Poland's Economy. Financial Markets

26 October 1999 No. 5

Main Tendencies in the Economy:

- September saw surprisingly high growth in consumer and producer inflation rates caused by higher food prices (2.5% growth m/m), and delayed effect of the growth of excise duty for fuel in August. Prices of commodities and consumer services in September this year increased by 1.4% on a monthly basis and 8.0% on an annualised basis. From January to September, consumer prices grew by 6.6% against 6.9% in the corresponding period last year. (page. 4)

- In September, prices of sold industrial output increased by 0.7% on a monthly basis and 5.9% on an annualised basis. From January to September 1999, prices of sold industrial output increased by 5.5% against 4.3% growth in the corresponding period last year. (page 4)

- August's data in respect of current account deficit were rather negative. In August this year, the current account deficit reached USD 736m after it had reached USD 1.067bn in July this year. In August, the trade deficit was lower than in July - USD 1.2bn. From January to August, the current account deficit reached USD 6.8bn (6.7% GDP), which means over 2.5 -fold growth year on year. (page 4)

- In September, Industrial Output grew by 9.5% on a monthly basis and was 8.9% up on September 1998. The growth in the industrial output was a result of higher manufacturing output which was up 10.3% year on year. (page 5)

- The unemployment rate in September was up to 12.1%,after it had reached 11.9% in August this year. There were 2,178m unemployed which is 34k more than in August, and 501k more than in September 1998, when the unemployment rate was 9.6%. (page 5)

- After having fluctuated around the parity at the end of September, the zloty deteriorated and fluctuated at 1.5% below the parity. Unless the current account deficit improves significantly, especially in exports, or F/X flows from the privatisation transactions emerge, the zloty may become even weaker. Good results of export and privatisation of PKN may strengthen the zloty again up to the parity level. The factor which may limit the growth of the Polish currency will be the Y2K problem and expectations of the interest rate increases. (page 6)

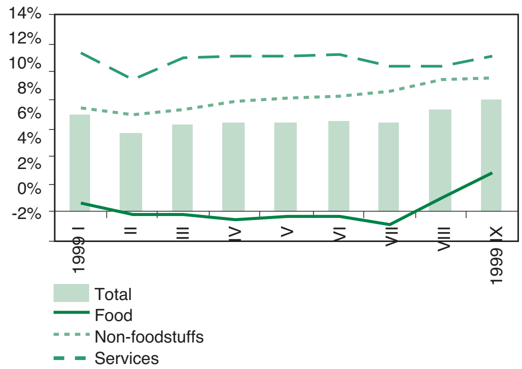
- Over the last month, the yield curve has flattened and moved to a higher level by ca. 1%. Further growth in yields is likely (page 7)

- After the lack of a decision on the interest rate increase on 20 October, and in the context of negative macro-economic data and signals of the growing public finance deficit, an at least 1% interest rate increase is very likely to occur in the near future (pages 8 and 9)

- Improvement symptoms in exports (page 10).

Arkadiusz Krześniak

Inflation rate y/y



In this Issue

Current Poland's economic stranding.

The upcoming two quarters will see a high inflation rate. Deflationary tendencies in food prices, which limited consumer price growth, stopped in August this year. Concurrently, from August this year, prices of non-food commodities indicated faster growth. Despite the fact that high inflation could be expected in December, current inflation tendencies exceed the market expectations from a few months ago by over 1%. In December, inflation is likely to reach 8.7% on an annualised basis. In 1999, on a yearly average basis, consumer prices will probably increase by 7.1%. In 2000, average yearly inflation may increase up to 7.6%, however, in December 2000, it may still be within the inflation target assumed by the Monetary Policy Committee (5.4-6.8%). Currently, Poland is facing a challenge to restructure its economy, which would enable it to permanently overcome inflation which is much of a cost nature. However, the following six months will face inflation on the world's scale. In the markets of crude oil and raw materials, a fast reduction in prices should not be expected. At the same time, main economies - American and the euro zone are entering a monetary policy tightening period. In the euro-zone, the demand for products from the Central and Eastern Europe is increasing, which has been already reflected in positive changes in the geographical structure of Polish exports. The current account deficit will still contribute to the weakening of the zloty. It seems that in August there was a structural change in foreign trade and the downward tendency which had sustained since March 1999 was stopped. However, the trade balance is still deteriorating which will be reflected in the current account deficit. Positive signals are good results in industrial output caused by good market trends in the manufactoring industry. GDP in 3 and 4Q 1999 should grow, exceeding 4.0 and 6.0% respectively. The main stimulus which will support economic growth until the end of the year will be internal demand which sustains at a high level. In 4Q, the additional stimulus will be an external demand and the acceleration of gross expenditures for fixed assets related to it. The end of this year will be determined by the Y2K problem, which will trigger the maintenance or further rate increases in the inter-bank market. The Y2K problem will restrict the possibilities of zloty growth, however, a certain appreciation will be possible due to F/X flows associated with the privatisation.

Tab. 1. Inflation Indicators

	05 1999	06 1999	07 1999	08 1999	09 1999	10 1999F
Consumer Price Index (m/m %)	0.7	0.2	-0.3	0.6	1.4	0.9
Consumer Price Index (y/y%)	6.4	6.5	6.3	7.2	8.0	8.4
Sold Industrial Output Index (m/m%)	0.5	0.1	0.5	0.9*	0.7	0.6
Sold Industrial Output Index (y/y%)	5.2	5.2	5.5	5.9*	5.9	6.1
Monthly Average FX Rate (y/y%)	15.2	13.0	12.2	10.2	13.4	-
Import Price Index in PLN (y/y%)	8.2	4.8*	5.1	-	-	-

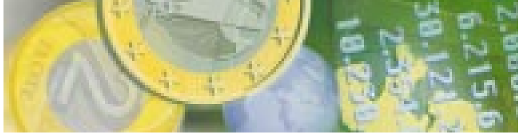
Tab. 2. Activity Indicators

	04 1999	05 1999	06 1999	07 1999	08 1999	09 1999
Retail Sales Index (m/m %)	-0.9	3.1	2.1	4.2	0.6	0.4
Retail Sales Index (y/y%)	16.3	19.3	25.3	26.4	25.9	24.8
Personal Loans (y/y %)	37.4	39.4	41.1	42.8	44.8	46.9
Industrial Output (m/m%)	-7.0	1.2	0.1	-2.0	4.6*	9.5
Industrial Output (y/y %)	0.3	2.2	1.0	1.4	7.1*	8.9
Exports current prices (y/y %)	-13.5	-18.8	-22.9	-28.7	-16.6	-
Imports current prices (y/y %)	-8.6	-9.9	-7.4	-12.5	0.5	-
Foreign Trade Balance (USD mio)	-1036	-1031	-1302	-1340*	-1214	-

