

MACROscope

Polish Economy and Financial Markets

January 2011

Still quite optimistic

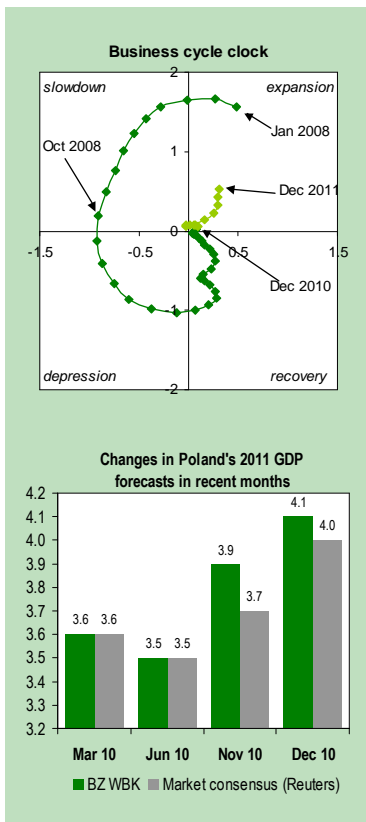
▪ In the New Year's Eve edition of *Parkiet* daily the final results of macroeconomic forecasts' competition in 2010 were presented. We are pleased to inform that our team took the first place with significant advantage over other financial institutions. In all categories (inflation, labour market, demand, and balance of payments) we were in the top three. We also won the competition for best forecasts in 4Q 2010. It is worth to remind that in 2008 we took the second place and in 2009 the third place, and we are the only team, which stayed in the top three for the three consecutive years. Summarising briefly the 2010 forecasts, we have to admit that we were not optimistic enough about the growth in main economic indicators (production, export, sales), although on average we were more optimistic than the others. Almost in all months of 2010, our GDP growth rate forecast was above the market consensus, and looking at our outlook presented one year ago, the biggest positive surprise was the continued improvement of consumption and exports in the second half of 2010.

▪ According to our forecasts, this year's GDP will continue to grow at a rate slightly above 4%, which was topped already in the second half of 2010. We assume that 2011 will see the stabilisation of consumption growth (with further decline in unemployment rate), considerable acceleration in investments, and slowdown in exports due to slower growth of foreign orders (economic slowdown in our major trading partners). On the supply side of the economy, this will mean slightly worse environment for the industry, improved construction sector performance and further upward trend in retail sales (though the temporary effects seen at the end of 2010 will not be recorded).

▪ Faster GDP growth, primarily resulting from higher domestic demand, will contribute to inflation rise, especially given high prices of raw materials on the global markets (and VAT increase). 2010 inflation trends proved to be as expected – decline to 2% in the middle of the year followed by an increase in the second half of the year. In general, year-end inflation was even higher than forecast (though core inflation is low, as expected), which results from higher commodity prices and zloty appreciation of lower scale than expected a year ago. In our view, further growth of CPI inflation will make the Polish Monetary Policy Council to raise interest rates. Contrary to what we had expected, there were no pre-emptive rate hikes in 2010, but we do not change the 2011 year-end forecast (NBP reference rate at 4.5%).

▪ When it comes to financial markets, we expect a scenario similar to that recorded in 2010. We expect zloty strengthening to continue with possible major corrections due to waves of risk aversion and continuation of problems in European debt markets.

As every year, the January MACROscope presents more detailed forecasts for the current year in individual sections on the next pages of the report (table with economic forecasts at the end of the report).



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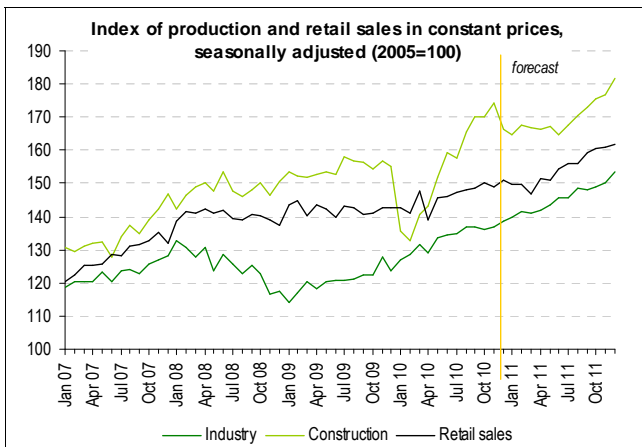
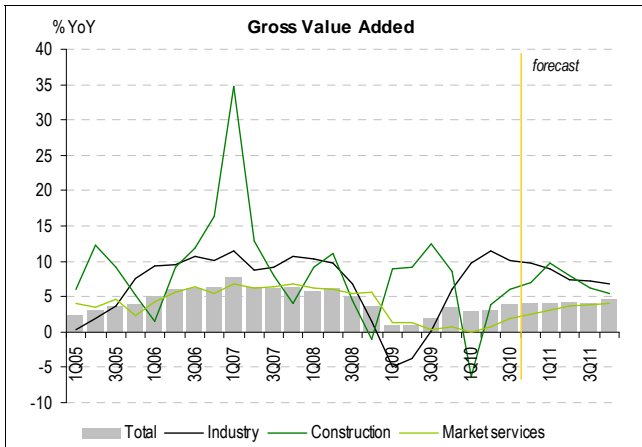
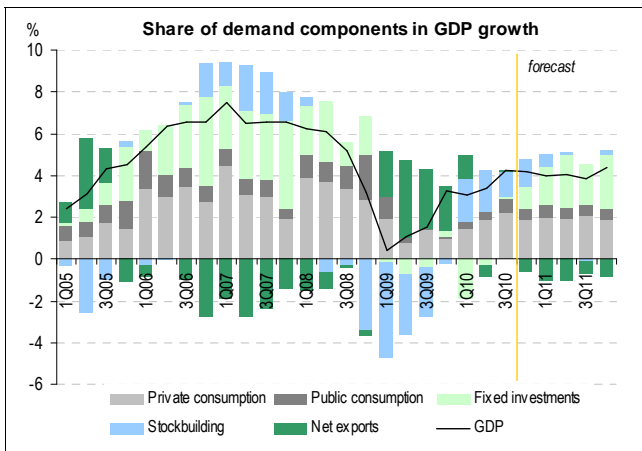
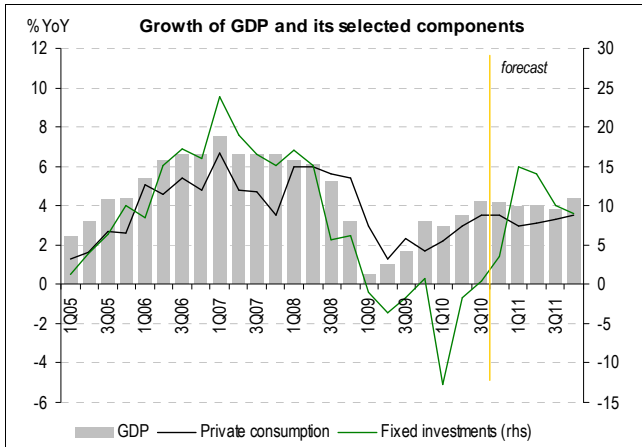
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Financial market on 31 December 2010:					
NBP deposit rate	2.00	WIBOR 3M	3.95	USDPLN	2.9641
NBP reference rate	3.50	Yield on 2-year T-bonds	4.76	EURPLN	3.9603
NBP lombard rate	5.00	Yield on 5-year T-bonds	5.49	EURUSD	1.3361

This report is based on information available until 10.01.2011

Economic update



Source: CSO, own calculations

Forecasts 2011 – demand side of the economy

▪ Situation in the labour market in 2010 was better than we predicted. Labour demand started to rise earlier and stronger than we had expected and wage growth was slightly higher. The unemployment rate ended the year close to the forecasted level, which has resulted from clear rise in labour force (labour participation). Higher than assumed disposable income translated into clear acceleration in consumption demand growth. We expect that consumption growth will remain slightly above 3% in 2011 and labour market will be firming with further reduction of unemployment and acceleration in wage growth.

▪ As to fixed investment, we expected that the turning point would take place in the middle of 2010 and this actually happened, although investment activity does not expand on the pace we forecasted a year ago. We estimate that data for Q4 will show an investment rise possibly close to our prediction of 6% presented a year ago. Fixed investment growth in 2010 as a whole will be under negative impact of a slump in Q1 (effect of severe weather conditions) and this low base effect will positively affect annual growth rate of fixed investment and GDP in Q1 2011. We expect that during this year investment activity will be driven not only by public investments (infrastructural projects), but also by revival in private investment, which is suggested by rising capacity utilisation.

▪ In 2010 economic growth of Poland's main trading partners (especially in Germany) was much higher than expected. This led to better than forecasted performance of Polish exports, which together with lagging investment revival means that net exports' contribution was around zero. However, we assume slowdown in exports in 2011, which coupled with weaker slowdown in imports will lead to negative contribution of net exports (around 1pp).

