# Poland's Economy. Financial Markets

April 2000 No. 10

## Major economic trends:

- On Tuesday, 11 April, the government in consultation with the Monetary Policy Council made the decision to allow the zloty to float. Although the market had expected the zloty to be allowed to float freely, the timing of the introduction of the new foreign exchange regime was a complete surprise. After the decision, foreign exchange risk increased following the removal of the floor for the depreciation of the Polish currency. Last week, the volatility of the nominal foreign exchange rate climbed quite notably due to the fact that the market continues to seek a new equilibrium level. In our opinion, the zloty is still overvalued considering that the gap in the current account reached about 8.0-8.1% of GDP in February. In the coming weeks, the zloty will be very volatile and may temporarily strengthen. Given the lack of privatisation flows in the foreign exchange market and a rise in foreign exchange risk, in the medium term, the zloty should be weaker.

- In the near future, no change in NBP official rates should be anticipated. Despite slightly worse than expected inflation in March and an inflationary impulse by a weaker zloty likely to occur in April, the Monetary Policy Council will probably be quite reluctant to tighten monetary policy given the possibility of another appreciation of the zloty following the inflow of portfolio capital into the Polish stock market. The economy seems to be responding to November's hike of NBP official interest rates. In 1Q2000, domestic demand was weaker, money supply trends were very favourable and an increase in personal loans was moderate. In the near future, a cut in interest rates would be unjustified, and therefore, it should not be expected until the end of 3Q2000.

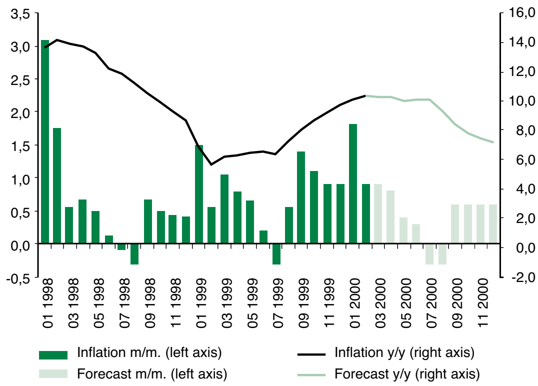
- In the near future, a trend to sell treasury papers ought to predominate in the market, causing a rise in the yields on treasury bills and bonds. In a month, in the treasury bond market, stabilisation and then a decrease in yields is likely, coupled with a fall in inflationary expectations and potential stabilisation in the current account. A large interest rate differential in domestic and international markets is becoming less and less attractive after the full floatation of the zloty.

- The current account deficit reached approximately 8.1% of GDP. There are still no signals of an improvement in exports. After the floatation of the zloty and a decrease in the foreign exchange rate, a recovery of the trade balance can be expected. However, the stabilisation of the gap in the current account at about 7.5% of GDP is possible only in the latter half of this year.

- March's industrial output data confirm our last month's forecast of an economic slowdown in 1Q2000.

Arkadiusz Krześniak

**Inflation - consumer prices**




*Source: CSO*

**In this Issue:**

## Poland's current economic situation.

The external conditions of Poland's economic development are still favourable. The world's economy is in an upward trend and the economic situation in „emerging markets“ is improving. In 2000, the world's trade may rise by 7.8% after an increase by 5.4% in 1999, and the GDP of the emerging markets will pick up to approximately 5% this year. Given notable growth of GDP expected in Germany this year and the continuing recovery in the Russian situation, foreign demand should improve considerably in Poland. The major problem of Poland's economy is still a large and growing current account deficit which slightly exceeded 8% of GDP in February this year. The bad situation of the current account stems from worse than expected export performance which has been declining on a customs basis since February last year. At the same time, a fall in imports is much smaller, making the trade balance deteriorate. Exports should accelerate significantly in the latter half of this year.

Despite a high current account deficit, its funding structure is secure and has improved compared to last year. The substantial level of foreign exchange reserves and a floating foreign exchange regime along with a safe level of foreign debt act as protection against a foreign exchange crisis. If it occurs, the depreciation of the zloty ought to stabilise the size of the current account gap through an increase in Polish exports. The rise in foreign exchange risk in conjunction with movement in the foreign exchange market should prevent Polish enterprises from taking on foreign debt.

Although inflation is likely to exceed 10% y/y in the coming months, in Q32000, it should start decreasing faster, topping 7% y/y in December. At the end of the year, the prices of petroleum should stabilise, reducing pressure on the growth of producer prices.

After a relatively weak 1Q2000, domestic demand is likely to strengthen in the coming months due to a seasonal revival of the credit growth. However, the economy has already suffered the effects of November's rate hike, reflected in lower growth of personal and corporate loans. A factor limiting the growth of domestic demand will be the continuing increase in the unemployment rate stemming from restructuring processes in the economy and demographic factors. The labour market seems not to be flexible enough and regional labour markets are separated one from another due to substantial underdevelopment of housing construction and strong concentration of economic growth in large urban regions. The stabilisation of the labour market will represent a great challenge in the coming months.

In the short term, no changes in the monetary policy should be expected. The first cut of NBP official rates may take place at the end of 3Q2000. It seems that the NBP will apply a gradual approach to cutting interest rates.

In the near future, the zloty will be very volatile with a depreciation tendency against the US dollar. The euro is likely to remain weak.

***Tab. 1. Inflation indicators***

| | 11 1999 | 12 1999 | 01 2000 | 02 2000 | 03 2000 | *04 2000F* |
|---|---|---|---|---|---|---|
| Consumer Price Index (m/m %) | 0,9 | 0,9 | 1,8 | 0,9 | 0,9 | *0,8* |
| Consumer Price Index (y/y %) | 9.2 | 9.8 | 10.1 | 10.4 | 10.3 | *10.3* |
| Producer Price Index (m/m%) | 0.7 | 0.5 | 0.5 | 0.5 | 0.4 | *0.5* |
| Producer Price Index (y/y%) | 7.5 | 8.0 | 8.2 | 8.1 | 7.4 | *7.3* |
| Monthly average FX rate (y/y%) | 23.3 | 19.6 | 15.9 | 9.0 | 3.7 | – |

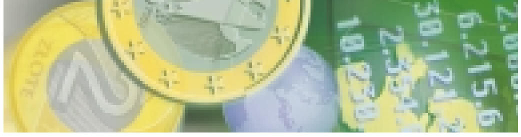
***Tab. 2. Activity indicators***

| | 10 1999 | 11 1999 | 12 1999 | 01 2000 | 02 2000 | 03 2000 |
|---|---|---|---|---|---|---|
| Retail Sales Index (m/m %) | 4.6 | -2.3 | 23.3 | -32.1* | 5,7 | – |
| Retail Sales Index (y/y %) | 25,1 | 32,2 | 34,6 | 20.3* | 25,4 | – |
| Households loans (y/y%) | 46.0 | 52.2 | 53.0 | *52.5* | 51.8* | 51.5 |
| Industrial Output, (m/m%) | 0.1 | -0.9 | 5.7 | -19.0 | 7.3* | 11.5 |
| Industrial Output, (y/y%) | 8.9 | 15.9 | 19.1 | 7.9 | 16.4* | 6.8 |
| Exports, current prices (in payment terms, y/y%) | -12.3 | -11.0 | -10.0 | -9.3* | -17.8 | – |
| Imports, current prices (in payment terms, y/y%) | -14.0 | 0.5 | -3.2 | 1.5* | -3.4 | – |
| Foreign trade (NBP, USD mio) | -1139 | -1561 | -1765 | -1458 | -1119 | – |
| State Balance (PLN mio) | -12.1 | -12.1 | -12.6 | -0.9 | -4.5 | -6.9 |

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

| | 1996 | 1997 | 1998 | *1999E* | *2000P* |
|---|---|---|---|---|---|
| Gross Domestic Product (y/y%) (fixed prices) of which: | 6.0 | 6.8 | 4.8 | ***4.1*** | ***5.0*** |
| Individual Consumption (y/y%) | 8.3 | 6.9 | 4.9 | ***5.0*** | ***5.5*** |
| Gross expenses on fixed assets (y/y%) | 19.7 | 21.7 | 14.5 | ***6.9*** | ***11.5*** |
| Exports, constant prices (y/y%) | 9.7 | 13.7 | 9.4 | ***0.5*** | ***7.5*** |
| Imports, constant prices (y/y%) | 28.0 | 22.0 | 14.6 | ***-0.6*** | ***12.0*** |
| Inflation (average annual %) | 19.9 | 14.9 | 11.8 | ***7.3*** | ***9.3*** |
| Inflation (year end, y/y %) | 18.5 | 13.2 | 8.6 | ***9.8*** | ***7.7*** |
| Unemployment Rate (year end, y/y %) | 13.2 | 10.3 | 10.4 | ***13.0*** | ***14.3*** |
| Current Account Balance/GDP (%) | -1.0 | -3.2 | -4.2 | ***-7.6*** | ***-7.5*** |
| Public Debt/GDP (%) | 51.1 | 47.9 | 43.1 | ***44.6*** | ***44.0*** |

y/y - year on year m/m - month to month
E - estimated F - forecast
*Sources: CSO, NBP, WBK forecasts and estimates*
* corrected data



