

# Macroeconomic environment

## Polish economy

Even though Poland currently ranks among the fastest-growing economies in the European Union, the country's economy has already passed the peak of the current business cycle. As a consequence, the coming quarters are expected to bring a gradual slowdown in the rate of growth of Poland's GDP. <sup>7</sup>

- As a result, the average annual rate of economic growth was 5.1% <sup>8</sup> compared to 4.8% in 2017, the highest since 2007;
- In values adjusted for the impact of seasonal factors, GDP increased in Q4 2018 in real terms by 0.5% qoq compared to 1.6% qoq in Q3. <sup>9</sup>

The key factors driving the rate of GDP growth in Poland in 2018 were as follows:

- private consumption, which increased by an average of 4.5% yoy compared to 4.9% yoy in 2017; <sup>10</sup>
- gross fixed capital formation whose rate of growth accelerated to 7.3% yoy from 3.9% yoy in 2017; <sup>11</sup>
- the impact of net exports remained neutral for the rate of GDP growth (having contributed 0.0 p.p. to GDP growth).

<sup>7</sup> Puls Biznesu

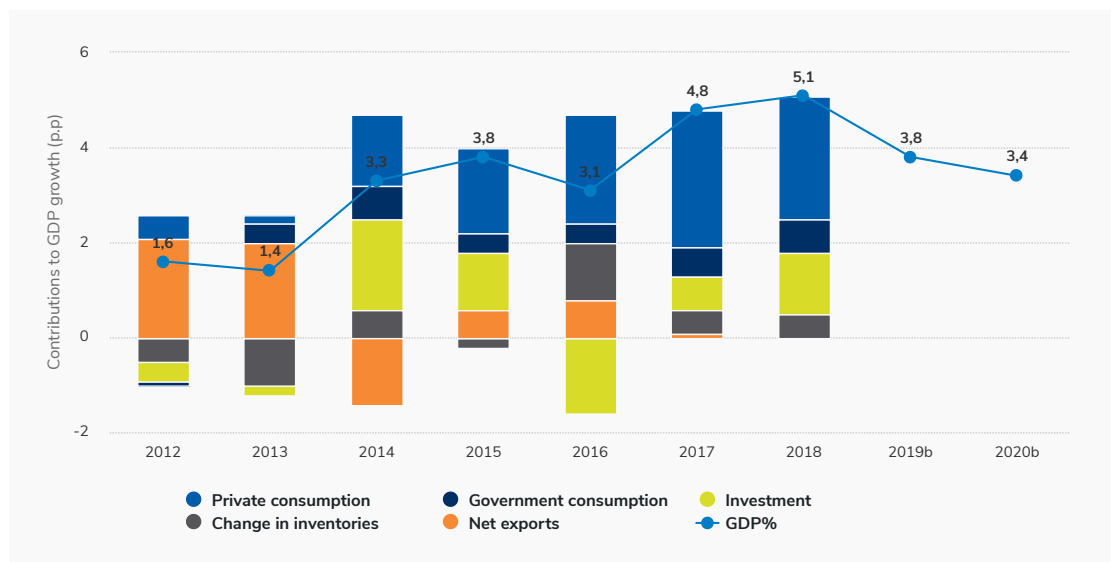
<sup>8</sup> Central Statistical Office of Poland

<sup>9</sup> Central Statistical Office of Poland

<sup>10</sup> Central Statistical Office of Poland

<sup>11</sup> Central Statistical Office of Poland

REAL GDP GROWTH RATE IN POLAND IN 2012-2018, TOGETHER WITH ITS DECOMPOSITION, AND 2019-2020 FORECASTS – DATA NOT ADJUSTED FOR SEASONALITY



Source: Proprietary material based on the data of the Central Statistical Office of Poland and the National Bank of Poland

a – preliminary estimate published by the Central Statistical Office – January 2019

b – median forecast according to the Macroeconomic Survey of the National Bank of Poland – December 2018; data without decomposition

Following the results of the National Bank of Poland's macroeconomic survey ran in December 2018 <sup>12</sup>, economists expect a gradual deceleration of GDP growth in Poland in 2019–2020 (3.8% in 2019 and 3.4% in 2020) caused by the electricity price increases scheduled for 2019–2020 and the forecasted continued decline in the GDP growth rate in the euro area, where the economic recovery reached its local peak in 2017. Symptoms of the decelerating rate of growth of the Polish economy, albeit from a high level, include a lower rate of growth in industrial production, deteriorating consumer sentiments and a decline in the rate of growth in employment in the corporate sector. In the coming quarters, analysts who participated in the survey also expect a gradual acceleration of consumer price inflation (CPI) in Poland to an average level of 2.0% yoy in 2019.

