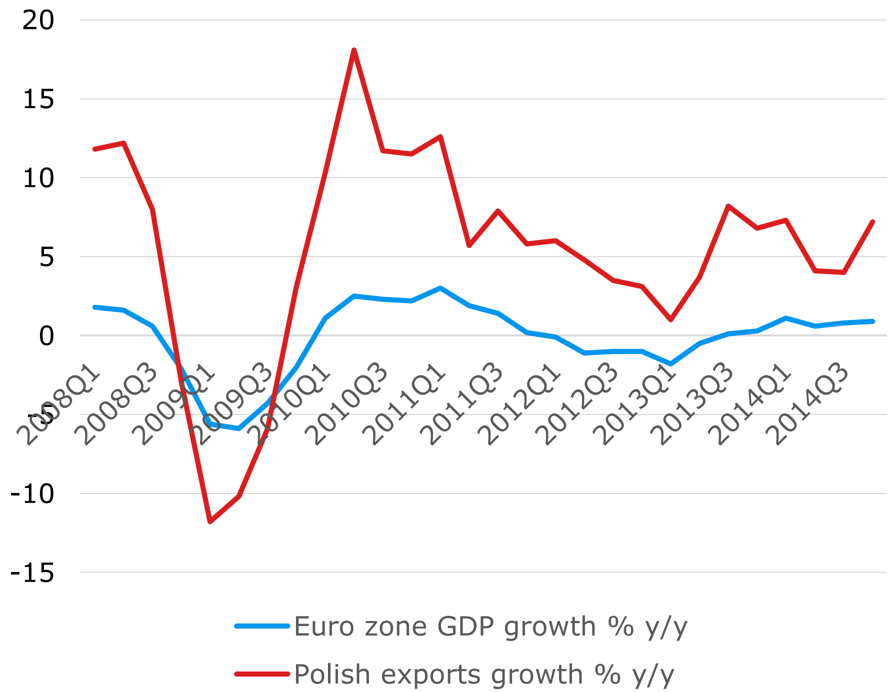
Public investment has barely clawed itself out of a depression = large scope for growth



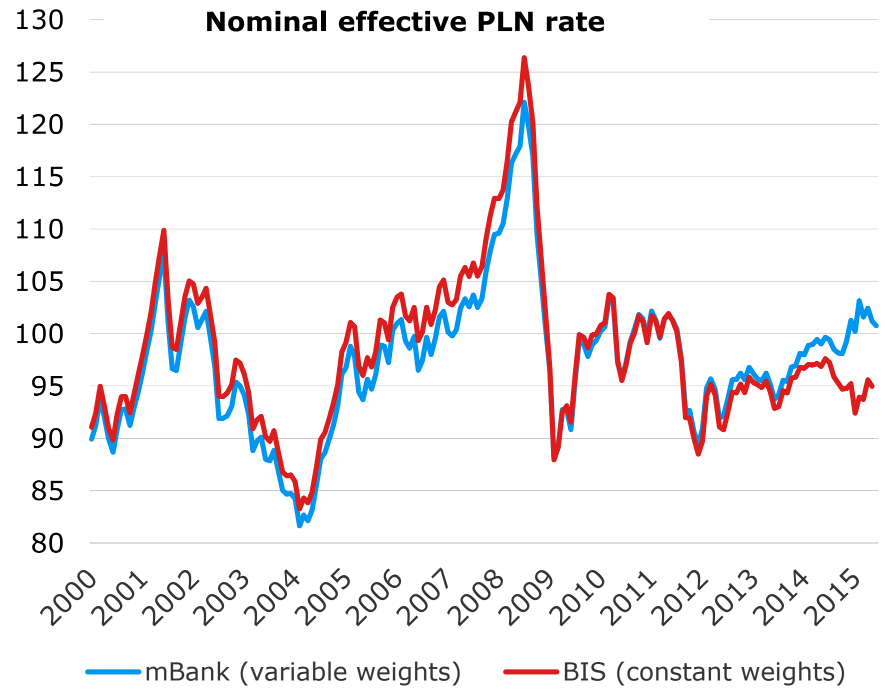
- Big cyclical difference between public and private investment.
- The cycle in private investment is quite advanced and has already exceeded 2010-2011 growth. There might be little scope for acceleration from here.
- Public investment is only now returning to trend from its deep, post-Euro'12 slump. Growth here can easily continue.