Forecasts 2011 – supply side of the economy

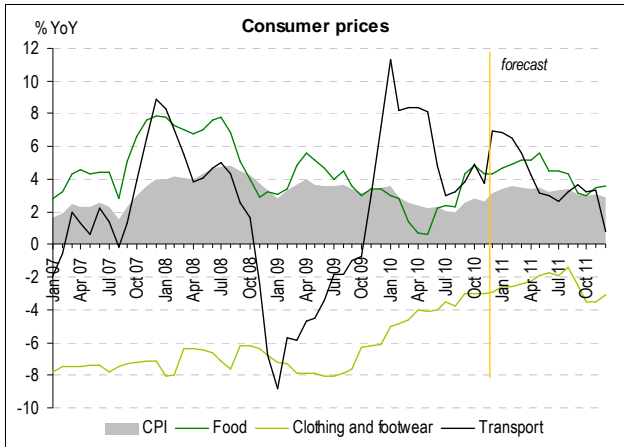
▪ Very strong results of exports were reflected in robust rise of industrial output in 2010. Following a drop in 2009, we had predicted a few percent rise in 2010, but reality proved even more optimistic. Apart from stronger exports, output was also driven by restocking process. As a result, industrial output kept rising at two-digit pace throughout last year. We do not expect such strong growth to be maintained in 2011 due to factors mentioned above (weaker exports growth, end of restocking process). However, ca. 8% growth in industrial output, which we forecast, would be still a decent result amid slowdown in Germany.

▪ We expect that tendency in construction output will be contrary to what we will see in the industrial sector. Although construction output in 2010 as a whole was probably a bit lower than we predicted a year ago, it was a solid result taking into account weaker than expected investment activity and unfavourable weather conditions at the beginning of the year. We forecast that the positive tendencies will be maintained in 2011 and construction output will accelerate to ca. 8%.

▪ We predict that value added both in industry and in construction will rise by around 7%.

▪ We assume that 2011 will bring acceleration in retail sales growth as compared to average rise in 2010, but this will mean some slowdown from double-digit pace of growth in late 2010. Strong retail sales growth, consistent with relatively high growth in private consumption, should be driven by an improvement in disposable income of households, which in turn will be a result of acceleration in wage bill growth (although in real terms it will be moderated by accelerating inflation).

Economic update

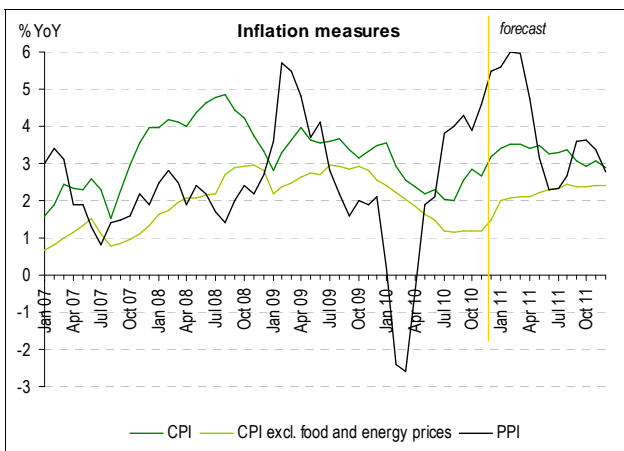


Forecasts 2011 – inflation processes

Our forecast of average CPI inflation in 2010 proved too low. Basic tendency of inflation last year was similar to what we had predicted – drop from 3.5% to 2.5% in July-August and then gradual increase in the remainder of the year. However, the upward move in last months of the year was much stronger than we predicted, which stemmed from clear rise in prices of commodities in the global markets. This concerned particularly agricultural commodities (we assumed food price growth of 3% and actually it was over 4%), while our prediction for crude oil prices materialised. At the same time, the scale of zloty appreciation in the second half of the year, especially against the dollar, was smaller than we predicted a year ago. Core inflation remained subdued throughout the last year.

For the first half of 2011 we expect continuation of upward trend in inflation started in September 2010. Commodities prices should remain high (possibly will rise even further), annual growth in food prices may reach 5% and there was VAT hike. Additionally, we think that amid acceleration in economic growth driven by stronger consumption demand and firmer labour market conditions, the underlying inflationary pressures will strengthen. On the other hand, the scale of rise in electricity prices will be similar as in early 2010, natural gas prices will drop and we predict gradual appreciation of the zloty. However, these factors will not be able to entirely offset negative impact of pro-inflationary elements and therefore we forecast that CPI inflation will average out at ca. 3.5% in the first half of 2011.

The second half of this year should bring stabilisation or slight drop to around 3%. For the whole year CPI inflation will be above the central bank's inflation target of 2.5%. What is more, we also expect increase in core inflation (to around 2.5%).

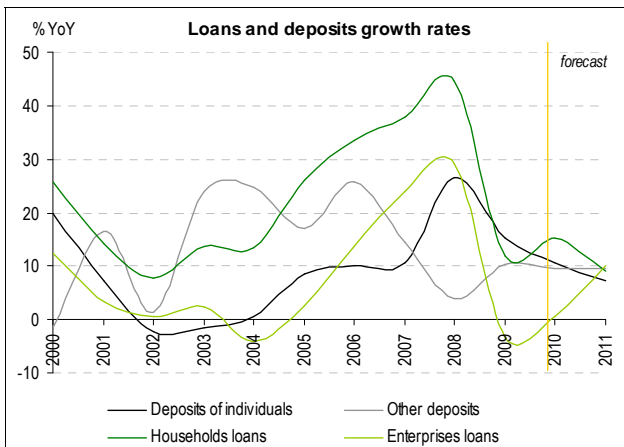
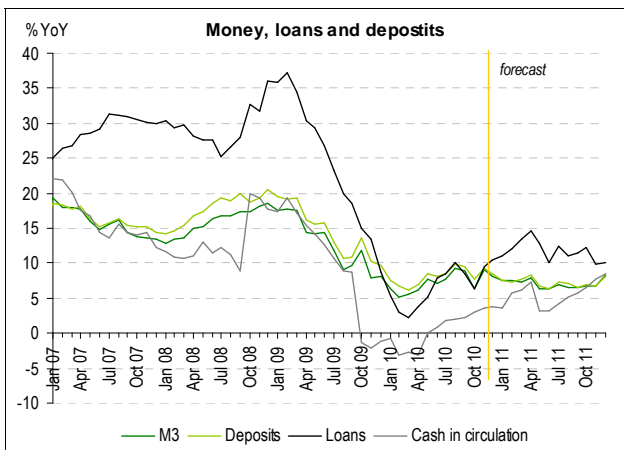


Forecasts 2011 – loans and deposits

In the last year's report we had predicted that "in 2010 lending will revive slightly", and actually this has happened. Total loan growth accelerated to ca. 10%YoY from 8.6% in December 2009. However, the breakdown of this growth was somewhat different than we had assumed – in particular, the growth of households' debt appeared to be much faster than we predicted, being fuelled mainly by a solid rise in mortgage loans (24%YoY, after eliminating FX effect ca. 15%YoY), as in case of those loans the relaxation of banks' credit policy was relatively the fastest. Loans for companies have disappointed, as they remained virtually idle (this might have been caused by weaker than we expected investment rebound). Restrictive banks' policy in case of consumption loans clearly limited their growth (below 3%YoY).

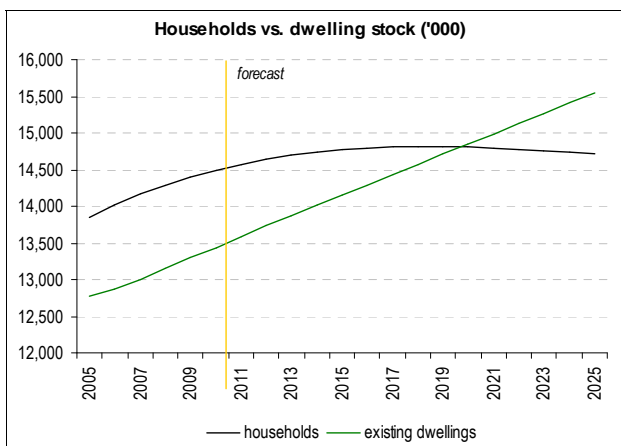
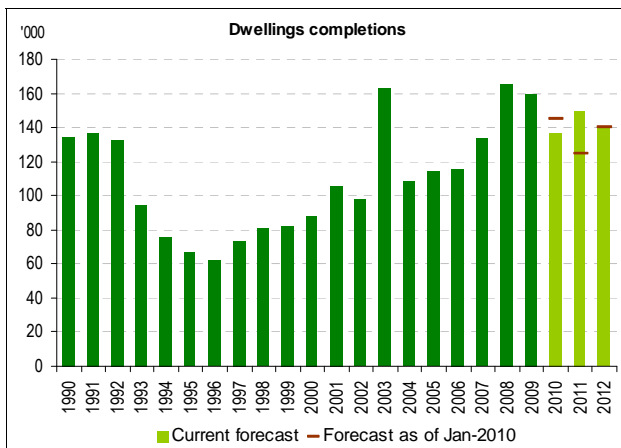
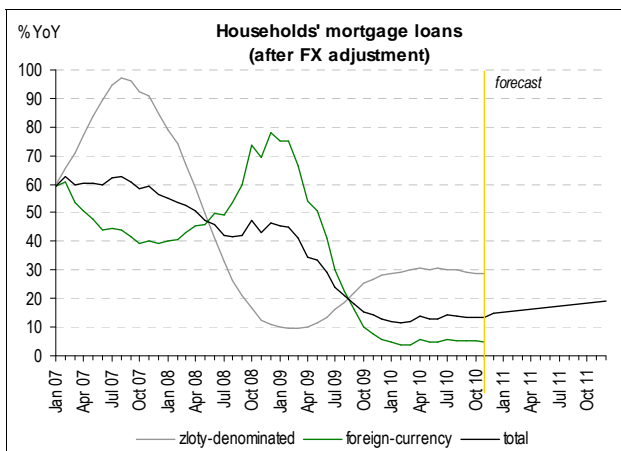
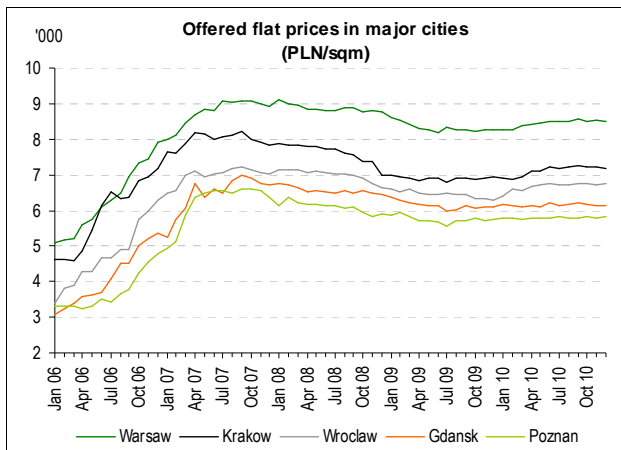
This year, we expect stabilisation of money and credit growth at similar levels as in 2010 (respectively, ca. 8% and 10%YoY), slightly above growth in nominal GDP. A factor constraining increase in monetisation will be a gradual tightening of monetary policy by the MPC.

