

# Poland's Economy. Financial Markets

26 November 1999

No. 6

## Main Tendencies in the Economy:

- Inflation in October was 8.7% y/y and 1.1% m/m. From January to October, consumer prices increased by 7.8% against 7.6% in the same period last year (page 4).
- October's sold industrial output prices increased by 0.6% on a monthly basis and 6.6% on an annualised basis. In the January - October period, sold industrial output prices were up 6.4% in comparison to 4.6% on the same period last year (page 4).
- In September, the current account deficit reached USD 1.115bn after USD 786m in August. Over the period of January - October, current account deficit was USD 7.961bn which represents nearly 2-fold increase against the same period last year (page 4).
- In the January- September period, the trade deficit in payment terms was USD 10bn which represents a 6.4% increase year on year. In the period concerned, exports declined by 13.3% year on year and imports fell merely by 7.5% y/y to reach USD 19.5bn and USD 29.6bn, respectively (page 4).
- In the January - September 1999 period, the trade deficit in invoice terms was USD 13.1bn against USD 13.8bn in the same period last year. Exports declined by 6.3% and imports fell by 5.9% (page 4).
- In October, industrial output increased by 0.3% month on month and 9.2% y/y. In the January - October period, industrial output was up 2.7% on the same period last year (page 5).
- The unemployment rate in October increased up to 12.2% after 12.1% in September this year. Unemployment reached 2.168m in October which represents a 8.9k increase against September and a 494.2k increase against October 1998 (page 5).
- On Friday, November 5, the zloty reached its historical low - 5.6% below parity (page 6).
- Strong short-term WIBID and WIBOR rate fluctuations in October and November were due to the change in obligatory reserve requirement from the beginning of October and associated short-term over-liquidity in the market. After the interest rate increase, the bond market went down. Market interest rates above 1M will be high until the year end (page 7).
- Total money supply (M2) increased by PLN 4.9bn up to PLN 250.9bn in October this year, which represents 2.0% growth on a monthly basis and 22.5% on an annualised basis (page 8).
- The Monetary Policy Committee have raised official interest rates (page 8).

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



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## Current Poland's economic standing.

In November, macroeconomic tendencies which had emerged in October further strengthened. Negative macroeconomic signals: consumer and producer inflation increases, sustainable personal credit growth, high current account deficit, lack of direct confirmation of an improvement in exports and information on the increasing public finance deficit were strengthened by misgivings about a political crisis associated with the tax debate. All these developments contributed to an increase in T-bill yields and money price increases in the inter-bank market and depreciation of the zloty. After the NBP rate hike on 17 November, the situation in the fx and bond markets calmed down. The market expected the rates to raise, but to a lesser extent - from 150 to 200 basis points. A stronger than expected increase in NBP rates led to a change in medium-term inflation expectations which caused long-term yields to decline. Simultaneously, the zloty strengthened in excess of 1%. The fx market in November was shallow and determined by political events and expectations about privatisation flows connected with the privatisation of PZU and PKN. These flows, in total, could reach slightly above USD 500m, however, did not lead to a permanent zloty appreciation. High food prices and further fuel price rises stepped up pressure on inflation. Continuing increases in oil prices and the zloty depreciation brought about another inflationary impulse, mainly of cost nature, which was reflected in a high increase in producer prices. In the next two quarters, inflation will be high, ranging from 8.5 - 10% year on year. Industrial output supported by high internal demand should increase ca. 9-10% on an annualised basis. Gross domestic product in Q3 should increase between 4 and 5% y/y, and in Q4, GDP growth should be between 5% and 6%. Foreign demand in 1999 will not have a significant impact on GDP growth, however, a significant improvement may be expected in 2000 along with improvement in the economic situation in the Euro zone. On the labour market, a significant improvement should not be expected over the next two quarters, however, higher unemployment may be slowed down by employment in the corporate sector which may start to increase. The 2000 budget issue is still open, however, it may be stated that significant adjustments may be required due to a change in the macroeconomic environment as well as uncertainty surrounding the final version of taxation bills.

**Tab. 1. Inflation Indicators**

	06 1999	07 1999	08 1999	09 1999	10 1999	11 1999F
Consumer Price Index (m/m %)	0.2	-0.3	0.6	1.4	1.1	<b>0.8</b>
Consumer Price Index (y/y %)	6.5	6.3	7.2	8.0	8.7	<b>9.0</b>
Sold Industrial Output Index (m/m %)	0.1	0.5	0.9	0.9*	0.6	<b>0.6</b>
Sold Industrial Output Index (y/y %)	5.2	5.5	5.9	6.2*	6.6	<b>6.9</b>
Monthly Average FX Rate (y/y %)	13.0	12.2	10.2	13.1	17.6	-
Import Price Index in PLN (y/y %)	4.8*	5.1	-	-	-	-

**Tab. 2. Activity Indicators**

	05 1999	06 1999	07 1999	08 1999	09 1999	10 1999
Retail Sales Index (m/m %)	3.1	2.1	4.2	0.6	0.4	4.6
Retail Sales Index (y/y %)	19.3	25.3	26.4	25.9	24.8	25.1
Personal Loans (y/y %)	39.4	41.1	42.8	44.8	46.9	46.2
Industrial Output (m/m %)	1.2	0.1	-2.0	4.6	9.3*	0.3
Industrial Output (y/y %)	2.2	1.0	1.4	7.1	8.6*	9.2
Exports current prices (y/y %)	-18.8	-22.9	-28.7	-17.8*	-10.9	-
Imports current prices (y/y %)	-9.9	-7.4	-12.5	-0.1*	-13.1	-
Foreign Trade Balance (USD mio)	-1031	-1302	-1340	-1233*	-1275	-