Tab. 3. Poland's Economy

	1996	1997	1998	1999F
Gross Domestic Product (y/y%) (fixed prices) of which:	6.0	6.8	4.8	3.7
Individual Consumption (y/y %)	8.3	6.9	4.9	4.8
Gross Fixed Assets Expenditures (y/y%)	19.7	21.7	14.5	7.0
Exports (y/y %)	12.0	12.2	1.3**	-
Imports (y/y %)	28.0	21.4	7.8**	-
Inflation (yearly average %)	19.9	14.9	11.8	7.1
Inflation (year on year %)	18.5	13.2	8.6	8.7
Unemployment Rate (year end %)	13.2	10.3	10.4	12.3
Current Account Balance/GDP (%)	-1.0	-3.2	-4.2	-6.7
Public Debt / GDP (%)	51.1	47.9	43.1	46.0

* - official data adjustment ** - estimated data (SNA) F - forecast
y/y - year on year m/m - month on month
Source: CSO, WBK Treasury and International



*Tab. 4. Foreign Exchange Rate Forecasts**

Period	EUR/USD	USD/PLN	EUR/PLN	GBP/PLN	GBP/USD	DEM/PLN	FRF/PLN	NLG/PLN
Currently	1.0532	4.2300	4.4548	6.9509	1.6433	2.2777	0.6791	2.0215
0 - 1 month	1.04 - 1.08	4.08 - 4.20	4.36 - 4.47	6.70 - 7.00	1.63 - 1.67	2.23 - 2.29	0.67 - 0.68	1.98 - 2.03
1 -3 month.	1.05 - 1.10	4.00 - 4.15	4.29 - 4.45	6.60 - 6.96	1.64 - 1.68	2.19 - 2.28	0.65 - 0.68	1.95 - 2.02
3 - 6 month	1.08 - 1.15	3.98 - 4.10	4.42 - 4.51	6.58 - 6.92	1.65 - 1.69	2.26 - 2.30	0.67 - 0.69	2.00 - 2.05
6 - 12 month.	1.09 - 1.16	3.98 - 4.12	4.52 - 4.66	6.62 - 6.99	1.66 - 1.70	2.31 - 2.38	0.69 - 0.71	2.05 - 2.11

* - the most likely rate volatility band in a specific period

Forecast date: 28.10.1999

Note: Informational forecast based on information currently available. WBK Treasury and International Division cannot guarantee that exchange rates will follow the patterns as shown above.

Tab. 5. Interest Rate Forecasts

Period	Official Rates		Yields			Market Rates	
	Intervention	Lombard	52W T-Bills	3Y Treasur Bonds	5Y Treasur Bonds	1M WIMEAN	3M WIBOR
Currently	14.00	17.00	14.85	14.03	12.10	14.28	17.00
0 - 1 month	14.0 - 15.5	17.0 - 19.0	14.5 - 15.3	14.0 - 14.8	11.9 - 12.7	14.3 - 16.0	17.0 - 18.0
1 -3 month	14.0 - 15.5	17.0 - 19.0	14.3 - 14.8	13.8 - 14.3	11.8 - 12.2	15.4 - 17.0	16.0 - 18.0
3 - 6 month	14.0 - 15.5	17.0 - 18.0	12.4 - 14.0	12.5 - 13.6	10.9 - 11.9	14.5 - 15.9	14.3 - 15.8
6 - 12 month.	12.0 - 14.5	15.5 - 17.0	10.9 - 12.5	10.6 - 12.5	10.4 - 11.5	12.5 - 14.8	12.3 - 14.8

Forecast date : 27.10.1999

Note: Informational forecast based on information currently available. WBK Treasury and International Division cannot guarantee that interest rates will follow the patterns as shown above.

Inflation - Consumer Prices

September saw unexpected growth in consumer and producer inflation driven by increases in food prices (2.5% month to month growth), as well as a deferred effect of increases in the excise duty on petrol in August. *Prices of goods and services* saw an increase of 1.4 on a monthly basis and 8.0% on an annualised basis in September this year. Between January and September this year, consumer prices were up 6.6% as compared to the growth of 6.9% in the same period last year. Inflationary trends will dominate the economy over the next two quarters. A dramatic increase in consumer prices experienced in September was driven by the correlation of high oil prices and increased excise duties, as well as by a decline in domestic food supply and increased protection of the domestic market against imports of food. Although these phenomena are temporary, they may have a medium-term impact on inflation. As monitored since March this year, prices of non-food products indicate stable growth, which was until then suppressed by low food prices and a fall in the growth in alcoholic beverage prices. Inflationary pressures driven by prices of food, services, and non-food products are likely to prevail in the near future. This will result in an increase of average annual inflation by 0.5% in 2000, as compared to 1999.

Inflation - Producer Prices

Sold industrial output prices in September increased by 0.7% on a monthly basis and by 5.9% on an annualised basis. Between January and September this year, sold industrial output prices increased by 5.5% as compared to the corresponding period last year. Last two months saw a considerable increase in producer prices, most probably driven by supply factors (raw-material prices, devaluation of PLN). This is yet another factor reducing effective decline in consumer prices. Producer prices are likely to grow; however the dynamics may decrease.

Balance of Payments

According to information for August the current account was a negative figure. In August this year, the current account deficit reached USD 738m, with USD 1.067bn recorded for July this year. The trade deficit in August was a little lower than in July i.e. USD 1.2bn. Between January and August, the current account deficit was USD 6.8bn (6.7% of GDP), which represents over 2.5 fold y/y growth.

According to the NBP, the trade deficit for January-August 1999 in payment terms was USD 8.7bn (8.6% of GNP), which represents 10.9% growth as compared to the same period last year. During the first 8 months of 1999, exports in payment terms declined by 13.4% down to USD 17.5bn, whereas imports declined only by 6.6% to USD 26.2bn. As previously, the trade data do not indicate any growth in exports. The deterioration of the current account deficit was mainly driven by a 46.3% decline in unregistered cross-border trade volumes, as well as by a 5-fold increase of the services deficit.

