Another year with a double-digit growth in leasing

This week

- **The first round of presidential elections in France will take place on Sunday.** The latest polls indicate similar support for the four main candidates (E. Macron, M. Le Pen, F. Fillon, J-L. Melenchon) with a slight advantage of E. Macron and M. Le Pen over the remaining candidates. We believe that currently the most likely scenario of E. Macron and M. Le Pen going to the next round with a similar support for the two candidates will not have a substantial impact on the market sentiment. However, global risk aversion may increase, if the polls to be released towards the end of the week indicate further increase in the support for the left-wing candidate, J-L. Melenchon, to the level of E. Macron and M. Le Pen who are leading in the polls. The publication of such polls will be conducive to a decrease in EURUSD rate, increase in EURPLN rate, and higher yields on Polish bonds.
- **The update of Poland's rating by S&P is scheduled for Friday.** Last December, the agency changed the outlook from negative to stable. In the justification of the decision, S&P pointed to reduction in concerns over limitation of credibility of key public institutions, most importantly of central bank's independence. The agency indicated at the same time that in its view the prospects of public finance had not deteriorated in medium term despite slower economic growth (see MACROmap of 12/12/2016). However, it should be pointed out that the agency's December projection did not factor in the GDP data for Q3 2016 published few days before, which pointed to a significant slowdown of economic growth. S&P did not also fully address the negative impact of lowering of retirement age on the deficit and the debt of the general government due to the then unfinished legislative process. We believe that the S&P macroeconomic projection to be published this week will take these factors into consideration. Thus, it is likely that the general government deficit and debt profiles will be revised upwards. Our base scenario assumes that the agency will keep Poland's rating unchanged at BBB+ with a stable outlook. However we do not rule out the materialization of an alternative scenario whereby S&P, taking into consideration the negative impact of reduced retirement age on the public finances, will again change Poland's rating outlook to negative. The agency decision will be published after the closing of the markets, therefore the reaction of the foreign exchange market and the debt market to this decision will materialize no sooner than next week.
- **The April results of business surveys for major European economies will be released on Friday.** We expect that PMI Composite for the Eurozone dropped to 56.0 pts in April vs. 56.4 pts in March. The index dropped given deterioration in both Germany and France. Our forecasts of business survey results for major European economy are below the consensus, therefore their publication will be conducive to a slight strengthening of PLN and a rise in prices of Polish bonds, we believe.
- **Significant hard data on US economy and business survey results will also be released this week.** We forecast that industrial production increased by 0.4% MoM in March vs. a 0.1% increase in February, due to higher production growth in "utilities" category. We expect that the ongoing recovery in the US real estate market will be confirmed by data on housing starts (1282k in March vs. 1288k in February), building permits (1250k vs. 1216k), and existing home sales (5.56M vs. 5.48M). The results of business surveys for manufacturing will also be released this week. The NY Empire State Index, released yesterday, dropped to 5.2 pts in April vs. 16.4 pts in March. We forecast that Philadelphia FED Index dropped to 24.0 pts in April vs. 32.8 pts in March. We believe that the aggregate impact of data on the US economy on the financial market will be limited.
- **Important data from China were released yesterday.** The economic growth rate in Q1 2017 decreased to 1.3% QoQ in Q1 2017 from 1.7% in Q4 2016 (6.9% YoY vs. 6.8% in Q4). Other monthly data pointed to acceleration in the annual economic growth rate in March. Industrial production rose by 7.6% YoY in March vs. 6.3% in February, retail sales rose by 10.9% YoY vs. 9.5%, and urban investments rose by 9.2% YoY vs. 8.9% in February. The data from China ran

above the consensus which will be conducive to improved market sentiment this week and a strengthening of the emerging currencies, including PLN, we believe.