**Tab. 3. Poland's Economy**

	1996	1997	1998	1999F
Gross Domestic Product (y/y%) (fixed prices) of which:	6.0	6.8	4.8	<b>3.7</b>
Individual Consumption (y/y %)	8.3	6.9	4.9	<b>4.8</b>
Gross Fixed Assets Expenditures (y/y %)	19.7	21.7	14.5	<b>6.9</b>
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	<b>7.2</b>
Inflation (year on year %)	18.5	13.2	8.6	<b>9.3</b>
Unemployment Rate (year end %)	13.2	10.3	10.4	<b>12.3</b>
Current Account Balance/GDP (%)	-1.0	-3.2	-4.2	<b>-7.0</b>
Public Debt / GDP (%)	51.1	47.9	43.1	<b>46.0</b>

\* - 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 24.11.99	1.0517	4.2200	4.4382	6.9278	1.6417	2.2692	0.6766	2.0140
0 - 1 month	1.00 - 1.06	4.17 - 4.25	4.25 - 4.45	6.80 - 7.00	1.60 - 1.66	2.17 - 2.27	0.65 - 0.68	1.93 - 2.02
1 -3 month.	1.05 - 1.10	4.07 - 4.17	4.30 - 4.46	6.60 - 6.96	1.63 - 1.67	2.20 - 2.28	0.66 - 0.68	1.95 - 2.03
3 - 6 month	1.08 - 1.15	4.03 - 4.13	4.42 - 4.59	6.58 - 6.92	1.65 - 1.69	2.26 - 2.34	0.67 - 0.70	2.01 - 2.08
6 - 12 month.	1.09 - 1.16	4.03 - 4.14	4.54 - 4.68	6.62 - 6.99	1.66 - 1.70	2.32 - 2.38	0.69 - 0.71	2.06 - 2.12

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

Forecast date: 25.11.1999

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 24.11.99	16.60	20.50	15.90	13.43	12.20	16.3	17.80
0 - 1 month	16.6	20.5	15.7 - 15.9	13.0 - 13.3	11.7 - 12.1	16.6 - 17.3	17.5 - 18.7
1 -3 month	15.5 - 17.6	19.5 - 21.5	15.0 - 15.9	12.7 - 13.0	11.4 - 11.7	16.8 - 17.3	17.1 - 18.7
3 - 6 month	15.0 - 16.6	19.0 - 20.5	13.0 - 15.0	12.0 - 12.7	10.7 - 11.4	15.2 - 16.8	15.1 - 17.1
6 - 12 month.	13.5 - 15.0	17.0 - 19.0	12.5 - 13.6	11.25 - 12.0	10.4 - 11.5	13.7 - 15.2	13.7 - 15.1

Forecast date : 24.11.1999

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

*Inflation in October was 8.7% year to year and 1.1% month to month. In the January-October period, consumer prices were up by 7.8% versus 7.6% recorded in the same period last year.* In October, food prices went up by 1.8% and the prices of services by 0.9%, while non-food prices increased by 0.7%. The food price growth, while lower than 2.5% that in September, is still a strong inflationary stimulus. Attention should be paid to a strong increase in the prices of services and non-food products prices, which stems, among others, from continuous increases in petrol prices. According to GUS (Central Statistical Office), in December, this year's inflation may exceed 9.2% on year to year. A double-digit inflation figure is very likely at the beginning of next year. A conservative inflation forecast implies the possibility of exceeding the upper band of the inflation target as set by the Monetary Policy Committee for next year, i.e. 6.8%. y/y in December 2000. The inflation increase up to 10% y/y at the beginning of year 2000 could generate the risk of fuelling inflation expectations.

## Inflation - Producer Prices

*In October, industrial output prices were up 0.6% on a monthly basis and 6.6% on an annual basis.* This increase resulted from a 0.6% price rise in the processing industry and a 1.2% price rise in the mining industry. Between January and October this year, sold industrial output prices went up by 6.4% as compared to 4.6% in the same period last year.

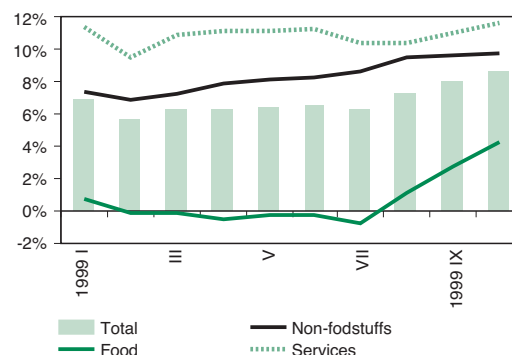
## Balance of Payments

*In September, the current account deficit reached USD 1.115bn after a USD 786m deficit reported in August. Between January and September, the current account deficit was USD 7.961bn, which means over twofold increase on the same period last year.* The annual current account deficit was ca. 6.9 - 7.0% of Poland's GDP. The key factor generating the current account deficit was a decline in the cross-border trade balance which represented a 49.2% increase in the current account deficit and a decreased services balance accounting for a 22.1% deficit increase as well as the trade deficit which caused a 14.8% increase in the current account deficit. The current account deficit was financed in 59.9% by direct investments, in 22.7% by foreign loans, and in 18.8% by swap transactions. *Between January and September, the trade deficit was USD 10bn, i.e. a 6.4% y/y increase. In the period concerned, exports decreased by 13.3% y/y and imports by 7.5% y/y, down to USD 19.5bn and 29.6bn respectively.* The expected improvement in exports did not take place. The current account performance recorded in September is very similar to the results achieved in August, except for the payment of ca. USD 300m of interest on loans granted by the Paris Club. Gross official reserves declined in October by USD 239m to USD 25.794bn.