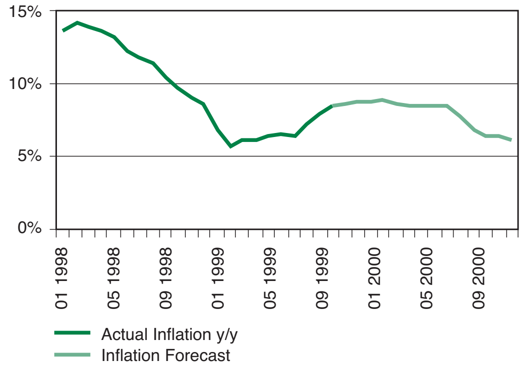
The balance of foreign direct investment for January-August was USD 3.071bn, which indicates a y/y decline of 11.4%.

The balance of portfolio investments for the period concerned was negative figure of USD 168m.

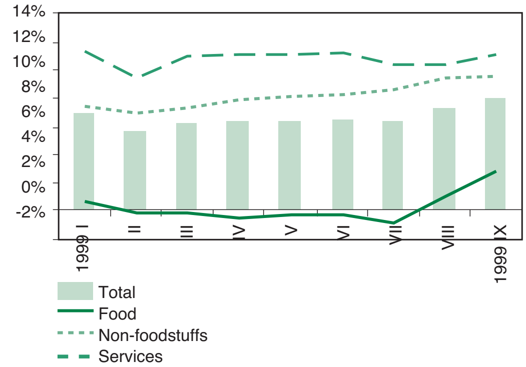
The current account deficit for the first 8 months of 1999 was financed in 61% by the capital and financial accounts, and in 39.6% by the balance of errors and omissions, represented, among others, by swap transactions. In the period concerned there was not a net capital outflow from Poland. An insignificant inflow of gross official reserves at USD 61m was recroded, as compared with USD 6.1m of accumulated foreign currency reserves in the same period last year.

Gross official reserves declined in September by USD 10m, down to USD 26.0bn.

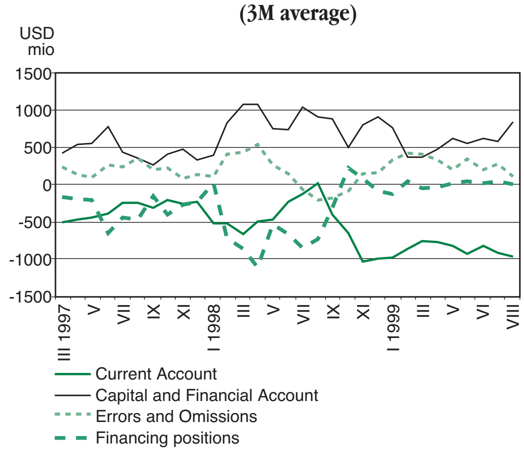
Inflation forecast



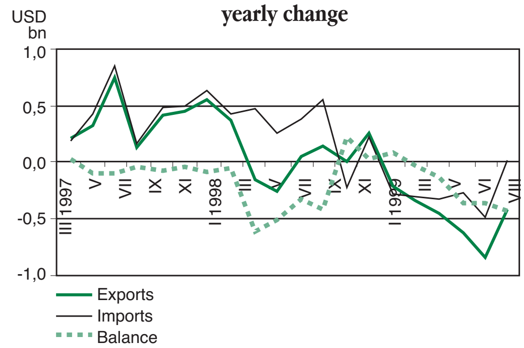
Inflation rate y/y

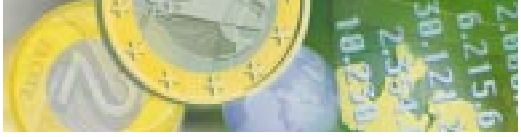


Balance of Payments (3M average)



Merchandise Trade (NBP) yearly change

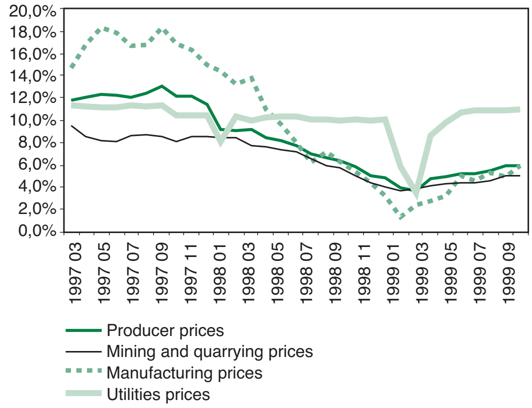




Corporate Debt

At the end of Q2 of 1999, the corporate debt was PLN 312.2bn, i.e. up 28.2% on the previous year. At the end of 1998, the corporate debt reached PLN 294.2bn, which indicated an increase of almost 40% compared to 1997.

Producer Prices y/y change

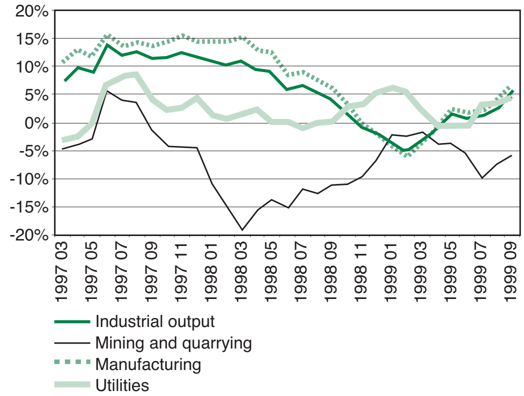


Industrial Output

Industrial output in September this year increased by 9.5% on a monthly basis and was up 8.9% on September 1998. The increase in industrial output experienced last month can be attributed to revitalised manufactoring activities, which grew by 10.3% y/y. The January-September period saw an industrial output increase of 1.9% compared to the same period last year.

Construction and installation output in September increased by 8.8%, which represents y/y growth of 5.2%. Positive industrial output results for September may indicate a higher demand for Polish export products. The chart aside shows a definite upturn in industrial output trends recorded after Q1 this year. Increases in output, with ca. 2 quarters delay, will impact the labour market, which should result in halting increases in the unemployment rate in the corporate sector, as well as prevent further growths in unemployment rate.

