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Chapter 1

Economic developments

According to the Central Statistical Office (CSO) monthly data published in March 2017 the growth in industrial output amounted to 11.1% y/y – versus 1.2% y/y the month before. Adjusted for seasonal factors the overall industrial output increased by 8.1% y/y when compared with the corresponding month of the previous year.

Increase in output was registered in manufacturing (up by 12.7% y/y) as well as mining (0.4% y/y). Decrease affected gas, electricity and hot water supply^{Δ,1} (0.6% y/y).

Increase in industrial output, when compared with the corresponding period of the previous year, was reported for 29 (of 34) branches of industry² increase in sales was reported for machinery and equipment^Δ (22.9% y/y), other non-metallic mineral products (21.9% y/y), motor vehicles, trailers and semi-trailers^Δ (18.6% y/y), metal products (18.9%), rubber and plastics (16.6% y/y), furniture (14.5% y/y) as well as food products (9.6% y/y).

In March 2017, construction and assembly production – for enterprises with more than 9 employees – was by 17.2% higher when compared with the corresponding period of the previous year. In February 2017, the above indicator decreased by 5.4% y/y. Adjusted for seasonal factors the construction and assembly production went up by 10.2% y/y.

In March, the annual PPI indicator increased by 4.8% y/y – versus 4.5% y/y a month before. Increase in industrial output prices was reported for manufacturing (4.2% y/y) and mining (29.0% y/y) while in gas electricity and hot water supply section prices it decreased by 0.3% y/y.

According to the CSO data for February 2017³, among branches of manufacturing, being major employers, increase in prices was reported for food products (3.4% y/y), rubber and plastics (1.1% y/y), metal products (0.8% y/y) as well as other non-metallic mineral products (0.3% y/y). Decrease in prices was reported for machinery and equipment (2.1% y/y) furniture (1.3% y/y) as well as motor vehicles, trailers and semi-trailers (0.2% y/y),

In March 2017, construction and assembly production prices went up by 0.4% y/y versus 0.3% y/y increase in February 2017.

The CPI for March went up by 2.0% y/y versus 2.2% increase in February 2017. Increase in prices was reported for transportation (9.4% y/y), food and non-alcoholic beverages (3.1% y/y), household maintenance and energy fees (1.3% y/y), alcohol and tobacco (1.3% y/y) and healthcare (1.2% y/y). Decrease in prices was reported in footwear and apparel (5.5% y/y) as well as telecommunication services (1.2% y/y).

¹ Δ signifies that the name used is an abbreviated version of the name listed in PKD 2007. The symbol had been used only on first appearance of the name.

² Branches of manufacturing with average employment over 100 000 persons.

³ Total industrial output prices and prices for the three major sections combined: 'mining and quarrying', 'manufacturing' and 'electricity, gas and hot water supply' are published by the CSO in advance to detailed data on individual sections.

Chart 1.1 Indices of gross domestic product (corresponding period of the previous year = 100)

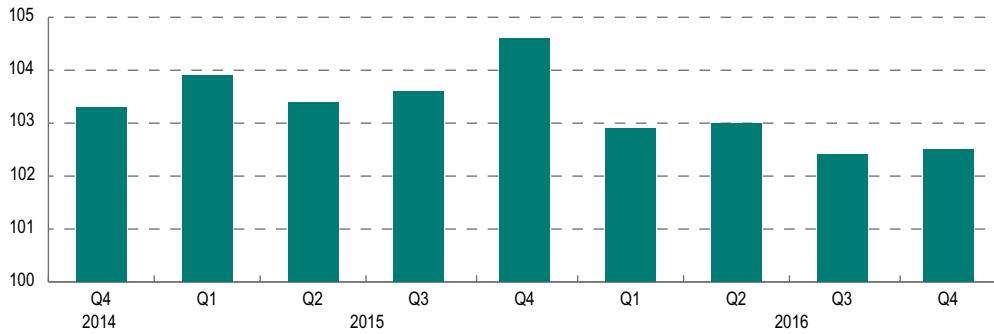


Chart 1.2 Sold production of industry (corresponding period of the previous year = 100)

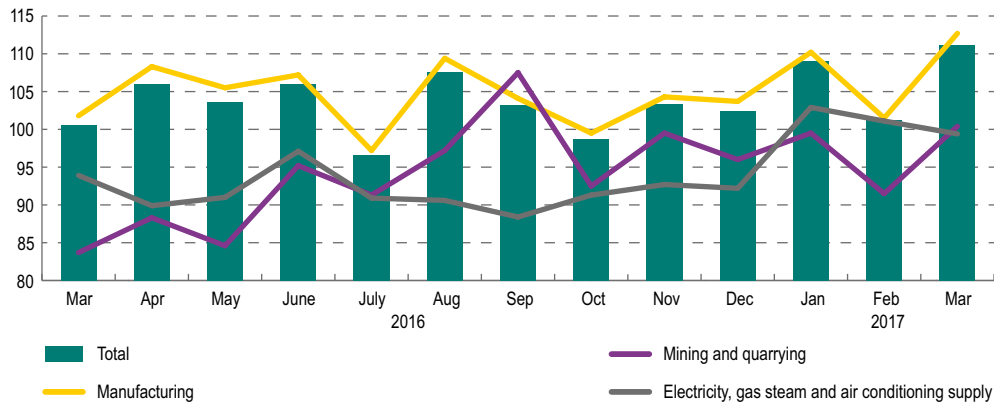
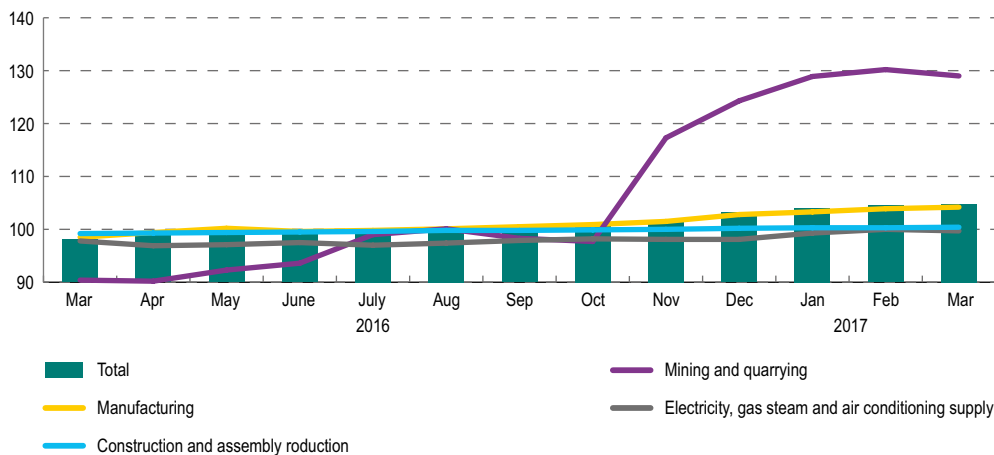