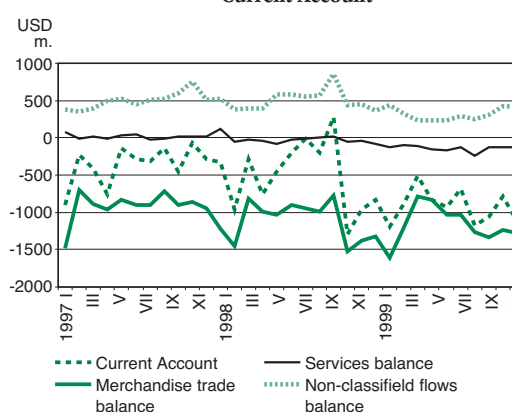
## Foreign Trade in Invoice Terms

*The trade deficit in invoice terms in the January-September 1999 period was USD 13.1bn compared to USD 13.8bn in the same period last year. Exports decreased by 6.3% and imports - by 5.9%.* A very positive signal is a marginal 0.4% decrease in exports to EU countries and a significant 4.6% increase in exports to CEFTA countries. Polish imports from European Union countries are relatively sensitive to fx rates, which has caused imports from the EU to substantially decrease by 6.4%. The trade balance has improved by 5.3%.

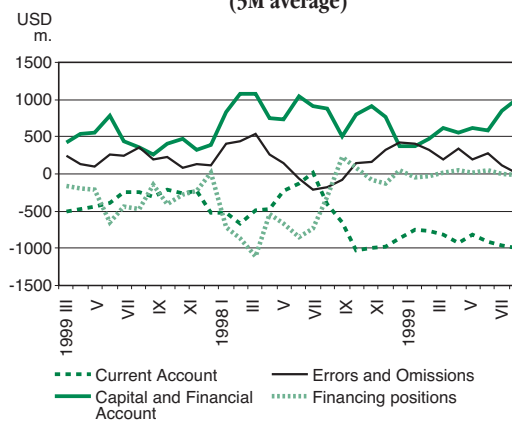
Inflation y/y



Current Account



Balance of Payments (3M average)



Tab. 6. Foreign trade on the customs base

USD bn	I-IX 99	I-IX 98	Change
<b>Exports</b>	<b>19.65</b>	<b>20.97</b>	<b>-6.3</b>
to UE	13.96	14.02	-0.4
to CEFTA	1.57	1.50	4.6
<b>Imports</b>	<b>32.71</b>	<b>34.76</b>	<b>-5.9</b>
from UE	21.42	22.88	-6.4
from CEFTA	2.18	2.23	-2.2
<b>Balance</b>	<b>-13.07</b>	<b>-13.80</b>	<b>-5.3</b>
UE	-7.46	-8.86	-15.9
CEFTA	-0.61	-0.73	-16.3



## Industrial Output

Industrial output in October increased by 0.3% m/m and 9.2% y/y. Between January and October, industrial output went up by 2.7% compared to the same period last year. In October, 1.3% m/m processing industry output deteriorated seasonally, which was offset by a 1.2% mining production increase m/m and a 20.4% m/m increase in sold utilities output. On an annualised basis, growth in processing industry output was high and totalled 10.9%, while both the mining and utilities section declined by -2.3% and - 0.7% y/y respectively. Until the year end, industrial output should be maintained at a similar level, ca. 9-10% in annual terms due to a low base last year, a stable internal demand and potential export revival which is, for the time being, reflected only in business indicator research. Construction and installation output was up 4.3% m/m but its 0.2% decrease was reported in annual terms.

## Labour Market

The unemployment rate in October 1999 increased to 12.2% after 12.1% in September. The number of unemployed in October reached 2,168.000 which represents a 8.9k increase compared to September, as well a 494.2k increase compared to October 1998, when the unemployment rate was 9.7%.

Currently, unemployment is increasing slightly slower and some positive tendencies can be observed, such as a decline in the graduate unemployment rate and a drop in registered unemployed numbers in rural areas. Nearly half (45.7%) of the total increase (355.4k) in the number of unemployed since the beginning of this year represents redundancies. Mass lay-offs mainly occur in highly industrialised provinces with a low unemployment rate. Average employment in the corporate sector in October this year was 5738.2k and remained at the same level as in September. The annualised average employment figure in the corporate sector declined by 1.8%. During the first ten months of 1999, employment in the corporate sector went down by 0.7%.

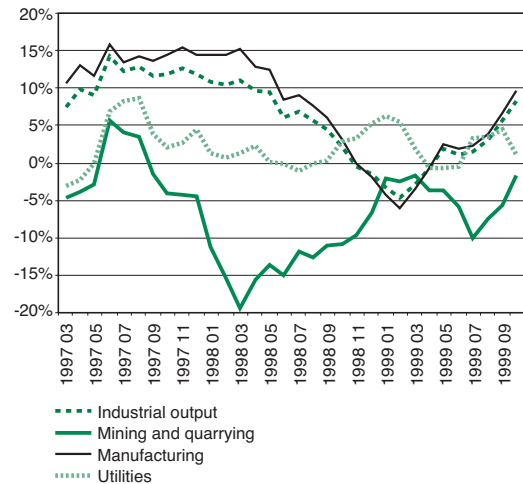
The average after-tax salary in the corporate sector was up 0.3% to PLN 1,881.13 and was 10.9% up on last year, which implies a salary increase of 2.0% in real terms. The average salary in the January-October period was up 10.5% on the same period last year.