- **The March data on average wages and employment in the corporate sector in Poland will be released on Wednesday**. We forecast that employment dynamics dropped to 4.5% YoY from 4.6% in February. In turn, the average wage dynamics rose to 4.3% YoY in March vs. 4.0% in February, which was due i.a. to postponed payment of bonuses in mining. Though important for the forecast of private consumption dynamics in Q1, the release of data on corporate wages and employment will be neutral for PLN and the debt market, we believe.
- **Data on the March industrial production and retails sales in Poland will be released on Thursday.** We forecast that output dynamics rose to 7.1% YoY in March vs. 1.2% in February. In turn, the nominal retail sales growth rate rose to 9.4% YoY in March vs. 7.3% in February, we believe. Conducive to higher growth rate of the two indicators were mainly the favourable calendar effects. If the output and sales dynamics stand at the levels we have forecasted, it will confirm the expected by us acceleration in economic growth in Q1 (3.6% YoY vs. 2.7% in Q4 2016). We believe that if our forecasts materialize, the aggregate impact of the data will be neutral for PLN and yields on Polish bonds.

Last week

- **Numerous data from the US economy and business survey results were released last week.** Retail sales decreased by 0.2% in March vs. a 0.3% drop in February. Conducive to higher retail sales dynamics in March was i.a. higher sales growth rate in the automotive branch. Excluding car sales, retail sales have not changed on a monthly basis either in March or in February. The preliminary University of Michigan Index was also released last week and rose to 98.0 pts in April vs. 96.9 pts in March, indicating slight improvement in consumer sentiment. Conducive to the index increase were its higher sub-indices concerning both the assessment of current situation and expectations. We forecast that the annualized GDP growth rate in the US will decrease to 1.3% in Q1 vs. 2.1% in Q4 2016.
- **ZEW index reflecting the sentiment among analysts and institutional investors regarding the economic situation in Germany rose to 19.5 pts in April vs. 12.8 pts in March, thus hitting the highest level since August 2015**. According to the press release, improved sentiment in March was supported by solid data releases regarding the German economy. We forecast that the quarterly GDP growth rate will rise to 0.5% in Q1 2017 vs. 0.4% in Q4 2016.
- **A deficit in current account of EUR 860M was recorded in Poland in February vs. a surplus of EUR 2576M in January.** The decrease in the current account balance was due to lower balances on primary income, goods, secondary income, and services (lower from January by EUR 2261M, EUR 750M, EUR 227M, and EUR 198M respectively). Significantly lower balance on primary income was due to the abatement of the effect of strong inflow of EU funds under the Common Agricultural Policy in January. Export dynamics dropped to 3.8% YoY in February vs. 13.9% in January, and imports dynamics dropped to 9.1% YoY vs. 16.1%. Slower exports and imports growth was due to the statistical effect in the form of unfavourable difference in the number of working days. The balance of payment data for January and February poses an upside risk to our forecast, in which the relation of cumulative current account balance for the last 4 quarters to GDP will decrease to -0.4% in Q1 2017vs. -0.3% in Q4 2016.
- **The Chinese trade balance increased to USD 23.9bn in March vs. USD -9.2bn in January.** At the same time, export dynamics rose to 16.4% YoY in March vs. -1.3% in February and import dynamics dropped to 20.3% YoY vs. 38.1%. The March data support our scenario, in which subsequent months will see recovery in global trade.
- **CPI inflation dropped to 2.0% YoY in March vs. 2.2% in February**. The decline in inflation resulted mainly from lower dynamics of prices in category "food and non-alcoholic beverages”,

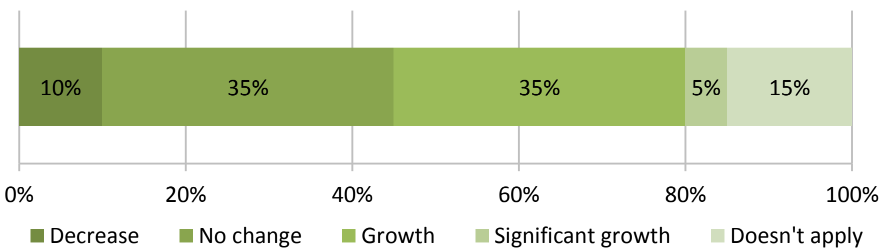
which dropped to 3.1% YoY in March vs. 3.9% in February. Lower price growth rate in this category resulted i.a. from markedly lower prices of imported vegetables caused by the abatement of the impact of unfavourable weather conditions in the south of Europe. Conducive to decline in inflation was also lower dynamics of fuel prices, which dropped to 18.1% YoY in March vs. 21.1% in February. Its decrease was due to the abatement of low base effects from the year before and a decline in fuel prices on a monthly basis in March 2017 (-1.3% MoM). Conducive to higher inflation was higher core inflation which increased to 0.6% YoY in March vs. 0.3% in February. Its growth was largely due to higher price dynamics in the category "recreation and culture”. We expect that inflation in Poland will stabilize in the coming months at a level of ca. 2.0% YoY. In H2 2017, we expect a decline in inflation due to the high base effect for food and fuel prices. Consequently, we expect that inflation will amount to 1.8% on a yearly average in the whole 2017 and thus will run below the inflation target (2.5%).

