

Weekly economic update

18 April – 24 April 2005

Treasury minister Jacek Socha survived no-confidence vote on Friday. Only 192 deputies voted against the minister (and effectively against the cabinet as a whole). Another chance to trigger early election will come at the beginning of May when the Sejm will vote on a motion to dissolve itself. However, it does not seem very likely that SLD will vote in favour of early election, especially as in recent opinion poll it reached support below 5% threshold. The poll showed higher chances for majority coalition of PiS and PO, but with stronger relative position of PiS, which could mean lower chances for fast euro adoption and liberal economic policy.

This week we will see a few more important data releases for March. Very weak results in construction and industrial production are expected due to one working day less, very high base effect, and bad weather conditions. PPI inflation is expected to fall sharply again, which will be another dovish argument for the MPC, after last week's CPI inflation and labour market data. Also, core inflation in March should not speak against continuation of monetary easing, even though main measure (net inflation) is likely to inch up a little. Business climate in trade and construction should keep improving, amid temporary weakening of moods in industry. Expectations for next months should remain optimistic, confirming forecasts of economic revival in the subsequent quarters. Abroad, US producer and consumer prices are important this week given the Fed's recent reference to inflation pressures.

Economic calendar

Time GMT	COUNTRY	INDICATOR (importance level*)	PERIOD	FORECAST		LAST VALUE	
				MARKET	BZWBK		
MONDAY (18 April)							
09:00	POL	Auction for 52- and 13-weeks T-bills – PLN800m and PLN100m (M)					
09:00	EMU	CPI (H)	Mar	%YoY	0.7	-	0.3
TUESDAY (19 April)							
09:00	GER	ZEW index (H)	Apr	-	32.8	-	36.3
09:00	EMU	Industrial Production (M)	Feb	%MoM	-0.5	-	0.5
12:30	USA	PPI (H)	Mar	%MoM	0.6	-	0.4
14:00	POL	PPI (H)	Mar	%YoY	2.1	2.1	3.4
14:00	POL	Industrial Production (H)	Mar	%YoY	-0.5	-0.7	2.1
WEDNESDAY (20 April)							
09:00	POL	Auction for 5y bonds (PS0310) – PLN2.5bn (H)					
12:30	USA	CPI (H)	Mar	%MoM	0.2	-	0.4
-	USA	Beige book (H)	-	-	-	-	-
THURSDAY (21 April)							
14:00	USA	Leading indicators (M)	Mar	-	-0.2	-	0.1
	USA	Greenspan's testimony to Senate Budget Committee					
FRIDAY (22 April)							
08:00	EMU	Balance of payment ECB (M)	Feb	€bn	-	-	-7.9
14:00	POL	Core inflation (H)	Mar	%YoY	2.3	2.4	2.3
14:00	POL	Business climate (M)	Apr	-	-	-	-