Predicted more significant rebound in investment should be reflected in much higher companies' demand for financing, and consequently corporate loans' growth should accelerate this year (to ca. 10%YoY from almost zero in 2010). Growth of households' loans may decelerate slightly (from 15% to 9%YoY), mainly due to zloty appreciation. After elimination of impact of exchange rate fluctuations, growth in housing loans should even accelerate, while in the market of consumption loans we expect a continuation of stagnation.



Source: CSO, NBP, own calculations

Housing market update



Source: CSO, NBP, szybko.pl, own calculations

Forecasts 2011 – demand slightly up, stable prices

■ 2011 was a period of stagnation in Polish real estate market, just in line with our expectations presented one year ago. There were little changes in average house prices, with slight upward trend prevailing (in the biggest cities prices rose mostly by 1-3%YoY). Demand for houses inched up, yet it was well below the peak recorded during the housing boom, which resulted from several factors: slower growth of households' income, the uncertainty regarding economic outlook, lower credit availability (particularly in case of FX-loans), withdrawal of foreign investors' demand. It should be noticed that banks were gradually relaxing their loan policies during the year, and interest on new mortgage loans fell almost to levels comparable with pre-crisis period.

■ We expect that 2011 will see a continuation of tendencies seen in the last couple of quarters, and a pace of changes in the housing market will remain moderate. Households' demand for flats will be gradually increasing, being supported by further improvement of situation in the labour market, and related increase in households' revenue. On the other hand, banking supervision's decisive steps to curb borrowing in foreign currencies, amid simultaneous increases in domestic interest rates, will result in lifting costs of loan-leveraged house purchase. The most significant factor that may constrain households' access to foreign currency loans is the planned amendment of the S recommendation, that the Polish Financial Supervision Authority (KNF) is currently working on. The regulators' proposal aims at imposing a limit on the share of foreign currency loans in banks' loan portfolio at no more than 50%.

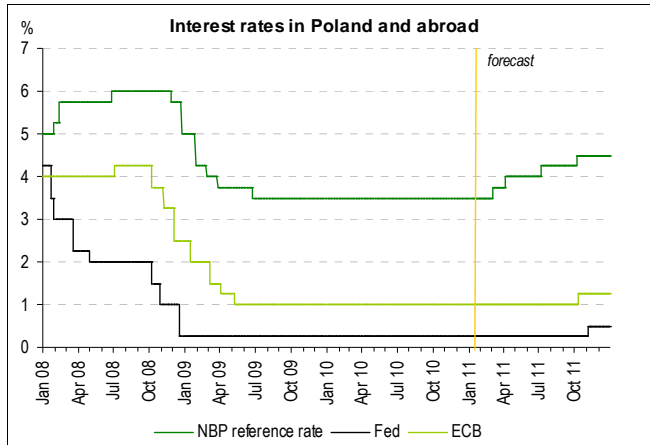
Forecasts 2011 – higher developers' activity

■ According to our estimates, the number of house completions in 2010 was clearly lower than in the two previous years, which was a consequence of freezing housing investment after the outbreak of financial crisis in 2008. Nevertheless, the supply of new dwellings (ca. 137,000 units) remained at one of the highest levels in the past two decades. Moreover, a stagnation in developers' activity that took place after the crisis appeared to be relatively short-lived, and during the year there appeared clear signals that the supply side has started reviving. Factors that were persuading developers to increase activity included: high profitability of house development (amid house prices still relatively high, and much lower production costs than in the period of construction boom), as well as expectations for improvement in economic situation and households' income.

■ Data on the number of building permits and house investments started in the last couple of quarters are suggesting that – contrary to what we had assumed one year ago – there will be probably an increase in the supply of new houses in 2011 again. Amid still rather moderate demand growth, this may result in continued stagnation of house prices.

■ Relatively high supply of new flats in the last three years, amid gradually diminishing increase in the number of households, resulted in a slight reduction of a structural deficit of housing units in the Polish market. Still, the gap between existing housing stock, and potential demand resulting from the number of households is quite high (ca. 1 million). Taking into account demographic forecasts for the next years, and assuming quite optimistic scenario of maintaining house completions at ca. 140 units per annum, closing of this gap will take place no earlier than at the end of current decade.

Central bank watch

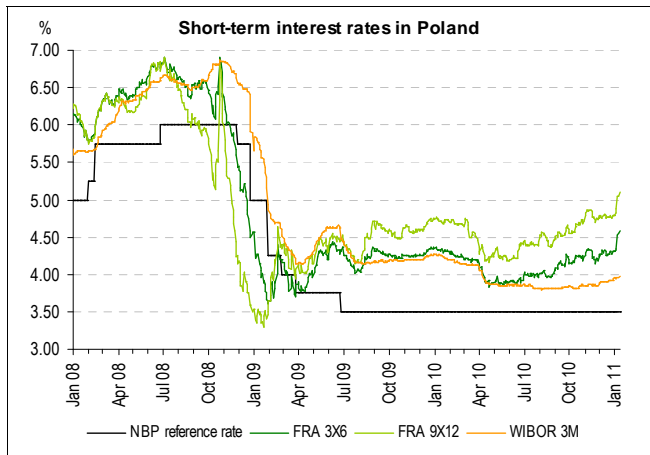


Interest rates in 2011 – rate hikes ahead

▪ We titled this section exactly the same way a year ago. We had expected that “continuation of economic recovery and risk of the emergence of inflationary pressure may trigger the start of the rate hikes cycle from the lowest level in history”. This forecast did not materialise and the Monetary Policy Council did not decide for a pre-emptive monetary tightening. Thus, we are ahead of the interest rate cycle in a backward-looking fashion in reaction to rise in current inflation indicators.

▪ Major central banks abroad continued monetary easing and this was most likely one of important argument for the Polish MPC to delay tightening locally. Major central banks kept interest rates on hold in 2010 and increased scale of quantitative easing and similar situation may be seen this year. If the ECB or Fed decide for rate hikes, it could take place in towards the end of the year and on a small scale. On the other hand, it is noteworthy that some central banks has already started monetary tightening in 2010, not counting on major central banks.

▪ We expect that the Polish MPC will raise interest rates by 100bp totally during 2011, in four steps by 25bps. At the end of 2010 the money market priced in that the total scale of monetary tightening in Poland in 2011 will be between 75bps and 100bps. We assume that the first interest rate hike in the cycle of monetary tightening in Poland will take place at the MPC meeting in early March, following publication of tentative GDP figures for 2010 (in last days of January), release of CPI figures for January (making it possible to assess the impact of VAT hike on inflation) and publication of the new NBP projection for inflation and GDP. The second hike may be delivered as soon as at the next meeting in early April in reaction to high inflation level.



Decisions on proposed changes in monetary policy parameters

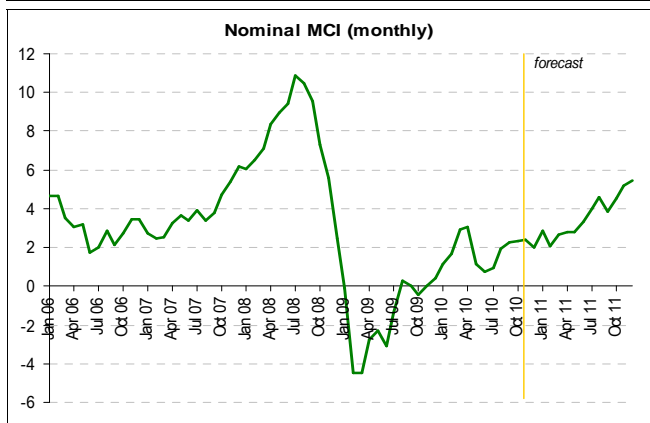
Month	Proposed change	Decision
August	Hike in reserve requirements ratio from 3% to 3.5%	NO
August	Hike in interest rates by 50bps	NO
September	Hike in interest rates by 50bps	NO
October	Hike in interest rates by 50bps	NO
October	Hike in reserve requirements ratio from 3% to 3.5%	YES
November	Hike in interest rates by 50bps	NO
November	Hike in interest rates by 25bps	NO
December	?	?

