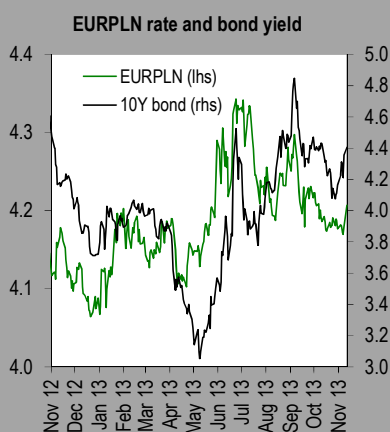
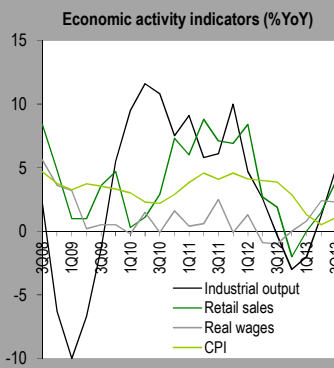


# MACROscope

Polish Economy and Financial Markets

November 2013

## Let the good times roll!



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■ **A few weeks ago, Marek Belka, Governor of the National Bank of Poland (NBP), quoted the words of William McChesney Martin, the long-standing Fed President, who said that the job of a central bank is to “to take away the punch bowl just as the party gets going”.** When the party is too lame and spirits are low, this means that the guests need a drink. Similarly, when the economy is not doing well, the central bank reduces interest rates. However, as Marek Belka put it “when the ambassador’s cocktail party turns into a wild dance”, the punch bowl needs to be taken away. Currently everything seems to show that the global central banks believe they should let the good times roll – Fed is still reluctant (and probably will continue at least this year) to limit money-printing, the ECB unexpectedly reduced interest rates and the Czech National Bank turned words into action and began an intervention in the currency market to reduce the value of the Czech koruna. And although the costs of partying in Poland will rise since January due to hike in excise tax for alcohol, the global dance party (not so wild as it is yet) has been joined by the Polish central bank, too – in November, the Monetary Policy Council officially promised that the interest rates would stay at their historical low (2.5%) “at least until the end of June 2014”. So it seems that the first rate hikes should not be expected until July 2014. We sustain our projection of three hikes of 25 bp each in the second half of the next year, although we see a downward risk (hikes coming late and at a lower level). The inflationary scenario is key – we expect the inflation to grow to more than 2% next year, while the NBP’s projections climb only slightly above the lower band of tolerance range around the target (1.5%).

■ **Admittedly, it is too early to pop the champagne and rejoice over the performance of the Polish economy with so many uncertainties ahead (which is probably the reason why central banks act as they do). Still, while for structural reasons (the still heavy debt burden of some countries), the doubts about the end to the crisis are still valid, the cyclical picture of the market seems to look well.** The recently published statistics make us believe that the recovery scenario in Poland has been materialising, covering more and more areas of the Polish economy. In Q3, the economic growth was probably nearly 2%, and is likely to go beyond the 2% mark in Q4, which will make a good starting point for nearing 3% in 2014. We are surprised to hear some commentaries (also from the Monetary Policy Council) that “no real signs of recovery are in sight”. Those who subscribe to such a view are encouraged to read the second and third page of this report.

■ **Is the party about to end for the Polish Finance Minister?** Applauded abroad and criticised at home, he has been recently busy working on the next year’s budget and changes to the Open Pension Funds (OFE). Is it a good time to step down from the government? He might, as the rumour has it. The government reshuffle planned for November by the Prime Minister Donald Tusk could be an opportune moment to do that. In our opinion, the name of his successor is key to the markets. However, for the time being, Polish assets have not twitched to such speculations. As regards our market projections, we still expect EURPLN rate to be at 4.15 at the year-end (and continue to appreciate in the following year). The market interest rates are likely to be lower than we previously expected, but next year they should grow further, driven by the economic revival, growing inflation and rising interest rates in the second half of the year.

### ECONOMIC ANALYSIS DEPARTMENT:

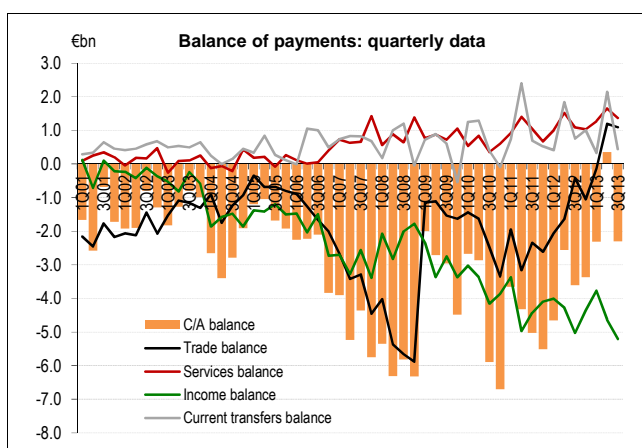
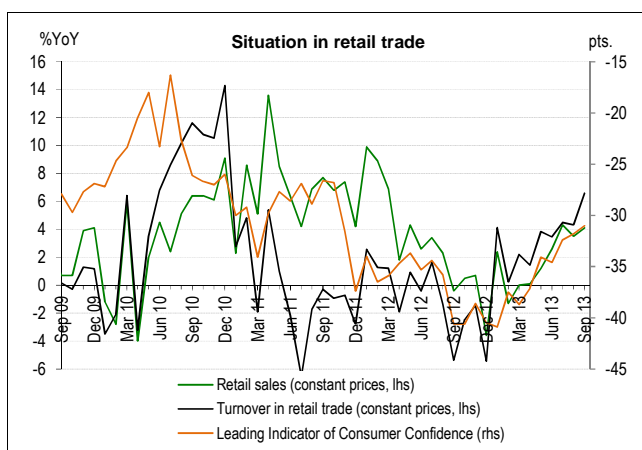
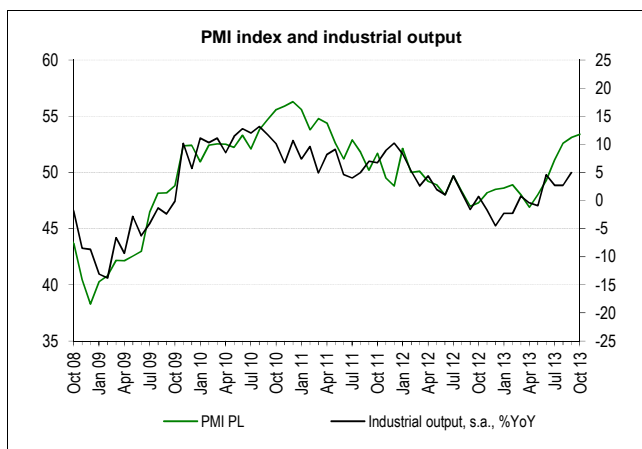
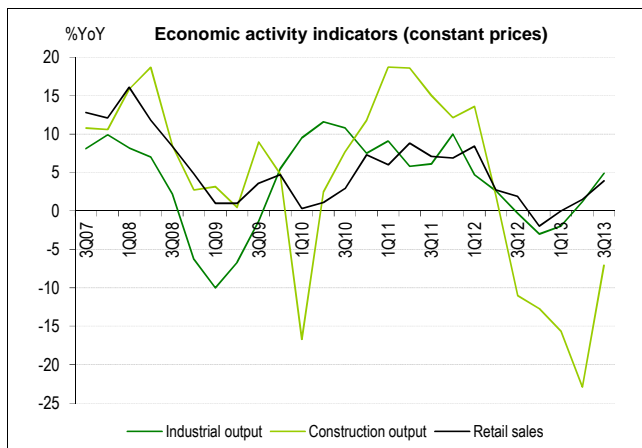
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### Financial market on 12 November 2013:

NBP deposit rate	1.00	WIBOR 3M	2.66	EURPLN	4.2066
NBP reference rate	2.50	Yield on 2-year T-bond	2.83	USDPLN	3.1448
NBP lombard rate	4.00	Yield on 5-year T-bond	3.67	CHFPLN	3.4140

This report is based on information available until 12.11.2013

## Economic update



Source: CSO, NBP, Markit, BZ WBK

### Continuation of positive tendencies in industry

- Industrial output growth accelerated in September to 6.2%YoY, up by 4 pp versus August. Please note that the annual growth rate of production in September was boosted by the effect of higher number of working days – the effect was opposite to the one observed in the previous month, as in September 2013 there was one working day more than in September 2012, while in August 2013 there was one working day less. Nevertheless, the production growth adjusted for seasonal effects and differences in working time according to the CSO accelerated to 5.0%YoY, which is the highest growth for 20 months. Similarly as in previous months, the highest output growth rates were recorded in export-oriented branches (including manufacturing of motor vehicles, furniture, pharmaceuticals, electrical equipment). This shows that external demand is still a key driver of economic recovery in Poland.