* Importance level: (H)igh, (M)oderate; Source: Reuters, BZ WBK, Parkiet

Maciej Reluga Chief economist (+48 22) 586 8363

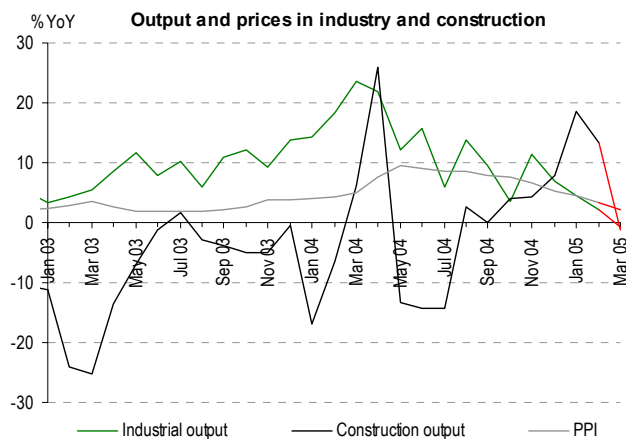
Piotr Bielski (+48 22) 586 8333

Piotr Bujak (+48 22) 586 8341

Tomasz Terelak (+48 22) 586 8342

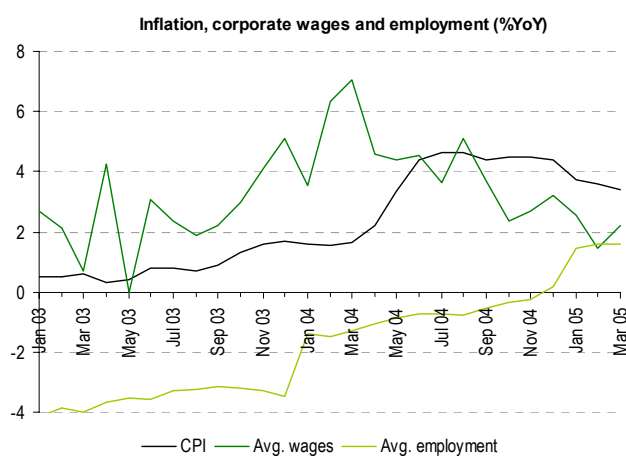
Email: firstname.secondname@bzwbk.pl

What's hot this week – More data this week

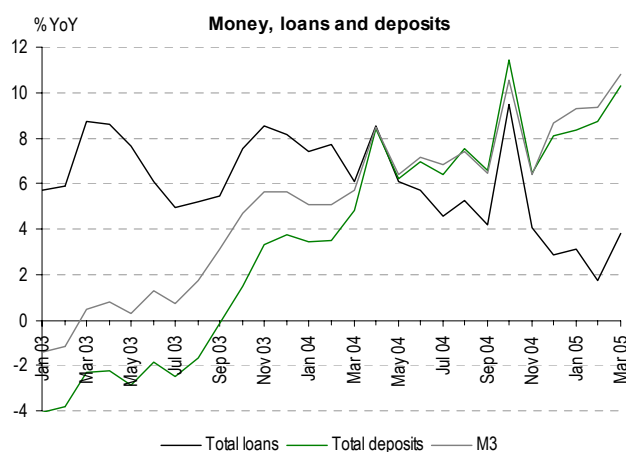


- Negative output growth in industry and construction predicted for March amid high statistical base, lower number of working days and poor weather conditions. Upturn in production expected again in the second year-half.
- PPI still in downward trend, positive for inflation perspectives. In subsequent months producer prices' growth could come down to sub-zero.
- Net inflation slightly up, remaining measures likely to be stable or slightly lower. In general, indices should confirm lack of major threats for inflation.
- Data should not interfere with MPC' rate cut this month.
- Business climate in trade and construction should continue improving in April, while in industry weaker results are still possible. Survey should confirm that subsequent months will bring improvement in economic climate again.

Economy last week – Inflation and wages supporting rate cuts



- CPI fell to 3.4%YoY in March from 3.6% in February. Result was lower than expected again, mostly due to situation in food and fuel markets.
- Subsequent months should see continuation of inflation's downward trend. CPI growth rate should settle at ca. 1.5% in the second half of the year.
- Average wage in corporate sector rose 2.2%YoY, and employment increased 1.6%YoY in March. Average wage bill was higher 3.8%YoY in nominal terms and 0.5%YoY in real terms. Thus far, it was hardly a signal of excessive wage pressure.
- However, subsequent months should see gradual acceleration in wage growth and continuation of employment rise. Taking into account dropping inflation, it would imply significant acceleration in real wage bill growth, which will be much less favourable for inflation prospects.



- Money supply growth accelerated to 10.8%YoY in March. Credit growth remained moderate (3.8%YoY), amid fairly dynamic rise in households' loans (12.7%YoY) and dropping corporate credit (-3.6%YoY).
- After 1Q05 budget deficit reached PLN12.3bn i.e. 35.2% of annual plan. The result was better than expected. March saw some deterioration in revenue rise, however budget realisation remains under control thus far. A risk for budget in the second part of this year will be lower than planned GDP growth and inflation rate.
- Recent opinion poll showed change in social preferences: PiS earned the first place in ranking (24% support), before PO (20%) and Samoobrona (14%). Although chance for majority coalition PO-PiS has risen, the question about new government's economic policy remains.