*Tab. 4. Poland – medium-term forecast*

| Interest rate | 1999 | 1Q2000 | 2Q2000 | 3Q2000 | 4Q2000 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 M | 14.56 | 17.58 | 17.89 | 17.10 | 15.75 | 17.07 | 12.5 | 8.8 | 7.2 | 5.6 | 5.2 |
| 3 M | 14.71 | 17.83 | 17.90 | 17.05 | 15.71 | 17.10 | 12.5 | 0.9 | 7.4 | 5.9 | 5.5 |
| 6 M | 14.60 | 17.85 | 17.84 | 16.90 | 15.65 | 17.04 | 12.4 | 9.0 | 7.5 | 6.2 | 5.8 |
| 12 M | 14.80 | 18.05 | 18.04 | 17.05 | 15.80 | 17.24 | 12.6 | 9.2 | 7.6 | 6.3 | 5.9 |
| Lombard rate | 17.59 | 21.17 | 21.50 | 20.83 | 19.50 | 20.75 | 15.0 | 11.4 | 8.9 | 7.6 | 7.2 |
| Intervention rate | 13.72 | 17.17 | 17.50 | 16.83 | 15.50 | 16.75 | 12.0 | 8.5 | 7.0 | 5.6 | 5.2 |
| Treasury bonds yields | | | | | | | | | | | |
| 3 Y | 11.87 | 14.80 | 14.90 | 14.31 | 13.49 | 14.37 | 11.8 | 10.0 | 8.9 | 8.0 | 8.0 |
| 5 Y | 11.12 | 12.84 | 12.55 | 11.98 | 11.46 | 12.21 | 10.5 | 9.5 | 8.7 | 7.8 | 7.8 |
| 10 Y | 9.63 | 10.48 | 10.35 | 9.71 | 9.27 | 9.95 | 9.0 | 8.6 | 8.0 | 7.7 | 7.6 |
| T-bills yelds | | | | | | | | | | | |
| 13-weeks | 13.12 | 16.25 | 16.70 | 15.72 | 14.97 | 15.91 | 11.8 | 8.1 | 6.9 | 6.6 | 6.0 |
| 52-weeks | 12.97 | 16.97 | 17.06 | 16.07 | 15.32 | 16.35 | 11.9 | 8.3 | 7.1 | 6.8 | 6.2 |
| Exchange rates | | | | | | | | | | | |
| USD/PLN | 3.965 | 4.114 | 4.182 | 4.183 | 4.232 | 4.178 | 4.30 | 4.65 | 4.80 | 5.20 | 5.40 |
| EUR/PLN | 4.226 | 4.066 | 4.024 | 4.246 | 4.423 | 4.190 | 4.42 | 4.60 | 4.75 | 5.10 | 5.10 |
| EUR/USD | 1.066 | 0.988 | 0.980 | 1.015 | 1.045 | 1.003 | 1.03 | 1.03 | 0.99 | 0.98 | 0.94 |
| Average depreciation (currency basket) | - | - | - | - | - | 2.2% | 4.2% | 6.1% | 3.2% | 7.9% | 1.9% |
| USD/PLN (end of period) | 4.148 | 4.143 | 4.164 | 4.195 | 4.250 | 4.250 | - | - | - | - | - |
| EUR/PLN (end of period) | 4.169 | 3.965 | 4.081 | 4.321 | 4.484 | 4.484 | - | - | - | - | - |
| EUR/USD (end of period) | 1.005 | 0.957 | 0.980 | 1.030 | 1.055 | 1.055 | - | - | - | - | - |
| Macroeconomic indicators (end of period) | | | | | | | | | | | |
| Real GDP (y/y %) | 4.1 | 5.3 | 5.5 | 4.6 | 4.4 | 5.0 | 5.5 | 5.2 | 5.1 | 5.5 | 6.0 |
| Inflacja (y/y %) (end of period) | 9.8 | 10.3 | 10.2 | 8.3 | 7.1 | 7.1 | 5.9 | 5.0 | 4.0 | 3.7 | 3.5 |
| Inflation (y/y %) (average) | 7.3 | 10.3 | 10.2 | 9.2 | 7.4 | 9.3 | 6.5 | 5.3 | 4.4 | 3.9 | 3.5 |
| Current account/GDP (%) | -7.6 | -8.0 | -8.1 | -7.6 | -6.8 | -7.5 | -6.8 | -6.9 | -6.6 | -6.1 | -5.7 |
| Budget deficyt/DGP (%) | -2.1 | -2.8 | -2.3 | -1.9 | -1.7 | -2.2 | -2.0 | -1.9 | -1.7 | -1.5 | -1.3 |
| Public debt/GDP (%) | 44.6 | 40.8 | 41.4 | 41.5 | 41.9 | 41.4 | 38.1 | 36.2 | 33.9 | 32.3 | 31.5 |
| Domestic public debt/GDP (%) | 20.7 | 18.8 | 19.1 | 19.1 | 19.3 | 19.0 | 17.1 | 16.3 | 15.0 | 14.4 | 13.6 |
| Foreign debt total/GDP (%) | 37.0 | 35.6 | 36,.2 | 36.2 | 36.6 | 36.2 | 29.1 | 27.7 | 25.5 | 25.9 | 25.9 |

Forecast data: 19.04.2000

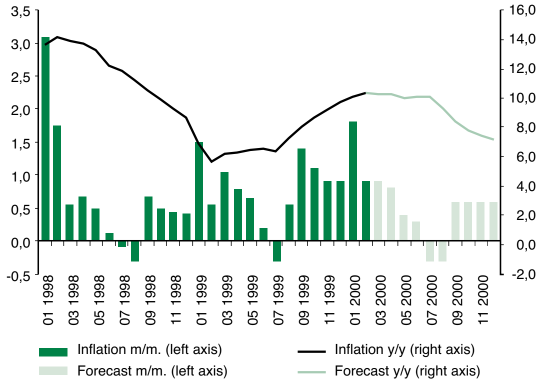
***Notice: Forecasts based on information currently available. WBK Treasury and International Division cannot guarantee that the indicators will follow the patterns as shown above.***

## Inflation - consumer prices

Inflation in March was a little disappointing as it reached 10.3% y/y and 0.9% m/m, slightly over the forecasts of the market at 10.1% to 10.2% y/y. Although it seems that inflation reached its peak in February, it is uncertain whether or not it will be declining steadily in 2Q2000. Given a fall in the zloty rate in April, in the coming months, inflation is likely to stabilise at over 10% y/y. On the other hand, a low increase in producer prices will contribute to decreasing consumer inflation in the short term. The NBP was disappointed with inflation results in March. This confirms our expectations of the lack of changes in the monetary policy in the coming months.

| *CONSUMER PRICES (% change)* | March '99 | Feb. | March |
|---|---|---|---|
| Change m/m | 0,9 | 0,9 | 1,0 |
| Change y/y | 10,3 | 10,4 | 6,2 |
| Commodities m/m | 0,8 | 0,8 | 0,6 |
| Commodities y/y | 10,1 | 9,8 | 4,0 |
| Foodstuffs m/m | 0,9 | 1,1 | 0,5 |
| Foodstuffs y/y | 9,2 | 8,9 | -0,1 |
| Alcohol, tobacco m/m | 0,7 | 1,0 | 0,8 |
| Alcohol, tobacco y/y | 9,5 | 9,7 | 9,2 |
| Services m/m | 1,0 | 0,9 | 2,0 |
| Services y/y | 10,7 | 11,8 | 10,9 |

**Inflation - consumer prices**

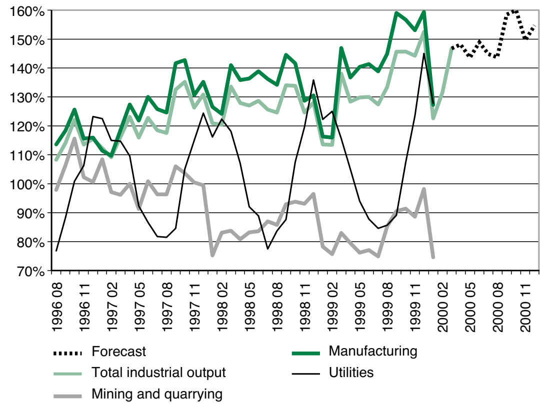



*Source: CSO*

## Inflation - producer prices

The prices of sold industrial output in March gained only 0.4% m/m after an increase of 0.5% in producer prices in February. Year-on-year, producer inflation totalled 7.4% against 8.1% in February this year. The market had expected a substantial fall in producer prices in March, albeit on a much lesser scale. A considerable reduction in the annual growth of sold industrial output is largely a purely statistical effect because the PPI recorded a strong increase in March 1999 after electricity prices had been freed. An increase in utility prices was only 5.3% y/y against 7.5% y/y of a rise in manufacturing activity. A relatively small rise in producer prices in March may stem from weak demand in 1Q2000. It follows from our research that a drop in the zloty translates into increased producer inflation with 1 month delay. It means that, in the short term, the quick decline in sold industrial output prices will come to a stop. It is not good news for consumers, either, as it will act as an additional inflationary impulse in 2Q2000.
The prices of assembly and construction production increased in March by 7.6% y/y and 0.8% m/m.

**Industrial output**
(average 1995=100)

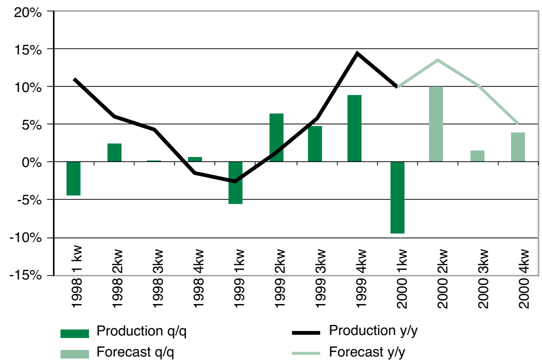



*Source: CSO*

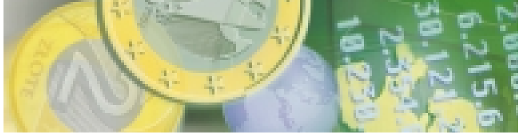
## Industrial output

March's industrial output data were weaker than expected by the market. Industrial output improved by 11.5% m/m and 6.8% y/y compared to market expectations at about 10% y/y. Although industrial output data were poor, they were practically ignored by foreign exchange and bond markets. In March, industrial output is usually stronger due to seasonal factors and a greater number of business days. Industrial output reduced by about 9.4% in 1Q2000 against 4Q2000. Compared to the same period last year, industrial output leapt by approximately 9.8%. Output data in 4Q2000 seem to be slightly overstated given the accumulation of stock before the year end. In consequence, the drop in industrial output in January and February was deeper than it would appear from actual demand. In our opinion, in 1Q2000, GDP growth will be lower than in 4Q1999 following weaker domestic demand and poor demand for Polish exports. However, the effects of higher interest rates are more visible in loan demand than in industrial output which was severely upset by the Y2k problem.
In March, assembly and construction production grew by 17.7% m/m and was up 4.3% on the previous year. It seems that this year will be slightly better for the construction industry than last year, although high interest rates will restrain the growth of mortgage loans.