Another year with a double-digit growth in leasing

Recent years have recorded a dynamic growth in the leasing sector in the segment of light vehicles (passenger cars, delivery vans, and heavy vehicles of weight of up to 3.5t). According to the data of the Polish Leasing Association (ZPL), in 2016, leasing companies financed light vehicles with a total value of PLN 24.4bn (30.9% more than in 2015). The prevailing form of light vehicle financing offered by these companies was leasing (95%), with loans being responsible for the remaining part. 2016 was a fourth consecutive year in which the value of the financed light vehicles was growing at a double-digit rate.

The factor which helped the fast development of the leasing sector in recent years was the improvement in the economic situation. In addition, this period saw some favourable – for the leasing sector – changes in tax legislation. From 1 April 2014, 50% of VAT can be deducted from leasing and operational payments related to cars used by companies and private individuals (excluding VAT on fuel) with no upper limit on these deductions. Before these changes, the value of the deduction amounted to 60% but could not exceed PLN 6k. The lifting of the limit on the amount of the deduction was mainly conducive to increased demand for the financing of vehicles in the premium segment. From 1 July 2015, 50% of VAT can also be deducted from payments for fuel, which has additionally increased interest in leasing.

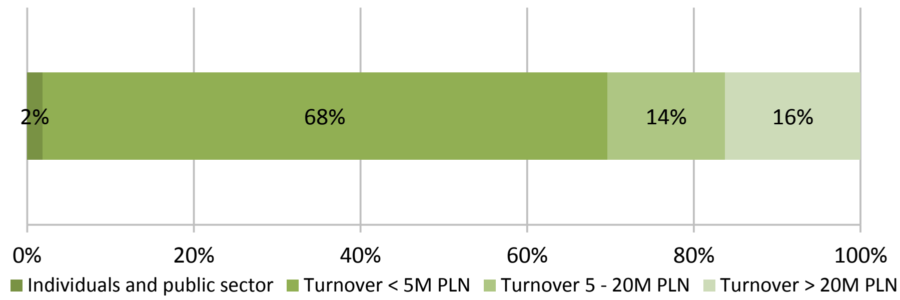
Survey: Expected change in value of leased light vehicles in Q1 2017 compared to Q4 2016 according to leasing companies



Source: ZPL, Credit Agricole

A survey of the leasing sector conducted by ZPL in January 2017 indicates that Q1 has probably seen a further fast increase in the value of the financed light vehicles, as 40% of the surveyed companies' representatives expected the value of the assets they finance to increase in Q1 2017 as compared to Q4 2016. On the other hand, only 10% of the survey participants expected the value of the concluded contracts to decrease.

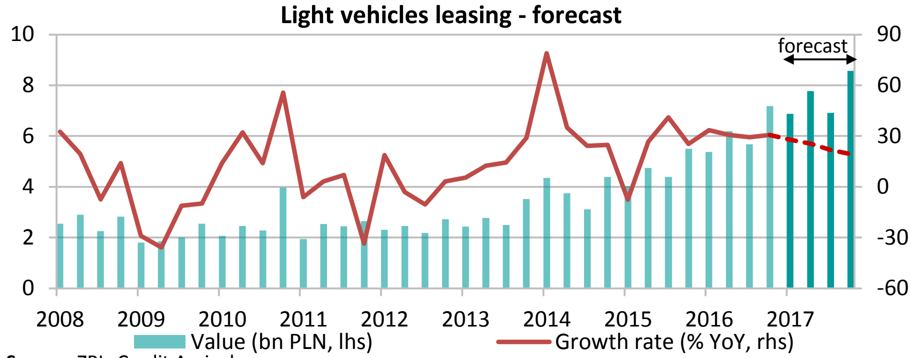
Structure of light vehicles leasing in 2016