- Drop in construction output decelerated in September to -4.8%YoY. Seasonally adjusted growth reached -6.7%YoY, which is the best result in over a year.

- September's production data seem to confirm realisation of scenario of moderate economic recovery. In the entire third quarter the growth in industrial output reached ca. 5%YoY, and in construction ca. -7%YoY, which is a clear improvement as compared to two previous quarters (in Q2 it was at 1.2%YoY and -22.9%YoY, respectively).

- In October the PMI economic activity index in manufacturing climbed to 53.4pts. Subindices for output, new orders and employment are running clearly above neutral mark of 50pts., while subindex for new export orders surged to the highest level since comparable data are available (1998). Companies are reporting rising domestic and foreign demands, gaining new clients and introducing new products, which is translating into higher recruitment of new employees. Tendencies drawn by the PMI for the Polish manufacturing show that the economic situation has improved further at the beginning of Q4 and it is becoming visible in an increasing number of economic areas, including the domestic demand.

### Improving retail trade situation

- In September retail sales in current prices advanced by 3.9%YoY (as compared to 3.4% in August). Sales in constant prices expanded by 4.1%YoY (3.5% in August). Retail trade turnover accelerated to 6.6%YoY from 4.3% in August. In entire Q3 retail sales rose by 4.0%YoY and retail trade turnover by 5.1%YoY and this is a marked acceleration as compared to the last quarter (0.8% and 2.9%, respectively).

- Numbers from the retail sector are a strong suggestion that consumer demand is awaking and domestic demand is likely to join exports as the important growth engine.

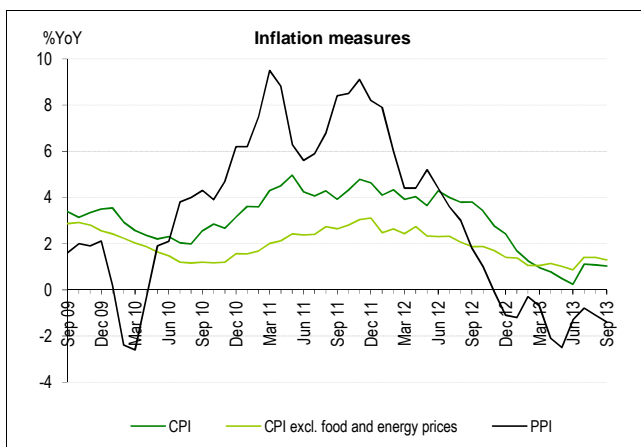
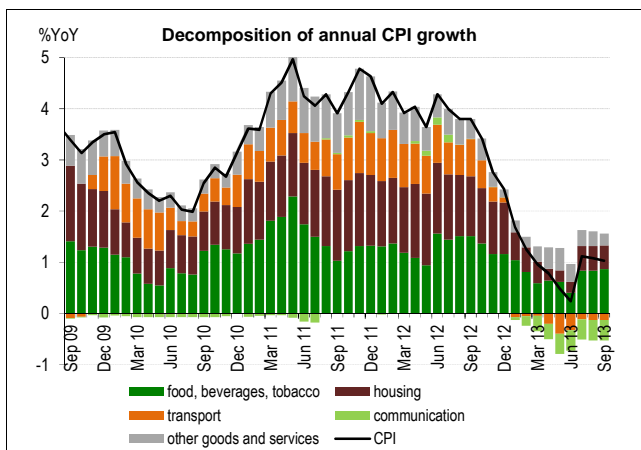
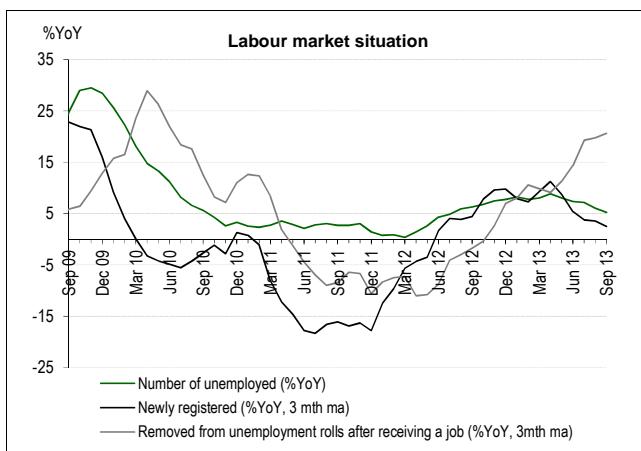
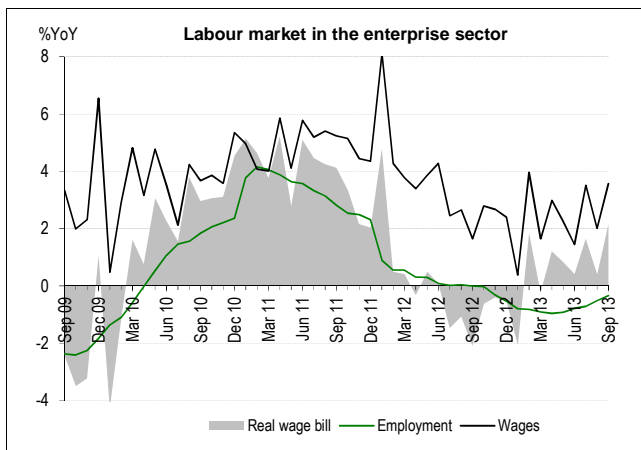
### Trade balance in surplus, current account in red

- Current account deficit in September was higher than forecast and reached €1024m, although in the trade balance there was a record surplus (almost €700m).

- Export growth posted a significant acceleration as compared with previous months (to 8.1%YoY), as it was supported by reviving external demand, but also by working day effect and low statistical base from the last year. Import accelerated as well (to 3.2%YoY), but its growth rate is still limited due to subdued domestic demand.

- We are expecting that, despite moderate recovery of domestic demand in the upcoming quarters, exports will remain higher than imports, so trade balance (which amounted to +€1.1bn in Q3, similarly as in Q2) will stay in positive territory in the upcoming quarters.

## Economic update



Source: CSO, NBP, BZ WBK

### Improvement of labour market conditions getting clearer

- The average employment in corporate sector amounted to 5495.1k in September and was by over 1k higher than one month ago. The annual growth rate of employment remained below zero, but the pace of decline shrank to -0.3%YoY (the best result since November 2012). These figures confirm that demand for labour is increasing – since April the number of workplaces in the corporate sector is slowly, yet steadily growing, despite still early phase of economic recovery. It seems that companies, faced with accelerating inflow of new orders (mainly from abroad) and rising capacity utilization (as shown by the newest NBP report on business climate), are deciding to scale up their operation (this is also proved by the PMI report).

- Average wage growth in corporate sector accelerated in September to 3.6%YoY. This annual change is clearly higher than recorded in August (2.0%), but close to July's one (3.5%YoY). Strong volatility of these data observed in recent months originates (similarly like in case of the industrial output), among others, from different number of working days as compared to the previous year. Overall, the pace of growth of wages remains moderate (average for June-September period at ca. 2.6%YoY), but is higher than inflation. This means that real wages at disposal of the households have been rising and this supports our forecast of strengthening of the private consumption in H2.

- According to estimates of the Ministry of Labour, in October registered unemployment rate remained at 13.0%, which is in line with our forecast. What is interesting, the number of jobseekers fell vs. September (by 6.7k) even though a seasonal pattern was calling for an increase. Probably this development is due to favourable weather conditions in October, which were supportive for seasonal jobs, e.g. in construction.

### Inflation rise will be slower but we see 2% in mid-2014

- Inflation rate fell in September to 1.0%YoY from 1.1%YoY in August. The decline of the CPI indicator was mainly due to a considerable fall in prices of education (-6.9%MoM), particularly fees for kindergartens (-17.7%MoM) which fell due to amendment to the education law. Food and beverage prices stayed flat as compared to August, while fuel prices increased by 1.8%MoM.

- The pace of price growth has remained low and we do not yet see any signals of strengthening demand-side inflationary pressure. It is quite normal, given that demand is still at the onset of revival.

- As we already noted, a better part of September's downward inflation surprise came from one-off effect due to administrative changes (decrease in cost of kindergartens); its impact on inflation will disappear after 12 months. Equivalent effect (but of the opposite direction) took place in July, when CPI index increased due to introduction of new waste management bill. The lower-than-expected September's inflation reading moves down our predicted inflation path for the upcoming months.

- A further slight decline of CPI is possible in October (to 0.9%YoY), among other factors due to food prices, which, according to our estimates, increased slower than in the corresponding period of the last year, and due to falling fuel prices. Core inflation will probably remain stable. Our forecast of CPI in October is below market consensus (1%).