Industrial Output y/y change (3M average)



Labour Market

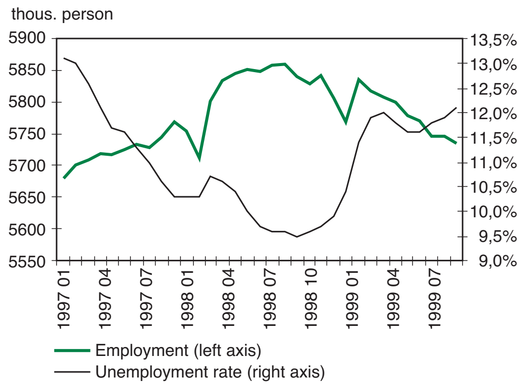
The unemployment rate recorded for September this year indicated an increase up to 12.1% (11.9% noted in August this year). The number of unemployed for September was 2,178,000, which represents growth of 34,000 compared to August, as well as an increase of 501,000 compared to September 1998, when the unemployment rate was 9.6%.

Average employment in enterprises in September this year was 5,735,400, down 0.2% on August. Annualised average employment in enterprises declined by 1.6%. During the first 9 months of 1999, employment in enterprises went down 0.7%.

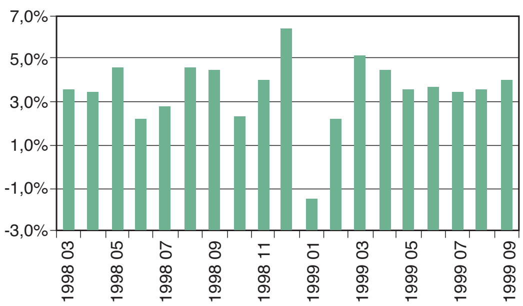
The average gross salary level in enterprises was up 2.8% in September resulting in a figure of PLN 1,874.91, and represented an increase of 12.3% on the previous year. This represents a salary increase of 4.0% in real terms. The average salary in the January-September period was up 10.4% compared to the same period last year.

An improved situation in the manufacturing and services sector will not result in an improvement in the labour market in the short run. The unemployment rate is predicted to remain high or may even increase due to the restructuring of the public sector and the expiration of employment protection clauses in aleready privatised enterprises.

Unemployment rate and employment in business sector



Real Wages Growth (y/y)



Fundamental factors weaken zloty

After a period of oscillations around the parity rate at the end of September, the zloty moved into the weaker side of the parity. The turnover in the fx market was not high, which increased the sensitivity of the zloty to macroeconomic data.

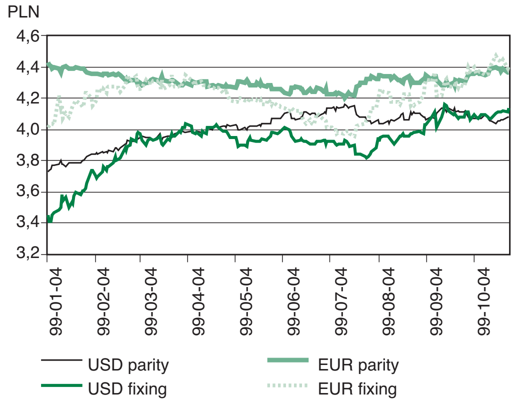
In October, on average, the zloty weakened against the euro by 1.02 percent month on month and against the US dollar by 1.20 percent m/m. At the beginning of the month, the zloty was characterised by high volatility due to current account uncertainty and inflation speculations. Along with the news on expected inflation, current account deficit and negative money supply trends (strong, 46.9- percent personal lending growth), the zloty was gradually weakening, striking the resistance level slightly 1.5 percent below the parity. At present, the fx market is very shallow and very sensitive to negative signals. Fx flows expected from IPO of 30% of shares in Polish Oil Company (Polski Koncern Naftowy) has not come to the market yet. It is expected that some USD 400 to 500m can flow through the forex market due to this privatisation. Fundamental signals are however very negative now and until there is a significant improvement in the current account deficit on the export side in particular, or until fx revenues from privatisation come, the zloty might continue to weaken. As a result of a good export performance and the PKN privatisation the zloty might once again appreciate and get close to the parity rate. The factor limiting the strengthening of the Polish currency will however be the Y2K problem and concerns over interest rate increases.

After the fall, the US dollar strengthens its position against the euro. The pound sterling is strong.

In October, the euro strengthened against the US dollar on average by ca 1.02 percent. After a very low fixing on 14 September this year the euro exchange rate was only 1.0357 against the dollar and the EUR/USD rate contines to increase by 15 October, when it reached the highest level since March this year. The weakening of the dollar was caused by apprehension of an interest rate interest and corrections on the N.Y.S.E. Good results of the American economy and the lack of direct economic growth indicators in euro countries, however, resulted in strengthening the dollar against the euro. At the fixing on 26 October, USD 1.0594 was paid for one euro.

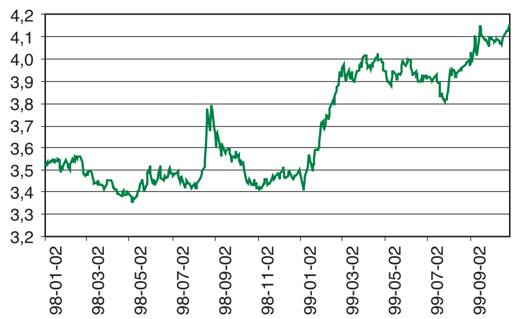
After the period of stabilisation in the first half of October, when PLN 6.72- 6.78 was paid for GBP, the GBP/PLN exchange rate exhibited considerable growth, reaching PLN 6.9117 at the fixing on 21 October. This was related to the strengthening of the pound sterling against the US dollar (on 21.10. the GBP/USD exchange rate increased up to USD 1.67, the highest level since the beginning of the year), and to the weakening of the zloty against the currency basket in recent weeks.

Exchange rates

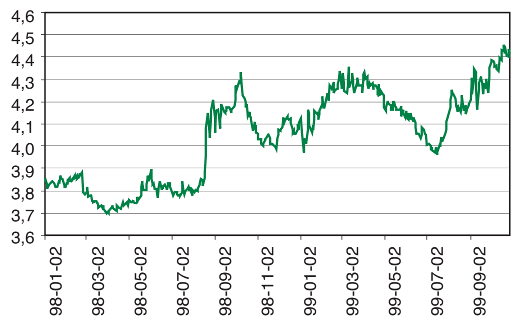


Deviation of exchange rate from central parity (weighted average of USD and EUR)