Exports to benefit from cyclical upswing in the euro zone. Strong PLN to have mid term (negative) impact.

Exports highly geared towards euro zone. Cyclical upswing in euro zone to help Polish exports a lot.



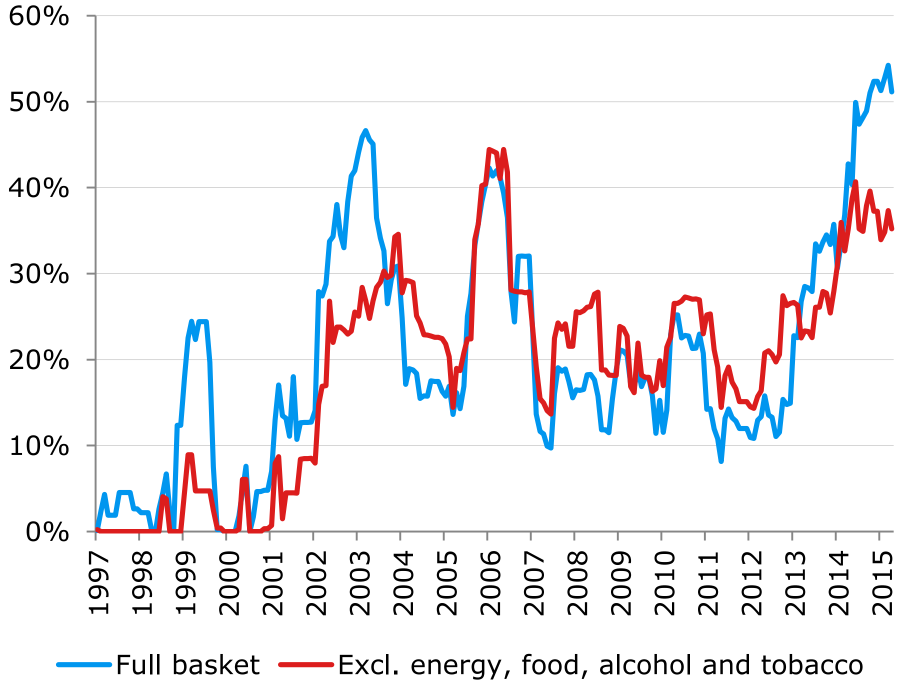
But the zloty stays strong. Pain level for exporters at 3.90 (confirmed anecdotally).



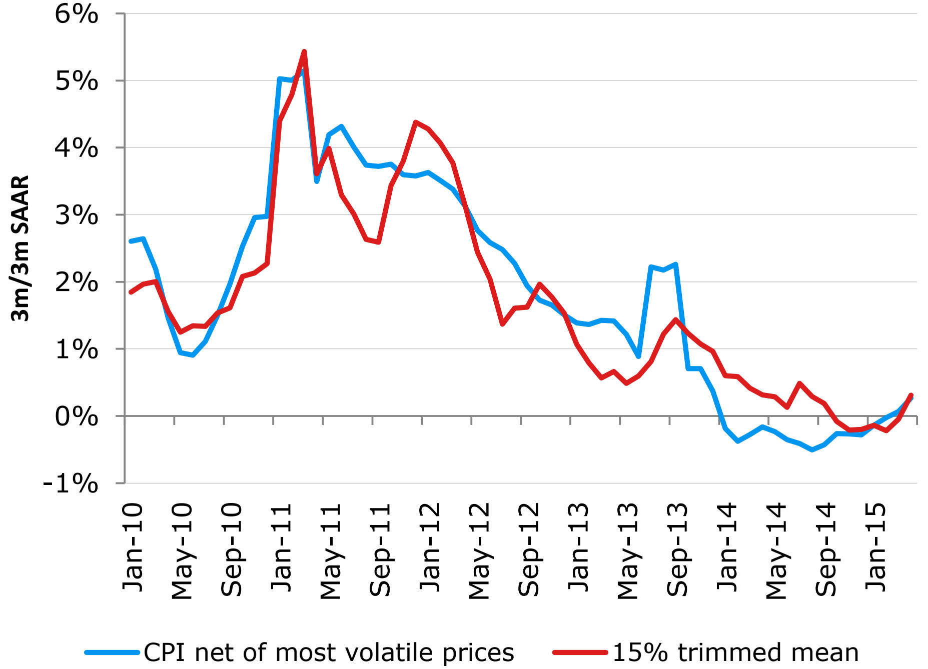
- Every time zloty strengthens, exporters suffer (exchange rate determines the whole export revenues whereas EUR-denominated costs are only a part of the whole).
- Due to falling momentum in producer prices we think that pricing power of firms on the domestic market is nonexistent. Therefore exporters cannot make up on the local market for the revenues lost due to PLN strength. Negative effects of PLN strength may linger on, not only in 2015…
- With only muddling-through euro zone, exports fortunes are at least neutral.