Tab. 7. Growth of prices and volume of industry

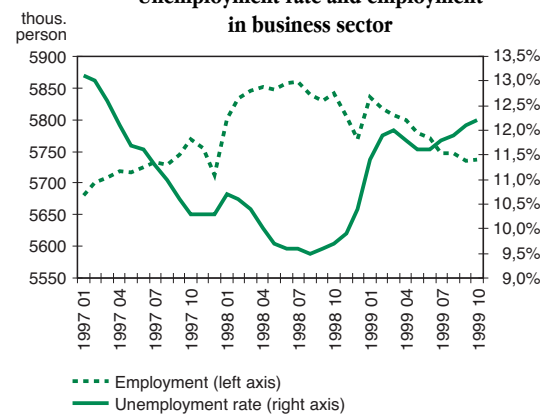
Growth (perc.)	Prices		Production	
	X	IX	X	IX
Industry m/m	0.6	0.9*	0.3	9.3*
Industry r/r	6.6	6.2*	9.2	8.6*
Processing industry m/m	0.6	1.0*	-1.3	9.9*
Processing industry r/r	5.9	5.4*	10.9	10.0*
Mining m/m	1.2	1.7*	1.2	6.2*
Mining r/r	6.6	5.9*	-2.3	-2.4
Energy supply m/m	0.1	0.1	20.4	4.0
Energy supply r/r	11.0	11.0	-0.7	1.7

\* - corrected data

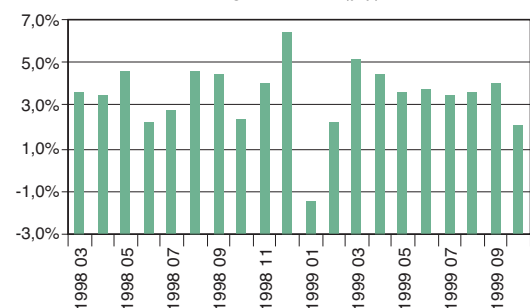
Industrial Output y/y change (3M average)



Unemployment rate and employment in business sector



Real Wages Growth (y/y)

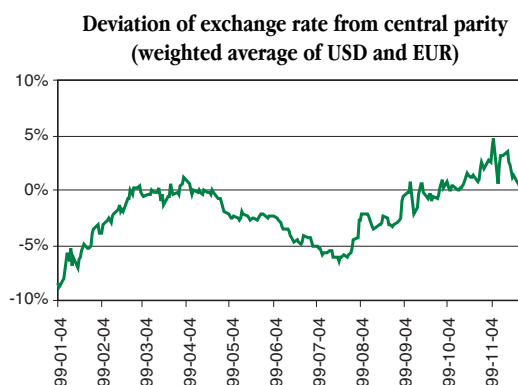
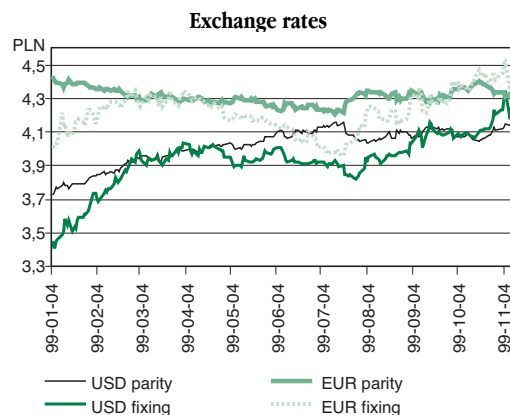


## In November, zloty determined by poor macroeconomic figures, taxation debate and small privatisation inflows

The end of October and the beginning of November was a period of increased volatility of zloty coupled with a weakening tendency. Zloty weakening was caused by negative forecasts by Minister Kropiwnicki, head of the Government Centre for Strategic Studies and concerns over the current account deficit in September, after comments from Hanna Gronkiewicz-Waltz, NBP Governor. In early November, negative macroeconomic indicators coincided with political uncertainty which resulted in further zloty depreciation. **On Friday, 5 November, zloty recorded its lowest historical level - 5.6% deviation on the weaker side of parity.** Such a rapid weakening of the zloty was triggered by the threat of resignation by Leszek Balcerowicz, deputy prime minister and the minister of finance, if the new tax act were not passed. The treat of a serious political crisis overlapped with relatively poor balance of payments in September and a high increase in food prices in late October, which was released on Monday, 2 November. In the second week of November, the fx market responded very strongly to political news. At the beginning of the week, Eureko converted ca USD 300m to make PZU privatisation payments which strengthened the zloty up to ca 0.5% against parity. In the second week of November, the zloty was still weak, ranging 3-4.5% against parity, appreciating only in response to positive information on progress made on taxation. An additional trigger for the depreciation of zloty was a sale of T-bills by foreign investors before the expected interest rate hike on 17 November. During the entire third week of November, the zloty continued to strengthen at the fixing, in response to positive signals on 2000 tax bills and expected tightening of monetary policy. In the third week, the interest rates increase by the NBP had a positive impact on the market, which caused the zloty to strengthen in excess of 1 percent. At the beginning of the fourth week, the zloty strengthened close to parity due to customer orders and an expectations of inflow of USD 300m to the market in relation to the purchase of Polski Koncern Naftowy (Polish Oil Concern) shares by foreign investors. However, these inflows were not high enough to result in a sustainable strengthening of the zloty, for which a more positive signal would be tax bills signed off by the President. In the case of veto, the zloty should be expected to depreciate. The zloty should stay relatively weak until the end of the year with a risk of further depreciation. No changes in the monthly devaluation rate should be expected before the year end.

## Euro and yen weakens against dollar

After a relatively poor economic performance in Germany and comments from European Central Bank management board members that the Bank does not intend to intervene in the fx market, the euro weakened against the dollar and the yen, reaching USD 1.007 on Friday, 26 November. As long as economic growth in the euro zone stays moderate, the euro will be under depreciation pressure against the dollar and the yen. Good prospects for Japan's economy, prompted Japanese portfolio capital that is invested in Europe to return to Japan. On the other hand, there are no indicators of any slow-down in the US economy, which together with confidence in the monetary policy of the US Federal Reserve Board keep the dollar a strong currency. The euro can strengthen against the dollar over the next six months.