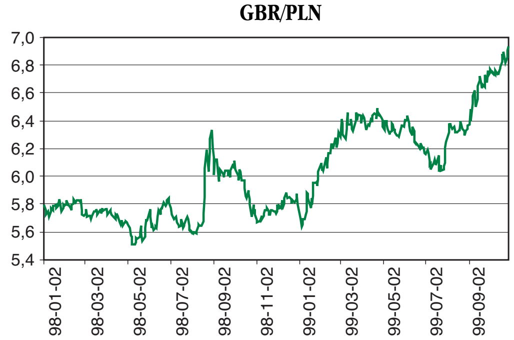
USD/PLN

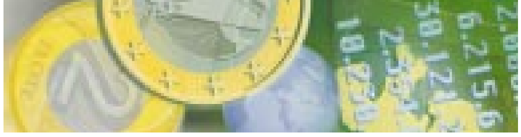


EUR/USD



GBR/PLN





Interest Rates

Last month, the situation in the money and bond markets was determined by expectations of an official interest rate increase by the NBP on 20 October. Yet it turned out the Monetary Policy Committee decided not to change official interest rates. What trigged the correction in the short-term market rates occurred. The additional factor influencing short term interest rates of deposits and placements was the purchase of an NBP bonds in return for the relaxation of the obligatory reserve requirement as of 30 September 1999. At the end of September, banks looked for short term money in order to finance the purchase of 13bn worth of the NBP bond. The lack of short term liquidity and concerns over the next interest rate increase caused WIBOR rates to grow considerably. After a temporary decrease in interest rates in the second week of October, market interest rates increased again before the Monetary Policy Committee meeting. After the announcement that the interest rates would not be raised, interest rates on deposits and placements up to 1M fell rapidly due to the surplus short term liquidity. At the same time, 3M and 6M WIBOR rates continued to increase, exceeding the Lombard rate last week. Next month 1M WIBOR should be expected to grow considerably and 3M and 6M rates should stay at high levels. Rates less than 1W can increase up to the open market operations level.

Treasury Bills

Since the beginning of the month, the State Treasury demand for short term funding has grown considerably. This was related, among others to the buy back of OS1099 and RS1099 bonds. In the first week of October, the Ministry of Finance offered T-bills and bonds for nearly PLN 5bn. Due to the expected interest rate increase and accumulation of liquidity by banks in the run up to 2000 and other factors lowering the liquidity of the banking industry, T-bill yields at October auctions increased considerably. The Ministry of Finance could no longer realise high price on T-bills by turning down high yielding bids. In the view of the expected interest rate increase, at least by 100 basis points, T-bill yields in the primary and secondary markets had to increase. In the primary market, the increase was 1.09 percent for 13W bills and 1.43 percent for 52W bills. In the secondary market, T-bill yields increased from 61 basis points (9M bills) up to 82 basis points (3M bills). T-bill yields should continue to grow as interbank rates grow.

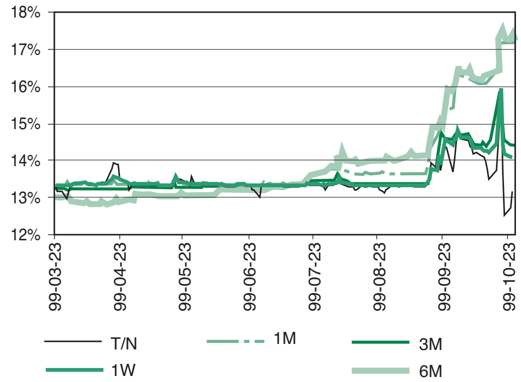
Treasury Bonds

Unfavourable macroeconomic data on inflation, the CA deficit and the state of the public budget as well as expected interest rate increases led to the sale of Treasury bonds. The 5Y bond yield increased by as much as 126 basis points and the yields on 2Y and 3Y bonds grew by 107 and 114 basis points respectively. Over the last month, the yield curve flattened and moved to a higher level by ca 1 percent.

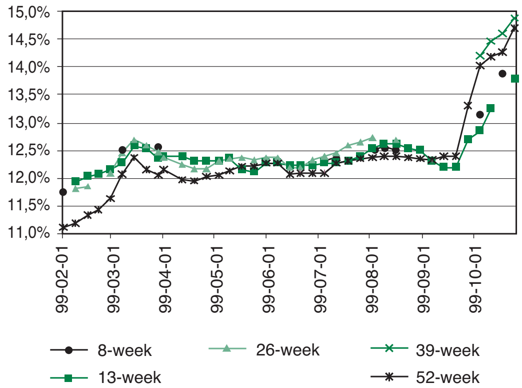
Tab. 6. Interest Rates (WIBOR)

Maturity	Currently 26/10/99	1 Week Ago 19/10/99	1 Month Ago 28/09/99
T/N	13.15	15.09	14.02
1W	14.05	15.51	14.55
1M	14.43	15.82	14.59
3M	17.21	17.08	15.52
6M	17.30	17.27	15.98

WIBOR rates



Average auction T-bill yields



*Tab. 7. Average Auction Treasury Bill Yields **

Date	8-W	13-W	26-W	52-W
27/09/99	-	12.88	-	13.48
04/10/99	13.33	13.03	-	14.22
11/10/99	-	13.42	-	14.38
18/10/99	14.08	-	-	14.47
25/10/99	-	13.97	-	14.91
Change 25.10-27.09	-	1.09	-	1.43

*Tab. 8. Treasury Bill Yields (secondary market) **

Date	3M	6M	9M	12M
27/09/99	12.98	13.69	13.89	13.69
04/10/99	13.10	14.50	14.60	14.20
11/10/99	13.60	14.30	14.40	14.20
18/10/99	13.60	14.40	14.55	14.40
25/10/99	13.80	14.35	14.50	14.50

Tab. 9. Treasury Bond Yields (Secondary Market)***

Date	2L	3L	4L	5L	10L
27/09/99	13.60	12.88	12.51	11.72	9.69
04/10/99	14.36	13.51	13.32	12.24	10.37
11/10/99	14.31	13.59	13.07	12.67	10.43
18/10/99	14.50	13.70	13.33	12.61	10.45
25/10/99	14.67	14.02	13.56	12.98	10.61

* 365 day basis ** Internal Rate of Return (IRR)

Money Supply

In September, total money supply (M2) was up from PLN 4.2bn to PLN 246bn, which represents an increase of 1.8% on a monthly basis and 20.7% on an annualised basis. The money supply increase in real terms was 11.8%. Money supply increased by 11.4% from the beginning of the year in nominal terms, and by 4.5% in real terms. The strong 46.9% growth in personal lending continues, which accounts for 19.4% of lending to the non-financial sector. However, in September, growth in personal loans as a percentage of total loan growth represented 26.5%, and in the period September 1998 - September 1999, it was 28.7%. Zloty deposits increased by 2.2% m/m with growth of 1.0% in personal deposits and 5.0% growth in business deposits. Business and personal loans increased by 3.2% m/m, with growth in personal loans as much as 4.5% and in business loans by 2.9% m/m. The net debt of the public sector increased by 0.5 m/m.