**Industrial output**




*Source: CSO*



## Balance of payments

February's current account data turned out disappointing. The market had expected the current account gap of USD 0.8 to 0.9bn. In line with our more pessimistic forecasts, the deficit reached USD 949m (about 8.0-8.1% of GDP). Poor exports, coupled with negative trends observed in the last few months, were surprising. Exports decreased by 13.4% y/y in the January-February period whereas imports dropped by only 0.6%. Cross-border trade declined by 9.1% while the services deficit deteriorated by 71.8%. However, the structure of funding the current account deficit improved. In the January-February 2000 period, the capital and financial account funded nearly 100% of the current account gap compared to 25% in the January-February period 1999. Foreign direct investments financed almost 52% of the current account deficit in the January-February 2000 period against 43% in the January-February 1999 period. A decrease in foreign demand will occur along with lower consumer demand following weaker economic activity in 1Q2000. Adverse current account data weakened the zloty and led to an increase in the yield on Polish treasury papers at the beginning of April.

## Continuing good money supply data in March.

In March, money supply was again at a good level. It picked up 1.5% m/m and 13.7% y/y. In real terms, the annual growth of money supply was only 3.1%. Personal deposits grew by 1.5% m/m whereas personal loans rose by 3.0% m/m to 51.5% y/y. Personal loans are accelerating and the growth of personal deposits remains strong. A considerable rise in fx corporate deposits in March contributed to the total increase in money supply of about 60%. The growth of corporate loans continues at a slow pace.

## State Budget.

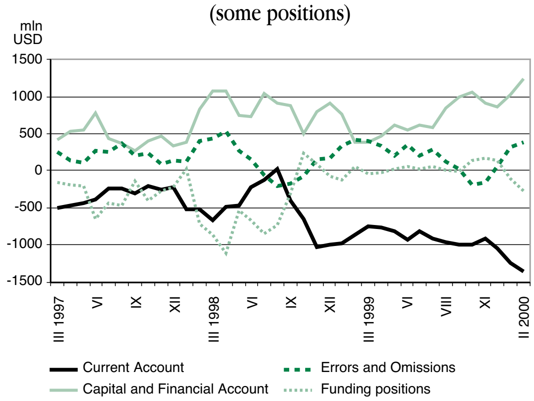
In March, the central budget deficit jumped to PLN 6.9bn, 45.1% of the planned deficit for 2000 at PLN 15.4bn. March's rise in the budget deficit was largely due to lower income and higher domestic debt servicing costs. Budget revenues represented 22.0% of the plan, and budget expenses 24.5% of the plan.

In the first year half, a high budget deficit can be attributed to seasonal effects - revenues are as a rule higher in the latter half of the year and expenses are usually lower in the former half of the year.

Given low privatisation revenues in March, the increase in the budget deficit was funded largely with an issue of treasury bills. The overall situation in public finances is stable. Strong bond supply encountered high external demand following a substantial differential between home and overseas interest rates.

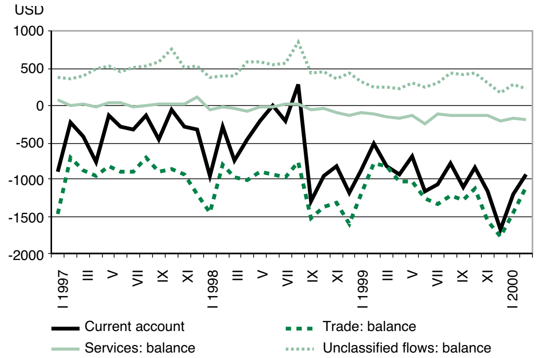
In 2000, the deficit of public finances is likely to decrease to 2.4% of GDP against 2.7% assumed in the Budget Act and 3.4% of GP of the deficit of public finances materialised in 1999.

**Current Account**
(some positions)



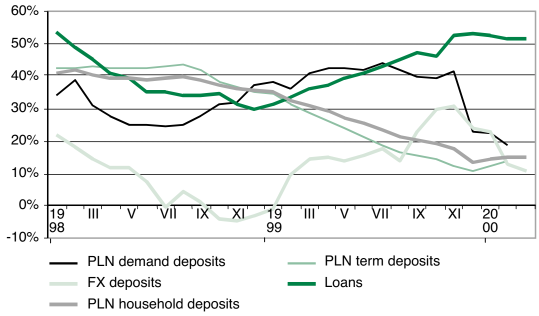

*Source: NBP, own estimations*

**Household loans and deposits**
(y/y increase)



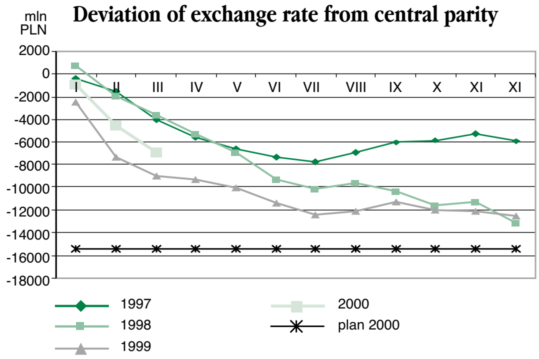

*Source: NBP*

**Budget balance**
(in cumulative terms)




*Source: NBP*

**Deviation of exchange rate from central parity**




*Source: Finance Ministry*

## The zloty falls following the decision to allow it to float.

The end of March brought a spectacular rise in the zloty rate due to a large differential between domestic and overseas interest rates. The previous exchange rate regime, however close to a floating rate, provided additional hedge for PLN denominated assets by means of a floor limitation against the depreciation of the Polish currency. As a result, given expected high privatisation revenues, the zloty underwent artificial appreciation which did not stem from fundamental factors but rather from administrative decisions regarding the scope and timing of privatisation flows in the fx market.

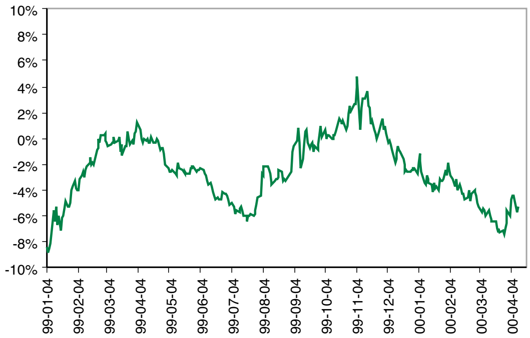
The second week of April brought the long awaited decision to allow the zloty to float freely. Although the market had expected the decision to be taken in the near term, so sudden a decision was a complete surprise. The floatation of the zloty represents a very good signal because it signifies that fiscal and monetary authorities have reached a consensus on the form of the fx policy. In the near future, the zloty is likely to hit its equilibrium point, which will be preceded by increased volatility of the fx rate.

On Monday, 10 April, and Tuesday, 11 April, the zloty traded in a narrow band from 5.1% to 6.0% stronger than parity. The US dollar traded between PLN 4.0930 and PLN 4.1580. On Wednesday, following the decision to allow the zloty to float, the zloty strengthened to USD/PLN 4.0640 and then weakened after a comment by an MPC member that the zloty was too strong. On Thursday, the zloty fell to the level of the end of March (USD/PLN 4.1610 to 4.1950). On Friday, 14 April, the zloty weakened again due to uncertainty in world's financial markets due to Nasdaq drops. On Monday, 17 April, the US dollar traded between PLN 4.25 and PLN 4.31. The volatility of the zloty significantly increased after floatation. This reflects greater exchange rate risk as the trading band has been removed. In the coming weeks, the zloty will be volatile while seeking its equilibrium level. We believe the decision to allow the zloty to float was right because it acts as another security against a speculative attack. The NBP is currently in a very good position as it is free to intervene in the fx market and is not obligated to intervene in specific circumstances. The floatation of the zloty will help to stabilise the current account deficit because the zloty will no longer be artificially strengthened. A weaker zloty should help exporters to maintain their market position. Increased volatility of the zloty ought to facilitate the adequate assessment of the zloty exchange rate by entities (enterprises and legal entities) which, in our opinion, is still high. At present, fx loans should become less attractive.

## The euro continues to drop against the US dollar.

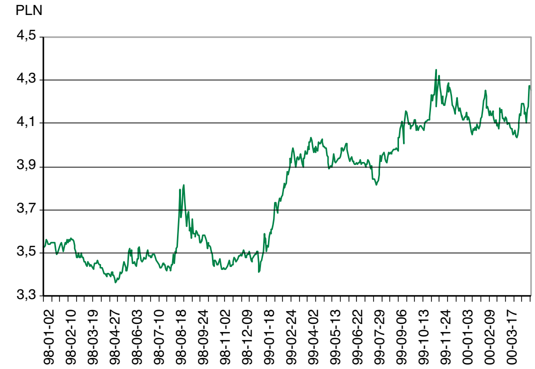
Despite good forecasts for the German economy this year, the euro continues to be weak which is linked to higher interest rates in the American economy and the lack of any fundamental signals of the overheating of the US business climate. On the other hand, current business trends in Germany are fairly stable. The US dollar is still strong in spite of a correction in the American capital market following a decrease in the value of high-tech companies. A drop in the US dollar rate could be triggered off by a stricter tightening bias in the US likely to occur in the near future. At the same time, given an increase in inflationary pressure in the euro zone, the Central European Bank will continue to raise interest rates. A decrease in the interest rate differential and growth rate difference between the US and the euro zone should lead to the appreciation of the euro against the US dollar in the latter half of the year.