Chart 1.3 Sold production of industry prices indices (corresponding period of the previous year = 100)



In March 2017, the average employment rate in the enterprise sector stood at 5982 thousand – up by 4.5% (255 thousand) when compared with a year before. Increase in employment was reported for manufacturing (4.1% y/y). Decrease in employment was reported for gas electricity and hot water supply (1.5% y/y) as well as in mining (6.0% y/y).

Chart 1.4 Selected prices of consumer goods and services
(corresponding period of the previous year = 100)

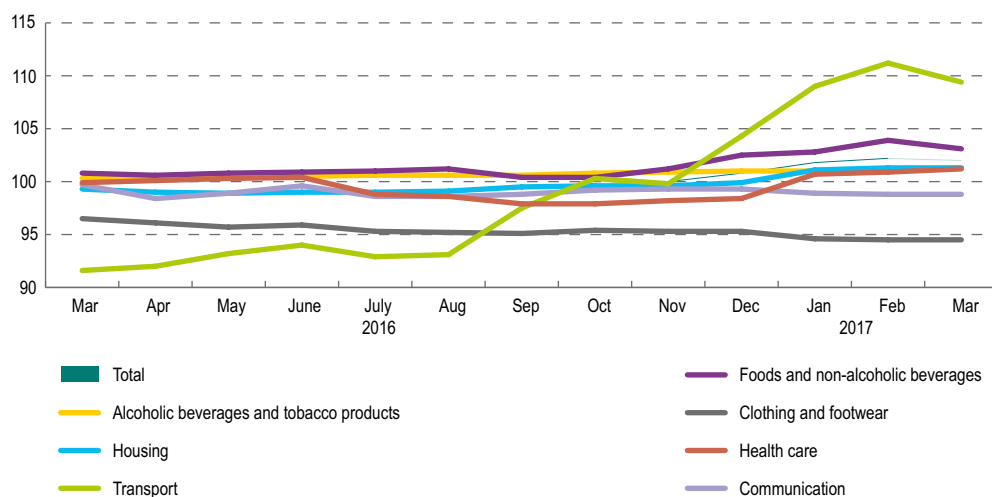
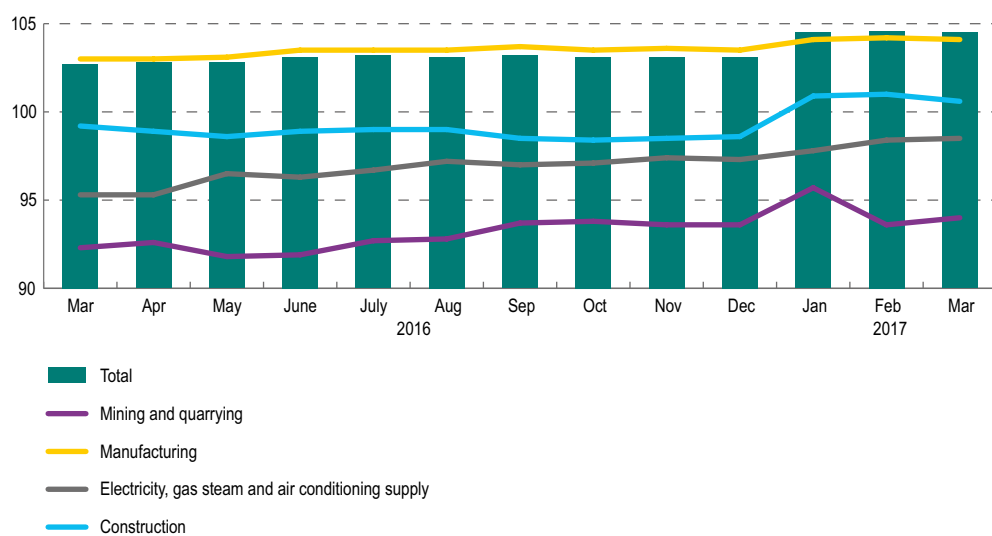


Chart 1.5 Average paid employment in enterprise sector
(corresponding period of the previous year = 100)



In manufacturing an increase in average employment was reported in motor vehicles, trailers and semi-trailers (7.9% y/y), rubber and plastics (6.7% y/y), furniture (6.2% y/y), metal products (5.7% y/y), other mineral non-metallic products (3.7% y/y) as well as food products (3.4% y/y). Decrease in average employment affected machinery and equipment (0.4% y/y).