In September, net foreign assets increased by USD 432bn up to USD 26.3bn and they were USD 702m down on the end of 1998.

Monetary Policy in 1999

At its meeting of 20 October, contrary to the expectations, the Monetary Policy Committee did not make any changes to monetary or exchange rates policies. The market expected interest rates to be raised by at least 100 basis points.In spite of unfavourable data on inflation and very good results of industrial output in September, the Monetary Policy Committee decided not to increase rates. Consequently, it deferred its decision, awaiting the confirmation of the following trends:

1) Growth in core inflation

The growth in core inflation, which is usually calculated after deleting from the index the most volatile prices (i.e. food and power prices), sets out medium and long-term inflation tendencies. In December 1999, inflation will exceed the target rate of 7.8% and it will most probably reach the level of ca 8.7% y/y. Average annual inflation in 1999 will be ca 7.1%. If the core inflation growth is confirmed, it will cause the Monetary Policy Committee to announce increases within the 4 months at the latest. Inflation growth caused by the supply shock can have a medium term impact on the core inflation level.

2) Export growth

Export growth in September would be an argument against an interest rate increase. As the good export performance increases gross GDP growth, monetary regulators have greater freedom because economic growth is higher and there is no concern over excessive economy cooling down. In the present context of high dynamics of internal demand, poor export performance would mean that growth being observed solely stems from domestic demand. High domestic demand paralleled by low external demand would mean continued tensions in the balance, which would push the Monetary Policy Committee to cool down internal demand by raising interest rates.

3) Slow down in personal loan growth in October

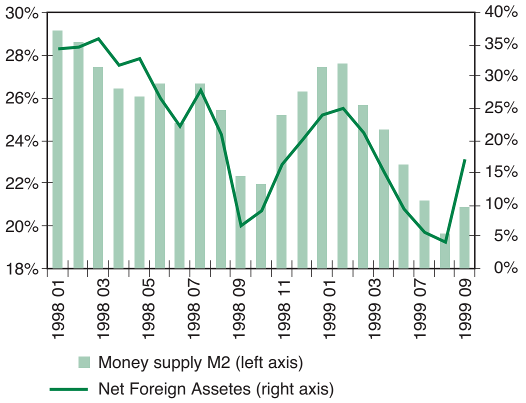
In the first ten days of October, personal loans increased by only 0.1%. If this tendency continues, this will be an argument against raising interest rates. High, nearly 47% annual growth in personal loans can - in the longer run - lead to excessive increase in the money supply growth in the future. An additional factor increasing money supply is the depreciation of the zloty. It seems that in order to lower personal lending growth, an interest rate increase would have to be higher than 1 percent.

The Monetary Policy Committee will monitor changes in deposit interest rates by commercial banks, yet increases in deposit and credit interest rates would be an argument against raising interest rates.

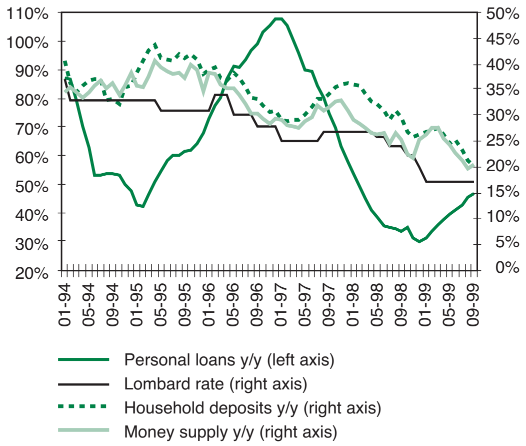
The current macroeconomic situation as well as signals coming from the public budget sector significantly increase the likelihood of an interest rate increase in the near future.

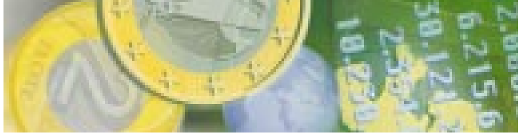
The next meeting of the Monetary Policy Committee is to be held on 17 November this year.

Nominal Money Supply (y/y)



Monetary Conditions





State Budget and public budget decifit

In September, the budget deficit decreased by PLN 877m to PLN 11.3bn, which represents 87.8% percent of the PLN 12.8bn deficit expected for 1999. This was the second month in turn when a budget surplus was recorded. Budget revenues in the period from January to September 1999 totalled PLN 89.0bn (68.9% of the plan), while spendings were PLN 100.3bn (70.6% of the plan). The improved budget standing stemmed from greater indirect tax revenues (VAT, excise duty) than expected and larger inflows due to corporate tax. The most significant item on the income side was represented by indirect tax revenues (60.8% of budget revenues) followed by personal income tax (17.8%) and corporate tax (10.7%). In the expenditure structure, the major item was represented by the general subsidy for local governments (18.0% of the budget expenditure), national debt repayment (11.1%), the donation to the Pension and Disability Pension Fund (9.5%) and the Social Insurance Fund (7,2%). The budget deficit in the period from January to September was primarily financed through Treasury bonds issues of PLN 16.9bn as well as privatisation revenues totalling PLN 9.5bn. Foreign financing, like financing through T-bills issues was negative and totalled minus PLN 1.6bn and minus PLN 1.5bn, respectively.

The Ministry of Finance does not expect a surplus of income over expenditures in October, thus stability or slight growth in the budget deficit in the following months can be anticipated.

Public debt

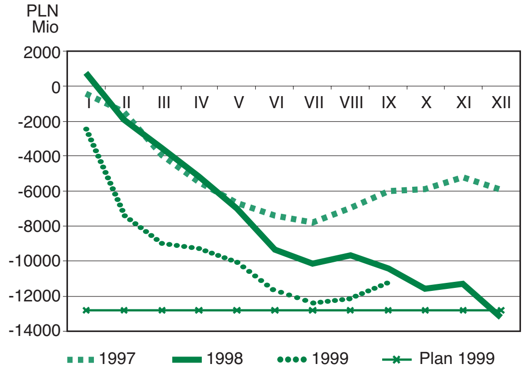
As at the end of June, local government debt totalled PLN 4.81bn, and it is not known whether the debt has an upward tendency or not. In the current year, besides financing the ZUS deficit of PLN 4.0bn, the central budget will have to cover the deficit of the Sick Fund which, until the end of September, totalled PLN 1.2nb, and will most probably increase up to PLN 1.3bn until the end of the year. This implies the growth of the public deficit by ca. 0.2% to 4.2% GDP in 1999. The shortage of PLN 800-900m will probably be covered through privatisation revenues.