- In medium term, we are still expecting an upward trajectory. Even though CPI will remain below target at 2.5% in 2014, it may be above path presented in the last NBP projection in H2. In our view, core inflation is also likely to run above NBP path. Higher inflation will be supported – apart from low base effect in H1 – by gradual revival of domestic demand.

## Monetary policy watch

### Fragments of MPC communiqué after November's meeting

Global economic activity remains moderate. (...) Moderate global economic activity has been conducive to low inflation in many countries.

In Poland, industrial and construction output as well as retail sales in 2013 Q3 confirm low, yet accelerating economic growth. At the same time, improving leading indicators point to gradual recovery continuing into quarters to come.

Recent developments of inflation indices along with low inflation expectations confirm that demand and cost pressures in the economy remain low.

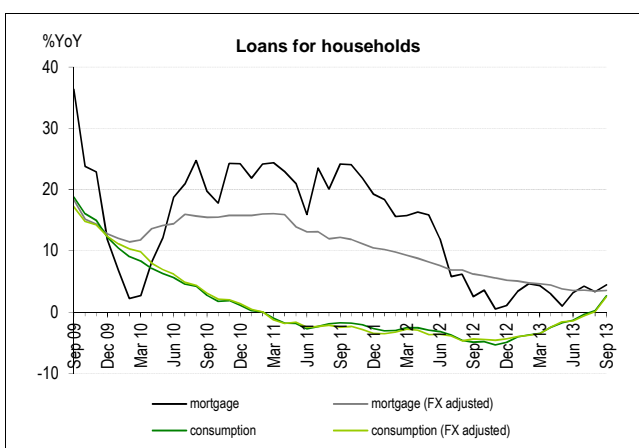
In the opinion of the Council, gradual economic recovery is likely to continue in the coming quarters, however, inflationary pressure will remain subdued. November projection of GDP and inflation confirms this assessment.

The Council decided to keep the NBP interest rates unchanged. In the opinion of the Council, lowering interest rates in the first half of 2013 and keeping them unchanged in the second half of the year supports recovery of the domestic economy, gradual return of inflation to the target and stabilisation in the financial markets.

**Considering the current statistical data as well as the projection of GDP and inflation that confirm low inflationary pressure and the expected moderate economic recovery, the Council assesses that NBP interest rates should be kept unchanged at least until the end of the first half of 2014.**

### NBP's projections in the subsequent *Inflation reports*

	GDP growth			
	Nov 12	Mar 13	Jul 13	Nov 13
2013	0.5-2.5	0.6-2.0	0.5-1.7	1.0-1.5
2014	1.1-3.5	1.4-3.7	1.2-3.5	2.0-3.9
2015	x	1.9-4.4	1.6-4.2	2.1-4.5
	CPI inflation			
	Nov 12	Mar 13	Jul 13	Nov 13
2013	1.8-3.1	1.3-1.9	0.6-1.1	0.9-1.0
2014	0.7-2.4	0.8-2.4	0.4-2.0	1.1-2.2
2015	x	0.7-2.4	0.7-2.4	1.1-2.6



Sources: NBP, BZ WBK

### Interest rates stable until mid-2014

▪ The Monetary Policy Council kept interest rates unchanged (main refinancing rate at 2.50%), which was no surprise. What is most important, the last sentence of the statement (details in the table) means the interest rate will remain at record low levels for over half of a year. During the press conference, NBP President, Marek Belka said straightforwardly that "it is hard to imagine that within six months circumstances change to such an extent that the opinion of the MPC changes".

▪ However, it was stressed that the promise is not 100% unconditional. On the one hand, the MPC sees many advantages of not keeping the market uncertain as regards its future decisions – limited volatility of the FX and fixed income market, as well as positives for households from keeping rates stable for longer. On the other hand, the economic situation is stable and macro indicators change gradually and therefore the MPC sees a risk of making a mistake (by announcing such a long period of stable rates) as very limited.

▪ It is highly likely that the Monetary Policy Council fulfils its declaration, therefore the first interest rate hike should be expected in July 2014 at the earliest. We still expect three interest rate hikes in second half of 2014, though resignation of Zyta Gilowska may be some risk factor (we elaborated on this last month). She will probably be substituted with a member less eager to tighten monetary policy and thus the balance of power within the MPC may change. Before the November's meeting it seemed to us that due to these clear differences of opinions among MPC members it would be hard to find a consensus for extending the declared period of stable interest rates. But they managed to do this!

### GDP clearly accelerates, inflation not that much

▪ Just like we had expected, the new NBP projection assumes higher paths for both GDP and CPI as compared to the July's estimates. According to the NBP, GDP growth is expected to approach 3% in 2014 and to exceed this level in 2015. Our forecasts are very similar.

▪ As regards inflation, the projection was increased only moderately and CPI runs below the inflation target of 2.5% in the medium-term. NBP analysts assessed that risks for CPI forecasts are symmetric. In our opinion, both CPI and core inflation may be above paths presented recently by the NBP already in mid-2014. Even though there will be still no strong inflationary pressure, the MPC is unlikely to keep reference rate at all-time low 2.50% given that inflation will be approaching 2.5% and GDP growth will be close to 3%.

### Higher demand for loans for households

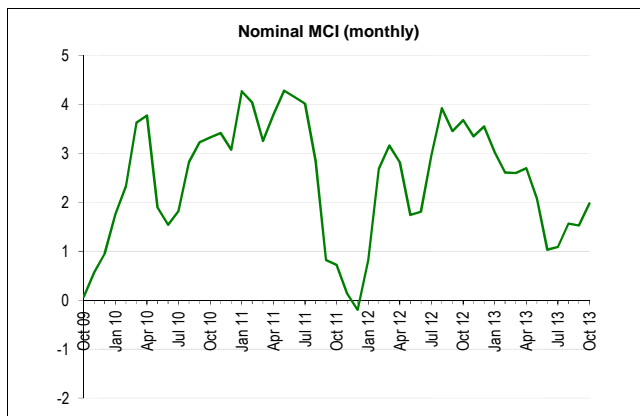
▪ The survey conducted among credit officers showed that in 3Q13 situation on the credit market improved somewhat.

▪ Demand for short term loans increased slightly in the corporate sector. Conditions of disbursing loans did not change much, mainly due to uncertainty regarding the economic outlook and risks related to specific sectors. In our opinion, more obvious signs of an economic rebound should encourage banks to ease the credit policy in the future.

▪ Banks have already noticed the impact of economic recovery on the households' sector and eased conditions for mortgage and consumption loans. There was also some higher demand for mortgage loans and considerable increase for consumption loans recorded. Banks expect further improvement in demand in the next quarter.



## Restrictiveness of the Monetary Policy (Council)



### MCI in the upward trend

- The Monetary Conditions Index increased in October due to zloty's appreciation vs. main currencies and this neutralised the effect of the decline of money market rates.
- We expect further increase of the MCI in coming months, mainly due to strengthening of the domestic currency. The index will be pushed up by stabilisation or some increase of money market rates.
- Also in some broader time horizon we expect tighter monetary policy conditions as the well-established economic recovery in Poland and in global economy should support upward move of interest rates and appreciation of the domestic currency.



**Rzońca (1.44)**

**Winiński (1.45)**

**Gilowska (1.54)**

**Kaźmierczak (1.41)**

**Glapiński (1.38)**

**Hausner (1.03)**

**Belka (0.96)**

**Zielińska-Głębocka (0.81)**

**Chojna-Duch (0.73)**

**Bratkowski (0.58)**



Index is between 0 and 2. A vote for the majority view is given a score of 1. A vote for a more hawkish (less dovish) decision than the majority view has a score of 2 and a vote for a less hawkish (more dovish) decision than the majority view has a score of 0. Value of the index for a given MPC member is a weighted average of points for all votes. Recent votes have higher weights, more distant – lower.

Numbers directly by the name are values of the index for period since the beginning of current term of office of the current MPC and NBP governor.

Direction of the restrictiveness axis reflects our expectations regarding direction of interest rate changes in the nearest 12 months.

### The MPC statement coherent with comments of its members

During the past week some MPC members said that in their opinion interest rates should remain unchanged (at least) until mid-2014. Thus, the statement released after the last meeting is coherent with these comments. During the press conference, NBP governor, Marek Belka, said that stable interest rates do not mean that monetary policy will be boring. He said the MPC will try to describe economic conditions that could lead to change in their perceptions of situation. We wish that in their following comments MPC members pay attention also (or maybe particularly) to this aspect.