Source: ZPL, Credit Agricole

It should be pointed out that the services of the leasing companies in the light vehicle segment are used mainly by microenterprises (companies with turnover of up to PLN 5M), which are responsible for 67.8% of the value of all the leasing agreements. The significance of companies with turnovers between PLN 5 and 20M and companies with turnovers exceeding PLN 20M is similar and amounts to 14.2% and 16.2%, respectively. Individual clients, local government units and state administration are together responsible for a negligible part of the concluded contracts (1.8%). The leasing of light vehicles is an important part of the financing of corporate investments in means of transport. In 2016, the nation-wide leasing in this segment amounted to 162% of the outlays on means of transport incurred by companies employing at least 50 persons (PLN 15.0bn). At the same time, the leasing of light vehicles was responsible for only 16% of total corporate investments between Q1 and Q3 2016.

Light vehicles leasing - forecast

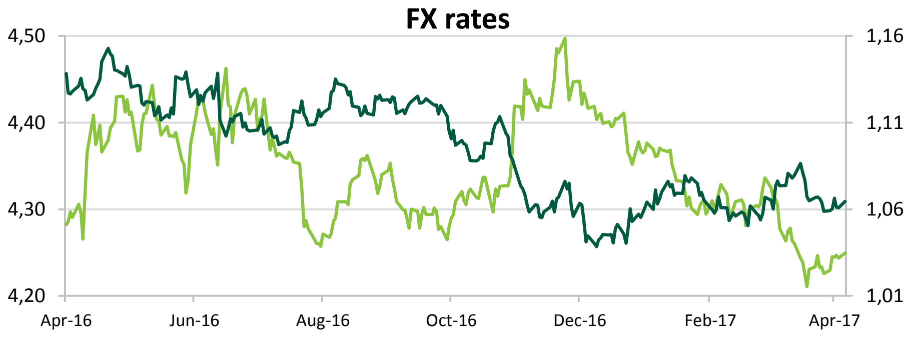


Source: ZPL, Credit Agricole

We have used an econometric model to present the forecast of the leasing sector's activity in 2017. The annual dynamics of the value of financed light vehicles is explained by an annual change in registered unemployment rate, binary variables responsible for one-off changes in legislation, and the moving average processes. The unemployment rate is a good predictive indicator as it signals changes in demand for leasing services in an aggregate manner. On the one hand, its decline usually reflects improvement of sentiment in the corporate sector, which is conducive to higher corporate investments, including investments in means of transport. On the other hand, it indirectly represents the financial situation of households, by signaling changes in individual customers' demand for passenger car financing. The unemployment rate profile in subsequent periods assumed in the model was adopted in accordance with our quarterly forecast (see below). The binary variables included in the model reflect the sharp increase in leasing dynamics resulting from changes in the rules of VAT deductions against passenger cars with heavy duty homologation in Q4 2010 and in Q1 2014 and their decline the year after (high base effect). Based on the model, we estimate that in these two quarters the legislative changes contributed to a temporary increase (and then a decline the year after) in the annual leasing dynamics by ca. 44 percentage points.

According to the econometric model results, the dynamics of the value of new leasing contracts in the light vehicle segment will gradually decrease from 30.6% YoY in Q4 2016 to 19.3% in Q4 2016. The forecasted slowdown in the growth rate of the financed light vehicle value resulted from the expected by us gradual slowdown of the improvement in the labour market as this market will be approaching equilibrium. Another factor limiting the increase in the leasing segment activity will be the full abatement of the above-mentioned favourable effect of changes in the tax legislation in 2015. We expect that in the whole 2017, the value of new leasing contracts in respect of light vehicles will amount to PLN 30.1M. Therefore, the leasing growth rate will run at a high level (23.3% YoY) but will decrease as compared to the one recorded in 2016 (30.9%). Thus, the leasing of light vehicles will be conducive to a slowdown of total corporate investments in 2017. Due to the above-mentioned small weight of leasing in total corporate investments, the impact on the decline in corporate outlays dynamics will be limited (down by 1.2 pp). Therefore, we maintain our forecast of increase in total investments (5.9% in 2017 vs. a 5.5% decline in 2016).