In the first eight months of the current year, the size of public debt increased by 11.9% totalling PLN 265.7bn, which represents ca. 44.3% of GDP. Public debt growth stemmed particularly from the growing State Treasury debt, which increased by PLN 21.1bn, whereas the State Treasury domestic debt was up by PLN 11bn, and the foreign debt - by PLN 10bn.

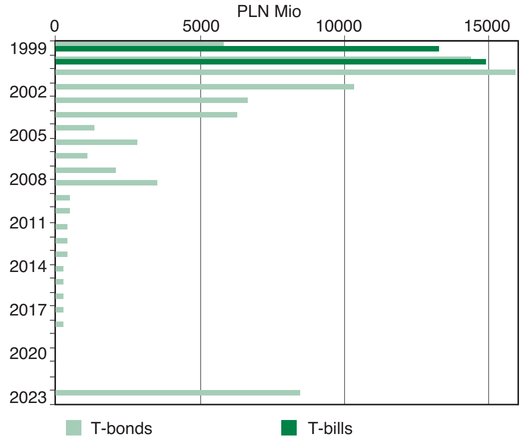
A domestic debt maturity analysis implies a conclusion that in the following three years, every year bonds of PLN 11-16bn as well as T-bills of ca. PLN 14bn will be due. The repayment and repurchase of this debt will constitute a significant burden for the State budget in the near future.

The foreign debt of the State Treasury in the period from January to September 1999 declined by USD 1.5bn to USD 31.7bn. The decrease in the State Treasury debt was connected with the repayment of a part of loans granted by the Paris Club (USD 1.4nb) and the repayment of ca. USD 100bn of loans granted by international financial institutions. In the period from January to May 1999, the foreign debt of the commercial industry (i.e. banks, non-governmental and non-banking sector) increased by USD 1.9bn and reached USD 11.5bn.

State Budget Balance (cumulative)



Maturity of State Treasury domestic debt



Tab. 10. Debt of Public Finances Sector

PLN bn	XII 1998	VIII 1999	Change PLN bn	Change proc.
Public Finances Sector Debt	**237.4**	**265.7**	**28.3**	**11.9**
I. Government debt	237.4	260.9	23.5	9.9
1. State Treasury debt	237.4	258.5	21.1	8.9
1.1. Domestic debt	121.2	132.2	11.0	9.1
A) National Bank of Poland	17.1	18.2	1.0	6.1
B) Domestic commercial banks	49.0	50.4	1.5	3.0
T-bills	17.5	14.6	-2.9	-16.7
T-bonds	18.5	22.7	4.2	22.8
C) Domestic non-banking sector	44.5	51.1	6.5	14.6
T-bills	10.1	12.4	2.3	22.4
T-bonds	16.8	19.4	2.7	15.9
D) Foreign investors	10.5	12.6	2.0	19.1
T-bills	1.3	1.2	-0.1	-9.3
T-bonds	9.2	11.4	2.1	23.1
1.2. Foreign debt	116.2	126.2	10.0	8.6
A) Securities	21.4	24.2	2.9	13.3
B) Loans	94.8	102.0	7.2	7.5
2. Other government debt	b.d	2.4	-	-
In which State Social Security Agency ZUS	0.0	1.9	1.9	-
II. Self-government sector debt*	b.d	4.8	-	-
II.1. Domestic	b.d	4.6	-	-
II.2. Foreign	b.d	0.2	-	-

* as of 30.06.99

Source: Ministry of Finance

Foreign Trade

According to data from the Central Statistical Office, in the period from January to August 1999, the trade deficit decreased to USD 11.4bn., compared to USD 11.6bn. obtained in the same period in 1998. In the last 8 months of 1999, the balance of exports in customs terms totalled USD 17.3bn. i.e. 7.3 % down on the previous year. Imports went down by 5.2% to USD 28.7bn. In the period from January to August, according to the National Bank of Poland, the trade deficit in dollar terms totalled USD 8.7bn.

Compared to August 1999, growth in exports both in the zloty and in dollar terms increased. However, a faster increase in import growth calls for attention. A strong internal demand with no significant improvement in the demand for Polish exports accounts for the fact that the trade deficit continues to be at a high level. However, in the geographical structure of exports, some symptoms of improvement have been recorded. In the first eight months, Polish exports to developed countries increased by 0.9 % in dollar terms. Exports (in USD) to CEFTA countries also showed significant growth by 4.0 %. Exports to the countries of Central and Eastern Europe slightly improved, although they are still down 33.6% on last year. Growth in exports to the European Union and CEFTA countries is also a positive symptom. The European economy begins to rise from a lower level of the prosperity cycle, which should be reflected in an increase in Polish exports to this market. Eastern markets exhibit certain symptoms of economic revival, however it was not reflected in export profits in the first eight months of 1999.

The depreciation of the zloty relative to the euro and the US dollar in 1999, and also a significant decrease in economic activity of in the first half of 1999, caused a decrease in import growth in dollar terms from developed countries, including also the European Union. A strong internal demand and high dependency of domestic production on imported components will lead to an increase in growth in imports from developed countries in the 4th quarter of 1999. In August there was significant growth in imports from these countries. Imports from former Soviet Union countries, mainly covering energy items and raw materials, are relatively stable and the level reached in the upcoming years should be similar to that in the previous year.

In the structure of import redistribution broken down by purpose, there is a disadvantageous trend of increasing the share of consumption import (20.6% in August; 19.65 in July) and decreasing investment import (15.3% in August; 64.7% in July).

Commodity structure of imports and exports did not change much last month. In zloty terms, the best results of export were recorded in the beverages and tobacco industry - 19.5% increase yoy and in the industry of miscellaneous manufactured articles - 8.7% increase yoy in the period January-July. A high increase in exports was recorded also in the industry of machinery and transport equipment. That proves an improvement in the commodity structure of exports and imports in favour of highly manufactured goods, which is a positive tendency.

Tab. 11. Dynamics and Structure of Foreign Trade Turnover in I-VII 1999.