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



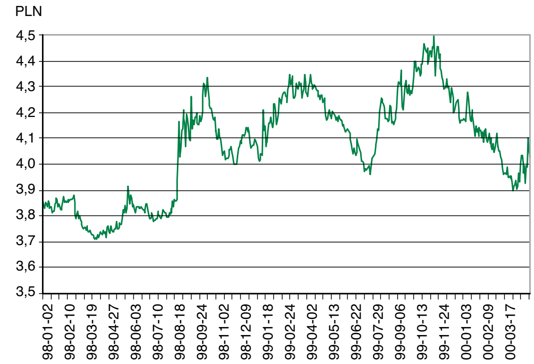

*Source: NBP, Reuters*

**USD/PLN**



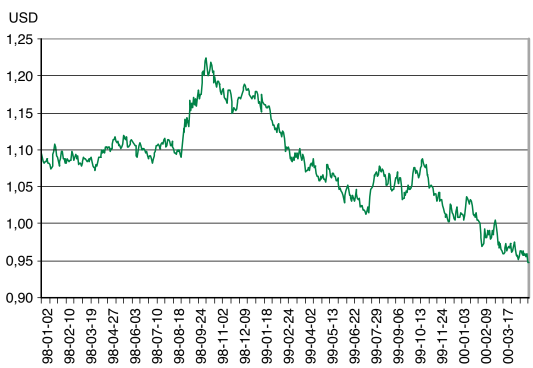

*Source: NBP, Reuters*

**EUR/PLN**

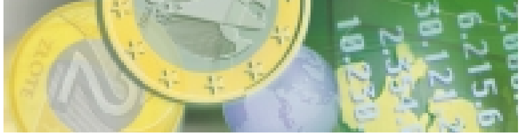



*Source: NBP, Reuters*

**EUR/USD**




*Source: NBP, Reuters*



## Interest rates

The end of March and April brought stabilisation in longer term interbank rates. At the beginning of April, given the settlement of the obligatory reserve in March, short term overliquidity predominated, quite efficiently drained with the operations of the open market by the NBP. Some banks still have difficulties managing their liquidity surpluses which have been recurring cyclically at the end of each month after the decrease in obligatory reserve rates since October last year. In April, there was a decline in WIBOR rate spreads following, on the one hand, shrinkage in short term overliquidity and, on the other hand, decreasing likelihood of another NBP rate hike. Such an increase could occur only in the case of dramatic deterioration of the current account, which is highly improbable at this stage. Longer term WIBOR rates should be stable in the coming weeks. At the end of May, O/N and T/N rates may fall again.

## Treasury bills

In the primary market, there was a slight increase in the yield on 1-year treasury bills. At the auction, 17 April, the average yield on 52-week treasury bills grew by 5 basis points to 17.19%. The average yields on 13-week treasury bills dropped by 10 basis points against the previous auction, totalling 16.25%, whereas the yields on 26-week treasury bills remained unchanged at 17.06%.

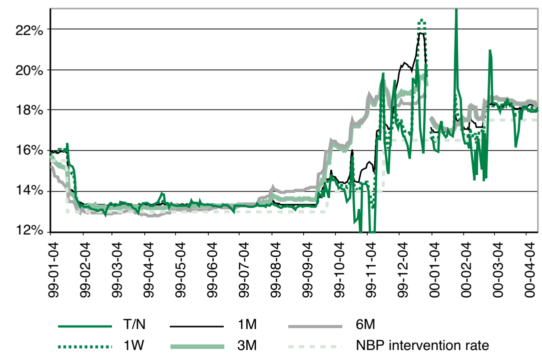
The treasury bill secondary market was stable in the second week of April. The yields on 9- and 12-month treasury bills were slightly rising while the yields on shorter term treasury bills were at more or less the same level. In the short perspective, a small rise in the yields on longer term treasury bills can be expected.

## Treasury bonds

At the end of March, yields on treasury bonds rose due to uncertainty about the possible fall in inflation this year. The increase in yields was short-lived given the moderately stable situation in the current account and zloty gains. However, last week, yields started rising again following an increase in foreign exchange risk after the decision to allow the zloty to float. After a fall in yields at the beginning of April along with continuing strong foreign demend, which stemmed from the high interest rates of Polish bonds and a strong and stable zloty rate, for the last few days there was a reversal of the trend. In the bond market, short term trade predominated with sales prevailing. In the short term, an increase in treasury bond yields can be expected due to the liquidation of positions by foreign investors following the rise in fx risk.

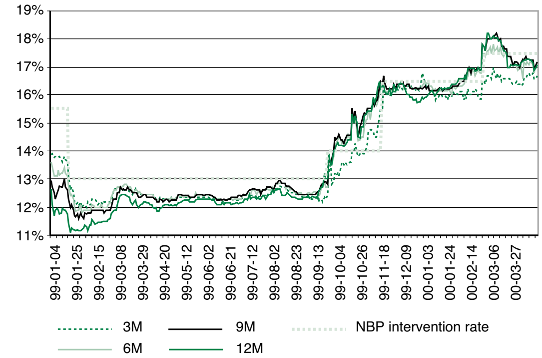
The spreads between treasury bond yields are still large, the yield curve remains steep and is not likely to flatten in the near future. This means that investors are still expecting relatively high inflation in the short term and a significant improvement in the overall situation in the medium and long term. There was considerable secondary market activity in the 5 year area. Gradual discontinuance of transactions on this paper by investors and an increase in its yield from 12.70% to 13.40% could be noted. Issues of euro-bonds denominated in PLN may be competitive to the domestic treasury bond markets. This will be an additional factor leading to an increase in treasury bond yields.

**WIBOR rates**



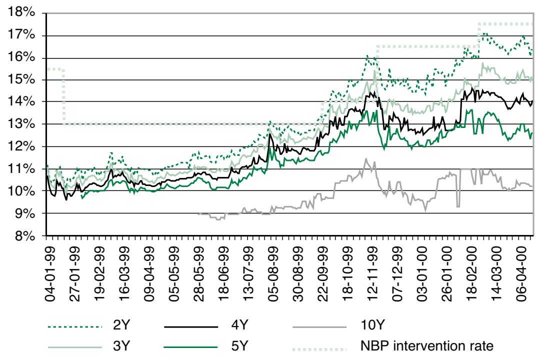

*NBP, WBK S.A. Treasury and International Division*

**T-Bill yield (secondary market)**



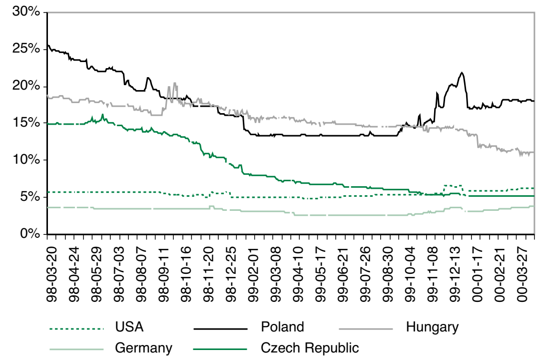

*Source: WBK S.A. Treasury and International Division*

**T-Bond yield (secondary market)**




*Source: WBK S.A. Treasury and International Division*

**1M. IBOR**




*Source: WBK S.A. Treasury and International Division*

## Consequences of the decision to allow the zloty to float freely

Despite the mounting alarm with too strong a zloty at the end of March, the Monetary Policy Council (MPC) did not introduce any changes to the monetary policy at its regular meeting on Wednesday, March 29th. The MPC confirmed its tightening bias and, in line with the medium term monetary policy strategy, announced a sale of PLN 16.4bn of NBP treasury bonds in 3Q2000. The MPC discussed the inflation report for 1999.

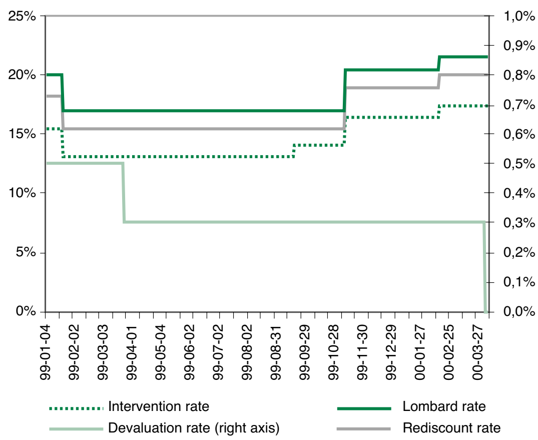
In April, the most significant change in the monetary policy was the full floatation of the zloty. This move had been expected to occur in 2000, but its timing was a complete surprise to the fx market. The direct effect of the floatation of the zloty was significantly higher foreign exchange risk of the zloty as the trading band was removed. The removal of the crawling devaluation did not lead to the appreciation of the zloty because last week, a considerable correction took place in US stock markets which increased the perceived risk of emerging market countries.

Monetary conditions alleviated in April due to a significant, 4% reduction in the zloty rate against the foreign currency basket. This zloty rate (about 2% above parity) is closer to the equilibrium rate and thus should contribute to assuaging the current account pressure through an improvement in export performance.

Although the MPC does not intend to intervene in the foreign exchange market, it reserved the right to intervene on a purely discretionary basis. This means that the Polish foreign exchange regime will be nearer the „dirty float" than the „full float". Direct and indirect foreign exchange investments cannot be excluded as the MPC has tools (sufficient foreign exchange reserves) and political permit necessary to take actions to counteract excessive zloty rate movements.