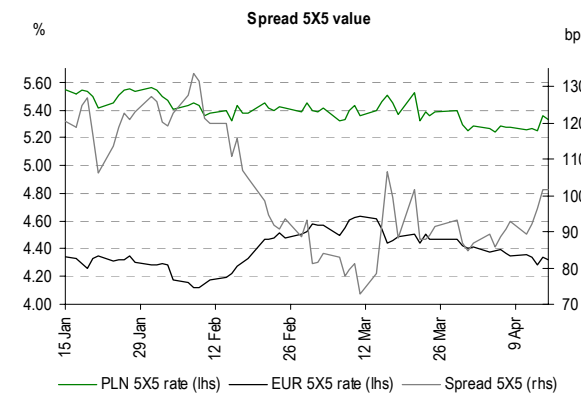
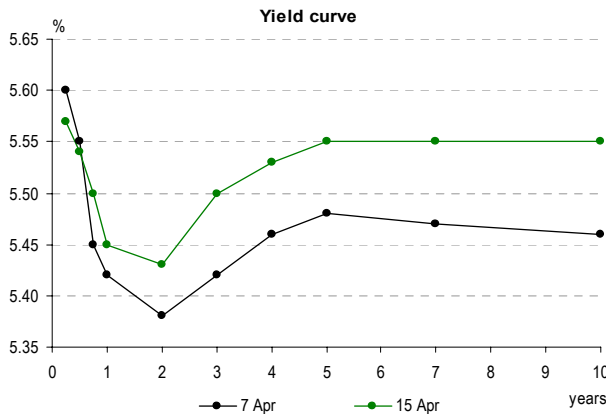
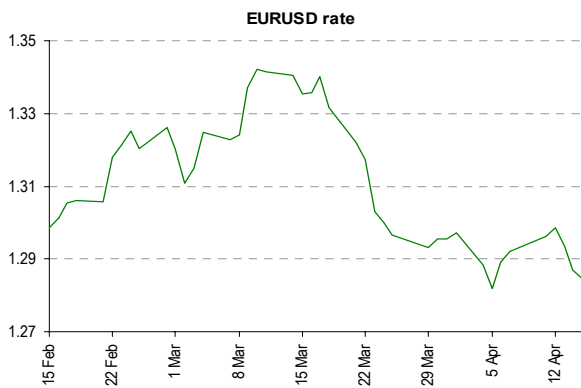
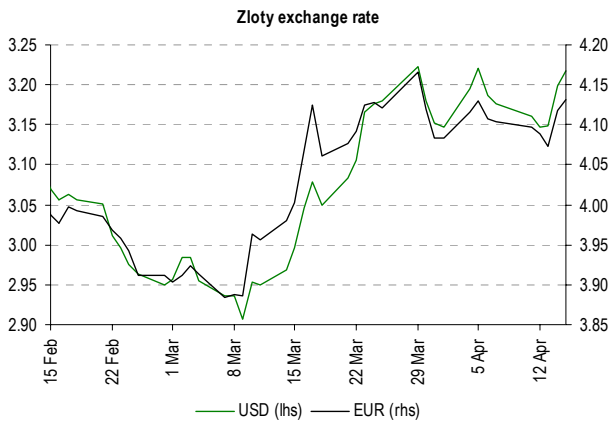
Quote of the week – Will the new cabinet hurry with euro adoption?

Jarosław Kaczyński, PiS leader
PAP, 15 March

Euro adoption is a purely economic issue. It is a matter to discuss and one should not make decision in a hurry, which could be extremely costly, resulting e.g. in fall in domestic income. We have rational approach (towards euro adoption) and we are not radical opponents of the euro.