Source: NBP Inflation Reports and minutes of MPC meetings

Will the MPC change its communication policy?

▪ The new MPC abandoned the informal bias in monetary policy, which surely does not help to predict its decisions. However, the problem with predicting policy actions concerns more the medium-term than a one month horizon (the Council decision the next month may be predicted on the basis of the post-meeting statements). More serious problem is that it is hard to assess what is the MPC view on economic scenario.

▪ Numerous comments from various MPC members, which sometimes change tone quite significantly in an unclear way, make it more difficult to predict the way particular central bankers will vote. It is a pity that that results of votes, which did not led to change in monetary policy parameters are published with very long lag.



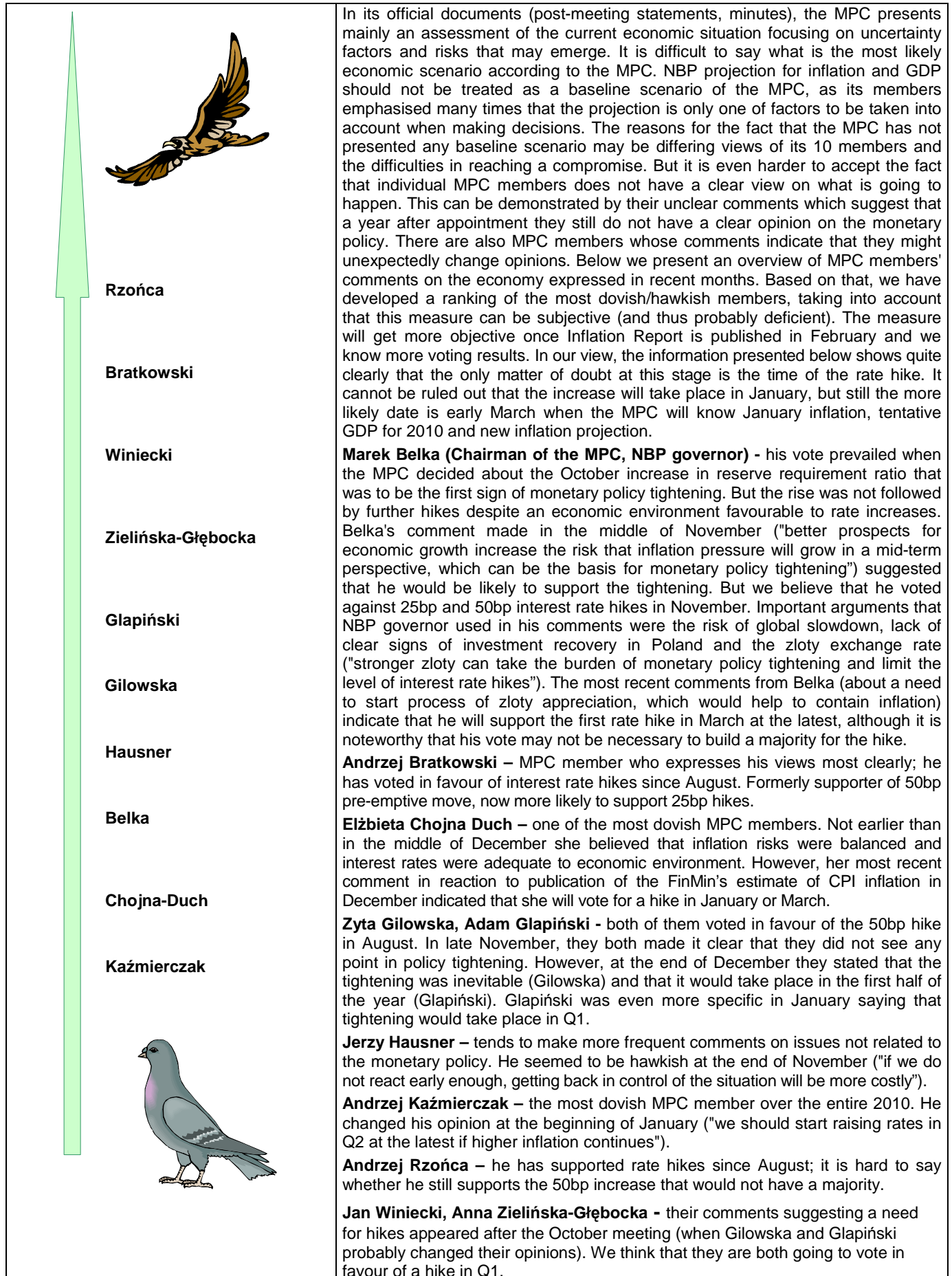
Higher restrictiveness of monetary policy in 2011

▪ In line with our forecasts from a year ago, the overall restrictiveness of domestic monetary policy measured by the MCI (that includes not only the changes in interest rates, but also changes in the exchange rate) increased in 2010. However, due to lack of predicted interest rates hikes the upward trend of the MCI was weaker than we expected. Additionally, the zloty's depreciation that occurred in Q2 caused temporary but clear decline in the overall restrictiveness of the MPC.

▪ This year we expect the continuation of upward trend of the MCI index not only due to interest rates hikes (and consequently higher level of WIBOR 3M rates taken into account in the index calculation), but also zloty appreciation.

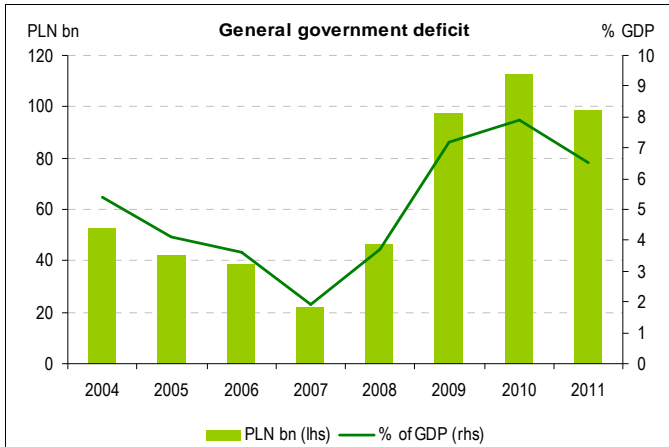
Source: NBP, Reuters, own calculations

Restrictiveness of the Monetary Policy Council



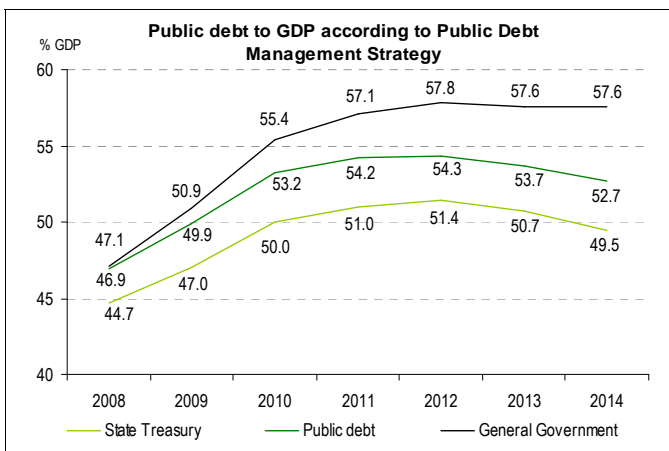
Source: NBP, PAP, Reuters

Government and politics



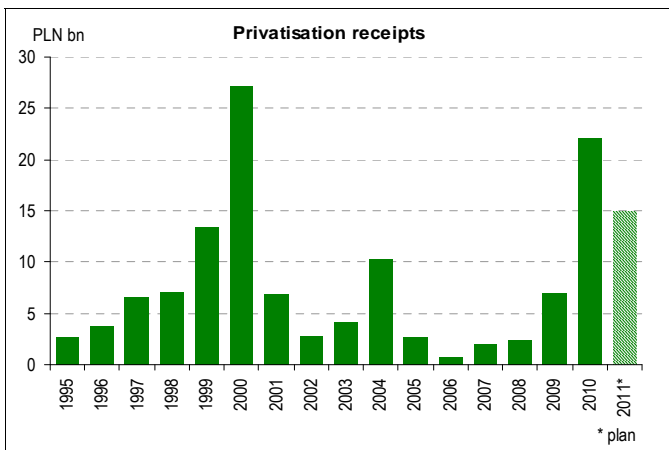
Fiscal deficit still high

- As we expected, the central budget deficit in 2010 proved lower than planned, but at the same time the general government deficit (which gives full picture of situation in the country's public finance) widened. Instead of the slight drop to 6.9% of GDP envisaged in the convergence program, according to official fiscal notification of Poland it rose to 7.9% and according to the fresh comments from anonymous government source it reached as much as 8.2-8.5%.
- For this year we expect reduction in fiscal deficit to ca. 6.5% of GDP. This will be possible thanks to tax hikes and stronger GDP growth with such a change in its structure (larger role of domestic demand), which is favourable for tax revenues. If changes regarding the pension system come into effect, the deficit may drop below 6% of GDP.