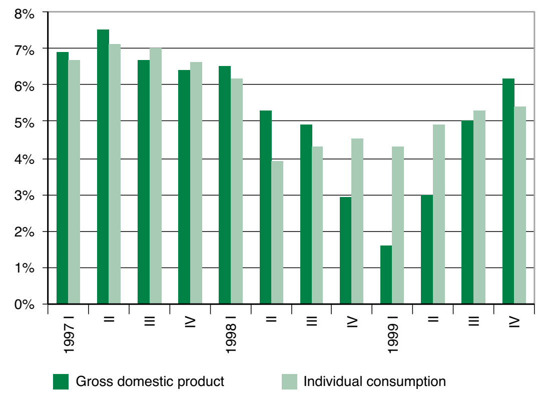
The most probable monetary policy scenario assumes that NBP rates should stay unchanged up to August/September and then start decreasing. The MPC will adopt a more gradual approach to cutting interest rates in order to prevent a strong increase in personal loans. The next Monetary Policy Council meeting will be held on April 26th. At the meeting, no changes to the monetary policy are likely to be taken.

**Interest rate changes**




*Source: NBP*

**Business trends in Poland**

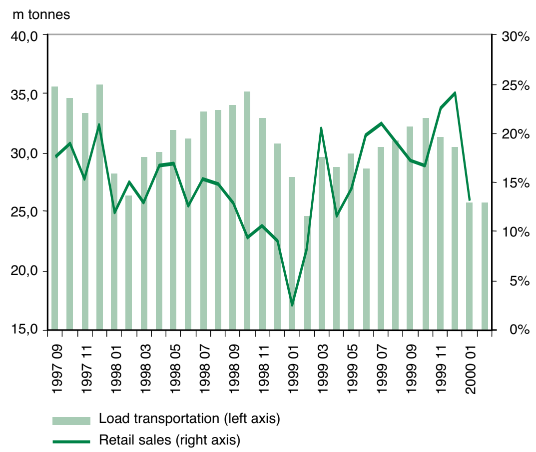



*Source: CSO*

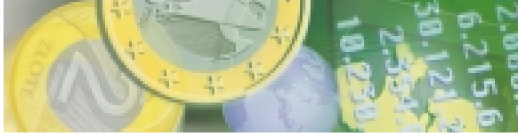
## Domestic demand is responding to the rate hike and more restrictive fiscal policy.

The macroeconomic policy pursued in Poland substantially moderated the effects of last year's Russian crisis through the stimulation of domestic demand as a result of an interest rate cut and the fiscal policy being considerably loosened due to a decrease in the public finances deficit. The current combination (restrictive monetary policy and more restrictive fiscal policy) seems to be bringing results in the form of weaker domestic demand. In 4Q1999, individual consumption growth was lower than GDP growth which may continue into 1 and 2Q2000. If domestic demand is still decreasing, this may help to stabilise the current account deficit through import shrinkage. On the other hand, GDP should be supported by an increase in external demand in the latter half of this year.

**Domestic demand**




*Source: CSO*





## Output results

According to forecasts by analysts, substantial output growth was to occur in February indicative of a reversal of negative foreign trade trends. In the first two months of this year, industrial output was unusually volatile, sliding by as much as 19% in January and climbing by over 16% in February. In March, industrial output growth was also lower than expected (6.8% y/y). Among others, it stemmed from a relatively high base - last year it was in March that industrial output recovered after the Russian crisis. March's data signal a probable decline in domestic demand linked to relatively high interest rates. They do not imply an improvement in Polish exports, which was not supported by zloty gains (the average deviation of the zloty from parity in March was -6.2%). In short, in 1Q2000, there was an obvious limitation of economic activity.

Industrial output data in February were much better than those in February, still they were not as good as expected by the market. Against the same period last year, sold industrial output rose by 16.4% and month on month by 7.3% (CSO data after the correction). The value of industrial commodities manufactured by enterprises in February was estimated by the Central Statistical Office at PLN 34.1bn. In all three sectors, there was an increase in industrial output: mining, manufacturing and utilities. In year-on-year terms, the increase was 4.1%, 18.2% and 10.0% respectively. The greatest rise in industrial output over the last 12 months was observed in the manufacture of coke, refined petroleum products and derivatives and in motor car and wood industries. A decrease in the output in year-on-year terms impacted two industries which had been encountering difficulties for some time heretofore: tobacco and clothing sectors. Even though February turned out to be a good month for tobacco companies as their output increased by as much as 136%.

## Structure of industry

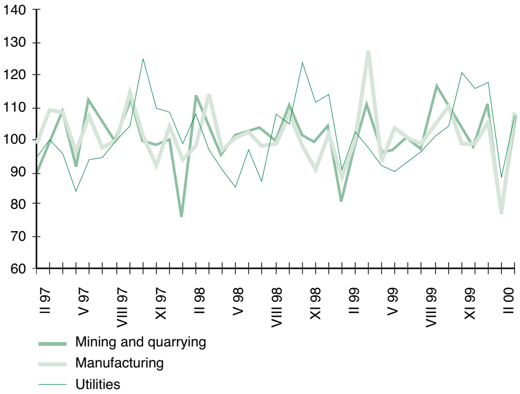
The contribution of individual sectors in sold industrial output did not change significantly in February. Over 80% of products were manufactured in the industrial processing sector. The contribution of the two remaining sectors, mining and utilities, represented 5.8% and 12.8% respectively. Compared to the same period last year, there was a rise in the significance of the processing sector while the share of the mining industry in total industrial output continued to decline and the share of utilities remained at a similar level. Food, motor car and chemical industries are still important sectors to Poland's economy. However, against previous years, a relatively smaller number of foodstuffs was produced, which was to some extent related to a slowdown of exports (the products of this industry represented 11% of total exports prior to the Russian crisis).

## Productivity

Following an increase in industrial output in February and the general trend of decreasing employment in companies, there was a rise in productivity in this month. Over the last 12 months, an increase in efficiency measured as the value of output per employee took place in all the sectors of industry.

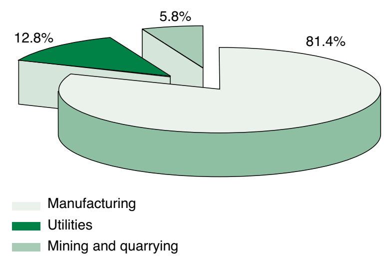
Two sectors were characteristic of a particularly high efficiency increase: coke and tobacco sectors. In the case of the coke sector, an increase in productivity of over 70% resulted mainly from high output growth (the highest in industry) along with a rise in employment. And the growth in productivity in the tobacco sector was related mainly to a reduction in employment because, as one of the few, the industry experienced a decline in output (by 7.7%).

**Annual growth of industrial output (current prices)**



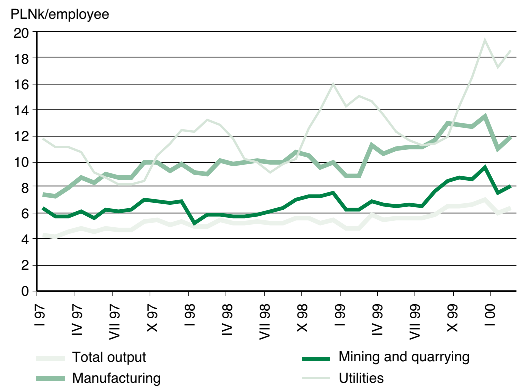

*Source: CSO*

**Total sold output structure in January 2000**




*Source: CSO*

**Productivity in industry**




*Source: CSO*

## Output factors

In February this year, the tendency to decrease employment by companies continued. In this month, the average employment rate in the corporate sector fell by additional 3k people. Over 12 months (from February 1999 to February 2000) employment tumbled in the corporate sector altogether by half a million people. It had its impact on the labour market. As at the end of February, 2.5 million people were registered in job centres, i.e. 383k people up on the same period 1999.

The decrease in employment applied mostly to the mining industry. Due to the restructuring process, over the last 12 months, 37k miners left mines. In addition, fewer people than in February 1999 were employed in food, clothing, machinery and equipment, and metal companies (in sum, 127k people). Only in two sectors of industry, there was an increase in employment in year-on-year terms - in the manufacture of coke and utilities.

In real terms, wages/salaries rose in February by 6.8% against the same period 1999. A very high increase (by over 27%) occurred in the mining industry which may have been related to severance pays to miners. Moreover, a relatively high dynamics in wages/salaries in real terms took place in the manufacture of medical, precision and optical instruments; in the manufacture of other transport equipment and in the manufacture of basic metals. The following five industries experienced a decline in real wages/salaries which did not follow a drop in productivity: paper, wood, chemical, tobacco and coke industries.

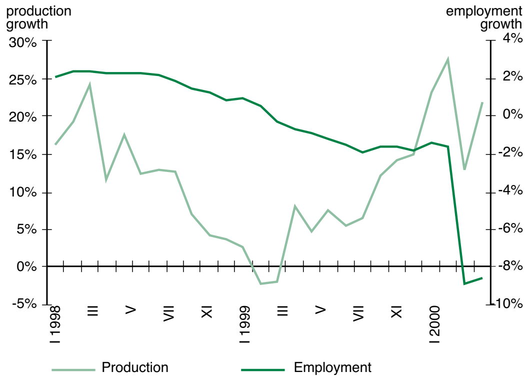
## Business trends

Research carried out by the Central Statistical Office indicates an improvement in business trends in March against the same period in the previous year. The index of the general business climate was similar to that of the previous month (February) at plus 10. March was regarded by those questioned as positive in respect of industrial output and was viewed particularly well by companies relative to publishing and printing and the manufacturers of non-metallic mineral products as well as the manufacturers of radio, television and communication equipment and apparatus. All in all, 28% of companies judged March's business trends positive, and 18% negative.