#### ... though doves and conservatives are among MPC members

Adam Glapiński not only said that it is basically sure that interest rates will remain at current level until mid-2014, but there is also a high probability that rates will stay unchanged until the end of the next year. This comment shows that he is not a typical hawk, but rather a conservative, who opposes any changes. In 2010 Glapiński was against hikes and in 2013 he voted against cuts. Such an approach is in our opinion a particularly wrong kind of a backward-looking policy. There was also one controversial (in our view) opinion that return to easing bias could be considered (Elżbieta Chojna-Duch). We do not see much chances for such a move and recent speech of Marek Belka (details below) supports such interpretation. In other interview Elżbieta Chojna-Duch said that "there are no clear signs of a visible economic rebound". Those who subscribe to such a view are encouraged to read the second and third page of this report.

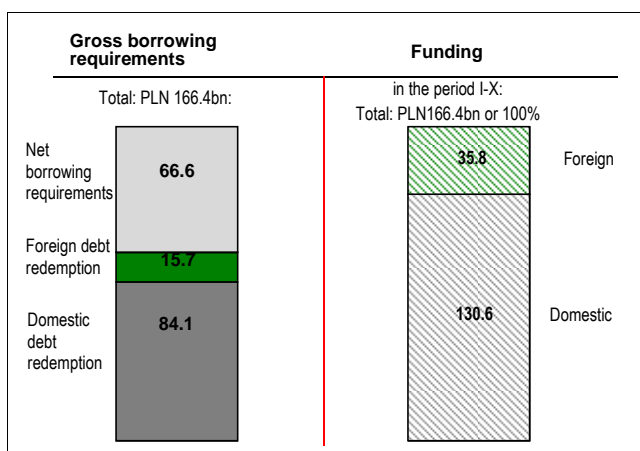
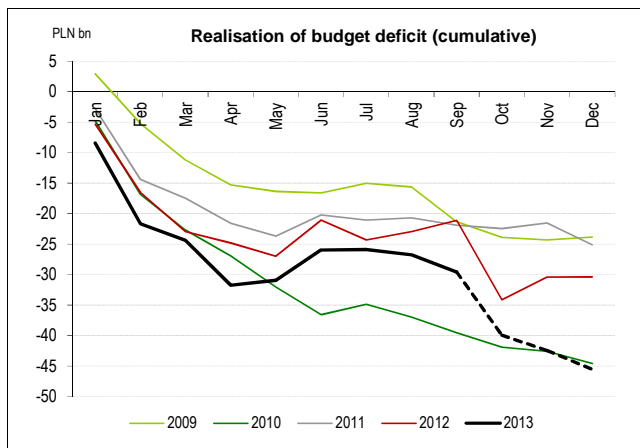
#### Central bank has to know when to take the punch bowl away

On October 22 the ObserwatorFinansowy.pl website published the text of speech delivered by the NBP Governor at the Warsaw International Banking Summit titled "Financial market and low interest rates in the economy". Belka said that the NBP is fully aware that, given the historical evidence, current level of interest rates in Poland is unusual and the central bank has to be particularly careful, as it should not inflate distortions on the financial market while taking care over the economy. Belka reminded a well-known warning of former Fed governor, William McChesney Martin, who said that a good central bank knows when to take the punch bowl away as the party gets going (that is, when to stop cutting/start hiking interest rates). We guess that Belka meant monetary policy in general, not necessarily its current conditions. Still, in our view his words suggest that the return to the easing bias is rather unlikely and perhaps the MPC should start thinking about tightening of the monetary policy. After the November's meeting the MPC has now plenty of time for such considerations and first actions should be expected in second half of 2014.

#### What is the potential GDP growth for Poland?

During the MPC press conference, NBP governor suggested that potential pace of GDP growth for Poland is at least 3% ("3% is a safe number"). It is worth to underline that estimate for 2013-2014 presented in the July's projection was at 2.6% and new projection show similar (and even lower) results. Does Marek Belka not believe those estimates? He said at the same time that there were no controversies regarding the results of new projections.

## Fiscal policy watch



### Donald Tusk, Prime Minister, 8.11, PAP

As I said last month, two months ago, half a year ago and year ago - a government reshuffle will take place in November.

### Jacek Rostowski, finance minister, 6.11, Gazeta Wyborcza

Poland's government should undergo a far-reaching reconstruction. PM Tusk should establish a new team which would lead PO to the parliamentary elections in 2015 and present the program for the coming two years and for the first half of the next term. (...) During the last six years, I was thinking about leaving the government each year. Yet, I'm still there.

### Donald Tusk, Prime Minister, 9.10, Reuters

(Is finance minister's dismissal planned?) This is not true.

### Donald Tusk, Prime Minister, 20.08, Twitter

Minister Rostowski has not filed a resignation! Speculation or witch-hunt?

	Spread vs Bunds (10Y) in bps			CDS (5Y USD)		
	12.11	change since 11.19.13	change since 31.12.12	12.11	change since 11.10.13	change since 31.12.12
Poland	263	6	23	85	-3	5
Czech	55	-8	1	59	-2	-4
Hungary	439	55	-52	268	-5	-1
Greece	702	-12	-351	9	9	9
Spain	235	-11	-165	170	-49	-118
Ireland	178	-8	-141	124	-14	-92
Portugal	417	-22	-152	356	-94	-81
Italy	237	-6	-84	199	-48	-75
France	55	-5	-14	50	-14	-39
Germany	-	-	-	23	-2	-16

Source: MoF, Reuters, BZ WBK

### Budget is doing a bit better than assumed in the amendment

- After three quarters of 2013 the central budget deficit amounted to PLN29.6bn, i.e. to 57.4% of plan after amendment. According to flash estimates of the Ministry of Finance, in October deficit jumped to almost PLN40bn (77.5% of plan). Such a considerable rise versus September was mainly due to payments related to debt servicing. Most probably, spending will be lower in the upcoming two months.

- Growth rate of budget revenues in September stayed at similar level as in earlier two months and the Ministry suggested that tax revenues were favourable in October. Our estimates of realization of tax revenues at the year-end are suggesting a shortage of ca. PLN22-27bn vs. the primary budget bill (before amendment). In our view, budget deficit may be better than assumed in amendment by ca. PLN5-6bn at the year-end.

### MF is already financing the next year's borrowing needs

- In October the Finance Ministry has fully covered this year's borrowing needs (after amendment). In that month the Ministry also placed bonds worth PLN15bn in total. The first auction in November was also popular among investors, as bonds OK0116 and PS0718 worth PLN8bn were placed. Auction was supported by free financial resources present on the market due to buyback of DS1013 and interest payments.

- The ministry was also active on the foreign market, placing euro-denominated bonds worth €700m in October and two tranches of Samurai bond worth JPY60bn in November. Money from both emissions will be used to pre-finance next year's FX borrowing needs.

- Until the year-end, 2014 borrowing needs will be pre-financed with use of switch auctions (ministry plans two of these). FinMin does not rule out further emissions on the foreign markets, including non-standard ones.

### Government reshuffle to include also the finance minister?

- Rumours that the finance minister will step down appeared at least a couple of times over last few months. As for the time being, this was not confirmed. Still, the government reshuffle, supposedly to be conducted in November, become an impulse for renewed speculations in this matter. We do not know if these have any fundamentals. However, the potential resignation of Jacek Rostowski is a risk factor for the FX market in the short run. The market interpretation of information like that will strongly depend on name of Rostowski's successor.

- According to Wprost weekly, Jacek Rostowski can be replaced by Janusz Lewandowski (current Budget and Financial Programming Commissioner of the European Commission). Such a scenario is likely to be positively interpreted by the financial market. However, if the new candidate is not well-known, then this may trigger negative moods versus Polish assets.