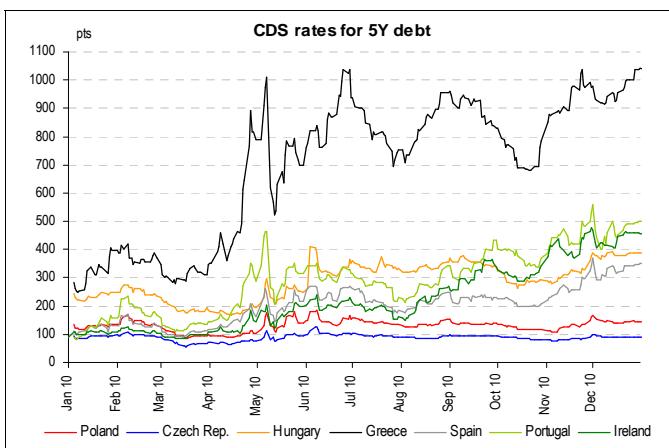
Public debt closer to threshold of 55% of GDP

- According to tentative estimates of the FinMin, the state's public debt at the end of 2010 was slightly lower than assumed in the Public Debt Management Strategy.
- However, one should remember that actually, without some accounting tricks – mainly without removing spending on roads from the public finance sector to the National Road Fund – the public debt already exceeded the 55% of GDP. This is indicated by the general government debt.
- We predict that this year the public debt will approach 55% of GDP, but we assume that it will not be exceeded. However, this will not be thanks to serious reforms, but thanks to expected zloty appreciation, planned changes in the pension system and continuation of the ambitious privatisation plan.



Continuation of ambitious privatisation program

- The government's privatisation plan for 2010 was ambitious, and was supposed to bring revenues of PLN25bn. To large extent, those plans were accomplished (revenues exceeded PLN22bn), which greatly reduced the government's borrowing needs and curbed growth of debt resulting from high deficit.
- This year, the government also set ambitious targets for privatisation. The most important transaction this year (worth ca. PLN5.5bn) will be selling Enea energy group, expected in 2Q11. It is crucial for the realization of privatisation revenues plan, and moreover it may have a significant impact on the zloty as a potential investor is the French EdF. In our view, maintaining the current government's determination in the privatisation process means there is no serious threat to the implementation of the plan for 2011.

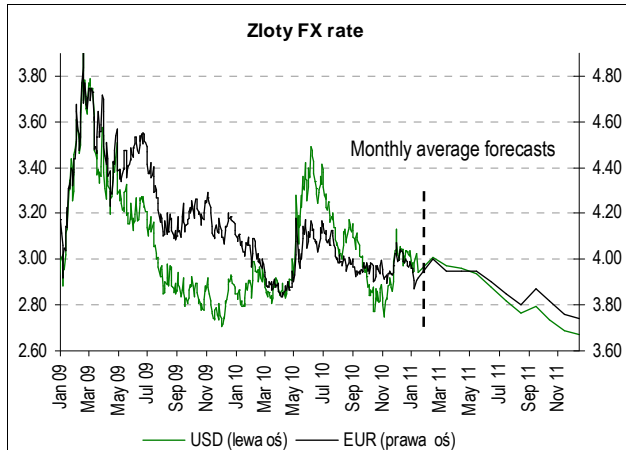


When the end of debt problems in Europe?

- The year 2010 was marked by rising concerns about debt problems in Europe. It all started with Greece, which was forced in the second quarter by the rapidly deteriorating market conditions to use the financial help from the EU and the IMF. Later on, investors' attention focused on the solvency of European banks (publication of stress tests at the end of July). At the end of the year Ireland came under market pressure, and, similarly as Greece, received aid package from the EU/IMF.
- This year, the situation in the European debt markets will remain tight. At the beginning of the year a rise in credit risk in the markets may result in worsening financing conditions for Portugal, and then attention will move to Spain. A risk factor is also a large scale of refinancing of European banks.

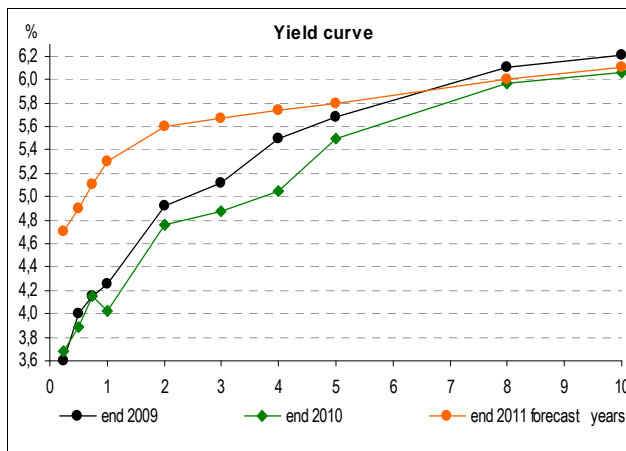
Source: Ministry of Finance, Reuters, own calculations

Market monitor



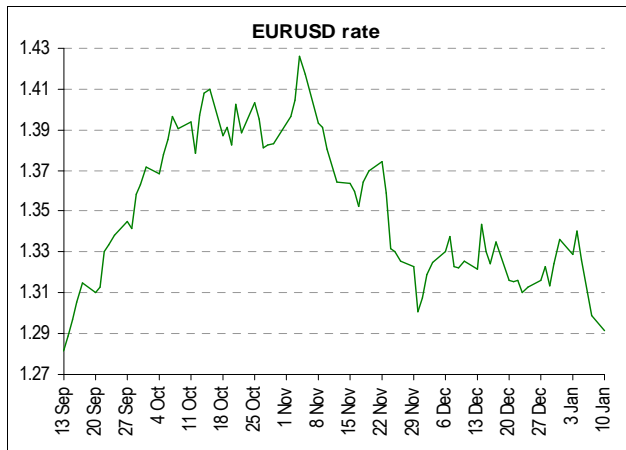
Zloty strengthening, with some corrections

- We expect, that as investors focus on European debt problems, the zloty will depreciate temporarily, particularly in Q1 2011. Later in the year, due to expansive monetary policy run by major central banks, good situation in Polish economy, gradual tightening of monetary policy by the MPC, inflows from privatisation and EU funds the zloty is expected to appreciate. The deterioration of debt problems in the euro zone and lack of fiscal reforms in Poland that may lower investors confidence regarding domestic economy are serious risk factors for that scenario.
- In the whole 2011 horizon, the core resistance levels for the EURPLN are 4.20-4.25 and 4.40, but it is hardly possible that they will be broken. On its way towards appreciation, the zloty will have to break the area seen short before NBP's intervention in April 2010 (3.82-3.84).



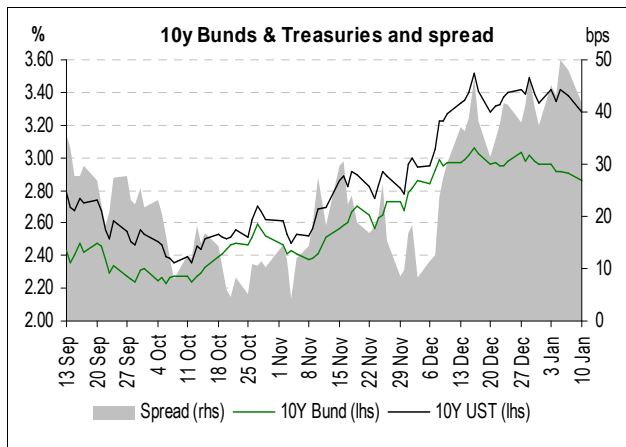
Flattening of the yield curve

- Our forecasts indicate, that in 2011 the domestic yield curve will flatten. The 2-10 spread shall decline from present ca. 117pts to about 50bps. That will be due to surge of short-term yields as the MPC will start the monetary tightening cycle. To some extent that will push also mid-term rates up. We expect, that the long end of the curve will suffer less, mainly due to positive influence of higher risk appetite.
- The lack of any serious fiscal reforms aiming at permanent reduction of debt in Poland may be some risk factor, particularly for the long-term bonds, as lower confidence regarding prospect of domestic economy may result in sell-out of long-term bonds. In this context, it is worth to remember that share of foreign investors' holding in Polish bond market is record-high (above PLN 125bn or 25%).



Euro's appreciation later during the year

- The euro performed pretty well at the very beginning of 2011, but soon it was showed, that even amid positive market sentiment the dollar has a potential to appreciate (due to good data from the US). In coming weeks, the debt problems in the peripheral euro zone countries may start to play the main role. We expect that the culmination of dollar's strength in 2011 will take place at the turn of Q1 and Q2. Later in the year, the EURUSD will probably surge, due to expansionary monetary policy run by the Fed and calmer situation on the European debt market.
- We expect, that before the EURUSD will regain its upward momentum it will drop to ca. 1.28 (or even 1.26). After that, next months may bring considerable appreciation of the common currency and consequently, at the end of the year the EURUSD may reach ca. 1.35-1.40.