Clear rise in support for PiS in public opinion polls changes likely balance of strength in future ruling coalition, which rises doubts regarding economic policy of the new government. If PiS maintains leading position in the coalition, Poland's fast entry to the euro zone and finishing public finance reforms by the new cabinet would be under question mark.

Market monitor



Politicians spoil zloty performance

- Apart from constant influence of EURUSD market, Polish currency was dependent on politics, which again signals its presence ahead of voting in May and on events in interest rate market. Though the issue of treasury ministry was positively solved, yet the zloty at the end of the week declined by 1.28% to the dollar and 0.68% to the euro.
- In current week domestic weak data will probably not support the zloty. The closer the outset of May, the stronger player's unwillingness to get rid of hard currency. Consolidation phase, which lasts for a month (4.08-4.14 to EUR and 3.15-3.23 to USD) may come to an end, if EURUSD eventually break from narrow range. So, we expect the zloty to trade between 3.16-3.26 to the dollar and 4.10-4.20 the euro.

The dollar ignores weak data

- Last week EURUSD rate showed meaningful resilience to signals, by nature unfavourable to the dollar, that proves to be its strength. Record high trade gap triggered sharp covering of short dollar positions. Ultimately yet the euro managed to regain some of its losses, despite renewed strong capital inflow into US assets. At the end of the week the dollar was stronger by only 0,5%.
- The outset of the new week will surely not be favourable for the euro, as the market may play on dollar's increase ahead of US inflation data. If it proves to be high, that is the main Fed's concern, the dollar may breach multi-year downward tendency, from which it has been bouncing back for two weeks.

The demand is missing

- Positive sentiment flowing from abroad did not manage to support 10y bond auction, that failure was a consequence of the zloty weakening. It caused an increase of yields along the entire curve by 5-8 bp, mainly on the long end. Inflation lower than market expectations shored up papers prices only briefly.
- Amid highly unfavourable mood in the market FinMin did not propose heavy bond supply for 5y benchmark auction (PLN2.5bn). Presently the curve responds stronger to negative factors, thus positive impact of weaker economic data may not translate into prices. Short end of the curve and FRA prices should not alter strongly due to upcoming MPC meeting.

Spread widens

- Owing to substantial fall of yields on euro curve and mood deterioration in Poland spread 5/5y widened to ca. 100 pb. Because the Polish market responds poorly to positive signals recently, that levels may be retained.
- Behind falls in yields in US laid the Fed report, still meaningful interest of foreign investors in American assets and sell-off in stock exchanges. Bunds followed them and were supported by the IMF on poor outlook for the European economy.
- US inflation will be the main event in interest rate markets. It coincides with Fed's Beige book publication. 10y bonds yields have fallen by almost 50 bp since last hike Fed funds rate what may point that price increase is exhausting.

This publication has been prepared by Bank Zachodni WBK S.A. (a member of AIB Group) for information purposes only. It is not an offer or solicitation for the purchase or sale of any financial instrument. All reasonable care has been taken to ensure that the information contained herein is not untrue or misleading. But no representation is made as to its accuracy or completeness. No reliance should be placed on it and no liability is accepted for any loss arising from reliance on it. Bank Zachodni WBK S.A., its affiliates and any of its or their officers may be interested in any transactions, securities or commodities referred to herein. Bank Zachodni WBK S.A. or its affiliates may perform services for or solicit business from any company referred to herein. This publication is not intended for the use of private investors. Clients should contact analysts at and execute transactions through a Bank Zachodni WBK S.A. entity or an AIB Group entity in their home jurisdiction unless governing law permits otherwise. Copyright and database rights protection exists in this publication.

Additional information is available on request. Please contact Bank Zachodni WBK S.A. Treasury Division, Economic Analysis Unit, ul. Marszałkowska 142, 00-061 Warsaw, Poland, phone (+48 22) 586 8363, email ekonomia@bzwbk.pl, <http://www.bzwbk.pl>



Bank Zachodni WBK
is a member of
Allied Irish Banks Group