In non-industrial sections an increase in employment was reported in administration and support section (9.2% y/y), accommodation and catering (9.2% y/y), transportation and storage (7.0% y/y), information and communication (5.8% y/y) as well as trade and repair of motor vehicles (4.9% y/y) and construction (0.6% y/y).

Chart 1.6 Registered unemployment persons and unemployment rate
(corresponding period of the previous year = 100)

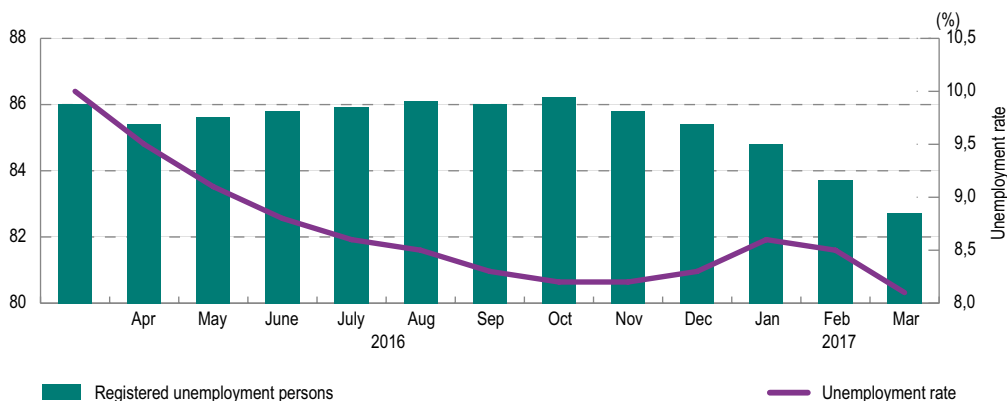
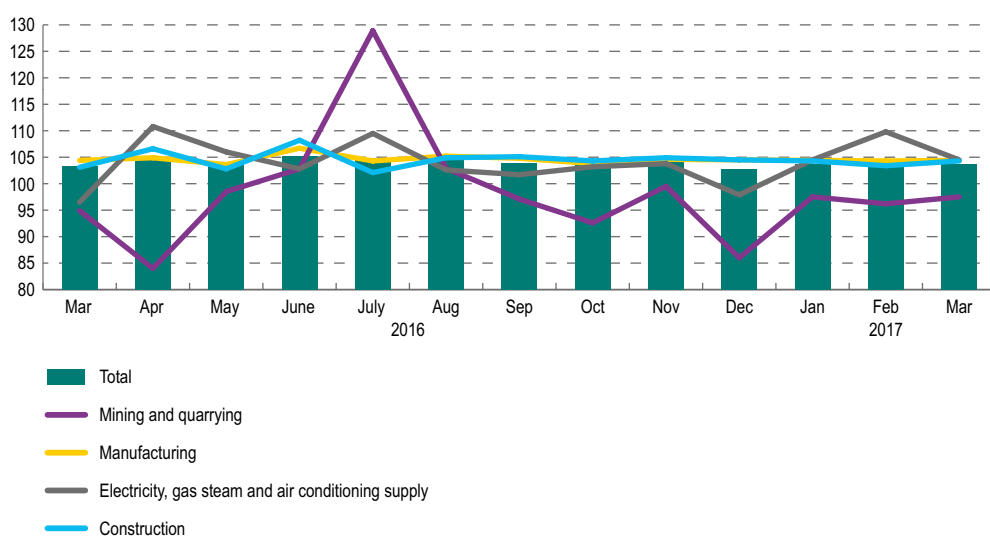


Chart 1.7 Average monthly wages and salaries in enterprise sector
(corresponding period of the previous year = 100)



The number of registered unemployed amounted to 1 342.2 thousand, down by 276.3 thousand (17.3%) when compared with a year ago. The unemployment rate amounted to 8.1% versus 10.0% in the corresponding period of 2016.

Average monthly gross wages and salaries in the enterprise sector stood at PLN 4277 and thus were 3.8% higher when compared to a year ago. Increase in wages and salaries was reported for manufacturing (4.4% y/y) as well as gas electricity and hot water supply (4.5% y/y). Decrease in wages and salaries was reported for mining (2.5% y/y).

In manufacturing, an increase in average wages and salaries was reported in furniture (5.4% y/y), food products (5.2% y/y), other non-metallic mineral products (5.1% y/y), motor vehicles, trailers and semi-trailers (5.0% y/y), rubber and plastics (4.8% y/y), metal products (3.5% y/y) as well as machinery and equipment (3.4% y/y).

In non-industrial sections increase in wages and salaries was noted for accommodation and catering (7.2% y/y), trade and repair of motor vehicles (5.3% y/y), information and communication (4.9% y/y), construction (4.3% y/y), transportation and storage (3.3% y/y) as well as administration and support section (2.9% y/y).

In January-March 2017 revenues of the national budget stood at the level of PLN 85.2 billion, whereas its expenditure amounted to PLN 87.5 billion. Revenues and expenditure were higher when compared to the corresponding period of the previous year by 11.0% and 1.3% respectively and accounted for 26.2% and 22.7% of budget assumptions for 2017.

Central budget surplus stood at PLN 2.3 billion versus the assumed annual deficit of PLN 59.3 billion.

Inflows from indirect taxes amounted to PLN 57.9 billion and increased when compared with last year by 28.1%. Inflows from personal income tax increased to PLN 11.0 billion i.e. 4.8%. Inflows from corporate income tax stood at PLN 9.8 billion, up by 15.2% when compared with the previous year.