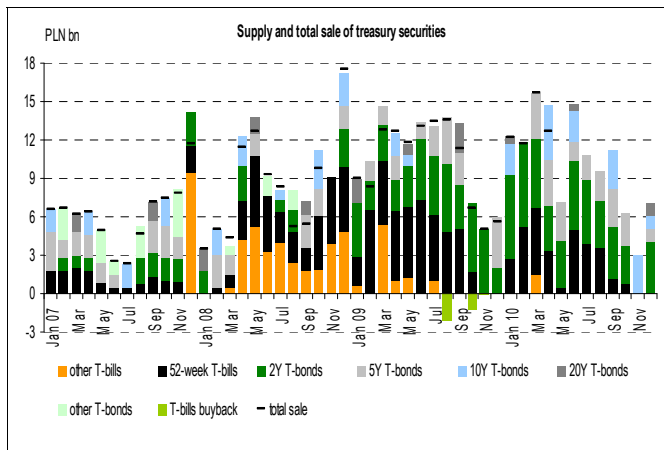
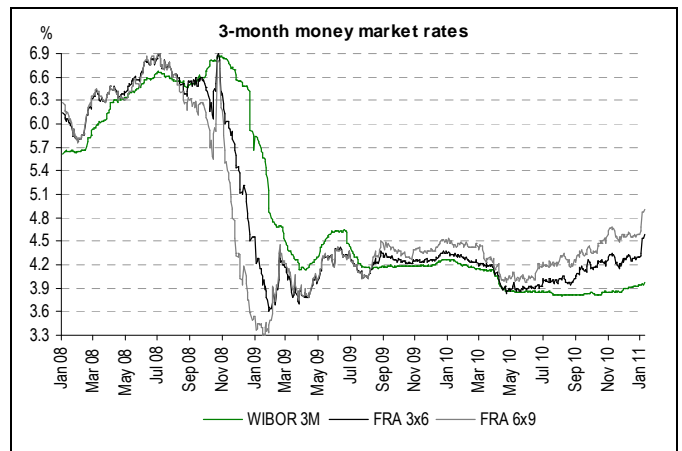
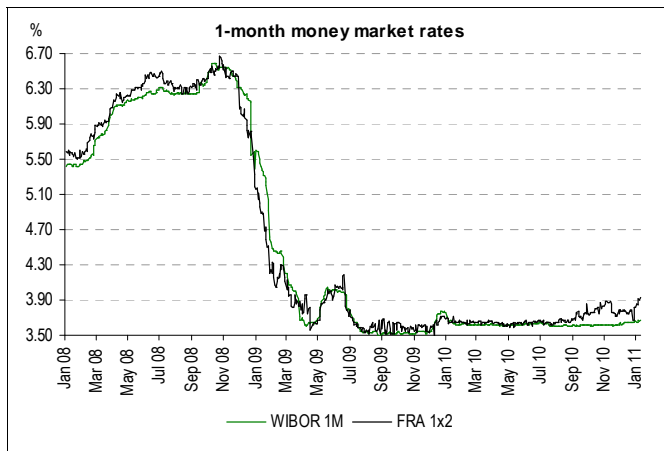
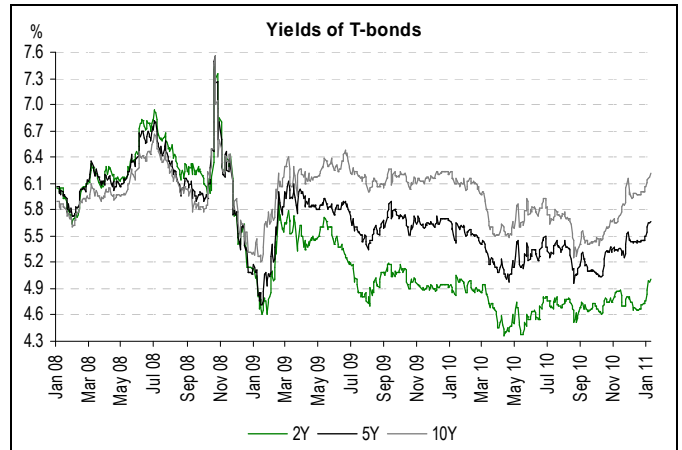
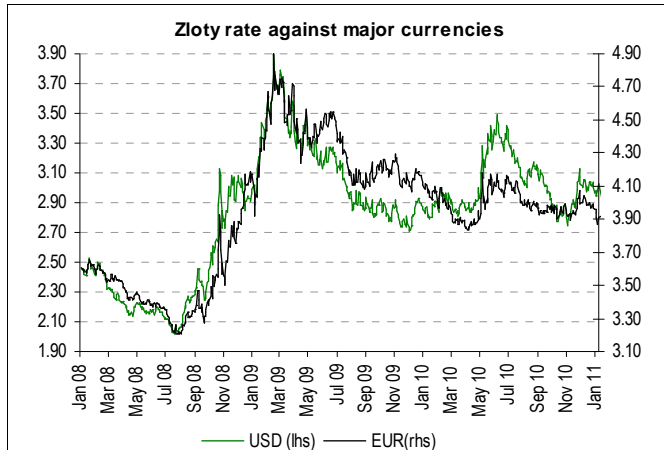


Higher inflation expectations push yields up

- Higher inflationary expectations that emerged in the US after launching second round of quantitative easing by the Fed, extending tax relief and latest upward revisions of GDP forecasts for the US economy triggered surge of yields of Treasuries. Bunds followed the trend observed on the US market.
- If the ECB or Fed decides for rate hikes in 2011, it could take place in towards the end of the year and on a small scale. It is well possible that rates will be flat throughout the year. Additionally, as the next macro data are published, the market changes his opinion on who will start the monetary tightening first – the Fed or the ECB.
- We expect, that the yields will remain at elevated level, though the possible surge of risk aversion may temporarily drag them down.

Source: Reuters, BZ WBK

Market monitor



Auction date	OFFER	DEMAND/SALE
20.09.2010	52 week.: 500-600	3438/600
27.09.2010	52 week.: 500-600	1150/580
4.10.2010	Cancelled	-
11.10.2010	Cancelled	-
18.10.2010	52 week.: 500-600	977/546
25.10.2010	52 week.: 500-600	861/276
22.11.2010	Cancelled	-
6.12.2010	Repurchase tender	2736/3367
27.12.2010	Repurchase tender	2943/3704
17.01.2011	28 week	-
24.01.2011	27 week	-
31.01.2011	52 week	-
7.02.2011	51 week	-

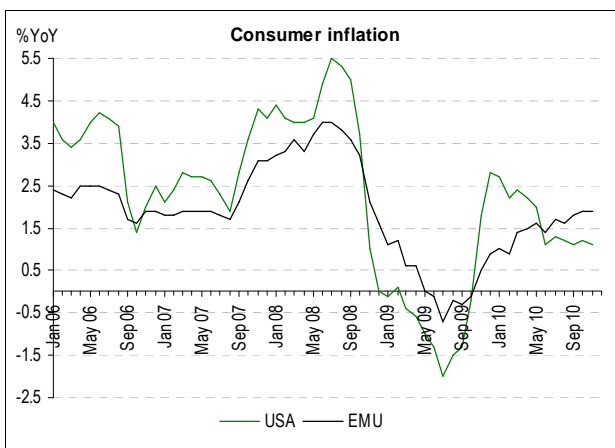
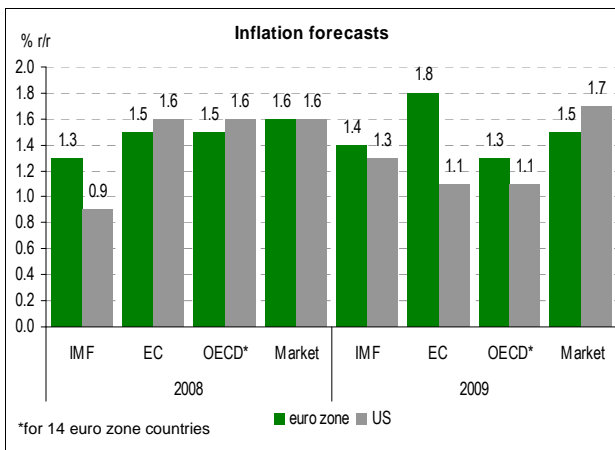
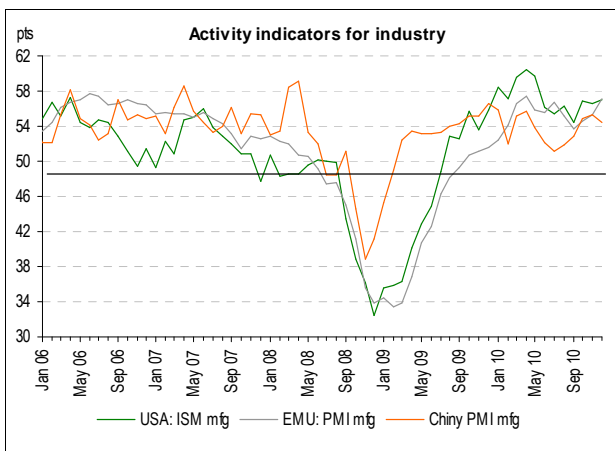
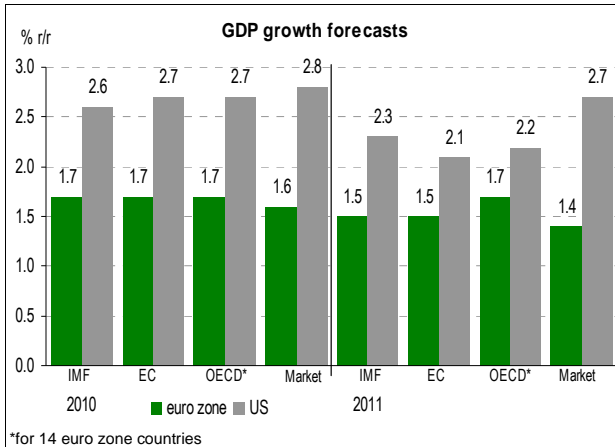
* based on data of the Ministry of Finance