In March, producers determined to boost output following an improvement in demand (especially domestic demand). They estimated the future demand for their products as positive, still their estimations became more careful. Expecting an increase in demand, they took account of raising the scale of output in April. The financial standing of companies subject to the research was considered negative by them. Difficulties with settling payments on a timely basis diminished, but the possibilities of collecting receivables from counterparties deteriorated. In the coming months, enterprises expect an improvement in their financial standing. In the next three months, continuing reduction in employment is projected, albeit on a much smaller scale than previously. Companies subject to the research thought a decrease in producer prices was likely in the short perspective probably following increased competitiveness in the market.

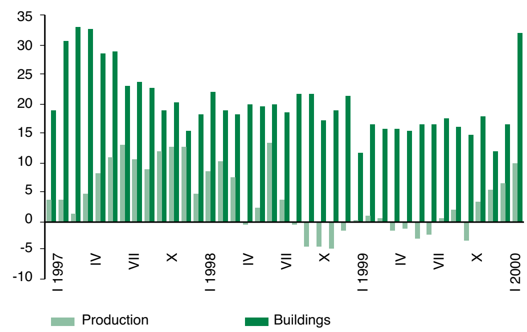
The index of the general business climate was also judged positive in the construction industry. An improvement in both current and future prices had an impact on bettering trends in the construction industry. Construction companies regarded their order portfolio and the current construction and assembly production as positive. Their assessment of the current financial standing is better than in February (less negative) and the future situation is viewed more optimistically.

**Total industrial output and average employment**



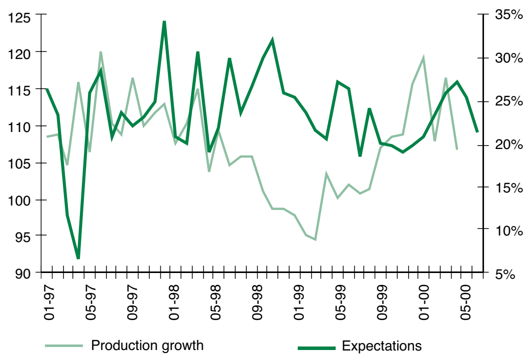

*Source: CSO*

**Unemployment rate and number of unemployed**

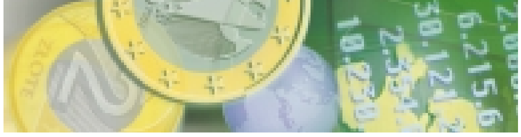



*Source: CSO*

**Production growth and expectations**




*Source: CSO*



# Labour market

## Labour market trends

In February, the labour market continued to deteriorate to 13.9% unemployment rate from 13.6% as at January. Trends of the growth in the number of unemployed against the number of employed appeared in June last year as a result of the Russian crisis (the deterioration of the financial situation of companies due to decreased interest in Polish commodities both in eastern markets and in Western Europe following weakening business trends). The restructuring process of the Polish industry, including mining and steel industries, affected the labour market. Over 50k people left these industries during the last 12 months. According to the National Job Office, the trends of an increase in the unemployment rate will continue up to the end of this year when the unemployment rate is likely to hit 15%. We expect the unemployment rate to increase up to 14.3% at the end of this year from the present level of 13.9%.

## Unemployment in regions

As at the end of February, over 2.5m jobless were registered in job offices. The unemployment rate surged to 13.9% against 11.9% in the same period last year. An increase in the number of out-of-work compared to January took place in all provinces, particularly in: Śląskie, Łódzkie, Dolnośląskie and Małopolskie provinces. In February, the highest unemployment rate was noted in the following provinces:

- Warmińsko-Mazurskie (24.0%),
- Lubuskie (18.7%),
- Zachodniopomorskie (18.5%),
- Kujawsko-Pomorskie (17.6%) and
- Dolnośląskie (16.9%).

In provinces, there was a great diversity of the situation in local labour markets. Differences were as high as 13%. An unusually low unemployment rate was noted in three provinces: Mazowieckie, Śląskie and Małopolskie where it was 10.2%, 10.9% and 11.0% respectively.

## Situation in job offices

Job offices recorded in February a smaller inflow of out-of-work than in January. Nearly 193k registered in offices against 250k in January this year. One fourth of these people were those who had not been employed before. Those who had been employed and made redundant due to company-related reasons represented 7.3% of the total registered in February. Graduates numbered almost 20k out of 193k of the newly registered unemployed. Rural residents were 35.9% of the jobless.

On the other hand, in February this year, 142k people registered out of job offices. The greater part of them (49.1%) took up jobs offered by job agencies or received advances to start their own businesses. A number of people were excluded from registrations as they refused offered jobs, acquired pension or disability pension rights or resigned voluntarily from the status of an unemployed.

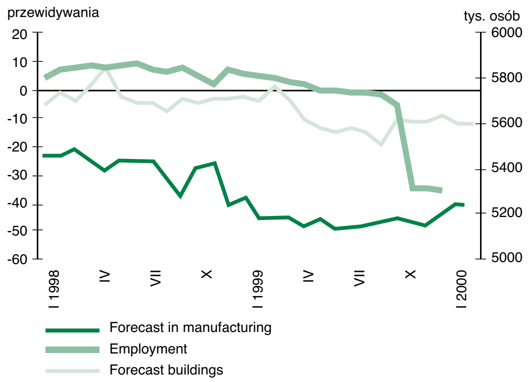
## Forecasts

According to research carried out by the Central Statistical Office in February, 800 companies declared their intention to dismiss 43.3k staff, of whom 17.1k people from the public sector. This is definitely more than in the previous month when 700 companies declared the dismissal of 36.1k employees. It is clear that the financial standing of companies deteriorated last year and their restructuring has not come to an end. A number of enterprises will start responding faster to market conditions with a reduction in costs in employment.

**Total industry climate indicator**


*Source: CSO*

**Employment and forecast**




*Source: CSO*

| | Unemployment rate | Number of unemployed per one offer | Output growth | Number of enterprises |
|---|---|---|---|---|
| | February 2000 | k people | January-February | As at 31.12.99 |
| Poland | 13.9 | 255 | 113.4 | 168 786 |
| Dolnośląskie | 16.9 | 296 | 113.7 | 13 826 |
| Kujawsko-pomorskie | 17.6 | 198 | 122.1 | 7 268 |
| Lubelskie | 13.5 | 372 | 109.5 | 5 984 |
| Lubuskie | 18.7 | 844 | 117.8 | 4 771 |
| Łódzkie | 15.1 | 293 | 109.2 | 8 350 |
| Małopolskie | 11.0 | 261 | 113.0 | 10 733 |
| Mazowieckie | 10.2 | 141 | 112.3 | 44 530 |
| Opolskie | 14.2 | 284 | 133.4 | 3 464 |
| Podkarpackie | 15.2 | 810 | 115.5 | 4 129 |
| Podlaskie | 15.2 | 159 | 111.2 | 13 826 |
| Pomorskie | 13.1 | 295 | 108.1 | 2 882 |
| Śląskie | 10.9 | 254 | 110.4 | 17 958 |
| Świętokrzyskie | 15.8 | 596 | 115.5 | 3 140 |
| Warmińsko-mazurskie | 24.0 | 410 | 112.2 | 4 142 |
| Wielkopolskie | 11.4 | 172 | 112.1 | 14 931 |
| Zachodniopomorskie | 18.5 | 258 | 119.9 | 9 152 |

*Source: CSO*

## Foreign trade performance

Last year, commodities of over PLN 182bn were imported to Poland and products of over PLN 108bn were exported abroad. The foreign trade deficit deepened. It was higher than in the previous year by about PLN 10bn, totalling PLN 73.64bn.

Weakness of Polish exports contributed to the general situation. In 1999, import growth was higher than export growth by nearly two percentage points. Against 1998, last year, there appeared 11.9k more imported commodities in the Polish market, and 10.2% more Polish products were sent overseas. A decrease in exports occurred as early as 1998 and resulted from a number of factors, among others, a deterioration of business trends in Western Europe and the effect of the Russian crisis.

In the latter half of the year, the position of Polish companies in Polish and Union markets was gradually being rebuilt.

## Poland's foreign trade partners

In 1999, similarly to the previous year, Polish exports were directed chiefly to European Union countries and to Central and Eastern Europe. As much as over 70% of Polish commodities were sold in European Union markets and 17% in Central and Eastern European markets. At the same time, the trend of the growth in significance of Union markets was noticeable whereas the contribution of Central and Eastern European countries gradually decreased. Poland's major trade partners buying Polish commodities were the following countries: Germany, Italy and the Netherlands. In Germany, as much as 36% of exported Polish products were sold. The contribution of Italy and the Netherlands in total exports was 6.5% and 5.3% respectively.

Similar to exports, commodities imported into the Polish market last year came mainly from European Union and Central and Eastern Europe countries. The percentage of these countries in total imports was 64.9% and 14.2% respectively. A downward trend of the contribution of European Union countries and an increase in significance of imports from Central and Eastern countries were noticeable. Most of imported commodities came from the German market (25.2%). This country was Poland's main trade partner last year (similarly to previous years). Moreover, commodities from Italy and France were imported to Poland. The percentage of these countries in total imports was 9.4% and 6.8% respectively.