Low inflation = no rate hikes throughout 2015 and 2016.

The % of consumer basket remaining in deflation is still elevated

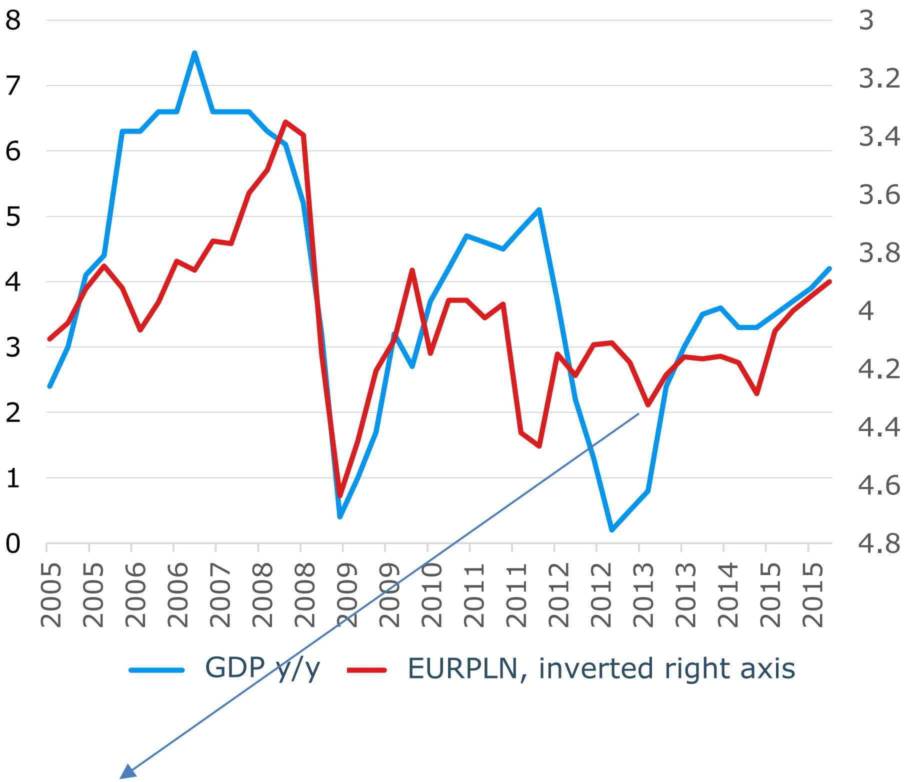


The uptick in inflation is not broad-based as momentum measures remain extremely subdued.