## Interest rates

The strong fluctuations of short-term WIBID and WIBOR rates in October and November resulted from changes in the obligatory reserve requirements since the beginning of October and the resulting surplus of short-term liquidity in the market. Rates from 1M up were determined by the year 2000 and high expectations of interest rates increase by the NBP in November. After the NBP rates hike, WIBOR rates were adjusted in longer terms. Also in the third week of November, on the money market, WIBOR T/N and O/N fell after strong growths in the second week. Though the price of money falls for short terms, the growth in WIBOR from 1M up continues. This is related in part to changes in the obligatory reserve requirements and in part to Y2k. The shorter end of the yield curve is determined by the Y2k problem and the public budget needs which results in increased yield. The longer end of the yield curve responded positively to the interest rate increase introduced by the NBP which led to lower yield on the longer terms. The price of funds maturing beyond the year end should continue to stay on the high level. WIBOR and WIBID O/N and T/N rates will continue to fluctuate along with changes in the short-term liquidity.

## T-bills

Since the beginning of October, the yield on T-bills on the primary market started to grow rapidly. This trend was continued in November. In the second week of November, the yield on T-bills kept growing on the primary market which on the one hand was related to considerable needs of the budget and on the other to the expected increase of interest rates by the NBP and strong growth in the price of money on the interbank market. After the increase in interest rates, the yield on 1Y T-bills on the primary and secondary market dropped, while the growth in yield on bills under 1Y continued. It can be expected that yields on short-term treasury bills will continue to grow, while the yield on 52W bills can decline or stay flat.

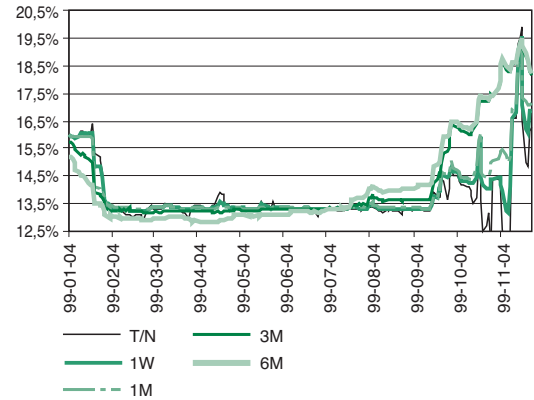
## Treasury bonds

The response of the secondary treasury bonds market to the interest rates increase was strong, up to 85 and 78 bp, yield drop on 2Y and 5Y bonds, respectively. Yields on treasury bonds can continue to fall along with the growing optimism of the market. The growth in price of treasury bonds will be, however, limited by moderate international interest in exposure on the Polish market before the beginning of the year 2000.

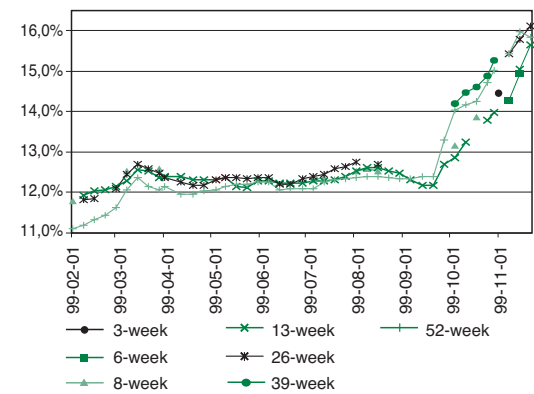
Tab. 8. Interest Rates (WIBOR)

Maturity	Currently 25/11/99	1 Week Ago 18/11/99	1 Month Ago 28/10/99
T/N	16.24	19.88	11.68
1W	16.89	19.55	14.38
1M	17.15	18.99	14.96
3M	18.13	19.50	17.46
6M	18.21	19.46	17.39

WIBOR rates



Average auction T-bill yields



Tab. 9. Average Auction Treasury Bill Yields \*

Date	8-W	13-W	26-W	52-W
25/10/99	-	13.97	-	14.91
29/10/99	-	14.16	-	15.22
08/11/99	14.49	-	15.65	15.64
15/11/99	15.15	15.26	16.00	16.20
22/11/99	-	15.88	16.34	16.05
Change 22.11-25.10	-	1.91	-	1.14

Tab. 10. Treasury Bill Yields (secondary market) \*

Date	3M	6M	9M	12M
25/10/99	14.09	14.60	15.11	14.65
02/11/99	14.45	15.31	15.72	15.61
08/11/99	14.90	15.82	15.92	16.12
15/11/99	15.41	16.22	16.53	16.73
22/11/99	16.22	16.32	16.43	16.22
25/11/99	16.12	16.37	16.43	16.22

Tab. 11. Treasury Bond Yields\* (Secondary Market)\*\*

Date	2L	3L	4L	5L	10L
25/10/99	15.15	14.28	13.93	13.12	10.75
02/11/99	15.52	14.59	13.81	13.68	11.02
08/11/99	15.95	14.57	14.46	13.12	11.26
15/11/99	16.30	15.67	14.64	13.30	11.50
22/11/99	14.97	13.86	13.89	12.31	10.15
25/11/99	14.78	13.68	13.13	12.19	9.94

\* 365 day basis

\*\* Internal Rate of Return (IRR)

## Money supply

In October 1999, total money supply (M2) was up PLN 4.9bn. to PLN 250.9bn, which represents the growth of 2.0% m/m and 22.5% y/y.