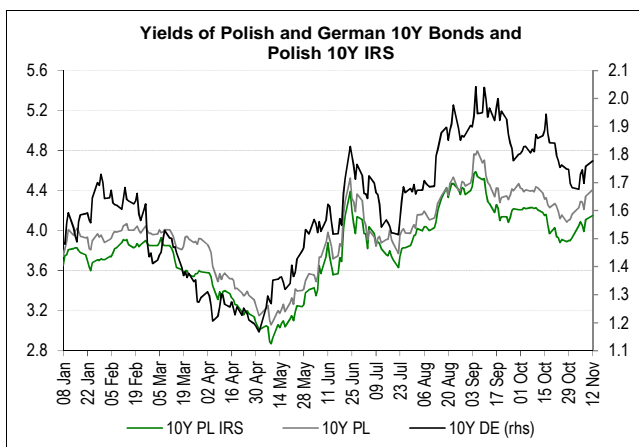
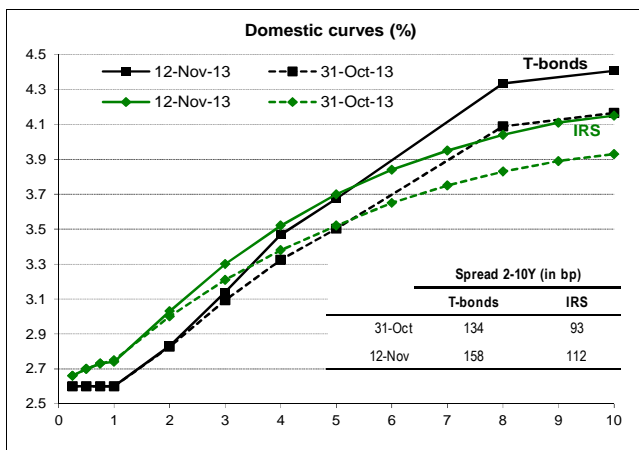
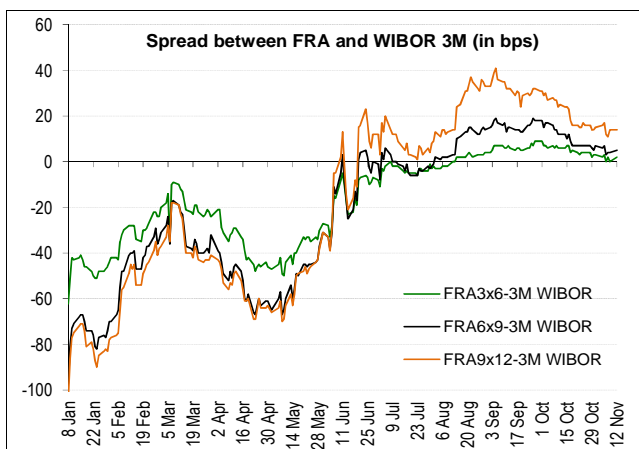
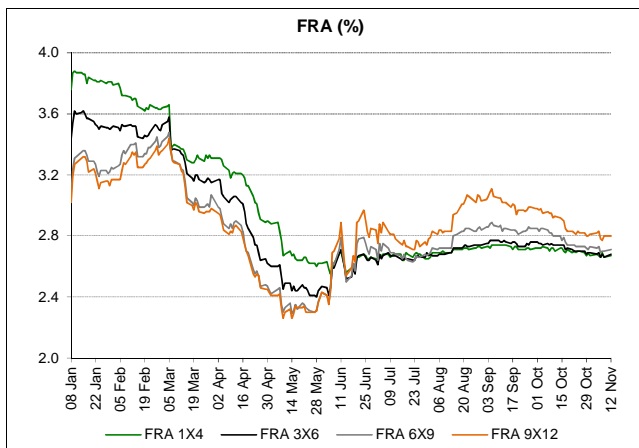
### Fed actions in the spotlight

- The temporary agreement on budget and debt ceiling in the USA and a series of weaker-than-expected data from the US economy have supported demand for safe assets. Moreover, debt of peripheral countries was gaining due to improved global moods and this was reflected in narrowing spreads against Bunds and falling prices of CDS contracts.

- Start of November introduced some volatility on the market. Prior to the ECB decision, investors took profits after recent considerable declines. The unexpected reduction of ECB's interest rates and the still dovish message of the statement gave an downward impulse for yields, which later climbed again after better-than-expected data from the US labour market.

- Start of QE3 tapering is a matter of time. Thus, we maintain our scenario of rising core markets yields in the medium term.

## Interest rate market



Source: Reuters, BZ WBK

## Market more careful on future rate hikes

October was another quiet month on the money market. WIBOR rates were stable; we noted only a 1bp-decline in 3M and 6M rates. In line with market expectations, in November the MPC decided to extend period of stable rates at least until mid-2014. Consequently, WIBOR rates anchored near current levels.

FRA market declined quite considerably in October after a bullish sequence of macroeconomic data, rally on the domestic debt market and some dovish comments from the MPC. Consequently, spread between WIBOR and FRA narrowed. What is more, rate hike expectations (by 25bp in 9 months' time) disappeared. Currently market players are shifting their expectations about the first hike to 4Q2014, pricing-in rates increase by 50bp in 18 months' time.

We expect WIBOR rates to remain relatively stable till year-end as upcoming macro data would be mixed – confirming a continuation of rebound in economic activity, but also showing a low inflationary pressure in economy (with gradual increase in the headline CPI). In our opinion, current market expectations are too optimistic and hikes might take place earlier (3Q2014).

## Correction after significant rally and better data from the US

Polish T-bond and IRS markets posted impressive gains in October. This development was backed by market expectations that the Fed's tapering will be postponed until next year. Consequently, yields and IRS rates eased, with 10Y benchmark declining below 4.10% and 10Y IRS falling below 4.00%, for the first time since end-July. What is more, yields/rates on the long end fell more than on the front end of curves, so both curves moved to bull-flattening.

Market was more volatile at the beginning of November. Ahead of the MPC meeting and auction of Treasury Securities, domestic T-bond and IRS market weakened considerably. However, still dovish rhetoric (the Council announced that NBP interest rates should be kept unchanged at least until the end of the first half of 2014) after November's MPC meeting, good auction results and unexpected rate cut by the ECB delivered a strong downward impulse for yields and IRS rates. This move was only short-lived as better than expected October's reading of non-farm payrolls in the US caused a sharp increase in T-bond yields and IRS rates (in particular on mid and long-end of the curves) following core markets. As a consequence curves became steeper.

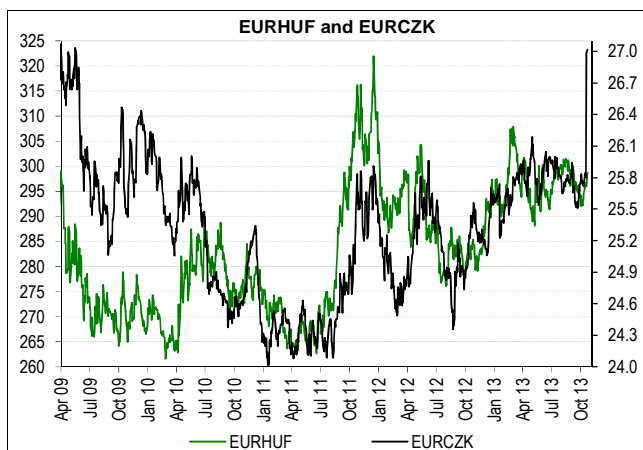
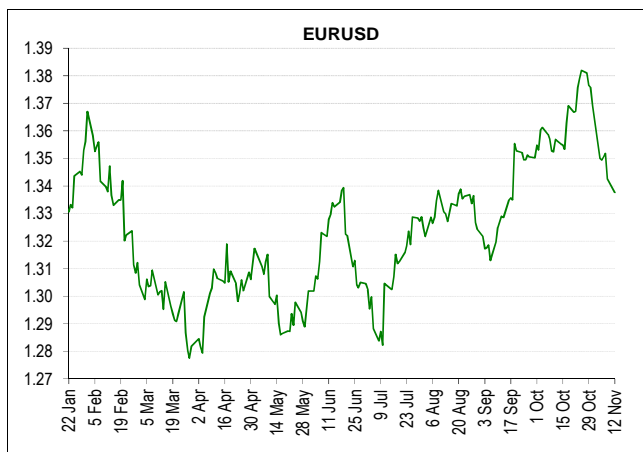
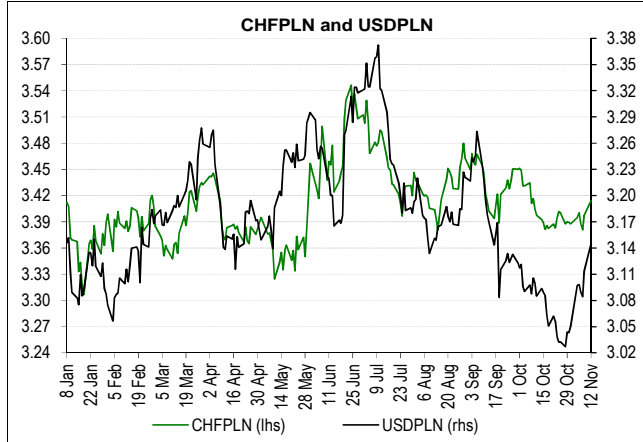
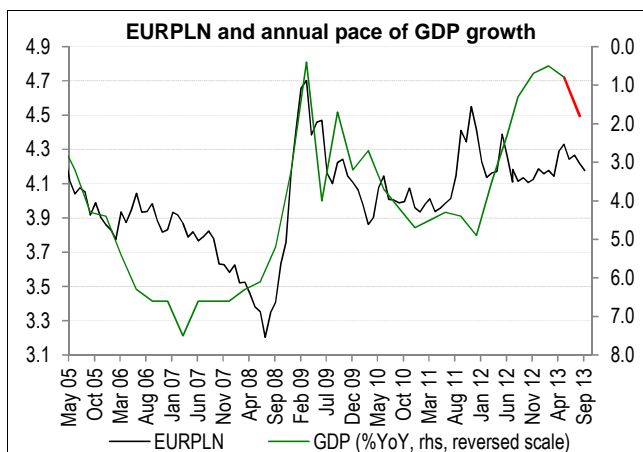
## External factors in focus again

The last couple of weeks show that front-ends of curves are relatively resistant to changes in investors' mood on global markets. Still dovish rhetoric of the MPC and declaration of stable rates (at least) till mid-2014 should support short-term instruments, anchoring 2Y-yield/swap near 3%. We think that also CPI data might support the front-ends of curves – in coming months we expect the headline CPI to stay below the lower border of tolerance range around NBP target.