Treasury bond auctions in 2010/2011 (PLNm)											
month	First auction			Second auction			Switch auction				
	date	T-bonds	offer	sale	date	T-bonds	Offer	sale	date	T-bonds	sale
February	10.02*	OK/PS	6600	6600	17.02	DS/WS/WZ/IZ	-	-	3.02	-	-
March	10.03	OK0712	3500-5400	5448	17.03	WZ0121	2000-3600	3600	3.03	PS0415/DS1019/WS0429	1784/2662/315
April	7.04	OK0712	2500-3600	3219	14.04	DS1020	2000-4200	3600	21.04**	PS0415	3600/3000***
May	5.05	OK0712	2500-4500	3700	12.05	PS0415	1500-3000	2989	27.05	WZ0121	422
June	2.06	OK0712	3000-5400	5400	16.06	DS/WS/WZ/IZ	1500-3000	2430	23.06	PS0415/WS0429	1549/54
July	7.07	OK1012	3000-5000	4971	14.06	PS0415	-	-	21.07	DS1110	DS1020
August	4.08	OK1012/PS0415	3000-6000	6000	11.08	-	-	-	25.08	DS1110	PS0415/DS1020
September	1.09	OK1012	2500-4000	4000	8.09	PS0415	1500-3000	3000	15.09**	DS1020	3000/3000***
October	6.10	OK0113	2000-3000	3000	13.10	PS0416	-	-	21.10	-	-
November	17.11	DS1020	1500-3000	3000	-	-	-	-	10.11	DS1110/PS0511	-
December	1.12	OK0113	2000-4000	4076*	8.12	WZ0121/IZ0823	1000-2000	2050	15.12	PS0511	PS0416
January	5.01	OK0113/PS0416	4000-6500	6250	12.01	DS1020/WS0429	1000-2500	-	20.01	-	-

* with supplementary auction, ** primary auction, *** demand/sale

Source: Ministry of Finance, Reuters, BZ WBK

International review



Source: Reuters, ECB, Federal Reserve

Slower pace of growth after visible rebound

- The forecast of main institutions point, that in 2011 the GDP pace of growth in the US and euro zone will decelerate.
- Europe, just as in 2010, will be the group of countries with visible differentiation of pace of economic growth. On one hand, we will see relatively strong growth in Germany, while on the other hand, there will be many countries with weaker GDP growth, burdened by fiscal tightening aiming at reaching some balance in that area. The forecasts indicate, that the economic growth will be too weak to bring high unemployment rate visibly down.
- Also in the US the pace of GDP growth will be too low to reduce high unemployment rate. To what extent tax relief in the US will support consumption, shall depend on how much of saved cash will be dedicated to paying back debt.
- According to the IMF, the lower economic growth will be also seen in China: 9.6% versus 10.5% expected in 2010. That will be due to actions of central bank aiming at constraining inflation and preventing from arising speculative bubbles on real estate and stock market.
- The ECB, due to normalisation of the situation on the interbank money market will gradually terminate unlimited liquidity operations. If the worries over PIIGS increase, further government bonds purchases are possible.
- The Fed will finish QE2.0 started in November 2010. At the turn of 2010 and 2011 the rotation among FOMC members occurred and as there are more members not willing to print dollars, so it is hard to predict further steps regarding stimulation of the US economy.
- In 2011 the ECB and Fed will keep the interest rates at record low levels.

Low inflation in the US, high in China

- The inflation in the euro zone would advance gradually over the whole 2010, while in the US serious worries over deflation emerged as the annual price growth plunged.
- In case of the euro zone, HICP forecast indicate, that price pace of growth shall remain under the ECB target. In the US, the annual CPI will stay clearly below area seen by the Fed as the most proper (1.7-2.0%). In both cases, that will justify keeping the interest rates unchanged.
- Expectations for lack of inflationary pressure are supported by forecasts showing that the unemployment rate will remain high and the uncertainty regarding job security will persist due to low pace of economic growth.
- Further actions towards constraining inflation will be observed in China. Over the past year, the Chinese central bank changed its attitude in monetary policy from expansionary to moderate. Interest rates were hiked several times and increased reserve requirement ratio in order to gain better control of money supply. The forecast point that in 2011 the CPI will reach ca. 4.0% and in line with declarations of Chinese central bank, further steps toward limiting inflation should be expected. That should be vital factor for the global market.
- Despite some deceleration, the expected level of global GDP growth should be a supportive factor for the oil demand. Still, we expect that persisting uncertainty regarding the situation in the euro area and anticipated slowdown in China will not allow the creation of clear upward trend of oil prices and they shall rather be relatively stable.

Economic calendar

Monday	Tuesday	Wednesday	Thursday	Friday
10 January CN: Trade balance (Dec)	11 US: Wholesale inventories (Nov)	12 EZ: Industrial output (Nov) US: Import prices (Nov) US: Fed's Beige Book	13 PL: CPI (Dec) PL: Balance of payments (Dec) EZ: ECB decision US: Trade balance	14 PL: Money supply (Dec) US: CPI (Dec) US: Retail sales (Dec) US: Industrial output (Dec) US: Capacity utilization rate (Dec) US: Flash Michigan (Jan)
17 EZ: ECOFIN meeting US: Market holiday	18 DE: ZEW Index (Jan)	19 PL: MPC decision PL: Wages and employment (Dec) EZ: Current account (Nov) US: House starts (Dec) US: Building permits (Dec)	20 PL: MPC minutes PL: Core CPI (Dec) PL: Industrial output (Dec) PL: PPI (Dec) US: Home sales (Dec) US: Leading indicators (Dec) US: Philly Fed index (Jan) CN: GDP (Q4) CN: Industrial output (Dec) CN: CPI (Dec)	21 PL: Business climate (Jan) DE: Ifo index (Jan)
24 DE: Flash PMI – manufacturing (Jan) EZ: Flash PMI – manufacturing (Jan)	25 DE: GfK index (Feb) US: S&P/Case-Shiller home price index (Nov) US: Consumer confidence (Jan)	26 US: New home sales (Dec) US: Fed decision	27 US: Durable goods orders (Dec) US: Pending home sales (Dec)	28 PL: Retail sales (Dec) PL: Unemployment rate (Dec) EZ: Money supply (Dec) US: Advance GDP (Q4) US: Final Michigan (Jan)
31 US: Core PCE (Dec) US: Consumer spending (Dec) US: Chicago PMI index (Jan)	1 February PL: PMI – manufacturing (Jan) DE: PMI–manufacturing (Jan) EZ: PMI–manufacturing (Jan) US: ISM–manufacturing (Jan) CN: PMI–manufacturing (Jan)	2 US: ADP report (Jan)	3 EZ: ECB decision DE: PMI – services (Jan) EZ: PMI – services (Jan) US: Flash labour productivity (Q4) US: Industrial orders (Dec) US: ISM – services (Jan)	4 US: Non-farm payrolls (Jan) US: Unemployment rate (Jan)
7 DE: Industrial orders (Dec)	8 DE: Industrial output (Dec)	9 DE: Exports (Dec)	10 US: Wholesale inventories (Dec)	11 PL: Balance of payments (Jan) US: Import prices (Jan) US: Trade balance (Dec) US: Flash Michigan index (Jan)

Source: CSO, NBP, Ministry of Finance, Reuters, Bloomberg.

MPC meetings and data release calendar for 2011

	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
MPC meeting	18-19	15	1-2	4-5	10-11	7-8	5-6	23	6-7	4-5	8-9	6-7
MPC minutes	20	17	17	21	19	16	-	25	22	20	17	22
GDP*	-	-	2	-	31	-	-	30	-	-	30	-
CPI	13	15 ^a	15 ^b	13	13	15	13	12	13	13	15	13
Core inflation	20	-	22	20	20	22	20	19	20	20	22	20
PPI	20	18	17	19	20	17	19	18	19	19	21	19
Industrial output	20	18	17	19	20	17	19	18	19	19	21	19
Retail sales	28	-	-	-	-	-	-	-	-	-	-	-
Gross wages, employment	19	16	16	18	18	16	18	17	16	18	18	16
Foreign trade	about 50 working days after reported period											
Balance of payments*	-	-	31	-	-	-	-	-	-	-	-	-
Balance of payments	13	11	14	11	-	-	-	-	-	-	-	-
Money supply	14	14	14	14	-	-	-	-	-	-	-	-
Business climate indices	21	21	22	21	20	22	22	22	22	22	21	22