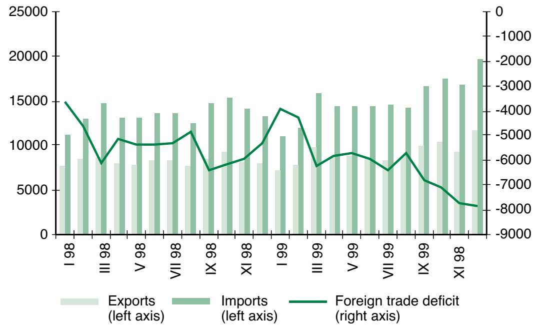
***Growth and structure of trade balance in the period Jan.-Dec. 1999***

| | annual growth | | structure % | |
|---|---|---|---|---|
| | PLN | USD | I-XII 98 | I=XII 99 |
| **exports** | 110,2 | 97,1 | 100,0 | 100,0 |
| Developed countries | 114,4 | 100,9 | 73,6 | 76,3 |
| of which European Union | 113,7 | 100,3 | 68,3 | 70,5 |
| Developing countries | 123,3 | 107,8 | 6,0 | 6,7 |
| Central and Eastern Europe | 91,7 | 80,4 | 20,4 | 17,0 |
| of which CEFTA | 121,6 | 107,0 | 7,4 | 8,2 |
| | **annual growth** | | **structure %** | |
| | **PLN** | **USD** | **I-XII 98** | **I=XII 99** |
| **imports** | 111,9 | 97,6 | 100,0 | 100,0 |
| Developed countries | 110,9 | 96,4 | 74,7 | 74,1 |
| of which European Union | 110,7 | 96,1 | 65,6 | 64,9 |
| Developing countries | 108,2 | 95,1 | 12,2 | 11,7 |
| Central and Eastern Europe | 121,3 | 106,3 | 13,1 | 14,2 |
| of which CEFTA | 116,0 | 102,0 | 6,5 | 6,7 |

*Source: CSO*

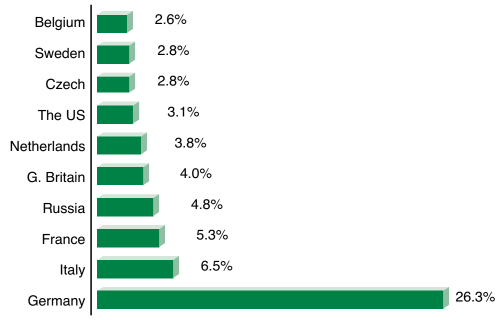
In 1999, there was a substantial limitation of merchandise trade between Poland and Russia. This was due to the Russian crisis of August 1998. In previous years, Russia held a high position both in Polish exports and imports. In 1999, the contribution of Russia in total exports was 2.6% against 5.6% as at 1998. In the case of imports, there was a small increase in significance of the Russian market. The contribution of Russia in total imports in 1999 was 5.9% compared to 5.1% in the same period in the previous year.

**Foreign trade (PLN m.)**



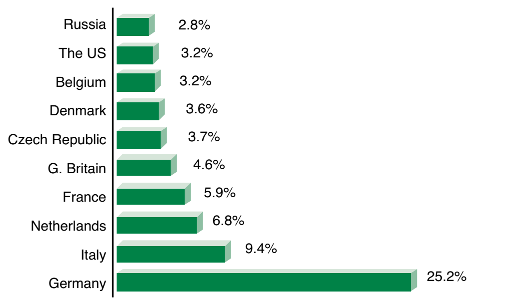

*Source: CSO*

**Export structure 1999**




*Source: CSO*

**Import structure 1999**



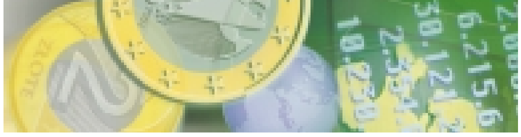

*Source: CSO*

## Economic Release Calendar April/May 2000

| Monday | Tuesday | Wednesday | Thursday | Friday |
|---|---|---|---|---|
| **April 17**<br>POL: Inflation (III) | **18**<br>POL: Producer price index (III)<br>POL : Industrial output (III) | **19**<br>*US: Foreign trade (II)* | **20**<br>POL: Unemployment (III)<br>*HU: Retail sale (I-II)* | **21**<br>POL: GPW closed<br>*CZ: Foreign trade (III)* |
| **24**<br>**Easter** | **25**<br>POL: Food prices (I half of IV) | **26**<br>POL: Monetary Policy Council meeting<br>*US: Durable goods orders (III)* | **27**<br>*E11: EBC meeting* | **28**<br>*CZ: Money supply (III)* |
| **May 1**<br>**Labour Day** | **2**<br>POL: GPW closed<br>*CZ: State budget (IV)*<br>*HU: Producer prices (III)* | **3**<br>**National Holidays**<br>*HU: Balance of payments (III)* | **4**<br>POL: Balance of payments (III)<br>POL: Foreign trade on a payment basis (III)<br>*HU: Industrial output (III)* | **5**<br>GER: Industrial orders (III) |
| **8**<br>POL: Balance of NBP (IV)<br>POL: Gross fx reserves (IV)<br>POL: Food prices (II half of IV)<br>*HU: Gross fx reserves (IV)*<br>*GER: Industrial output (III)* | **9**<br>*CZ: Gross fx reserves (IV)*<br>*HU: Foreign trade (I-III)*<br>*GER:: Unemployment (IV)* | **10**<br>POL: Business trends (IV)<br>*CZ: Inflation (IV)*<br>*CZ: Unemployment (IV)* | **11**<br>*HU: Inflation (IV)*<br>*E11: EBC meeting* | **12**<br>*CZ: Industrial output and construction (III)*<br>*CZ: Employment in industry and construction (III)* |
| **15**<br>POL:Inflation (IV)<br>POL: Money supply (IV)<br>POL: State budget (IV)<br>*CZ: Producer prices (IV)* | **16**<br>US: FED meeting | **17**<br>*CZ: Retail sale (III)* | **18** | **19**<br>POL: POL: Producer prices (IV)<br>POL : Industrial output (IV) |
| **22**<br>POL: Unemployment (IV) | **23**<br>POL: Food prices (I half of V)<br>*CZ: Foreign trade (IV)* | **24** | **25** | **26** |

# Basic Macroeconomic Data

| CATEGORY | unit | 1999 April | May | June | July | August | September | October | November | December | 2000 January | February | March |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **PRICES** | | | | | | | | | | | | | |
| Consumer price index (y/y) | % | 6.3 | 6.4 | 6.5 | 6.3 | 7.2 | 8.0 | 8.7 | 9.2 | 9.8 | 10.1 | 10.4 | 10.3 |
| Consumer price index (m/m) | % | 0.8 | 0.7 | 0.2 | -0.3 | 0.6 | 1.4 | 1.1 | 0.9 | 0.9 | 1.8 | 0.9 | 0.9 |
| Production price index (y/y) | % | 5.0 | 5.2 | 5.2 | 5.5 | 5.9 | 6.2 | 6.8 | 7.5 | 8.0 | 8.2 | 8.1 | 7.4 |
| Production price index (m/m) | % | 0.6 | 0.5 | 0.1 | 0.5 | 0.9 | 0.9 | 0.8 | 0.7 | 0.5 | 0.5 | 0.5 | 0.4 |
| Price index of assembly and construction production (y/y) | % | 8.6 | 8.4 | 8.1 | 7.8 | 7.8 | 8.2 | 8.3 | 8.8 | 9.1 | 7.7 | 7.5* | 7.6 |
| Price index of assembly and construction production (m/m) | % | 0.5 | 0.6 | 0.3 | 0.3 | 0.6 | 0.9 | 0.7 | 0.8 | 0.5 | 0.6 | 0.6* | 0.8 |
| Exchange rate USD/PLN (y/y) | % | 17.0 | 15.2 | 13.3 | 12.2 | 10.2 | 13.1 | 17.6 | 23.3 | 19.6 | 15.9 | 9.0 | 3.7 |
| Exchange rate USD/PLN (m/m) | % | 1.5 | -1.6 | 0.2 | -1.5 | 1.8 | 3.3 | 0.7 | 3.5 | -2.0 | -1.6 | 0.8 | -1.1 |
| Exchange rate EUR/PLN (y/y) | % | - | - | - | - | - | - | - | - | - | 1.3 | -3.9 | -7.9 |
| Exchange rate EUR/PLN (m/m) | % | -0.1 | -2.4 | -2.1 | -2.0 | 4.4 | 2.2 | 2.7 | -0.1 | -4.0 | -1.4 | -1.8 | -3.3 |
| Real gross wages and salaries in enterprise sector (y/y) | % | 4.3 | 3.4 | 3.6 | 3.2 | 3.4 | 3.9 | 1.9 | -0.3 | 2.3 | 6.5 | 6.8 | 3.1 |
| **ACTIVITY INDICATORS** | | | | | | | | | | | | | |
| Gross domestic product (y/y) | % | - | - | 3.0 | - | - | 4.9 | - | - | 6.2 | - | - | - |
| Industrial production (y/y) | % | 0.3 | 2.2 | 1.0 | 1.4 | 7.1 | 8.6 | 8.9 | 15.9 | 19.1 | 7.9 | 16.4* | 6.8 |
| Industrial production (m/m) | % | -7.0 | 1.2 | 0.1 | -2.0 | 4.6 | 9.3 | 0.1 | -0.9 | 5.7 | -19.0 | 7.3* | 11.5 |
| Construction and assembly production (y/y) | % | 2.8 | 4.2 | 4.9 | -0.3 | 4.3 | 5.2 | -0.1 | 5.9 | 12.3 | 4.6 | 5.5 | 4.3 |
| Construction and assembly production (m/m) | % | 10.3 | 10.8 | 9.6 | -0.5 | 6.4 | 8.9 | 4.4 | -18.2 | 49.3 | -57.7 | 6.6 | 17.7 |
| Retail sales of goods (y/y) | % | 16.3 | 19.3 | 25.3 | 26.4 | 25.9 | 24.8 | 25.1 | 32.2 | 34.6 | 20.3* | 25.4 | - |
| Retail sales of goods (m/m) | % | -0.9 | 3.1 | 2.1 | 4.2 | 0.6 | 0.4 | 4.6 | -2.3 | 23.2 | -32.1* | 5.7 | - |
| Exports on a customs basis (y/y) | % | 7.7 | 12.2 | 2.1 | -0.7 | 12.3 | 15.0 | 3.3 | 12.5 | 48.0 | - | - | - |
| Exports on a customs basis (m/m) | % | -10.8 | 1.8 | -3.3 | -3.1 | 4.4 | 12.8 | -1.8 | -11.5 | 28.2 | - | - | - |
| Imports on a customs basis (y/y) | % | 9.7 | 10.1 | 5.4 | 7.3 | 14.8 | 11.2 | 9.8 | 19.6 | 47.9 | - | - | - |
| Imports on a customs basis (m/m) | % | -9.1 | 0.5 | -0.5 | 1.1 | -1.7 | 14.7 | 2.4 | -3.4 | 16.2 | - | - | - |
| **LABOUR MARKET** | | | | | | | | | | | | | |
| Number of unemployed | thous. persons | 2 122 | 2 073 | 2 074 | 2 116 | 2 144 | 2 178 | 2 187 | 2 257 | 2 350 | 2 478 | 2530 | - |
| Unemployment rate | % | 11,8 | 11,6 | 11,6 | 11,8 | 11,9 | 12,1 | 12,2 | 12,5 | 13,0 | 13,6 | 13,9 | - |
| Average employment in enterprise sector | thous. persons | 5 799 | 5 779 | 5 771 | 5 748 | 5 747 | 5 735 | 5 738 | 5 723 | 5 679 | 5 319 | 5 316 | 5,308 |
| Average monthly gross wages and salaries | PLN | 1 780 | 1 767 | 1 827 | 1 852 | 1 823 | 1 875 | 1 881 | 1 946 | 2 186 | 1 882 | 1 926 | 1992 |
| Nominal increase in salaries (y/y) | % | 11.1 | 10.2 | 10.5 | 9.9 | 11.1 | 12.3 | 10.9 | 9.0 | 12.3 | 17.2 | 17.9 | 13.7 |
| **STATE BUDGET** | | | | | | | | | | | | | |
| State revenues | PLN bn | 37.8 | 46.8 | 56.5 | 65.8 | 76.8 | 89.0 | 100.6 | 112.5 | 125.9 | 11.0 | 20.3 | 31.0 |
| State outflows | PLN bn | 46.7 | 57.0 | 67.9 | 78.4 | 88.9 | 100.2 | 112.6 | 124.6 | 138.5 | 11.8 | 24.8 | 38.0 |
| State budget deficit | PLN bn | -9.0 | -10.2 | -11.3 | -12.5 | -12.1 | -11.3 | -12.1 | -12.1 | -12.6 | -0.9 | -4.5 | -6.9 |
| Domestic government debt | PLN bn | - | - | 133,4 | - | - | 130.9 | - | - | 134.4 | - | - | - |
| Foreign government debt | PLN bn | - | - | 123.0 | - | - | 130.5 | - | - | 129.7 | - | - | - |