Medium and longer-term instruments will remain mainly under influence of external factors. Global tendencies will be still the most important factor for domestic yield curve. The market reaction after release of non-farm payrolls in the US clearly show that future Fed's monetary policy again comes to the fore. Renewed worries that FOMC might sooner (than later) start QE3 tapering caused an increase of core market yields. Consequently, it resulted in domestic yields growth, with yield of 10Y benchmark jumping above 4.40%. In medium term (2014) visible signals of economic recovery in Poland together with higher inflation path and faster (than currently expected by market) rate hikes will put some upward pressure on yields and IRS rates on mid and long-end of curves, in particular as a similar trend may be observed on core markets.



## Foreign exchange market



Sources: CSO, Reuters, BZ WBK

### Only marginal changes of EURPLN...

▪ In the last few weeks we saw a couple of interesting events: the ECB unexpectedly cut main interest rate to 0.25%, US stock indexes reached fresh record highs, mixed data emerged from the US labour market and Czech central bank decided to launch FX interventions. Despite that, the situation on the EURPLN market did not change substantially. The exchange rate was on the rise since mid-October amid, among others, profit taking after the US policymakers agreed on debt ceiling and next budget – in line with what the market had been expecting.

▪ Much more volatility was observed in case of USDPLN. Due to the euro's appreciation vs. the dollar (details below), the zloty was the strongest vs. the US currency in 2 years. All in all, in mid-November USDPLN was hovering ca. PLN0.06 above the level seen when our October's MACROscope was issued. Major changes were also recorded on the CZKPLN market. Decision of the CNB (details below) triggered a substantial depreciation of the Czech koruna vs. the euro and this dragged CZKPLN from 0.1623 to 0.1543 (lowest since May 2010).

▪ We expect EURPLN to stay in a 4.14-4.24 range. Our forecasts of flash 3Q GDP and October's industrial output are above market consensus. Just like we have shown already several times, the zloty is a cyclical currency and it gains during economic revival. Recent actions of global central banks (postponing QE3 tapering by the FOMC and ECB rate cut) lead to a situation, when investors are less optimistic about the global economic outlook. If domestic data surprise, then this may have a positive impact on the zloty.

### ... despite high volatility of EURUSD...

▪ The agreement reached by the US policymakers on the budget and the debt ceiling as well as poor September's US labour market data had clear positive impact on the euro vs. the dollar. In late October EURUSD reached 1.383, the highest level since November 2011, but in the following days the single currency lost more than it gained. The downward move of EURUSD was initiated by less dovish than expected FOMC statement, much lower than anticipated flash HICP data in the euro zone and finally by the unexpected ECB's rate cut. Consequently, EURUSD plunged to ca. 1.33 (the lowest level since mid-September) and retraced a half of earlier increase seen since July until late October (from 1.275 to 1.383).

▪ We perceive the sudden plunge of EURUSD seen at October/November turn as only a correction of the upward trend that will be resumed this month. The ECB governor said he does not expect any circumstances that could encourage the central bank to cut deposit rate below 0% and this may ease some pressure of euro. The pace of EURUSD's rebound will depend on the US data that will influence market expectations about the timing of QE3 tapering.

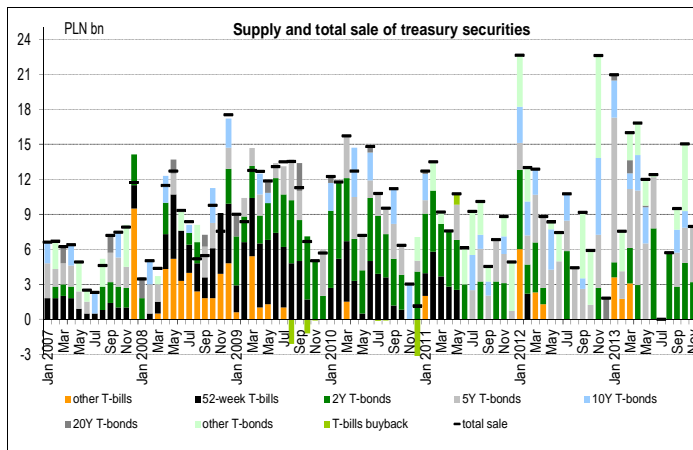
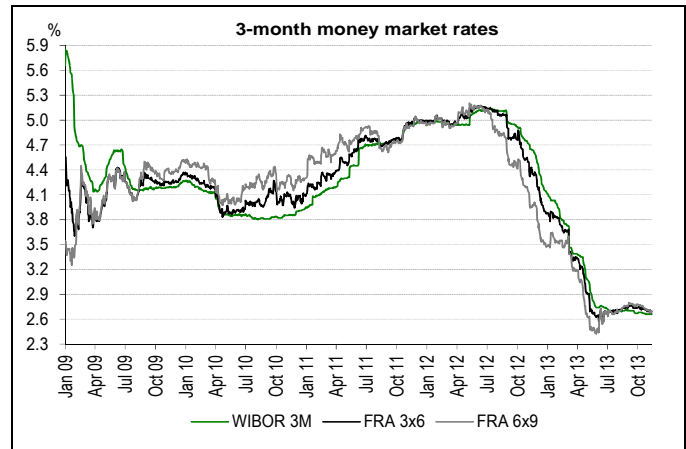
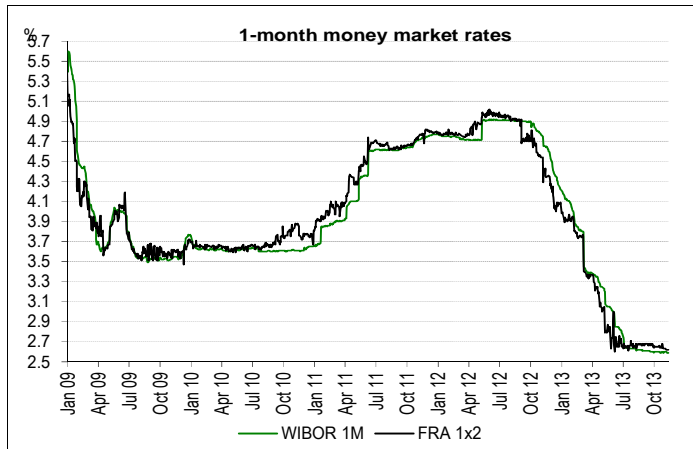
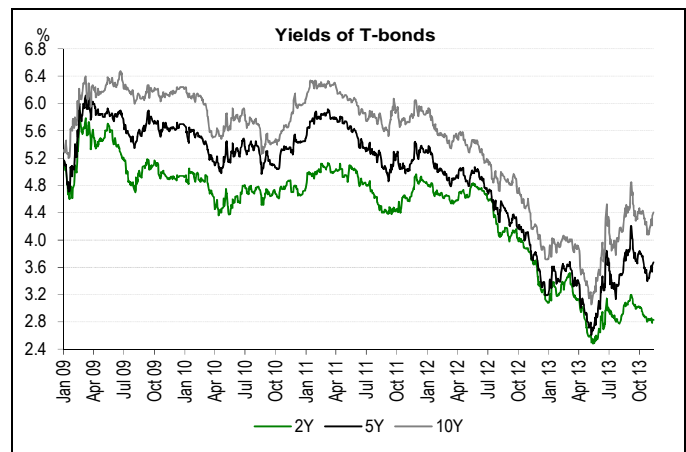
### ... and FX interventions by the Czech central bank

▪ The CNB has been suggesting for already a few months, that after having cut interest rates to 0.05%, it may decide to launch FX interventions as an additional instrument for further monetary policy easing. At the November's meeting the majority for motion to weaken the Czech koruna was gathered. The CNB informed that its official target for EURCZK is 27.0 and immediately after this decision was announced (and due to prompt actions taken) the exchange rate reached this level. CNB's governor, Miroslav Singer, said the central bank intends to keep EURCZK at 27.0 for at least 18 months.

▪ No major changes occurred in the forint market. The ruling party, Fidesz, proposed expanding the scheme that provides a relief to foreign currency mortgage holders to those who owe more than HUF20m or are behind the instalment payments more than 90 days (currently they are not supported). Recently, Hungarian courts issued some contradicting decisions in lawsuits between borrowers and banks so Hungarian government decided that legal issues concerning foreign exchange loans must be settled before it presents his propositions of further relief for creditors.