Chapter 2

Monetary developments

The Monetary Policy Council during its session on 7-8 March 2017 left basic NBP interest rates at following levels:

- reference rate – 1.50%;
- lombard rate – 2.50%;
- deposit rate – 0.50%;
- rediscount rate – 1.75%;

During March reserve maintenance period⁴ the POLONIA index deviation against the reference rate equaled to 11 basis points versus 3 basis points in the previous month. Short-term liquidity of the banking sector measured as a total of the NBP main operations, fine-tuning operations and standing facilities stood at PLN 74.2 billion, down by PLN 2.9 billion when compared with the previous reserve maintenance period.

Average open market operations amounted to PLN 73.9 billion (versus PLN 76.8 billion in the previous month) of which main operations stood at PLN 72.5 billion. Throughout the reserve maintenance period the average daily recourse to the deposit facility totaled PLN 313 million (versus PLN 309 million in the previous period).

In March 2017 average interest rates on zloty denominated loans to non-financial corporations⁵ remained at 3.7%. Interest rates on loans to sole proprietorships went down from 5.8% to 5.5%.

As regards zloty denominated loans to households interest rates for loans for consumption went down from 7.8% to 7.7% and interest rates for loans for house purchases decreased from 4.5% to 4.4%.

Interest rates on deposits of households and deposits of non-financial corporations remained at 1.5% and 1.2% respectively.

⁴ Reserve maintenance period in question refers to the period from 28.02.2017 to 30.03.2017.

⁵ Interest rates on loans and deposits refer to new business. For further information regarding the calculation of average interest rates on loans and deposits refer to the NBP website at http://www.nbp.pl/homen.aspx?f=en/statystyka/oproc/mir_new/mir_new.html. Starting from data for July 2016 the MIR reporting population has been extended from 16 to 25 banks.

Chart 2.1 Interest rates on the inter – bank versus basic interest rates of the NBP

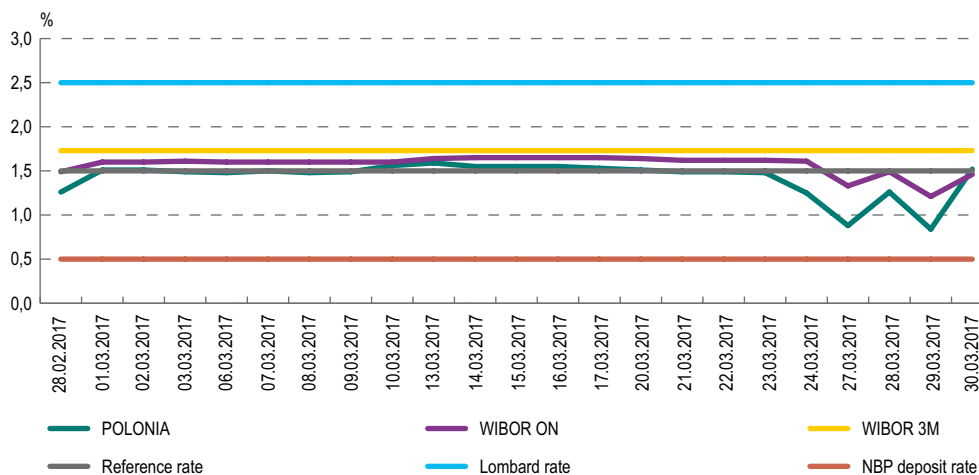
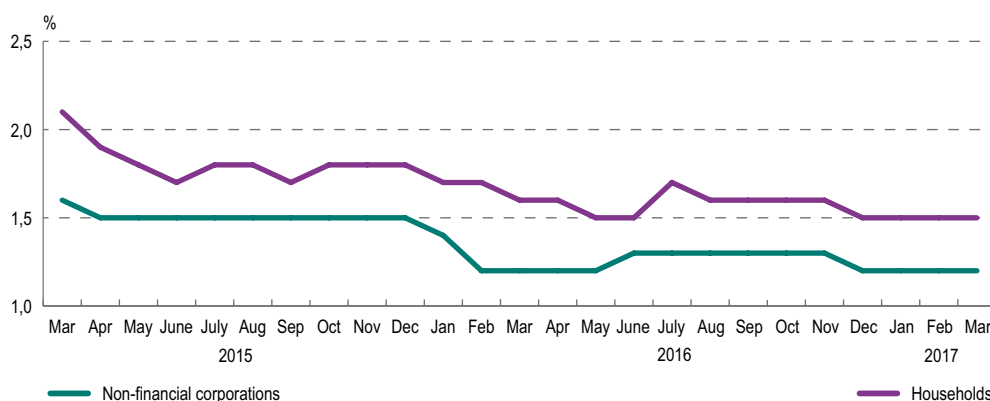


Chart 2.2 Average MFI deposit interest rates on new business, PLN denominated



In March 2017, the value of M3 decreased by PLN 0.5 billion (0.04%) and stood at PLN 1 253.4 billion. Its annual growth rate decreased by 0.4 percentage points and stood 7.8% y/y. The value of monthly transactions amounted to PLN 2.6 billion.⁶

Components of the M1 aggregate with high liquidity decreased by 0.7 percentage points and stood at 14.9% y/y. Other components of broad money remained at minus 3.1% y/y.

⁶ Monthly transactions are calculated as the difference in outstanding amounts between two subsequent reporting months adjusted for changes arising from non-transactions, i.e. exchange rate changes, revaluations, reclassifications and other adjustments such as errors in data reported by banks. The methodology for the compilation of transactions is described in http://www.nbp.pl/en/statystyka/m3/Statystyka-transakcji-metodyka_EN.pdf.