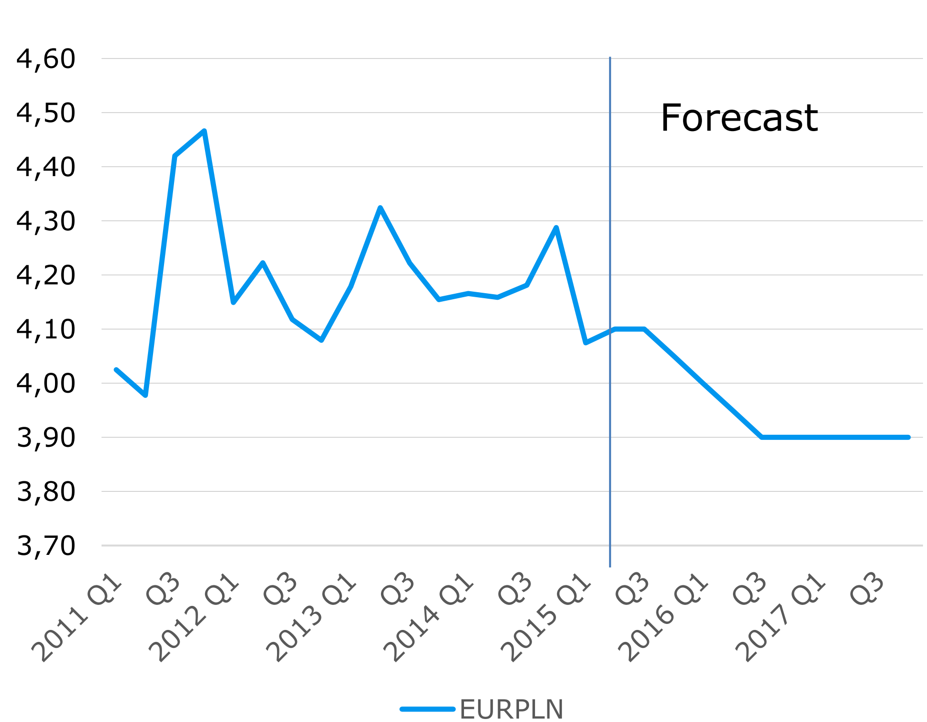


- Yes, inflation bottomed out in February and turned around. The emergence from deflation will not be a rapid one. So far, the majority of consumer basket remains in deflation.
- Core inflation is still very low and momentum measures are hardly encouraging as they remain consistent with 0.5-1% inflation at year end (this is our forecast).
- When base effects fade, inflation should settle at below-target levels.
- Consensus sees two rate hikes in 2016 H2. Be careful – the next MPC might not pursue positive real rate policy (as the current one does and consensus keeps assuming).

Expect positive, cyclical behavior of PLN. High volatility and local hiccups are set to stay with us for quite a long time (elections, Greece, Ukraine).



PLN to gain on high real rates, cyclical upswing.



QE driven inflows kept zloty stronger amid slowing GDP growth.
After the event, correlation with GDP growth thrived.

Thank you for your attention

Economic forecasts

		2011	2012	2013	2014	2015	2016	2017	2018	2019
GDP	%	4.8	1.8	1.7	3.3	3.9	3.5	3.3	3.0	2.8
Domestic demand	%	3.8	-0.4	0.2	4.6	4.7	3.9	3.4	3.2	2.7
Investment	%	9.3	-1.5	0.9	9.4	10.0	7.0	6.0	5.0	4.0
Private consumption	%	3.0	1.0	1.1	3.0	3.2	3.0	2.5	2.5	2.3
CPI (average)	%	4.3	3.7	0.9	-0.1	-0.6	1.5	2.5	2.5	2.5
CPI (year end)	%	4.6	2.4	0.7	-1.0	1.0	2.0	2.5	2.5	2.5
USD/PLN (year end)	%	3.45	3.09	3.02	3.54	3.86	3.90	3.39	3.12	3.12
USD/PLN (average)	%	3.08	3.19	3.18	3.23	3.79	3.94	3.55	3.25	3.12
EUR/PLN (year end)	%	4.47	4.08	4.15	4.29	4.05	3.90	3.90	3.90	3.90
EUR/PLN (average)	%	4.22	4.14	4.22	4.20	4.08	3.94	3.90	3.90	3.90
CHF/PLN (year end)	%	3.67	3.38	3.39	3.57	3.82	3.55	3.42	3.31	3.25
CHF/PLN (average)	%	3.42	3.44	3.45	3.47	3.91	3.63	3.47	3.35	3.26
WIBOR 3M (average)	%	4.66	4.78	2.88	2.43	1.68	1.70	2.34	2.71	2.71
WIBOR 6M (average)	%	4.76	4.78	2.88	2.43	1.68	1.74	2.43	2.71	2.71
Repo rate (year end)	%	4.50	4.25	2.50	2.00	1.50	1.50	2.50	2.50	2.50
Unemployment rate (year end)	%	12.5	13.4	13.4	11.5	10.3	9.5	8.9	8.5	8.2

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