The strong 2.0% growth in money supply was caused, on the one hand, by a very strong increase in the Fx deposits (20% m/m), and on the other hand by a strong growth in personal lending (3.8% m/m) and the growth in business loans (2.6% m/m). The real increase in money supply amounted to 13.8% y/y. Since the beginning of the year, the money supply has been 13.6% up in nominal terms and 5.4% in real terms.

In October, net foreign assets fell by 1.3% i.e. from USD 359.2m to USD 26.328bn. and were by 1.15bn. lower than at the end of 1998.

## Raise in the NBP's rates was higher than expected

At its regular meeting on 17 November the Monetary Policy Council raised all three main interest rates. Intervention rate was hiked by 250 basis point to 16.50 percent, rediscount rate by 350 basis point to 19.00 percent and lombard rate by 350 basis point to 20.50 percent. Such a strong move was a surprise, since market had expected smaller hike - of some 200 basis point in intervention rate and about 300 basis point in lombard rate. Some members of the MPC suggested that Poland's monetary authority had adopted a moderately tightening bias, however this view does not need to be shared by all the Monetary Policy Council members. The zoty firmed by more than one percent after the hike in line with our expectations, but reaction was not a very pronounced one.

In relation to the current situation, the following comments can be made:

- 1) A size of the hike was bigger than expected.
- 2) A moderately tightening bias was adopted by the MPC.
- 3) There are absolutely no chances for inflation to be within 1999 target of 6.6 to 7.8 pct y/y in December.
- 4) Next year inflation target of 5.4 to 6.8 pct y/y in December 2000 may also be overshoot.
- 5) One can expect monetary policy to be tight over the next one or two quarters.
- 6) The NBP expects domestic banks to raise credit and deposit rates which may increase savings rate.

The consumer price index would probably well exceed 9 pct y/y in December 1999 and CPI may top 10 percent in February 2000. Inflation outlook for the next two quarters is rather gloomy. The transmission mechanism of monetary impulses is rather slow in Poland, and their impact on headline inflation is limited. The open question remains why did the MPC not reduced the crawling peg rate, that would have a quicker effect on import related inflation. A core inflation, that can be controlled by monetary policy, is rising. Next year's theme would doubtless be an inflation. Times of easy successes on the inflation front have gone.

It seems that the MPC has lost some time waiting for more evidence of mounting inflationary pressures, the current account gap and an excessively strong domestic demand fuelled by fast growing consumer credit.

Such a big rate hike will have some adverse effect on GDP growth but we do not expect a significant decrease in economic activity since enterprises can shift to foreign currency credit, and consumer demand is not very rate sensitive. Next year one should also expect stronger foreign demand for Poland's exports to EU countries, especially Germany.

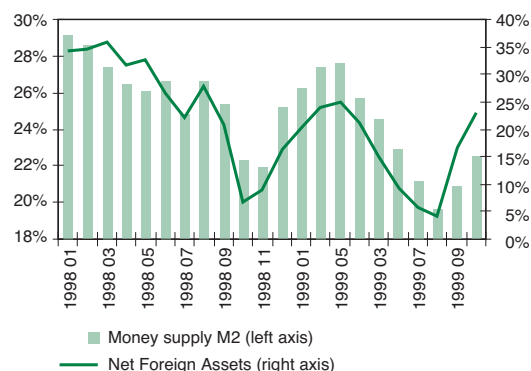
Conclusions :

- 1) Upside risk for inflation.
- 2) The MPC will be monitoring closely developments in CPI and personal credit growth to see whether monetary policy is tight enough to curb inflation.
- 3) No further changes in the interest rate policy in 1999.

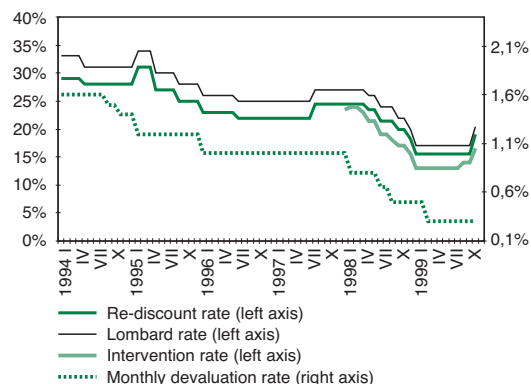
A tight monetary policy coupled with loose fiscal policy is not sustainable in the longer run. Thus a tighter fiscal policy is urgently needed. Otherwise current policy mix may be unstable.

Next meeting of the Monetary Policy Council will be on 8 December this year.

Nominal Money Supply (y/y)



Changes in monetary policy instruments







## Industrial output in the period of January - September 1999

During the first nine months of 1999, the sold industrial output increased merely by 1.9% as compared to the corresponding period of 1998 (for the sake of comparison, 1998 saw the growth of 6.9%). September 1998 noted a lower increase in the industrial output. Next months recorded drops in the output. The dynamics improved as late as in spring 1999 - in March, the industrial output stopped decreasing, and was up 3.3% on the corresponding period of 1998. In August and October 1999, the sold industrial output improved significantly (dynamics was 107.1 and 108.9, respectively).

A similar upward tendency in industry can be noted while analysing quarterly changes in the manufacturing activity (see the chart). In Q1 1999, 24.7% more commodities were produced as compared to the corresponding period of 1998. In Q2 and Q3, the increase was 38.7% and 49.7%, respectively. The situation was different in the case of the mining sector as well as the suppliers of water, gas and electricity.

In January-September, the manufacturing output increased by 2.3% (January-September 1998 9.5%). 12 out of 21 analysed categories in the manufacturing sector recorded an increase and 9 sectors recorded a drop in their economic performance, as compared to the corresponding period 1998.