Chart 2.3 Average MFI loan interest rates on new business, PLN denominated

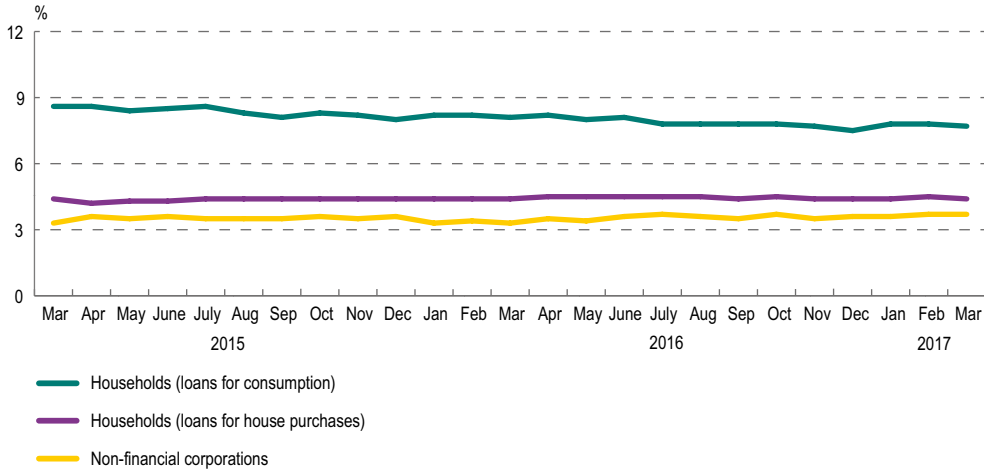


Chart 2.4 Share of currency in circulation and overnight deposits of domestic residents in M3, M1 and 'M3-M1' growth (corresponding period of the previous year = 100)

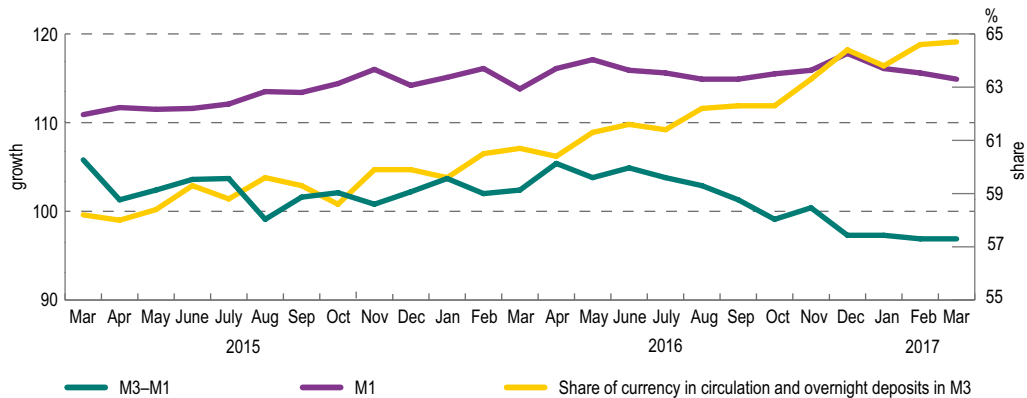


Chart 2.5 Share of currency in circulation in M1

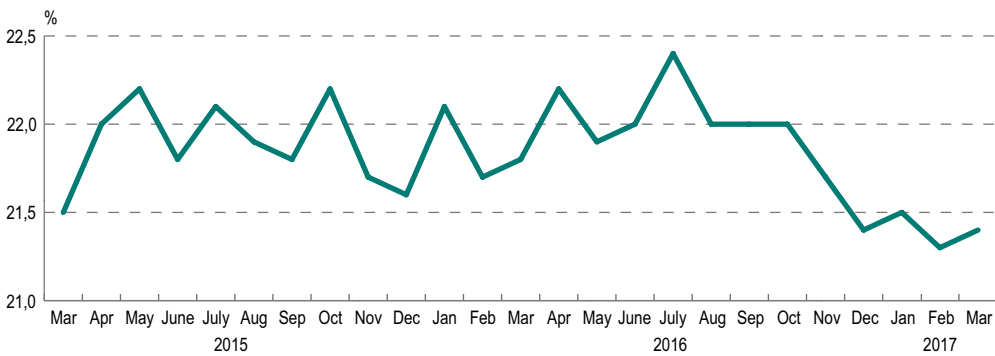


Chart 2.6 Deposits and other liabilities of MFIs to non-financial corporations and households included in M3 (corresponding period of the previous year = 100)

