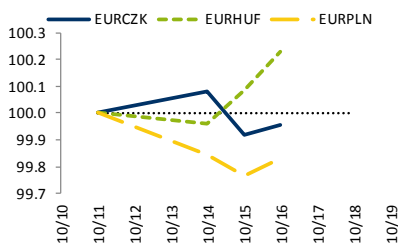




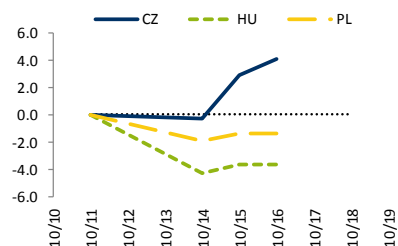
Wednesday, 16 October 2019

Forex markets (index)



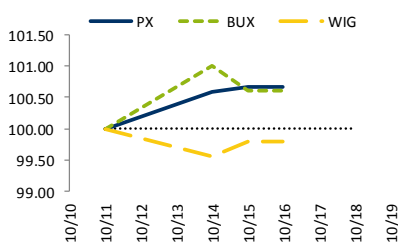
	LAST	PREVIOUS	CHANGE (%)
EURCZK	25.79	25.78	0.04
EURHUF	332.6	332.1	0.14
EURPLN	4.294	4.291	0.07

Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	1.289	1.277	1.2
HUGB 10Y	1.97	1.97	0.0
PLGB 10Y	1.98	1.98	0.0

Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	1020.4	1020.4	0.00
BUX	40578	40578	0.00
WIG	56782	56782	0.00

Our regional insights:

Another four years for PiS government in Poland

When the Law and Justice (PiS) party surprisingly won an absolute majority of seats in the 2015 Polish parliamentary election and began implementing its Christian-social programme, it was a shock to many. Those caught by surprise included leading credit rating agency S&P, which was so frightened that it quickly downgraded Poland's rating in early 2016.

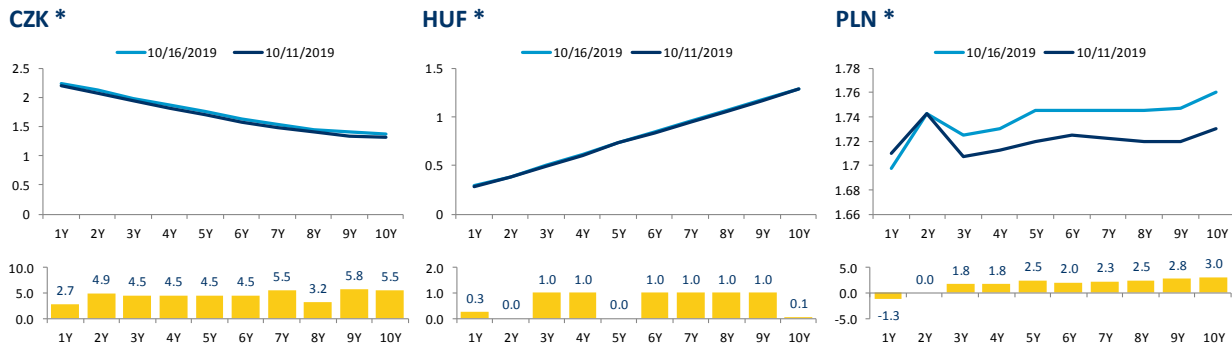
It is 2019 now and Law and Justice has won an absolute majority in the key lower parliamentary chamber again. This time, however, nobody is going to downgrade Poland's credit ratings and the Polish zloty has even been strengthening in response to the election result. A sceptic might say that the market is glad that nationally-oriented PiS's victory was less overwhelming than expected in the end, so the new government's room for manoeuvre will be limited. Not only did the ruling party fail to secure a constitutional majority (2/3 of seats) but it also lost the upper chamber (Senat) and it failed to win the three-fifths majority in Sejm needed to potentially override the president's veto. In this respect, next presidential elections scheduled for spring 2020 could be really interesting.

However, an optimistic view of the prospect of another four years of PiS in government is based on positive experience from the past four years, in which the Polish economy, from a macroeconomic perspective, experienced fantastic times. Thanks to GDP growth of 4.5% a year, real convergence has gathered unbelievable momentum as GDP per capita expressed in euros has increased by 24% in the past electoral term. Moreover, the strong growth under PiS's government has been going hand in hand with a dramatic decrease in the unemployment rate, which is now at its all-time low (3.4%) so Poland suffers from a lack of people in the labour market just like the other economies in the region. All of that has happened with steadily low inflation and an almost perfect balance of payments.

Naturally, an inflow of EU transfers – most importantly from structural funds – has been an integral part of the Polish economic miracle of the past four years. In spite of its often tense relations with the European Commission (because of a controversial legislative reform), the PiS government has behaved pragmatically as far as drawdowns of EU funds are concerned and has been able to get EU subsidies amounting to 2–2.5% of GDP a year. This trend will probably continue.

Of course, not everything was perfect from the macro side. A reduction of the retirement age or expected huge hikes in the minimum wage (significantly above the regional PEERs) could structurally undermine the Polish economy in a longer run. But this could be a potential problem for a government, which will come after elections in 2023 or even later.

Interest-rate Swap Curves



* upper plot in each panel shows interest swap curve (%), lower plot shows change in interest rates in basis points (against previous Friday).

Calendar

Country	Date	Time	Indicator	Period	Forecast		Actual		Consensus		Previous	
					m/m	y/y	m/m	y/y	m/m	y/y	m/m	y/y
CZ	10/16	9:00	PPI	%	09/01/2019		0.1	1.9	0.1	1.9	0.1	2.1
PL	10/16	14:00	Core CPI	%	09/01/2019				0.1	2.3	0.2	2.2
PL	10/17	10:00	Wages	%	09/01/2019				-0.3	7.1	-1.1	6.8
PL	10/18	10:00	Industrial output	%	09/01/2019				9.8	5.0	-6.0	-1.3
PL	10/18	10:00	PPI	%	09/01/2019				0.3	0.5	0.2	0.7

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