# Basic Macroeconomic Data

| CATEGORY | unit | 1999 April | May | June | July | August | September | October | November | December | 2000 January | February | March |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **BALANCE OF PAYMENTS** | | | | | | | | | | | | | |
| Current account | USD m | -938 | -690 | -1 138 | -1 055 | -786 | -1 147 | -849 | -1 178 | -1 683 | -1 206 | -949 | - |
| Trade balance | USD m | -1 036 | -1 031 | -1 303 | -1 322 | -1 233 | -1 309 | -1 139 | -1 561 | -1 765 | -1 458 | -1119 | - |
| Exports | USD m | 2 161 | 1 989 | 2 122 | 2 092 | 2 078 | 2 044 | 2 221 | 2 151 | 2 470 | 1 928 | 2072 | - |
| Imports | USD m | 3 197 | 3 020 | 3 425 | 3 414 | 3 311 | 3 353 | 3 360 | 3 712 | 4 235 | 3 380 | 3191 | - |
| Services: net | USD m | -163 | -128 | -111 | -125 | -129 | -127 | -128 | -140 | -208 | -170 | -185 | - |
| Unclassified transactions: net | USD m | 232 | 300 | 253 | 301 | 429 | 423 | 426 | 299 | 174 | 278 | 225 | - |
| Capital and financial account | USD m | 491 | 548 | 726 | 1 279 | 1 015 | 877 | 863 | 834 | 1 405 | 1485 | 662 | - |
| Direct investment | USD m | 364 | 403 | 426 | 297 | 1 393 | 745 | 363 | 789 | 744 | 763 | 355 | - |
| Portfolio investment | USD m | 3 | -251 | 196 | 70 | 227 | -432 | 451 | 809 | 256 | 244 | 551 | - |
| **MONEY SUPPLY** | | | | | | | | | | | | | |
| Money supply | PLN bn | 231 | 233 | 236 | 238 | 242 | 246 | 251 | 255 | 263 | 255 | 258 | 262 |
| Money supply (y/y) | % | 25.7 | 24.5 | 22.9 | 21.1 | 19.6 | 20.9 | 22.4 | 22.9 | 19.3 | 15.1 | 13.7 | 13.7 |
| Money supply (m/m) | % | 0.2 | 1.1 | 1.2 | 0.9 | 1.4 | 1.7 | 1.9 | 1.5 | 3.5 | -3.1 | 1.0 | 1.5 |
| Total deposits (y/y) | % | 28.1 | 26.8 | 24.6 | 22.5 | 21.2 | 22.3 | 23.5 | 24.2 | 18.3 | 15.7 | 14.7 | 15.4 |
| Total deposits (m/m) | % | 0.0 | 1.4 | 0.8 | 0.8 | 1.7 | 1.9 | 1.8 | 2.1 | 2.4 | -1.6 | 1.3 | 1.8 |
| Household loans (y/y) | % | 37.4 | 39.2 | 41.1 | 42.9 | 45.4 | 47.6 | 46.0 | 52.2 | 53.0 | 52.5 | 51.8 | 51.5 |
| Household loans (m/m) | % | 3.1 | 3.8 | 4.5 | 4.7 | 4.5 | 4.5 | 3.7 | 4.3 | 4.5 | 0.6 | 1.2 | 3.0 |
| Corporate loans (y/y) | % | 27.2 | 27.2 | 25.0 | 25.4 | 24.0 | 23.8 | 24.5 | 23.7 | 21.6 | 20.8 | 18.8 | 18.0 |
| Corporate loans (m/m) | % | 1.2 | 1.6 | 0.6 | 0.8 | 2.0 | 3.0 | 2.5 | 2.2 | -1.5 | 2.5 | 1.0 | 0.8 |
| **FINANCIAL INDICATORS** | | | | | | | | | | | | | |
| Average deviation from central parity | % | -0.2 | -2.4 | -3.7 | -5.6 | -2.9 | -0.5 | 0.8 | 2.0 | -1.3 | -3.0 | -3.7 | -6.2 |
| Average exchange rate USD | PLN | 4.001 | 3.936 | 3.943 | 3.882 | 3.951 | 4.079 | 4.109 | 4.252 | 4.169 | 4.103 | 4.135 | 4.090 |
| Average exchange rate EUR | PLN | 4.284 | 4.183 | 4.0969 | 4.016 | 4.1946 | 4.288 | 4.403 | 4.397 | 4.220 | 4.160 | 4.085 | 3.950 |
| Average exchange rate DEM | PLN | 2.190 | 2.138 | 2.094 | 2.053 | 2.144 | 2.1925 | 2.251 | 2.248 | 2.157 | 2.127 | 2.088 | 2.020 |
| Average T/N WIBOR | % | 13.46 | 13.36 | 13.29 | 13.30 | 13.27 | 13.67 | 13.82 | 15.49 | 17.64 | 17.42 | 16.43 | 17.97 |
| 1M WIBOR | % | 13.36 | 13.35 | 13.34 | 13.34 | 13.39 | 13.83 | 14.72 | 16.94 | 20.47 | 17.11 | 17.43 | 18.18 |
| 3M WIBOR | % | 13.22 | 13.26 | 13.31 | 13.38 | 13.64 | 14.32 | 16.64 | 18.55 | 19.03 | 17.18 | 17.84 | 18,44 |
| Average 3M T-bill yield | % | 12.36 | 12.35 | 12.28 | 12.40 | 12.56 | 12.54 | 13.71 | 15.41 | 16.29 | 16.01 | 16.11 | 16.57 |
| Average 12M T-bill yield | % | 12.05 | 12.22 | 12.18 | 12.33 | 12.44 | 12.91 | 14.63 | 15.98 | 16.01 | 16.19 | 16.99 | 17.55 |
| Average 2Y T-bond yield | . | 10.92 | 11.32 | 11.50 | 12.09 | 12.75 | 13.09 | 14.63 | 15.39 | 14.78 | 14.87 | 14.91 | 16.57 |
| Average 10Y T-bond yield | % | - | 8.95 | 8.89 | 9.06 | 9.23 | 9.59 | 10.50 | 10.59 | 9.83 | 10.14 | 10.20 | 10.78 |
| **MONETARY POLICY INSTRUMENTS** | | | | | | | | | | | | | |
| Intervention rate | | 13.0 | 13.0 | 13.0 | 13.0 | 13.0 | 14.0 | 14.0 | 16.5 | 16.5 | 16.5 | 17.5 | 17.5 |
| Rediscount rate | | 15.5 | 15.5 | 15.5 | 15.5 | 15.5 | 15.5 | 15.5 | 19.0 | 19.0 | 19.0 | 20.0 | 20.0 |
| Lombard rate | | 17.0 | 17.0 | 17.0 | 17.0 | 17.0 | 17.0 | 17.0 | 20.5 | 20.5 | 20.5 | 21.5 | 21.5 |
| Monthly devaluation rate | | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 |

* corrected data, *Sources: CSO, NBP, Reuters*

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