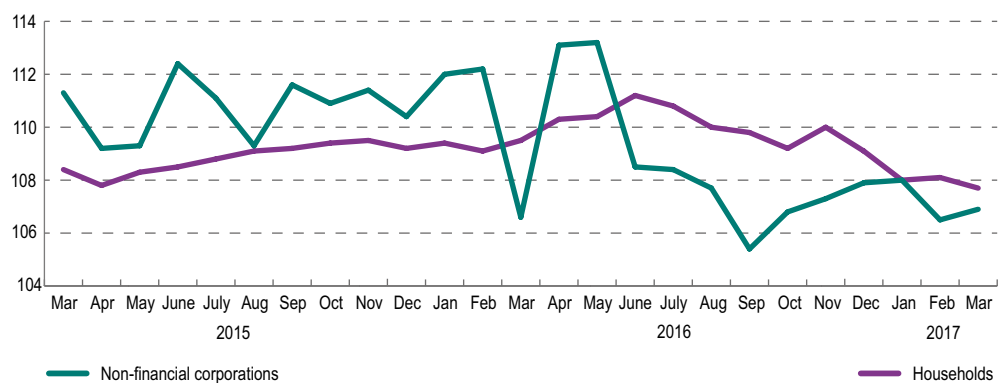
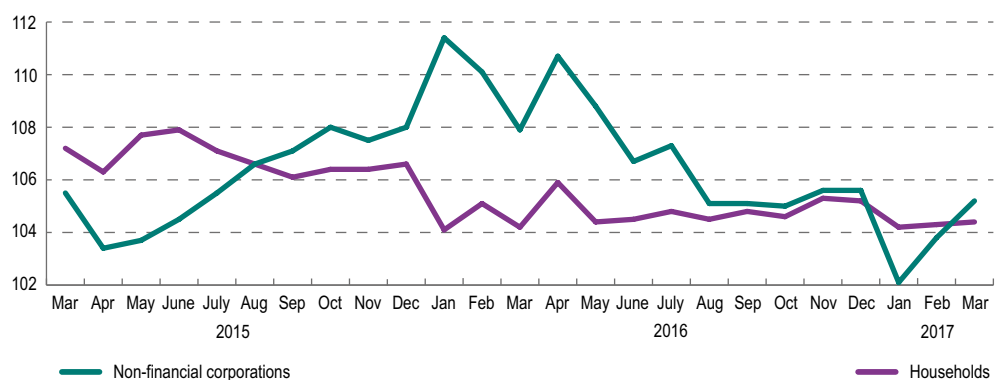


Chart 2.7 MFI loans and other claims on non-financial corporations and households (corresponding period of the previous year = 100)



In March 2017 currency in circulation increased by PLN 0.7 billion (0.4%) and stood at PLN 173.2 billion. Its annual growth rate decreased by 0.8 percentage points and amounted to 12.5% y/y.

M3 liquidity measured as the share of currency in circulation and overnight deposits in M3 went up by 0.1 percentage points and stood at 64.7%.

M1 liquidity measured as the share of currency in circulation in M1 went up by 0.1 percentage points and amounted to 21.4%.

Deposits and other liabilities included in M3 decreased in March 2017 by 2.2 billion (0.2%) and reached the level of PLN 1 070.1 billion. Monthly transactions decreased by 0.5 percentage points and stood at 6.9% y/y. Decrease was reported in deposits of non-financial corporations (PLN 3.9 billion; 1.6%), non-monetary financial institutions (PLN 1.7 billion; 3.6%), social security funds (PLN 0.4 billion, 12.7%) as well as non-profit institutions serving households (PLN 0.1 billion, 0.6%). Increase was reported in deposits of local government (PLN 2.6 billion; 7.0%) and households (PLN 1.4 billion; 0.2%).

Chart 2.8 Bank loans to households (corresponding period of the previous year = 100)

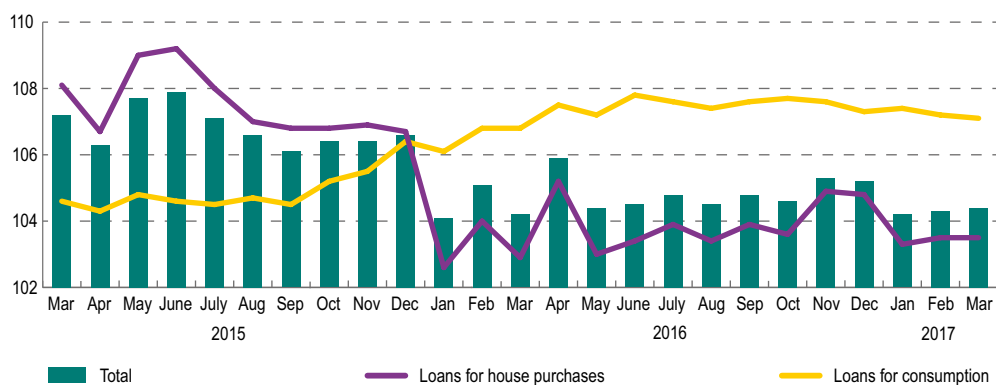
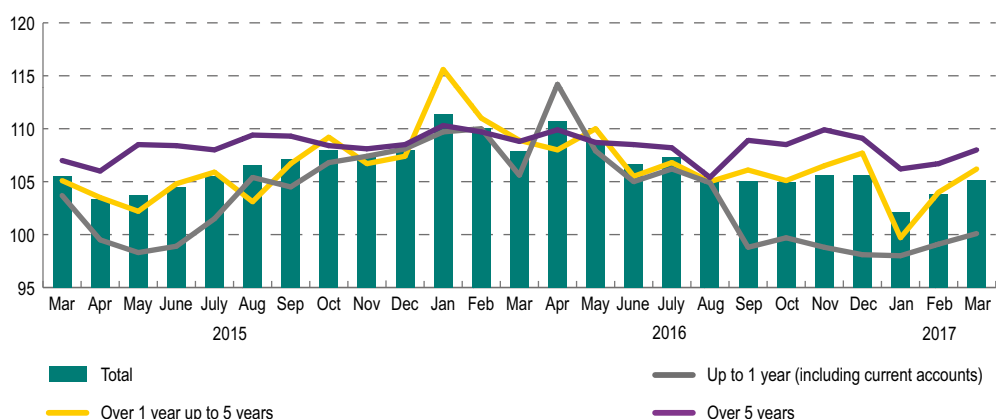


Chart 2.9 Bank loans to non-financial corporations (corresponding period of the previous year = 100)



Among counterparts to M3, decrease in external assets net (PLN 9.6 billion i.e. 4.0%) as well as credit to central government net (PLN 0.9 billion i.e. 0.4%) negatively contributed to money supply. Decrease in long term loans (PLN 7.7 billion, 2.0%)⁷ and increase in MFI credit to domestic sectors⁸ (PLN 2.9 billion i.e. 0.3%) contributed to an increase in money supply.