	PLN Dynamics	USD Dynamics	Structure I-VIII 1998	Structure I-VIII 1999
Exports	103.0	92.7	100.0	100.0
Developed countries	112.1	100.9	71.2	77.4
Including EU	111.2	100.1	66.0	71.2
Developing countries	107.3	96.1	5.9	6.2
Central and Eastern Europe	74.0	66.4	22.9	16.4
of which CEFTA	115.6	104.0	7.1	7.9
	PLN Dynamics	USD Dynamics	Structure I-VIII 1998	Structure I-VIII 1999
imports	105.5	94.8	100.0	100.0
Developed countries	106.5	95.7	74.3	75.0
Including EU	106.4	95.7	65.2	65.8
Developing countries	98.2	88.3	12.3	11.5
Central and Eastern Europe	106.4	95.5	13.4	13.5
of which CEFTA	108.0	96.9	6.5	6.7

Source: GUS

Tab. 12. Structure and Changes in Trade Turnover According to SITC Sections (PLN)

Exports	**Structure I-VII 1998**	**Structure I-VII 1999**	**Percentage change y/y**
Total Eksports	**100.0**	**100.0**	**101.3**
Food and live animals	10.9	8.6	80.2
Beverages and tobacco	0.3	0.4	119.5
Crude materials inedible, except fuels	2.9	3.0	105.2
Mineral fuels, lubricants and related materials	5.3	5.2	98.8
Animal and vegetable oils, fats and waxes	0.2	0.2	100.4
Chemicals	7.2	6.1	86.7
Manufactured goods classified chiefly by material	25.6	25.8	101.9
Machinery and transport equipment	27.3	28.9	107.4
Miscellaneous manufactured articles	20.3	21.8	108.7
Imports	Structure I-VII 1998	Structure I-VII 1999	Percentage change y/y
Total Imports	**100.0**	**100.0**	**103.8**
Food and live animals	6.6	5.8	91.8
Beverages and tobacco	0.6	0.6	109.9
Crude materials inedible, except fuels	3.9	3.2	86.0
Mineral fuels, lubricants and related materials	6.5	6.1	97.5
Animal and vegetable oils, fats and waxes	0.7	0.4	66.0
Chemicals	14.0	14.4	107.0
Manufactured goods classified chiefly by material	20.4	21.0	107.0
Machinery and transport equipment	38.1	38.8	105.7
Miscellaneous manufactured articles	9.1	9.4	107.3

Source: GUS

Basic Macroeconomic Data

CATEGORY	1999 January	February	March	April	Maj	June	July	August	September
Consumer price index (m/m)	1.5%	0.6%	1.0%	0.8%	0.7%	0.2%	-0.3%	0.6%	1.4%
CPI non-food products (m/m)	0.6%	0.4%	0.6%	0.8%	0.6%	0.0%	-0.3%	0.7%	1.8%
CPI food products (m/m)	0.2%	0.0%	0.5%	0.5%	0.6%	-0.7%	-2.3%	-0.1%	2.5%
CPI services (m/m)	3.3%	1.0%	2.0%	0.9%	0.8%	0.6%	0.3%	0.4%	0.6%
Consumer price index (y/y)	6.9%	5.6%	6.2%	6.3%	6.4%	6.5%	6.3%	7.2%	0.8%
Consumer price index (December of the previous year=100)	1.5%	2.1%	3.1%	3.9%	4.6%	4.8%	4.5%	5.1%	6.6%
Price index of sold production of industry (m/m)	0.4%	0.6%	1.1%	0.6%	0.5%	0.1%	0.5%	0.9%*	0.7%
Price index of sold production of industry (y/y)	3.9%	3.7%	4.7%	5.0%	5.2%	5.2%	5.5%	5.9%*	5.9%
Price index of construction and assembly production (m/m)	1.6%	0.9%	0.7%	0.5%	0.6%	0.3%	0.3%	0.6%*	0.9%
Price index of construction and assembly production (y/y)	9.8%	9.4%	9.0%	8.6%	8.4%	8.1%	7.8%	7.8%*	8.3%
Sold production of industry (m/m)	-11.0%	-0.4%	21.8%	-7.0%	1.2%	0.1%*	-2.0%	4.6%	9.5%
Sold production of industry (y/y)	-5.1%	-5.6%	3.5%	0.3%	2.2%	1.0%	1.4%	7.1%	8.9%
Construction and assembly production (m/m)	-54.8%	5.7%	19.1%	10.3%	10.8%	9.6%	-0.5%	6.4%*	8.8%
Construction and assembly production (y/y)	3.9%	-3.1%	1.2%	2.8%	4.2%	4.9%	-0.3%	4.3%*	5.2%
Unemployment rate	11.4%	11.9%	12.1%	11.8%	11.6%	11.6%	11.8%	11.9%	12.1%
Average employment in enterprise sector (thous people)	5 835	5 818	5 808	5 799	5 780	5 771	5 748	5 747	5 735
Average monthly gross salaries and wages in enterprise sector (PLN)	1 597	1 626	1 742	1 780	1 767	1 827	1 852	1 823	1 875
The state budget balance (PLN mio)	-2 476	-7 386	-8 992	-9 299	-10 055	-11 373	-12 459	-12 132	-11 255
State budget revenues (PLN mio)	9 552	17 376	27 727	37 599	46 841	56 410	65 865	76 769	89 016
State budget expenses (PLN mio)	12 029	24 762	36 719	46 898	56 896	67 783	78 323	88 901	100 272
Trade balance on a cash basis (USD mio)	-1 212	-783	- 904	-1 036	-1 031	-1 302	-1 340*	-1 214	-
Exsports (USD mio)	2 119	2 522	2 463	2 159	1 989	2 122	2 094*	2 110	-
Imports (USD mio)	3 331	3 305	3 367	3 195	3 020	3 424	3 434*	3 324	-
Current account balance (USD mio)	-894	-488	-844	-938	-690	-1 137	-1 067*	-736	-
Money supply (PLN mio)	221 754	226 759	230 256	230 751	233 265	236 239	238 460	241 639*	246 003
Gross official reserves of NBP (USD mio)	27 085	26 807	26 598	26 407	26 145	25 848	26 324	26 142	26 032
Rediscount rate	15.5%	15.5%	15.5%	15.5%	15.5%	15.5%	15.5%	15.5%	15.5%
Lombard rate	17.0%	17.0%	17.0%	17.0%	17.0%	17.0%	17.0%	17.0%	17.0%
Intervention rate	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	14.0%

* - data officially corrected

Source: Central Statistical Office (GUS), NBP, Reuters