# Market monitor



### Treasury bill auctions in 2012/2013 (PLNm)

Auction date	OFFER	DEMAND/SALE
09.01.2012	49-tyg.: 1000-2000	5402/2223
30.01.2012	30-tyg.: 1000-2000	3249/1997
30.01.2012	51-tyg.: 1000-2000	4225/1592
27.02.2012	52-tyg.: 1000-2000	6711/2190
26.03.2012	52-tyg.: 1000-3000	5402/2223
23.04.2012	31-tyg.	3117/1332
07.01.2013	20-tyg.: 2000-3000	10967/3602
04.02.2013	20-tyg.: 1000-2000	7728/1747
04.03.2013	25-tyg.: 2000-3000	7324/3084

\* based on data of the Ministry of Finance

### Treasury bond auctions in 2012/2013 (PLNm)

month	First auction				Second auction			Switch auction			
	date	T-bonds	offer		date	T-bonds	offer	date	T-bonds	offer	
December								6.12	OK0113/PS0413	WS	
January '13	3.01	DS1023/WS0429	3000-5000	3664.3	23.01	OK0715/PS0418	6000-9000	13693.8			
February	7.02	PS0418/WZ0117	4000-6000	5806.5	13.02	OK0715/WZ0124	3000-5000	4584.7			
March	20.03	OK/PS/WZ	2000-6000	8080.6					7.03	PS0413/OK0713/DS1013	DS/WS/WZ
April	11.04	DS1023/WZ0124	3000-5000	5029.1	23.04	OK/WZ/PS	5000-10000	11788.6			
May	9.05	PS0718	3500-5500	6498.0	16.05	DS/WZ/WS	2000-6000	5505.4			
June	6.06	PS0718/WZ0119	3000-5000	4606.5					19.06	OK0713/DS1013	
July	-	-	-	-	-	-	-	-	-	-	-
August	7.08	OK0116	3000-5000	5695.0							
September	5.09	OK0112/PS0718	5000-7000	5706.8					25.09	DS1013/OK0114	WZ0119/DS1023
October	3.10	PS0718	2500-4500	3008.0	22.10	OK0116/IZ0823/DS1023	6000-12000	12019.9	16.10	EUR20140203**	445.0
November	7.11	OK0116/PS0718	4000-7000	7964.2	13.11	USD20140115**	100	132.2	20.11	OK0114/PS0414	DS1023/WS/WZ/IZ
December									5.12	OK0114/PS0414	

\* with supplementary auction, \*\* buy-back auction, \*\*\* demand/sale.

Source: MoF, Reuters, BZ WBK

## Economic calendar

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
<b>11 November</b> <i>PL: The Independence Day</i> CZ: CPI (Oct)	<b>12</b> HU: CPI (Oct) <i>PL: Balance of payments (Sep)</i> <i>PL: Inflation report</i>	<b>13</b> EZ: Industrial output (Sep)	<b>14</b> <i>PL: Flash GDP (Q3)</i> <i>PL: CPI (Oct)</i> <i>PL: Money supply (Oct)</i> EZ,DE,HU,CZ: Flash GDP (Q3)	<b>15</b> <i>PL: Core inflation (Oct)</i> EZ: HICP (Oct) US: Industrial output (Oct)
<b>18</b>	<b>19</b> <i>PL: Wages and employment (Oct)</i> DE: ZEW index (Nov)	<b>20</b> US: CPI (Oct) US: Retail sales (Oct) US: Home sales (Oct) US: Minutes Fed	<b>21</b> <i>PL: Industrial output (Oct)</i> <i>PL: PPI (Oct)</i> <i>PL: MPC minutes</i> CN: Flash PMI – manufacturing (Nov) DE: Flash PMI – manufacturing (Nov) EZ: Flash PMI – manufacturing (Nov) US: Philly Fed index (Nov)	<b>22</b> DE: GDP (Q3) DE: Ifo index (Nov)
<b>25</b> US: Pending home sales (Oct)	<b>26</b> <i>PL: Retail sales and unemployment rate (Sep)</i> HU: Central bank decision US: House starts (Oct) US: Building permits (Oct) US: S&P/Case-Shiller (Sep) US: Consumer confidence index (Nov)	<b>27</b> US: Durable goods orders (Oct) US: Michigan index (Nov)	<b>28</b> EZ: Consumer confidence (Nov)	<b>29</b> <i>PL: GDP (Q3)</i> <i>PL: Inflation expectations (Nov)</i> EZ: Flash HICP (Nov)
<b>2 December</b> CN: PMI – manufacturing (Nov) <i>PL: PMI – manufacturing (Nov)</i> DE: PMI – manufacturing (Nov) EZ: PMI – manufacturing (Nov) US: ISM – manufacturing (Nov)	<b>3</b>	<b>4</b> <i>PL: MPC decision</i> HU: GDP (Q3) CZ: GDP (Q3) DE: PMI – services (Nov) EZ: PMI – services (Nov) EZ: Retail sales (Oct) US: ADP report (Nov) US: ISM-services (Oct) US: New home sales (Oct) US: Fed Beige Book	<b>5</b> EZ: ECB decision GB: BoE decision US: Preliminary GDP (Q3) US: Industrial orders (Oct)	<b>6</b> DE: Industrial orders (Oct) US: Non-farm payrolls (Nov) US: Unemployment rate (Nov) US: Personal income (Oct) US: Consumer spending (Oct) US: Flash Michigan (Dec)
<b>9</b> DE: Exports (Oct) DE: Industrial output (Sep) CZ: Industrial output (Oct) CZ: CPI (Nov)	<b>10</b>	<b>11</b> HU: CPI (Nov)	<b>12</b> EZ: Industrial output (Oct) US: Retail sales (Nov)	<b>13</b> <i>PL: Money supply (Nov)</i> <i>PL: Balance of payments (Oct)</i> <i>PL: CPI (Nov)</i>

## MPC meetings and data release calendar for 2013

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
ECB meeting	10	7	7	4	2	6	4	1	5	2	7	5
MPC meeting	8-9	5-6	5-6	9-10	7-8	4-5	2-3	20	3-4	1-2	5-6	3-4
MPC minutes	24	21	21	25	23	20	-	22	19	17	21	19
GDP*	-	-	1	-	29	-	-	30	-	-	29	-
CPI	15	15 <sup>a</sup>	14 <sup>b</sup>	15	15	13	15	14	13	15	14	13
Core inflation	16	-	15	16	16	14	16	16	16	16	15	16
PPI	18	19	19	18	21	19	17	20	18	17	21	18
Industrial output	18	19	19	18	21	19	17	20	18	17	21	18
Retail sales	24	25	22	23	24	25	23	26	24	22	26	-
Gross wages. employment	18	18	18	17	20	18	16	19	17	16	19	17
Foreign trade	about 50 working days after reported period											
Balance of payments*	2	-	28	-	-	28	-	-	30	-	-	-
Balance of payments	18	12	14	15	15	17	12	12	11	11	12	13
Money supply	14	14	14	12	14	14	12	14	13	14	14	13
Business climate indices	22	21	22	22	22	21	22	23	20	22	22	20

\* quarterly data. <sup>a</sup> preliminary data for January. <sup>b</sup> January and February