<sup>12</sup> Narodowy Bank Polski

## Czech economy

Seasonally adjusted GDP growth rate in the Czech Republic stabilized in Q3 2018 at the same level that it reached in Q2 and stood at 2.4% yoy, the lowest since the end of 2016. <sup>13</sup> In terms of seasonally unadjusted values, the rate of GDP growth in the Czech Republic dropped from 2.6% yoy in Q2 to 2.4% yoy in Q3 2018. According to the estimates published by the Czech Ministry of Finance, in all of 2018 the average annual GDP growth rate should, in turn, reach 2.8% yoy compared to 4.4% yoy in 2017. <sup>14</sup>

Compared to Q2 2018, a lower rate of growth on a yoy basis was recorded in Q3 for each of the significant components of GDP: private and public consumption, investments and exports. The following factors continued to be advantageous to the rate of economic growth:

- private consumption, whose rate of growth decreased gradually during the year from 4.4% yoy in Q1 to 3.1% yoy in Q3 2018; <sup>15</sup>
- investments, which in Q3 2018 improved by 9.0% yoy (compared to 8.6% yoy in Q2 2018). <sup>16</sup>

On the other hand, what adversely affected the GDP growth in the Czech Republic in Q3 2018 was the balance of foreign trade (net exports).

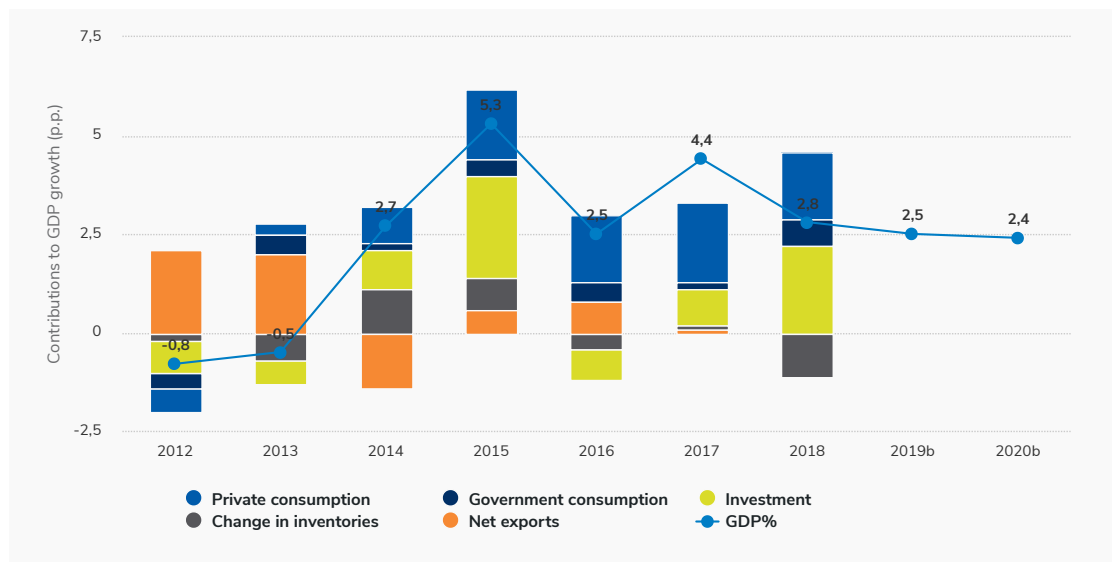
<sup>13</sup> Czech Statistical Office

<sup>14</sup> Czech Republic's Ministry of Finance, seasonally adjusted data

<sup>15</sup> Czech Statistical Office

<sup>16</sup> Czech Statistical Office

REAL GDP GROWTH RATE IN THE CZECH REPUBLIC IN 2012-2017, TOGETHER WITH ITS DECOMPOSITION, AN ESTIMATE FOR 2018, WITH ITS DECOMPOSITION, AND 2019-2020 FORECASTS – DATA NOT ADJUSTED FOR SEASONALITY



Source: Proprietary material based on data from the Czech Statistical Office and the Czech Republic's Ministry of Finance

a – Estimate of the Czech Republic's Ministry of Finance – January 2019, data with estimated decomposition

b – Forecast of the Czech Republic's Ministry of Finance – January 2019, data without decomposition