In particular, the manufacturing output increased in the following areas:

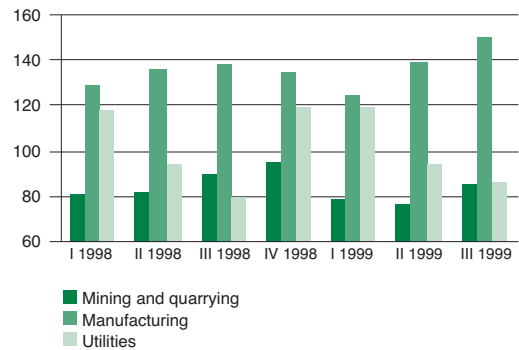
- Publishing and printing (by 18.6%),
- Manufacturing of cars, trailers and semitrailers (by 13.1%),
- Manufacturing of rubber and plastic goods (by 13.0%).

The biggest slump in the manufacturing output in the January-September period was recorded in metal manufacturing. As compared to the corresponding period of 1998, the output dropped by more than 13%. Also, a significant decrease was recorded in the case of the production of other means of transportation and fabrics (drop by 9.8% and 9.1%, respectively).

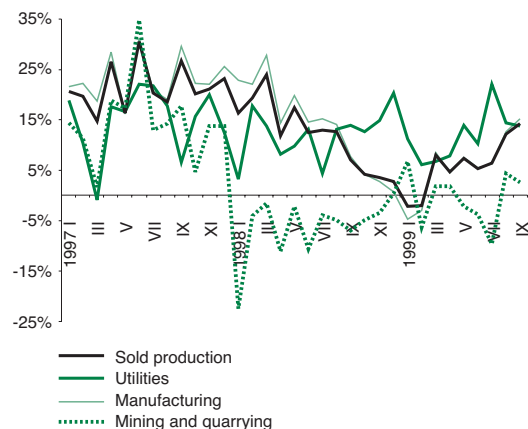
## Industrial output and the average employment rate

The lower industrial output resulted in fall in employment. According to Central Statistics Office, within the analysed nine months, the average employment in enterprises fell by 0.7%. Similarly to the manufacturing output, the employment declined in such sectors as leather processing, and manufacturing of leather goods (by 16.9%), and manufacturing fabrics (drop by 13.5%). On the other hand, the increase in the employment was recorded in five sectors. The highest increase in employment was related to the publishing and printing sector, where the employment rate increased by as much as 9%.

Production growth (1995 = 100)



Yearly growth of sold production (current prices)



Yearly growth of sold production and average employment



### Foreign Trade in the period from January to September

According to the preliminary data of the Central Statistics Office, in the nine months of 1999, the turnover of the foreign trade was slightly higher, as compared to 1998. At the end of September, the foreign trade deficit amounted to PLN 51bn. After the three quarters of 1999, the value of export at current prices was PLN 76.5bn. and was up 4.4% on the previous year. However, import increased by 6.1% and reached PLN 127.5bn.

In the period January - September 1999, the turnover of foreign trade translated into dollars, was USD 13.1bn. as compared to USD 13.8bn. in the corresponding period of the previous year. At the end of September, the value of export reached PLN 19.6bn. and the value of import was USD 32.7bn. As compared to the nine months of the previous year, it decreased by 6.3% and 5.9%, respectively.

In payment terms, according to the NBP, as at the end of September 1999, the deficit in foreign trade amounted to USD 10.1bn.

Changes in the geographical mix of the Polish foreign trade were related first of all to export. It was still addressed mainly to the countries of the European Union. Even a 11.7% increase in the flow of goods in this direction was recorded. However, the import of goods to the countries of Central and Eastern Europe substantially fell (by 20.9%). Smaller changes occurred in relation to the source of import. The import of goods from the countries of Central and Eastern Europe increased by 9.2% and from the of European Union countries by 6.2%.

For eight years, the main Polish partner in trade has been Germany. After five months, the trade deficit with this country amounted to PLN 4.615bn. After three quarters of 1999, the share of German exports in total exports amounted to 36.3% in comparison to 35.6% last year. The German imports share in total imports declined from 25.7% in the period from January to September 1998 to 25.4% in 1999.

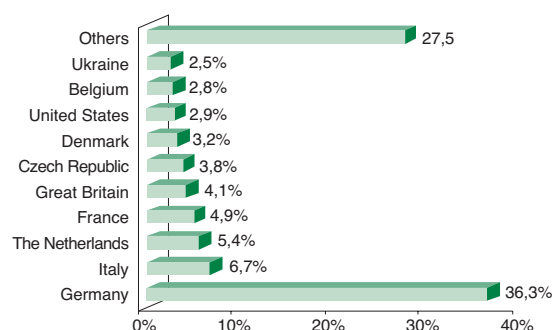
The trade co-operation with Russia has been slowly resumed. Russia which in the area of trade exchange with Poland has been among top leaders for years, after nine months of 1999, ranked eleventh. The share of Russia in total exports was 2.5%, and in total imports 5.4% (in the period from January to September 1999). In 1998, these volumes amounted to 6.7% and 5.2%, respectively.

Tab. 12. Dynamics and Structure of Foreign Trade Turnover in I-IX 1999.