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

## Economic data and forecasts

## Monthly economic indicators

		Oct 12	Nov 12	Dec 12	Jan 13	Feb 13	Mar 13	Apr 13	May 13	Jun 13	Jul 13	Aug 13	Sep 13	Oct 13	Nov 13
PMI	pts	47.3	48.2	48.5	48.6	48.9	48.0	46.9	48.0	49.3	51.1	52.6	53.1	53.4	53.5
Industrial production	%YoY	4.7	-0.5	-9.6	0.4	-2.1	-2.9	2.8	-1.8	2.8	6.3	2.2	6.2	6.6	-1.5
Construction production	%YoY	-3.6	-5.4	-24.9	-16.1	-11.4	-18.5	-23.1	-27.5	-18.3	-5.2	-11.1	-4.8	-4.7	-10.9
Retail sales <sup>a</sup>	%YoY	3.3	2.4	-2.5	3.1	-0.8	0.1	-0.2	0.5	1.8	4.3	3.4	3.9	3.2	2.6
Unemployment rate	%	12.5	12.9	13.4	14.2	14.4	14.3	14.0	13.5	13.2	13.1	13.0	13.0	13.0	13.4
Gross wages in enterprises sector <sup>a</sup>	%YoY	2.8	2.7	2.4	0.4	4.0	1.6	3.0	2.3	1.4	3.5	2.0	3.6	2.8	3.4
Employment in enterprises sector	%YoY	0.0	-0.3	-0.5	-0.8	-0.8	-0.9	-1.0	-0.9	-0.8	-0.7	-0.5	-0.3	-0.3	0.0
Export (€)	%YoY	19.1	11.2	-1.1	6.4	4.3	-1.2	11.1	0.4	5.1	5.6	1.9	8.1	0.0	5.3
Import (€)	%YoY	9.9	6.6	-0.9	1.1	-6.2	-1.3	1.7	-6.0	-2.2	1.1	-0.7	3.2	-2.4	0.3
Trade balance	EURm	361	-259	-1 156	-64	426	-502	621	2	569	175	246	673	707	408
Current account balance	EURm	-342	-1 315	-1 705	-1 375	-668	-272	436	-204	133	-497	-785	-1 024	-511	-682
Current account balance	% GDP	-3.9	-3.8	-3.7	-3.5	-3.4	-3.2	-3.0	-2.9	-2.4	-2.0	-2.1	-2.0	-2.1	-1.9
Budget deficit (cumulative)	PLNbn	-34.1	-30.4	-30.4	-8.4	-21.7	-24.4	-31.7	-30.9	-26.0	-25.9	-26.8	-29.6	-39.9	-42.5
Budget deficit (cumulative)	% of FY plan	97.5	86.9	86.9	16.4	42.0	47.3	61.6	60.0	50.4	50.3	51.9	57.4	77.5	82.4
CPI	%YoY	3.4	2.8	2.4	1.7	1.3	1.0	0.8	0.5	0.2	1.1	1.1	1.0	0.9	1.0
CPI excluding prices of food and energy	%YoY	1.9	1.7	1.4	1.4	1.1	1.0	1.1	1.0	0.9	1.4	1.4	1.3	1.3	1.4
PPI	%YoY	1.0	-0.1	-1.1	-1.2	-0.3	-0.7	-2.1	-2.5	-1.3	-0.8	-1.1	-1.4	-1.2	-1.2
Broad money (M3)	%YoY	8.0	5.7	4.5	4.4	5.5	6.6	7.4	6.5	7.0	6.6	6.1	6.1	5.8	6.6
Deposits	%YoY	8.1	5.8	4.7	5.0	5.2	6.6	7.1	6.0	6.5	5.6	5.8	6.0	5.9	6.2
Loans	%YoY	5.4	2.3	2.3	3.6	3.7	3.5	2.3	1.4	3.5	3.7	3.3	3.7	3.5	3.8
EUR/PLN	PLN	4.11	4.13	4.10	4.14	4.17	4.16	4.14	4.18	4.28	4.28	4.23	4.24	4.19	4.18
USD/PLN	PLN	3.17	3.22	3.12	3.11	3.12	3.21	3.18	3.22	3.25	3.27	3.18	3.17	3.07	3.10
CHF/PLN	PLN	3.40	3.43	3.39	3.37	3.39	3.39	3.39	3.36	3.47	3.46	3.43	3.43	3.40	3.39
Reference rate <sup>b</sup>	%	4.75	4.50	4.25	4.00	3.75	3.25	3.25	3.00	2.75	2.50	2.50	2.50	2.50	2.50
WIBOR 3M	%	4.82	4.62	4.26	4.03	3.80	3.48	3.29	2.86	2.74	2.70	2.70	2.69	2.67	2.67
Yield on 2-year T-bonds	%	3.94	3.66	3.23	3.25	3.36	3.26	2.89	2.55	2.86	2.87	2.98	3.07	2.90	2.86
Yield on 5-year T-bonds	%	4.12	3.78	3.35	3.46	3.56	3.46	3.03	2.80	3.43	3.36	3.67	3.86	3.62	3.65
Yield on 10-year T-bonds	%	4.59	4.21	3.87	3.91	4.00	3.93	3.50	3.28	3.95	3.97	4.31	4.50	4.28	4.35

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

## Quarterly and annual economic indicators

		2011	2012	2013	2014	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14
GDP	PLNbn	1 523.2	1 595.2	1 631.0	1 700.1	377.9	395.7	404.6	452.9	392.6	413.2	421.5	472.9
GDP	%YoY	4.5	1.9	1.3	2.7	0.5	0.8	1.8	2.0	2.4	2.8	2.8	2.8
Domestic demand	%YoY	3.6	-0.2	-0.7	1.8	-0.9	-1.7	0.1	-0.5	0.6	1.5	2.2	2.9
Private consumption	%YoY	2.6	0.8	0.6	1.8	0.0	0.2	1.2	1.2	1.5	1.7	2.0	2.2
Fixed investments	%YoY	8.5	-0.8	-1.9	2.8	-2.1	-3.2	-2.0	-1.0	-2.0	1.0	4.0	5.0
Industrial production	%YoY	7.7	1.0	2.3	2.9	-2.0	1.2	4.9	4.7	4.1	3.3	1.4	3.1
Construction production	%YoY	12.3	-1.0	-11.0	10.4	-15.6	-22.9	-7.0	-2.3	5.6	15.4	12.4	7.8
Retail sales <sup>a</sup>	%YoY	11.2	6.0	2.3	3.9	0.9	0.8	4.0	3.3	3.6	4.8	2.0	5.2
Unemployment rate <sup>b</sup>	%	12.5	13.4	13.7	13.2	14.3	13.2	13.0	13.7	14.2	13.8	13.0	13.2
Gross wages in national economy <sup>a</sup>	%YoY	5.2	3.7	2.9	4.1	2.6	3.3	3.0	2.8	3.3	4.0	4.5	4.7
Employment in national economy	%YoY	0.6	0.0	-0.6	0.4	-0.7	-1.1	-0.4	-0.1	0.3	0.5	0.5	0.5
Export (€)	%YoY	12.1	5.9	6.0	11.0	3.2	5.5	5.3	10.0	11.0	11.0	11.0	11.0
Import (€)	%YoY	12.2	2.3	0.3	8.9	-2.0	-2.2	1.2	4.0	7.0	8.0	9.5	11.0
Trade balance	EURm	-10 059	-5 175	3 372	6 930	-139	1 194	1 094	1 223	1 345	2 439	1 788	1 358
Current account balance	EURm	-18 519	-14 191	-5 240	-1 333	-2 313	362	-2 306	-983	-203	956	-1 116	-970
Current account balance	% GDP	-5.0	-3.7	-1.3	-0.3	-3.1	-2.3	-2.0	-1.3	-0.8	-0.6	-0.3	-0.3
General government balance	% GDP	-5.0	-3.9	-4.8	-3.5	-	-	-	-	-	-	-	-
CPI	%YoY	4.3	3.7	1.0	1.9	1.3	0.5	1.1	1.0	1.6	1.9	1.7	2.2
CPI <sup>b</sup>	%YoY	4.6	2.4	1.1	2.2	1.0	0.2	1.0	1.1	1.7	2.2	2.0	2.2
CPI excluding food and energy prices	%YoY	2.4	2.2	1.2	1.9	1.2	1.0	1.4	1.4	1.9	2.0	1.8	2.0
PPI	%YoY	7.6	3.4	-1.2	0.7	-0.7	-2.0	-1.1	-1.1	-0.4	0.8	0.7	1.8
Broad money (M3) <sup>b</sup>	%YoY	12.5	4.5	6.1	5.3	6.6	7.0	6.1	6.1	5.4	4.8	6.2	5.3
Deposits <sup>b</sup>	%YoY	11.7	4.7	5.0	6.5	6.6	6.5	6.0	5.0	4.8	4.8	6.1	6.5
Loans <sup>b</sup>	%YoY	14.4	1.2	3.7	4.4	3.5	3.5	3.7	3.7	4.0	2.9	3.1	4.4
EUR/PLN	PLN	4.12	4.19	4.20	4.06	4.16	4.20	4.25	4.18	4.14	4.08	4.04	3.99
USD/PLN	PLN	2.96	3.26	3.16	2.94	3.15	3.22	3.21	3.08	3.04	2.98	2.91	2.85
CHF/PLN	PLN	3.34	3.47	3.40	3.12	3.38	3.41	3.44	3.38	3.28	3.16	3.07	2.95
Reference rate <sup>b</sup>	%	4.50	4.25	2.50	3.25	3.25	2.75	2.50	2.50	2.50	2.50	3.00	3.25
WIBOR 3M	%	4.54	4.91	3.03	3.07	3.77	2.96	2.70	2.68	2.73	2.95	3.18	3.42
Yield on 2-year T-bonds	%	4.81	4.30	2.98	3.44	3.29	2.77	2.98	2.90	3.08	3.32	3.57	3.78
Yield on 5-year T-bonds	%	5.44	4.53	3.46	4.03	3.49	3.09	3.63	3.64	3.77	3.98	4.15	4.23
Yield on 10-year T-bonds	%	5.98	5.02	4.03	4.68	3.95	3.58	4.26	4.33	4.43	4.63	4.77	4.90

Source: CSO, NBP, Finance Ministry, BZ WBK own estimates;

<sup>a</sup> in nominal terms, <sup>b</sup> at the end of period



This analysis is based on information available until 12.11.2013 has been prepared by:

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