In the coming quarters one should expect a gradual decrease in the GDP growth rate in the Czech Republic to the average level of 2.5% yoy in 2019 and 2.4% yoy in 2020. <sup>17</sup> The major factor of the economic growth will remain to be domestic demand, including in particular consumption of households as well as capital expenditures of private and public companies. On the other hand, what will affect adversely the GDP growth rate is net exports, whose contribution to the growth will remain negative. <sup>18</sup> Analysts from the Czech Ministry of Finance also forecast that in 2019, the rate of consumer price inflation (CPI) will remain stable at the 2018 level, amounting on average to 2.1%, followed by a decrease to the level of 1.6% in 2020.

<sup>17</sup> Czech Republic's Ministry of Finance

<sup>18</sup> Czech Republic's Ministry of Finance

## Industry in Poland

In 2018, total industrial production sold<sup>19</sup> was at the average level of 5.8% yoy, which is lower than in 2017 (+6.2% yoy). In Q4 2018, the industrial sector in Poland grew at the average rate of +5.4% yoy compared to +5.3% yoy in Q3. The end of the year, however, brought a strong deterioration of the economic situation in the sector and the growth rate of industrial production adjusted by the number of business days in December was at a level of 3.1% yoy, which is the lowest from December 2016.<sup>20</sup>

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Among the most significant branches of industry, owing to the specific nature of the PKP CARGO Group's transport services, the highest growth in industrial output sold in 2018 was recorded in the production of: metal products (+9.7% yoy), coke and refined petroleum products (+9.3% yoy), products made from other mineral non-metallic raw materials (+8.2% yoy), wood and wood products (+6.4% yoy), metals (+3.7% yoy) and chemicals and chemical products (+3.0% yoy). Compared to the first 9M of 2018, though, most of these industries recorded a lower growth rate yoy in Q4 of year. At the same time, in 2018, a decrease in the output sold by -0.2% yoy was recorded for the hard coal and lignite mining industries.<sup>21</sup>

Compared to 9M 2018, the economic situation in the industrial sector deteriorated in Q4 2018, as evidenced by the following selected observations:

- a strong decrease in PMI (Purchasing Managers' Index), a business tendency indicator, which in Q4 was 49.2 points compared to 51.6 points in Q3 and 53.9 points in H1 2018. The level of index below the threshold of 50.0 points was simultaneously tantamount to technical recession in the industrial processing sector. In December 2018, PMI was 47.6 points, i.e. it had been at the lowest level since April 2013, when the Polish economy faced a high economic slowdown;<sup>22</sup>
- deterioration of the overall business climate indicator in the industrial sector calculated by the Central Statistical Office of Poland down to an average level of 5.4 points in Q4 (from 10.3 points in Q3 and 16.2 points in H1 2018).<sup>23</sup>

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<sup>19</sup> enterprises employing more than 9 persons

<sup>20</sup> Central Statistical Office of Poland

<sup>21</sup> Central Statistical Office of Poland

<sup>22</sup> Markit IHS

<sup>23</sup> Czech Statistical Office

Other factors significantly affecting the condition of the industries of key importance from the PKP CARGO Group' point of view in Q4 and in the whole of 2018 included:

### Mining industry

- tons in 2016). In Q4 2018, a decrease in the coal output by 3.0% yoy down to the level of 16.1 million tons, primarily because of December, which was a month with certainly the lowest production in 2018 (a decrease of -5.2% yoy). In last year's December, the absolute production of the raw material (4.7 million tons) reached probably the lowest level in history;<sup>24</sup>
- a systematic decline in the sales of hard coal yoy continuing from the summer of 2017 (except for the period July-August 2018). In 2018, the sales fell by 3.8 million tons yoy, i.e. by 5.7% yoy (it was 62.5 million tons compared to 66.3 million tons the year before and 73.1 million tons in 2016). Sales of hard coal w December 2018 reached the lowest level from February 2015 (4.8 million tons);<sup>25</sup>
- an increase in the level of inventories stockpiled in storage yards – as at the end of 2018, the inventories were 2.4 million tons compared to 1.7 million tons at the end of December 2017 and 1.5 million tons in January 2018. In December 2018, the amount of coal in storage yards was higher by 58.2% than in January 2018;<sup>26</sup>
- increase in hard coal imports in the first 11 months of 2018 by 60.2% yoy to 17.9 million tons, predominantly from Russia (+64.9% yoy to 12.4 million tons);<sup>27</sup>
- increase in the average annual coal price in ARA ports up to USD 92.4/t in 2018 from USD 84.2/t in 2017 (+9.6% yoy). In Q4 2018, the average ARA coal price fell by -0.4% yoy and -6.1% qoq down to USD 92.9/t;<sup>28</sup>
- an increase in the average annual values of indices for commercial and industrial power industries in Poland in 2018. Hard coal for power industry was on average more expensive by 16.4% than the year before (PSCMI 1 was PLN 239.51/t, while it was PLN 205.69/t in 2017). Hard coal for heating industry was more expensive year on year by 22.45% (the average value of PSCMI 2 was PLN 294.75/t in 2018, while it was PLN 240.72/t in 2017). Compared to 2016, the index for CHP plants rose by 49.66%). At the same time, Q4 2018 brought stabilization of price ratios for the Polish coal (index for commercial and industrial power industries in Q3 2018 was PLN 243.9/t and in Q4 it rose slightly by 0.5%, reaching PLN 245.2/t);<sup>29</sup>
- increase in the share of hard coal in the national energy mix (+3.2 p.p. yoy in Q4 and in total +1.7 p.p. yoy in the whole of 2018);<sup>30</sup>

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<sup>24</sup> Industrial Development Agency (ARP)

<sup>25</sup> Industrial Development Agency (ARP)

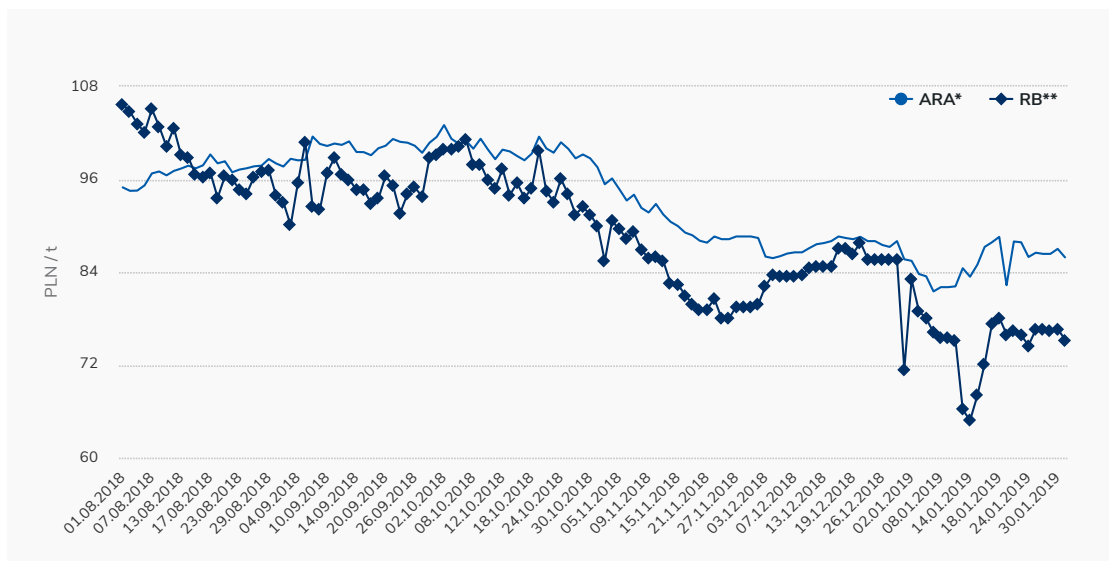
<sup>26</sup> Industrial Development Agency (ARP)

<sup>27</sup> Eurostat

<sup>28</sup> Wirtualny Nowy Przemysł [Virtual New Industry]

<sup>29</sup> Industrial Development Agency (ARP)