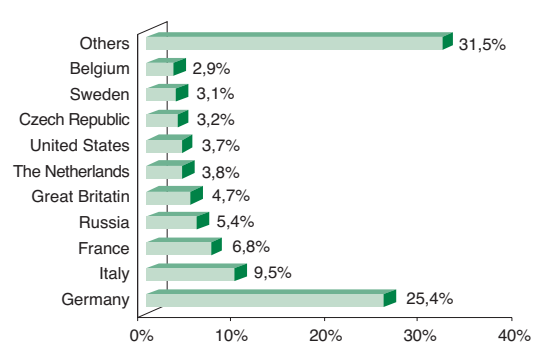
	PLN	USD	Structure	Structure
	Dynamics	Dynamics	I-VIII 1998	I-VIII 1999
Exports	104.4	93.7	100.0	100.0
Developed countries	111.7	100.4	72.2	77.2
Of which EU	110.7	99.6	66.9	71.0
Developing countries	109.2	97.7	5.9	6.2
Central and Eastern Europe	79.1	70.7	21.9	16.6
of which CEFTA	116.7	104.8	7.2	8.0
	PLN	USD	Structure	Structure
	Dynamics	Dynamics	I-IX 1998	I-IX 1999
Imports	106.1	94.1	100.0	100.0
Developed countries	106.4	94.0	74.4	74.6
Of which EU	106.2	93.6	65.4	65.5
Developing countries	100.7	90.3	12.3	11.7
Central and Eastern Europe	109.2	97.8	13.3	13.7
of which CEFTA	109.0	97.9	6.5	6.7

Source: GUS

Exports structure by countries



Imports structure by countries



## Basic Macroeconomic Data



CATEGORY	1999									
	January	February	March	April	Maj	June	July	August	September	October
Consumer price index (m/m)	1.5%	0.6%	1.0%	0.8%	0.7%	0.2%	-0.3%	0.6%	1.4%	1.1%
CPI non-food products (m/m)	0.6%	0.4%	0.6%	0.8%	0.6%	0.0%	-0.7%	0.7%	1.8%	1.2%
CPI food products (m/m)	0.2%	0.0%	0.5%	0.5%	0.6%	-0.7%	-2.3%	-0.1%	2.5%	1.8%
CPI services (m/m)	3.3%	1.0%	2.0%	0.9%	0.8%	0.6%	0.3%	0.4%	0.6%	0.9%
Consumer price index (y/y)	6.9%	5.6%	6.2%	6.3%	6.4%	6.5%	6.3%	7.2%	8.0%	8.7%
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%	7.8%
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%	0.9%*	0.6%
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%	6.2%*	6.6%
Price index of construction and assembly production (m/m)	1.7%	0.9%	0.7%	0.5%	0.6%	0.3%	0.3%	0.6%	0.9%	0.9%
Price index of construction and assembly production (y/y)	9.9%	9.4%	9.0%	8.6%	8.4%	8.1%	7.8%	7.8%	8.2%*	8.5%
Sold production of industry (m/m)	-11.0%	-0.4%	21.8%	-7.0%	1.2%	0.1%	-2.0%	4.6%	9.3%*	0.3%
Sold production of industry (y/y)	-6.1%	-5.8%	3.3%	0.3%	2.2%	1.0%	1.4%	7.1%	8.6%*	9.2%
Construction and assembly production (m/m)	-54.8%	5.7%	19.1%	10.3%	10.8%	9.6%	-0.5%	6.4%	8.9%*	4.3%
Construction and assembly production (y/y)	3.9%	-3.1%	1.2%	2.8%	4.2%	4.9%	-0.3%	4.3%	5.2%	-0.2%
Unemployment rate	11.4%	11.9%	12.1%	11.8%	11.6%	11.6%	11.8%	11.9%	12.1%	12.2%
Average employment in enterprise sector (thous people)	5 835	5 818	5 808	5 799	5 779	5 771	5 748	5 747	5 735	5 738
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	1 881
The state budget balance (PLN mio)	-2 476	-7 386	-8 992	-9 299	-10 055	-11 373	-12 459	-12 132	-11 255	-12 196
State budget revenues (PLN mio)	9 552	17 376	27 727	37 599	46 841	56 410	65 865	76 769	89 016	100 535
State budget expenses (PLN mio)	12 029	24 762	36 719	46 898	56 896	67 783	78 323	88 901	100 272	112 731
Trade balance on a cash basis (USD mio)	-1 212	-784	-825	-1 036	-1 031	-1 303	-1 340	-1 233*	-1 275	-
Exports (USD mio)	2 119	2 495	2 398	2 161	1 989	2 122	2 094	2 078*	2 081	-
Imports (USD mio)	3 331	3 279	3 223	3 197	3 020	3 425	3 434	3 311*	3 356	-
Current account balance (USD mio)	-894	-512	-833	-938	-690	-1 138	-1 067	-786*	-1 115	-
Money supply (PLN mio)	221 754	226 759	230 256	230 751	230 350	236 239	238 460	241 768	246 003	250 871
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	25 794
Re-discount rate	15.5%	15.5%	15.5%	15.5%	15.5%	15.5%	15.5%	15.5%	15.5%	19.0%
Lombard rate	17.0%	17.0%	17.0%	17.0%	17.0%	17.0%	17.0%	17.0%	17.0%	20.5%
Intervention rate	13.1%	13.1%	13.1%	13.1%	13.1%	13.1%	13.1%	14.1%	14.1%	16.6%

\* - data officially corrected

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

## Next 30 Days

### Economic release calendar

1 December	Balance of payments of Poland (October)	14 December	Average employment and average wages in business sector (November)
1 December	Trade balance on a cash basis (October)	15 December	Consolidated balance sheet of the banking sector (November)
1 December	Food prices (2HNovember)	15 December	Consumer price indices (November)
7 December	Gross official reserves (November)	15 December after 15 December	State budget results (November)
7 December	Balance sheet of National Bank of Poland, selected items (November)	16 December	Sold industrial output and construction and installation output price indices (November)
7 December	Economic trends in industry, construction sector and retail trade (November)	16 December	Industrial output, construction and installation output indices (November)
8 December	Meeting of the Monetary Policy Council	17 December	Financial results of banks
14 December	Apartments completed (November)	21 December	Food prices (1HDecember)



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