Eurozone business survey results may strengthen PLN

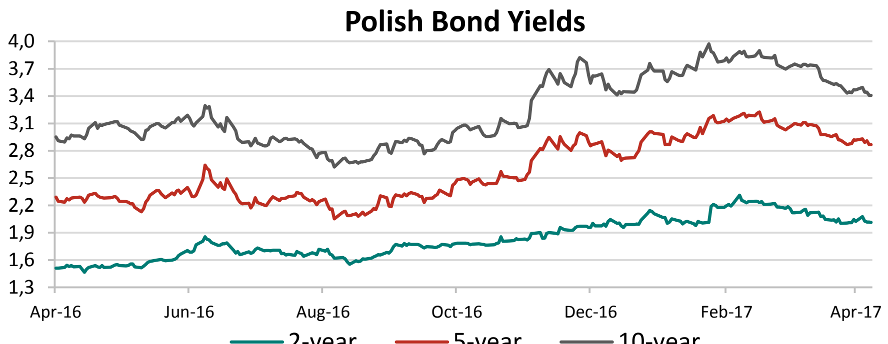


Source: Reuters

Last week EURPLN rate rose to 4.2437 (weakening of PLN by 0.4%). Monday and Tuesday saw a weakening of PLN and other emerging currencies with increase in global risk aversion reflected by higher VIX index. In our view, this was due to increased uncertainty concerning the result of the presidential election in France at the turn of April and May. The Tuesday's data on inflation in Poland had a limited impact on PLN. In the remaining part of the week, EURPLN was relatively stable and stayed within the range of 4.24-4.25. Friday saw a weak strengthening of PLN which may have been caused by smaller investors' activity due to Good Friday.

The data from China released yesterday was above the consensus which we believe will be conducive to improved market sentiment this week and appreciation of emerging currencies, including PLN. Crucial for PLN this week will be the publication of business survey results for major European economies (PMI). If our lower-from-the-market-consensus forecasts materialize, the data may be conducive to a slight strengthening of PLN. Data from the US (industrial production, number of housing starts, new building permits, existing home sales, and Philadelphia FED Index) will be neutral for PLN, we believe. Domestic data on corporate employment and average wages as well as industrial production and retail sales are also likely to have a limited impact on PLN. The publication of presidential polls in France may impact PLN. If the polls indicate further increase in the support for the left-wing candidate, J-L. Melenchon, to the level of E. Macron and M. Le Pen who are leading in the polls, they will be conducive to a higher EURPLN rate, we believe. The Friday's review of Poland's rating by S&P will be released after the closing of the European markets, therefore its impact on PLN will materialize no sooner than next week.

Debt market focuses on S&P decision



Source: Reuters

Last week the yield of Polish 2-year benchmark bonds dropped to a level of 2.013 (down by 1 bp), of 5-year bonds to a level of 2.865 (down by 5 bp), and of 10-year bonds to a level of 3.407 (down by 6 bp). Throughout the week, the yields on Polish bonds stayed within a downward trend following core markets. On Wednesday, D. Trump said that the US currency was too strong and that he would have preferred interest rates to stay low, which was conducive to a further decline in yields on bonds in the US and in Poland. The relatively low volatility of the prices of the Polish debt was also due to smaller activity of investors in view of the approaching Easter.

This week the Polish debt market will focus on the publication of business survey results for major European economies (PMI) scheduled for Friday. We expect that PMIs will run below market expectations and thus may be conducive to a slight increase in prices of the Polish debt. The publication of the data from the US (industrial production, number of housing starts, new building permits, existing home sales, and Philadelphia FED Index) will have a limited impact on yields on Polish bonds, we believe. Domestic data on corporate employment and average wages as well as industrial production and retail sales are also likely to have a limited impact on the yield curve. The publication of presidential polls in France may impact the debt market. If the polls indicate further increase in the support for the left-wing candidate, J-L. Melenchon, to the level of E. Macron and M. Le Pen who are leading in the polls, they will be conducive to a higher yields on Polish bonds, we believe. The Friday’s review of Poland’s rating by S&P will be released after the closing of the European markets, therefore its impact on the Polish debt market will materialize no sooner than next week.