<sup>30</sup> Polskie Sieci Elektroenergetyczne

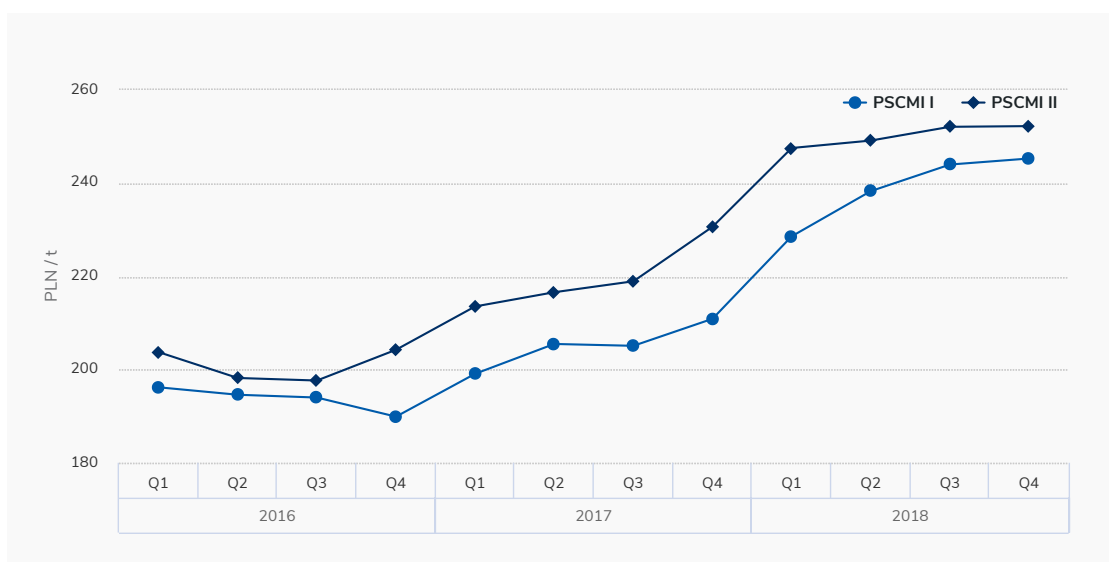


Source: Proprietary material based on Virtual New Industry data

\* ARA – Amsterdam, Rotterdam and Antwerp

\*\* RB – Richards Bay (South Africa)

#### CURRENT AND HISTORICAL VALUES OF COAL PRICE INDICES ON THE POLISH MARKET: POWER INDUSTRY (PSCMI 1) AND HEATING SECTOR (PSCMI 2)



Source: Proprietary material based on the Industrial Development Agency's data

### Construction industry

- a considerable increase in construction and assembly production <sup>31</sup> on average by 17.9% yoy in 2018, compared to a 12.1% growth in 2017. An increase in the construction and assembly production in 2018 was recorded in all the sections of the construction industry (including by 22.0% yoy in companies specializing in building civil and marine engineering facilities, by 18.8% yoy in companies specializing in erecting buildings and by 10.3% yoy in companies performing for the most part specialized construction works); <sup>32</sup>
- dynamic growth of infrastructural investments within the framework of “National Road Construction Program” and the “National Railway Program” coupled with higher spending by local governments on public facilities in the pre-election period. In 2018, construction output in motorways, expressways and streets increased 23.7% yoy, while construction output in rail infrastructure increased 37.0% yoy. <sup>33</sup>

<sup>31</sup> Enterprises employing more than 9 people, Central Statistical Office of Poland

<sup>32</sup> Central Statistical Office of Poland

<sup>33</sup> Central Statistical Office of Poland

## Steel industry

- increase in steel production in the world in 2018 by 78.8 million tons, that is 4.6% yoy;
- a fall in steel production in the European Union in 2018 by 0.3% yoy to the level of PLN 168.1 million tons;<sup>34</sup>
- reduction of the average crude steel production in 2018 by Polish steel mills by -1.9% yoy. At the same time, there was an increase in the volume of hot-rolled products (+3.6% yoy) and an increase in the output of steel pipes (+1.0% yoy). Q4 brought a decreased production for all the steel industry products mentioned above, including crude steel (-0.8% yoy), hot-rolled products (-2.6% yoy) and steel pipes (-2.4% yoy);<sup>35</sup>
- good financial performance of the industry in 2018; an increase in actual revenues from sales of metals to PLN 60.8 billion (+3.7% yoy) and in total revenues from sales of metal products to PLN 104.4 billion (+9.7% yoy). In Q4, revenues of the companies rose by PLN 14.6 billion (+6.3% yoy) and PLN 26.6 billion (+7.7% yoy) respectively;<sup>36</sup>
- an increase in coke production in Poland in 2018 (+0.9% yoy), with a decrease in the production in Q4 (-1.9% yoy);<sup>37</sup>
- in 2018, the Polish economy used a record quantity of steel (about 15 million tons), while demand for steel products in Poland grew by approx. 10% yoy.<sup>38</sup> The major factor that contributed to it was good economic situation in steel-intensive branches of industry, including in particular construction industry, because of large infrastructural investments being performed. Nearly three fourths of the demand were satisfied by imports. For 2019, it is forecasted that further increase in steel consumption will be maintained, with domestic production simultaneously reverting to levels from 2017. The further increase in the demand for steel will be driven mainly by the planned expansion of the network of motorways and expressways as well as investments supporting modernization of railway routes.<sup>39</sup>