MFI⁹ credit to non-financial corporations increased by PLN 1.7 billion (0.5%) and reached PLN 320.3 billion. The value of monthly transactions amounted to PLN 3.8 billion. The annual growth rate in credit to non-financial corporations went up by 1.4% and stood at 5.2%. Loans with maturity from 1 up to 5 years went up by 6.2%, loans with maturity over 5 years

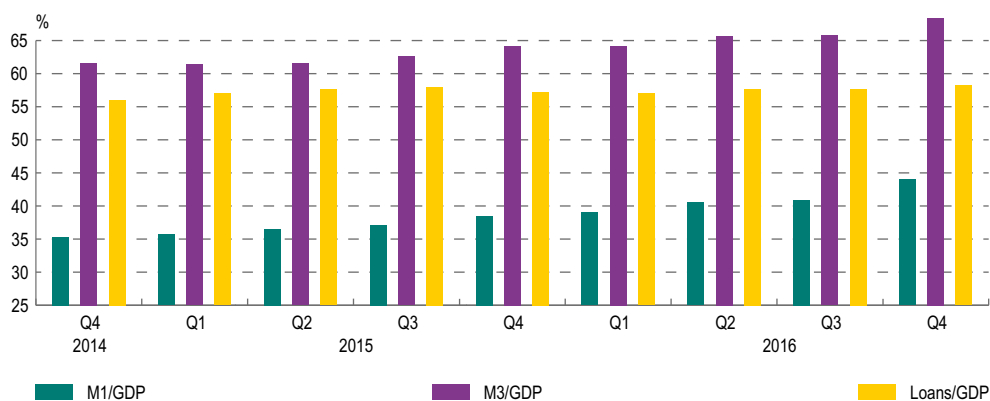
⁷ Long term loans comprise deposits and other liabilities with maturity over 2 years MFI securities issued with maturity over 2 years as well as capital and reserves.

⁸ The category "credit" comprises loans, holdings of debt and equity securities, and other receivables, e.g. debt purchased, guarantees and warranties.

Domestic sectors include non-monetary financial institutions, non-financial corporations, non-profit institutions serving households, local government and social security funds.

⁹ Except credit against securities issued.

Chart 2.10 Share of monetary aggregates and MFI loans and other claims on other domestic residents in GDP



increased by 8.0% and loans with maturity up to one year (including overdrafts) remained at the level reported in the previous year.

MFI credit to households decreased in March 2017 by PLN 1.2 billion i.e. 0.2% and stood at PLN 664.6 billion as a result of appreciation of the domestic currency against foreign currencies. Monthly transactions amounted to PLN 3.3 billion. Annual growth of credit to households increased by 0.1 percentage points and stood at 4.4%. Growth of housing loans stood at 3.5% y/y. The growth in consumer loans stood at 7.1% y/y.

According to data for Q4 2016, the monetization of national economy increased. The M1 to GDP ratio increased by 3.1 percentage points and stood at 44.0% and the M3 to GDP ratio went up by 2.5 percentage points and stood at 68.3%. Credit to domestic sectors to GDP ratio increased by 0.4 percentage points and stood at 58.1%.

In March, the nominal exchange rate of the zloty¹⁰ appreciated by 2.2% against EUR, 3.2% against USD, 2.6% against CHF and 2.9% against GBP.

¹⁰ Exchange rate changes between end-February 2017 and end-March 2017 are calculated as the difference between end-month average exchange rates quoted by NBP.

Balance of Payments in Poland in March 2017

Components of monthly bop are estimated based on monthly and quarterly information reported by residents involved in transactions with non-residents, public statistics surveys as well as administrative data sources.

This version of bop is preliminary and may be subject to further revisions.

3.1 The Current and Capital Account

Current account in March 2017 was negative and amounted to PLN 3.2 billion. It was influenced by negative balance of primary income (PLN 6.5 billion), trade in goods (PLN 0.9 billion) and secondary income (PLN 0.2 billion) as well as positive balance of services (PLN 4.4 billion). In the corresponding period of 2016 current account balance was also negative and stood at PLN 0.9 billion. Total balance of current and capital account was negative and amounted to PLN 1.9 billion.

In March 2017 exports of goods was estimated at PLN 76.4 billion while imports was estimated at PLN 77.3 billion. Exports were higher by PLN 9.9 billion, i.e. 14.9% and imports increased by PLN 12.3 billion, i.e. 18.9% when compared with the corresponding period of 2016. Negative trade in goods balance stood at PLN 0.9 billion. In March 2016 it was positive and amounted to PLN 1.4 billion.

Exports of services was estimated at PLN 15.4 billion, up by PLN 1.8 billion, i.e. 12.9% when compared with March 2016. Imports stood at PLN 11.0 billion which means an increase by PLN 1.1 billion, i.e. 10.8%. Positive balance of services stood at PLN 4.4 billion and was influenced by positive balance on transportation (PLN 1.7 billion), other services (PLN 2.0 billion) and travel (PLN 0.7 billion).

In March 2017, the primary income balance was negative and amounted to PLN 6.5 billion. In the corresponding period of 2016 this balance was also negative and stood at PLN 5.4 billion. Negative balance of primary income resulted mostly from negative balance on investment income (PLN 5.8 billion). Foreign direct investors income on their capital involvement in Polish companies amounted to PLN 5.3 billion (of which: reinvested earnings amounting to PLN 2.9 billion, dividends PLN 1.5 billion and interest on debt instruments PLN 0.9 billion). Negative balance of investment income was also influenced by non-residents income from portfolio investment (PLN 1.2 billion) as well as interest due to other debt instruments reported in other investment (PLN 0.7 billion), mostly due to loans received by Polish entities.