Forecasts of the monthly macroeconomic indicators

Indicator	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17
NBP reference rate (%)	1,50	1,50	1,50	1,50	1,50	1,50	1,50	1,50	1,50	1,50	1,50	1,50	1,50	1,50
EURPLN*	4,24	4,37	4,38	4,38	4,35	4,36	4,29	4,31	4,45	4,40	4,32	4,31	4,23	**4,26**
USDPLN*	3,73	3,81	3,94	3,94	3,90	3,91	3,82	3,92	4,20	4,18	4,00	4,07	3,97	**4,01**
CHFPLN*	3,87	3,97	3,96	4,04	4,02	3,97	3,93	3,96	4,13	4,11	4,04	4,05	3,96	**3,99**
CPI inflation (% YoY)	-0,9	-1,1	-0,9	-0,8	-0,9	-0,8	-0,5	-0,2	0,0	0,8	1,7	2,2	2,0	
Core inflation (% YoY)	-0,2	-0,4	-0,4	-0,2	-0,4	-0,4	-0,4	-0,2	-0,1	0,0	0,2	0,3	0,6	
Industrial production (% YoY)	0,7	5,9	3,2	6,0	-3,4	7,5	3,2	-1,3	3,2	2,2	9,1	1,2	**7,1**	
PPI inflation (% YoY)	-1,9	-1,2	-0,4	-0,8	-0,5	-0,1	0,2	0,6	1,8	3,2	4,0	4,4	**4,7**	
Retail sales (% YoY)	0,8	3,2	2,2	4,6	2,0	5,6	4,8	3,7	6,6	6,4	11,4	7,3	**9,4**	
Corporate sector wages (% YoY)	3,3	4,6	4,1	5,3	4,8	4,7	3,9	3,6	4,0	2,7	4,3	4,0	**4,3**	
Employment (% YoY)	2,7	2,8	2,8	3,1	3,2	3,1	3,2	3,1	3,1	3,1	4,5	4,6	**4,5**	
Unemployment rate* (%)	9,9	9,4	9,1	8,7	8,5	8,4	8,3	8,2	8,2	8,3	8,6	8,5	**8,2**	
Current account (M EUR)	-217	691	1392	-723	-503	-729	-858	-179	-128	-56	2576	-860		
Exports (% YoY EUR)	0,0	4,0	1,4	6,0	-5,3	9,3	3,1	-0,5	5,8	5,2	13,9	3,8		
Imports (% YoY EUR)	0,9	0,0	2,5	0,8	-7,3	10,7	3,5	3,6	6,3	7,1	16,1	9,1		

*end of period

Forecasts of the quarterly macroeconomic indicators

Main macroeconomic indicators in Poland

Indicator	2016				2017				2016	2017	2018
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Gross Domestic Product (% YoY)	3,0	3,1	2,5	2,7	3,6	3,7	3,8	4,1	2,8	3,8	3,4
Private consumption (% YoY)	3,2	3,3	3,9	4,2	3,9	3,6	2,9	2,8	3,6	3,3	3,1
Gross fixed capital formation (% YoY)	-2,2	-5,0	-7,7	-5,8	0,5	4,0	6,8	8,7	-5,5	5,9	10,0
Export - constant prices (% YoY)	6,7	11,4	6,8	8,6	9,2	9,8	12,1	12,5	8,4	10,9	7,3
Import - constant prices (% YoY)	8,7	10,0	7,8	8,5	9,0	10,7	12,7	13,1	8,7	11,4	7,3
GDP growth contributions: Private consumption (pp)	2,0	1,9	2,3	2,1	2,5	2,1	1,7	1,4	2,1	1,9	1,8
GDP growth contributions: Investments (pp)	-0,3	-0,9	-1,4	-1,6	0,1	0,7	1,2	2,2	-1,1	1,1	1,8
GDP growth contributions: Net exports (pp)	-0,7	1,0	-0,3	0,3	0,5	0,1	0,0	0,1	0,1	0,2	-0,6
Current account***	-0,8	-0,5	-0,4	-0,3	-0,4	-0,5	-0,6	-0,7	-0,3	-0,7	-1,2
Unemployment rate (%)**	9,9	8,7	8,3	8,3	8,2	7,2	7,0	7,3	8,3	7,3	7,3
Non-agricultural employment (% YoY)	2,2	2,3	1,5	1,5	1,1	0,8	0,5	0,2	1,9	0,7	0,0
Wages in national economy (% YoY)	3,1	4,3	4,1	3,7	4,1	4,4	4,6	4,8	3,8	4,5	4,8
CPI Inflation (% YoY)*	-0,9	-0,9	-0,8	0,2	2,0	2,0	1,7	1,7	-0,6	1,8	1,5
Wibor 3M (%)**	1,67	1,71	1,71	1,73	1,73	1,73	1,73	1,73	1,73	1,73	1,98
NBP reference rate (%)**	1,50	1,50	1,50	1,50	1,50	1,50	1,50	1,50	1,50	1,50	1,75
EURPLN**	4,24	4,38	4,29	4,40	4,23	4,33	4,23	4,18	4,40	4,18	4,07
USDPLN**	3,73	3,94	3,82	4,18	3,97	4,08	3,92	3,80	4,18	3,80	3,51