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<sup>34</sup> World Steel Association

<sup>35</sup> Central Statistical Office of Poland

<sup>36</sup> Central Statistical Office of Poland

<sup>37</sup> Central Statistical Office of Poland

<sup>38</sup> Metallurgical Chamber of Industry and Commerce

<sup>39</sup> Metallurgical Chamber of Industry and Commerce

## Industry in the Czech Republic

In 2018, industrial production in the Czech Republic increased on average by 3.0% yoy, compared to 6.5% yoy in 2017.<sup>40</sup> The annual growth rate of the industrial sector in the Czech Republic has been thus the lowest since 2013. In Q4 the Czech industrial sector grew at a rate of 3.6% yoy. The growth in output in Q4 was driven chiefly by the industrial processing sector (+3.9% yoy) and, to a lesser extent, by the water, gas and energy supply sector (+3.1% yoy). Compared to the similar period of 2017, however, mining production and extraction of raw materials dropped (-3.1% yoy), especially hard coal and brown coal (-7.2% yoy).<sup>41</sup>

In Q4 2018, volumes of new orders yoy for the industrial sector also rose fastest from the beginning of the year (+4.6% yoy).<sup>42</sup> In the whole 2018, new orders in industry, however, grew at the slowest rate since 2012 (+3.7% yoy), to which the dominant contributing factor was the growth of export orders, the weakest since the global financial crisis in 2009 (+3.9% yoy). The decrease in the number of orders for the industrial sector from abroad was a direct result of the economic slowdown observed in the euro area countries (the main trade partner of the Czech Republic).

A possible deterioration of the standing of the industrial sector in the Czech Republic over the coming months is however suggested by the most recent values of PMI, a business tendency indicator. In Q4 2018, the index fell to the average level of 51.3 points.<sup>43</sup> In December 2018, the index was 49.7, which means that it was, for the first time since July 2016, below the level of 50.0 points.

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The activities of the PKP CARGO Group companies on the Czech market are focused on the transport of hard coal, coke, aggregates and other construction materials as well as intermodal transport (in particular automotive products). As a result, the situation in related sectors of the industry (mining, construction, steel industries and the production of motor vehicles) translates directly into the volume of goods available for transport by the entities of the PKP CARGO Group. In Q4 and the whole 2018, factors significantly affecting the condition of the above industries included:

- continuing downward trend in hard coal output (in 2018, the average decrease by -18.0% yoy to the level of 4.5 million tons);<sup>44</sup>
- a decrease in lignite extraction by -0.4% yoy down to 39.2 million tons (because of, among other things, poor results in Q1 and Q4, i.e. drops by 3.9% yoy and 4.0% yoy respectively);<sup>45</sup>
- a dynamic increase in the output of the steel sector – in 2018, the volume of crude steel output increased 9.1% yoy to 5.0 million tons compared to 4.6 million tons in 2017;<sup>46</sup>
- a very high growth rate in construction and assembly output, which in 2018 increased by 8.4% yoy, which is the highest rate from 2004. In that period, total construction output increased 8.6% yoy and engineering construction output increased 8.0% yoy.<sup>47</sup> At the same time, only in Q4 2018, the growth rate of the construction sector was 4.7% yoy, which is the lowest level from the beginning of the year;
- a further slight growth in output of the automotive sector compared to the historically high levels from 2017 – in 2018, the Czech manufacturers made 1,444.4 thousand vehicles of all types (passenger, trucks, buses and motorcycles), i.e. up 1.6% vs. 2017.

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<sup>40</sup> Czech Statistical Office

<sup>41</sup> Czech Statistical Office

<sup>42</sup> Czech Statistical Office

<sup>43</sup> Markit IHS

<sup>44</sup> Ministry of Industry and Trade of the Czech Republic

<sup>45</sup> Ministry of Industry and Trade of the Czech Republic

<sup>46</sup> Worldsteel.org

<sup>47</sup> Czech Statistical Office