In the capital account the inflow of EU funds (PLN 1.5 billion) against European Regional Development Fund amounted to PLN 0.8 billion and funds against Cohesion

Balance of payments (PLN million)

	2016	2017		Cumulated data ^b	
	March	February ^a	March ^a	Apr 2015 – Mar 2016	Apr 2016 – Mar 2017 ^a
Current account	-920	-3 545	-3 167	-13 886	-155
Balance on goods	1 448	-2 167	-936	7 019	2 106
Goods: exports	66 493	65 478	76 391	729 873	790 507
Goods: imports	65 045	67 645	77 327	722 854	788 401
Balance on services	3 763	4 880	4 455	47 909	62 123
Services: Credit	13 666	14 806	15 431	173 779	197 562
Services: Debit	9 903	9 926	10 976	125 870	135 439
Balance on primary income	-5 398	-6 295	-6 486	-66 729	-62 693
Primary income: credit	4 029	2 594	2 522	42 663	55 054
Primary income: debit	9 427	8 889	9 008	109 392	117 747
Balance on secondary income	-733	37	-200	-2 085	-1 691
Secondary income: credit	1 783	2 208	1 825	24 791	24 768
Secondary income: debit	2 516	2 171	2 025	26 876	26 459
Capital account	221	776	1 265	37 851	11 351
Capital account: credit	396	933	1 408	40 833	14 341
Capital account: debit	175	157	143	2 982	2 990
Financial account	-3 754	-3 152	-5 208	-1 592	1 265
Direct investment – assets	5 390	1 707	3 646	13 710	33 565
Equity and investment fund shares	998	121	548	8 500	20 001
Debt instruments	4 392	1 586	3 098	5 210	13 564
Direct investment – liabilities	6 048	3 922	996	53 461	42 862
Equity and investment fund shares	3 711	5 821	5 143	45 569	35 598
Debt instruments	2 337	-1 899	-4 147	7 892	7 264
Portfolio investment – assets	-1 386	2 408	1 815	32 887	-15 454
Equity securities	-1 354	1 554	68	29 851	-20 976
Debt securities	-32	854	1 747	3 036	5 522
Portfolio investment – liabilities	1 717	2 199	8 621	-4 359	27 297
Equity securities	760	445	340	17 328	-10 661
Debt securities	957	1 754	8 281	-21 687	37 958
Other investment – assets	733	282	6 437	5 878	15 654
Monetary authorities	0	-471	185	2	2
General government	43	6	0	-59	856
MFIs	-678	-957	3 638	-9 262	7 300
Other sectors	1 368	1 704	2 614	15 197	7 496
Other investment – liabilities	-2 049	-10 441	11 771	11 209	22 131
Monetary authorities	-262	-11 988	6 212	14 646	26 336
General government	-2 697	-29	-546	-2 084	1 769
MFIs	650	-740	5 335	-1 382	-12 927
Other sectors	260	2 316	770	29	6 953
Financial derivatives	-257	-201	-236	-2 223	-345
Official reserve assets	-2 518	-11 668	4 518	8 467	60 135
Net errors and omissions	-3 055	-383	-3 306	-25 557	-9 931

^a Preliminary data.^b Cumulated data presented as 12-month moving data.

Fund amounted to PLN 0.6 billion. In March 2017, balance on EU transfers was positive and stood at PLN 0.1 billion.

3.2 Financial Account

Non-resident investment in Poland (liabilities)

In March 2017 non-residents' investment went up by PLN 21.4 billion.

Resident's liabilities against direct investment increased by PLN 1.0 billion. This balance was influenced by positive reinvestment of earnings standing at PLN 2.9 billion and increase in non-residents' assets against equity, up by PLN 2.3 billion. Resident's liabilities on debt securities went down (outflow of capital) by PLN 4.2 billion.

Balance on portfolio investment was positive and stood at PLN 8.6 billion, of which non-resident investment in Treasury bonds issued on domestic market amounted to PLN 8.6 billion, which compensated a decrease in liabilities against debt securities issued on external markets (PLN 1.0 billion). Non-resident investment in equity securities stood at PLN 0.3 billion net.

Balance of other non-resident investment in Poland was positive and stood at PLN 11.8 billion. This item has been mostly influenced by an increase in liabilities of NBP by PLN 6.2 billion (mainly due to repo transactions). Liabilities of the banking sector went up by PLN 5.3 billion (mostly due to currency and deposits). Liabilities of other sectors increased by PLN 0.8 billion (mainly due to other loans received) while liabilities of the government sector decreased by PLN 0.5 billion for the same reason.

3.3 Polish investment abroad (assets)

In March 2017, balance on Polish investment abroad was positive (increase in assets) and stood at PLN 16.2 billion.

Direct investment assets recorded an increase (outflow of capital) by PLN 3.6 billion, mainly in debt instruments.

Residents, mainly investment funds, increased their external assets under portfolio investment by PLN 1.8 billion, mostly in debt securities.

Balance on other investment was positive and stood at PLN 6.4 billion. External assets of the banking sector went up by PLN 3.6 billion (in loans extended by PLN 1.8 billion as well as currency and deposits by PLN 1.3 billion). Other sectors increased their assets under other investment by PLN 2.6 billion (trade credits extended).

NBP's own transactions and NBP client transactions resulted in an increase in the value of reserve assets by PLN 4.5 billion. Official reserve assets at the end of March 2017 amounted to PLN 441.8 billion.

Chapter 4

KEY DECISIONS OF THE MONETARY POLICY COUNCIL

Resolution of the Monetary Policy Council No 6/2016 of 20 December 2016 on approving the NBP's Financial Plan for 2017.