* quarterly data, ^a preliminary data for January, ^b January and February

Source: CSO, NBP

Economic data and forecasts

Monthly economic indicators

		Dec 09	Jan 10	Feb 10	Mar 10	Apr 10	May 10	Jun 10	Jul 10	Aug 10	Sep 10	Oct 10	Nov 10	Dec 10	Jan 11
PMI	pts	52.4	51.0	52.4	52.5	52.5	52.2	53.3	52.1	53.8	54.7	55.6	55.9	56.3	55.9
Industrial production	%YoY	7.4	8.5	9.2	12.5	9.7	13.5	14.3	10.5	13.6	11.8	8.0	10.1	15.1	11.9
Construction production	%YoY	3.2	-15.3	-24.7	-10.9	-6.3	2.3	9.6	0.8	8.4	13.4	9.4	14.2	3.7	10.0
Retail sales ^a	%YoY	7.2	2.5	0.1	8.7	-1.6	4.3	6.4	3.9	6.6	8.6	9.0	8.3	9.0	8.1
Unemployment rate	%	12.1	12.9	13.2	13.0	12.4	12.1	11.7	11.5	11.4	11.5	11.5	11.7	12.0	12.8
Gross wages in enterprises sector ^a	%YoY	6.5	0.5	2.9	4.8	3.2	4.8	3.5	2.1	4.2	3.7	3.9	3.6	3.1	4.0
Employment in enterprises sector	%YoY	-1.8	-1.4	-1.1	-0.6	0.0	0.5	1.1	1.5	1.6	1.8	2.1	2.2	2.3	2.4
Export (€)	%YoY	15.1	12.5	19.9	22.6	23.8	24.9	26.7	19.0	25.0	18.5	16.3	19.4	28.9	23.4
Import (€)	%YoY	-3.2	7.2	21.6	23.4	23.7	30.5	26.5	20.0	27.7	21.3	19.8	22.4	30.0	30.0
Trade balance	EURm	-442	-109	-154	-419	-231	-489	-356	-576	-777	-228	-702	-600	-663	-704
Current account balance	EURm	-884	-826	512	-821	-385	-549	-920	-1 270	-1 281	-1 089	-1 155	-1790	-963	-1354
Current account balance	% GDP	-2.2	-2.1	-2.1	-2.2	-2.1	-2.1	-2.2	-2.4	-2.6	-2.8	-3.0	-3.0	-3.0	-3.1
Budget deficit (cumulative)	PLNbn	-23.8	-4.8	-16.7	-22.7	-27.0	-32.1	-36.8	-34.9	-36.9	-39.5	-41.8	-42.5	-48.2	-2.0
Budget deficit (cumulative)	% of FY plan	100.0	9.3	32.1	43.5	51.8	61.6	70.5	66.9	70.7	75.7	80.1	81.4	92.3	5.0
CPI	%YoY	3.5	3.5	2.9	2.6	2.4	2.2	2.3	2.0	2.0	2.5	2.8	2.7	3.2	3.4
CPI excluding prices of food and energy	%YoY	2.6	2.4	2.2	2.0	1.9	1.6	1.5	1.2	1.2	1.2	1.2	1.2	1.5	2.0
PPI	%YoY	2.1	0.2	-2.4	-2.6	-0.4	1.9	2.1	3.8	4.0	4.3	3.9	4.6	5.5	5.6
Broad money (M3)	%YoY	8.1	6.3	5.1	5.5	6.1	7.7	7.1	7.8	9.4	8.9	6.4	9.0	8.0	7.5
Deposits	%YoY	9.8	7.5	6.8	6.2	7.0	8.5	8.1	8.5	9.9	9.6	7.7	9.2	8.5	7.5
Loans	%YoY	8.6	5.4	3.0	2.2	3.8	5.1	8.0	8.6	10.1	8.6	6.3	9.5	10.5	11.1
USD/PLN	PLN	2.83	2.85	2.93	2.87	2.89	3.24	3.36	3.20	3.09	3.03	2.85	2.90	3.02	2.94
EUR/PLN	PLN	4.14	4.07	4.01	3.89	3.87	4.06	4.10	4.08	3.99	3.96	3.95	3.95	4.00	3.92
Reference rate ^b	%	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50
Lombard rate ^b	%	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
WIBOR 3M	%	4.23	4.24	4.17	4.13	3.92	3.85	3.86	3.84	3.81	3.82	3.83	3.86	3.92	3.96
Yield on 52-week T-bills	%	4.25	4.01	3.90	3.92	3.84	3.71	3.93	4.08	3.97	4.02	4.04	4.10	4.04	4.20
Yield on 2-year T-bonds	%	4.92	4.95	4.90	4.76	4.47	4.52	4.66	4.73	4.68	4.69	4.72	4.79	4.70	5.00
Yield on 5-year T-bonds	%	5.67	5.58	5.51	5.27	5.10	5.26	5.35	5.35	5.23	5.15	5.09	5.36	5.45	5.65
Yield on 10-year T-bonds	%	6.21	6.12	6.09	5.71	5.56	5.74	5.83	5.73	5.54	5.45	5.36	5.82	5.99	6.20

Source: CSO, NBP, Finance Ministry, BZ WBK own estimates; ^a in nominal terms, ^b at the end of period

Quarterly and annual economic indicators

		2008	2009	2010	2011	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11	4Q11
GDP	PLNbn	1 275.4	1 343.7	1 415.6	1 518.5	324.0	343.2	348.9	399.5	347.5	368.3	372.4	430.4
GDP	%YoY	5.1	1.7	3.7	4.1	3.0	3.5	4.2	4.2	4.0	4.0	3.8	4.4
Domestic demand	%YoY	5.6	-1.0	3.8	4.9	2.0	4.0	4.2	4.8	5.0	5.1	4.3	5.2
Private consumption	%YoY	5.7	2.1	3.0	3.2	2.2	3.0	3.5	3.5	3.0	3.1	3.3	3.5
Fixed investments	%YoY	9.6	-1.1	-1.0	11.2	-12.8	-1.7	0.4	3.6	15.0	14.0	10.0	9.0
Industrial production	%YoY	3.6	-3.5	11.4	8.2	9.5	11.6	10.9	11.0	10.0	8.0	7.7	7.3
Construction production	%YoY	12.1	2.5	2.7	8.0	-16.7	2.5	7.6	8.5	12.1	9.7	7.1	6.0
Retail sales ^a	%YoY	13.1	3.5	5.8	9.1	4.0	3.1	6.5	9.0	6.5	9.4	9.7	10.5
Unemployment rate ^b	%	9.5	12.1	12.0	10.3	13.0	11.7	11.5	12.0	12.4	10.7	10.3	10.3
Gross wages in enterprise sector ^a	%YoY	10.3	4.4	3.4	5.1	2.8	3.8	2.0	3.5	3.4	4.3	6.3	6.4
Employment in enterprise sector	%YoY	4.8	-1.2	0.7	2.5	-1.3	0.4	1.5	2.2	2.6	2.7	2.4	2.3
Export (€)	%YoY	14.2	-15.8	21.2	12.0	18.0	25.2	20.5	21.1	18.0	11.9	11.0	8.0
Import (€)	%YoY	17.2	-24.3	22.7	14.9	17.2	26.9	22.8	23.8	21.9	14.0	15.2	9.8
Trade balance	EURm	-17 724	-3 102	-5 307	-9 706	-676	-1 082	-1 584	-1 965	-1 943	-1 876	-3 136	-2 751
Current account balance	EURm	-17 384	-6 749	-10 545	-13 606	-1 134	-1 864	-3 639	-3 908	-2 393	-3 126	-4 086	-4 001
Current account balance	% GDP	-4.8	-2.2	-3.0	-3.5	-2.2	-2.2	-2.8	-3.0	-3.3	-3.5	-3.6	-3.5
General government balance	% GDP	-3.7	-7.2	-7.9	-6.5	-	-	-	-	-	-	-	-
CPI	%YoY	4.2	3.5	2.6	3.3	3.0	2.3	2.2	2.9	3.5	3.4	3.3	3.0
CPI ^b	%YoY	3.3	3.5	3.2	2.9	2.6	2.3	2.5	3.2	3.5	3.3	3.1	2.9
CPI excluding food and energy prices	%YoY	2.3	2.7	1.6	2.3	2.2	1.7	1.2	1.3	2.0	2.2	2.4	2.4
PPI	%YoY	2.2	3.3	2.1	3.8	-1.6	1.2	4.0	4.7	5.9	3.4	2.9	3.3
Broad money (M3) ^b	%YoY	18.6	8.1	8.0	8.3	5.5	7.1	8.9	8.0	7.4	6.3	6.5	8.3
Deposits ^b	%YoY	20.6	9.8	8.5	8.1	6.2	8.1	9.6	8.5	7.7	6.4	6.6	8.1
Loans ^b	%YoY	36.0	8.6	10.5	10.0	2.2	8.0	8.6	10.5	13.4	10.1	11.4	10.0
USD/PLN	PLN	2.41	3.11	3.02	2.84	2.88	3.16	3.10	2.92	2.97	2.92	2.79	2.70
EUR/PLN	PLN	3.52	4.33	3.99	3.88	3.99	4.01	4.01	3.97	3.96	3.93	3.84	3.77
Reference rate ^b	%	5.00	3.50	3.50	4.50	3.50	3.50	3.50	3.50	3.75	4.00	4.25	4.50
Lombard rate ^b	%	6.50	5.00	5.00	6.00	5.00	5.00	5.00	5.00	5.25	5.50	5.75	6.00
WIBOR 3M	%	6.36	4.42	3.94	4.42	4.18	3.88	3.82	3.87	4.06	4.31	4.53	4.78
Yield on 52-week T-bills	%	6.26	4.54	3.96	4.93	3.94	3.83	4.02	4.06	4.50	4.80	5.10	5.30
Yield on 2-year T-bonds	%	6.22	5.17	4.72	5.30	4.87	4.55	4.70	4.74	5.00	5.20	5.40	5.60
Yield on 5-year T-bonds	%	6.15	5.65	5.31	5.73	5.46	5.24	5.24	5.30	5.65	5.70	5.75	5.80
Yield on 10-year T-bonds	%	6.06	6.11	5.74	6.14	5.97	5.71	5.57	5.72	6.20	6.15	6.10	6.10

Source: CSO, NBP, Finance Ministry, BZ WBK own estimates; ^a in nominal terms, ^b at the end of period

This analysis is based on information available until 10.01.2011 has been prepared by:

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