* quarterly average
** end of period
***cumulative for the last 4 quarters

Calendar

TIME	COUNTRY	INDICATOR	PERIOD	PREV. VALUE	FORECAST* CA	FORECAST* CONSENSUS**
		Monday 04/17/2017				
4:00	China	GDP (% YoY)	Q1	6,8	7,0	6,8
4:00	China	Retail sales (% YoY)	Feb	9,5	9,4	9,6
4:00	China	Industrial production (% YoY)	Feb	6,3	6,4	6,3
4:00	China	Urban investments (% YoY)	Feb	8,9	8,9	8,8
14:30	USA	NY Fed Manufacturing Index (pts)	Apr	16,4	14,0	15,0
		Tuesday 04/18/2017				
14:30	USA	Housing starts (k MoM)	Mar	1288	1282	1264
14:30	USA	Building permits (k)	Mar	1216	1250	1245
15:15	USA	Industrial production (% MoM)	Mar	0,1	0,4	0,5
15:15	USA	Capacity utilization (%)	Mar	75,9	76,1	76,1
		Wednesday 04/19/2017				
11:00	Eurozone	HICP (% YoY)	Apr	1,5	1,5	1,5
14:00	**Poland**	**Employment (% YoY)**	**Mar**	**4,6**	**4,5**	**4,6**
14:00	**Poland**	**Corporate sector wages (% YoY)**	**Mar**	**4,0**	**4,3**	**4,3**
		Thursday 04/20/2017				
14:00	**Poland**	**Retail sales (% YoY)**	**Mar**	**7,3**	**9,4**	**8,2**
14:00	**Poland**	**PPI (% YoY)**	**Mar**	**4,4**	**4,7**	**4,7**
14:00	**Poland**	**Industrial production (% YoY)**	**Mar**	**1,2**	**7,1**	**7,2**
14:30	USA	Initial jobless claims (k)	w/e	234		245
14:30	USA	Philadelphia Fed Index (pts)	Apr	32,8	24,0	26,9
16:00	Eurozone	Consumer Confidence Index (pts)	Mar	-5,0	-4,6	-4,5
		Friday 04/21/2017				
9:30	Germany	Flash Manufacturing PMI (pts)	Apr	58,3	57,4	58,0
10:00	Eurozone	Current account (bn EUR)	Feb	24,1		
10:00	Eurozone	Flash Services PMI (pts)	Apr	56,0	55,8	55,8
10:00	Eurozone	Flash Manufacturing PMI (pts)	Apr	56,2	55,6	56,0
10:00	Eurozone	Flash Composite PMI (pts)	Apr	56,4	56,0	56,3
15:45	USA	Flash Manufacturing PMI (pts)	Apr	53,3		53,5
16:00	USA	Existing home sales (M MoM)	Mar	5,48	5,56	5,55

*The forecasts of macroeconomic indicators for Poland were prepared by Credit Agricole Bank Polska S.A. The forecasts of foreign indicators were prepared by Crédit Agricole Corporate and Investment Bank
** Reuters

MACRO MAP

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