

Poland's Economy. Financial Markets

July 2000

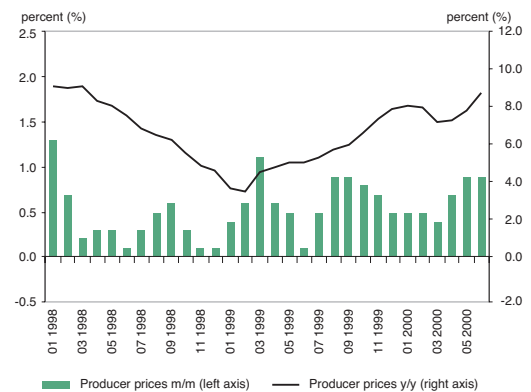
No. 13

Major macroeconomic trends:

- In June, inflation continued to rise. Inflation increased by 0.8% m/m and 10.2% y/y compared to an increase of 0.7% m/m and 10.0% y/y in May. The market expected inflation in a wide range of between 10.0% to 10.5%, and therefore, although inflation data were moderately negative, their release did not have an impact on the financial markets. The main reason for inflation are supply shocks rather than excessive domestic demand.
- In June, industrial output increased by 1.3% m/m and 13.5% y/y. In the period from January to June 2000, industrial output lifted by 10.2% against the same period last year. Given the same number of business days as in May and weak domestic demand, good industrial output data attest to an improvement in exports.
- May's current account deficit shrank to USD 376 m after a gap of USD 850 m in April. Nearly all the constituents of the current account deficit improved – the trade deficit decreased by USD 200 m due to significant recovery in exports.
- June's money supply surged by 5.9% m/m. It was largely due to an increase in personal loans in June's third ten-day period related to loans for the purchase of PKN shares. Personal loans grew by PLN 10.2 bn (25.1% m/m).
- According to CSO estimates, gross domestic product gained 6.0% y/y in the first quarter of 2000 compared to an increase of 6.2% in the fourth quarter of last year. Consumer demand is growing weaker.
- The zloty strengthened on the expectations of the privatisation of TP S.A.
- After a downward period, longer term interest rates are again picking up.
- In the near term, the monetary policy will be restrictive.
- The budget bill for 2001, however more tight than this year, does not satisfy the MPC.

Arkadiusz Krześniak

Producer prices 1998-2000



Source: CSO

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Poland's current economic situation

In July, concern over the tightness of budgetary appropriations for 2001 has come to the fore. Macroeconomic data released in July were positive or neutral to the zloty and the treasury securities market. Very good May current account performance infused the market with optimism, decreasing yields on treasury securities and strengthening the zloty. In addition, the zloty has been strengthening in anticipation of foreign exchange flows related to the privatisation of TP S.A. At least USD 1 to 1.5 bn of receipts from the privatisation should be transferred to the special foreign exchange account with the NBP, which may mean that as much as USD 1.5 to 2 bn could be exchanged in the foreign exchange market. This amount is likely to be spread over time as it is hardly probable that it will be concentrated in just a few weeks following the conclusion of the privatisation agreement expected on the coming days. The Finance Ministry have considerably increased the issue of short term treasury bills in July, which led to a rise in short term yields. Over the last few weeks, the bond market has stayed relatively calm and has not responded too negatively to the budgetary appropriations for 2001. Although it assumes a slight restriction on the economic gap next year, the budget bill did not stir up enthusiasm among analysts or the Monetary Policy Council. Recently, the MPC have sent out a number of signals that higher interest rates will probably be kept for a longer period of time, at least by the end of this year. There is still a risk of an NBP interest rate hike, which could happen after the inflation target for 2001 has been set in August this year. However, the likelihood of an interest rate hike does not exceed 25-30%. Given accumulated supply shocks in the food and fuel market, inflationary processes are characteristic of surprising inertia. In July, annual inflation is likely to continue to rise up to 10.6% y/y and then in the fourth quarter of this year a drop in inflation is likely to below 10% y/y. As at the end of this year, inflation is likely to significantly top the inflation target by the MPC, reaching probably 7.8-7.9% y/y. In the first halfyear 2000, consumer demand was decelerating given higher interest rates, low real wages in the corporate sector and a decline in real pensions and disability pensions due to a considerable underestimation of inflation for 2000. Whereas domestic demand has been decelerating, external demand is beginning to recover. The performance of the exports of goods and services is improving, the cross-border trade is increasing. Owing to seasonal factors, the unemployment rate is falling. This year's fiscal policy is much more restrictive than last year's, which coupled with highly tight monetary policy, will stabilise the current account performance. However, it seems necessary to further decrease the economic deficit for the current account improvement to continue.

Tab. 1. Inflation indicators

	02 2000	03 2000	04 2000	05 2000	06 2000	07 2000F
Consumer Price Index (m/m %)	0.9	0.9	0.4	0.7	0.8	-0.2
Consumer Price Index (y/y %)	10.4	10.3	9.8	10.0	10.2	10.6
Producer Price Index (m/m %)	0.5	0.4	0.7	0.9*	0.9	0.6
Producer Price Index (y/y %)	8.1	7.3	7.4	7.9*	8.8	8.9
Average monthly FX rate (USD, y/y %)	9.0	3.7	5.8	14.3	11.6	-

Tab. 2. Activity indicators

	01 2000	02 2000	03 2000	04 2000	05 2000	06 2000
Retail Sales Index (m/m %)	-32.1	5.0	17.2	2.2	-0.6	-
Retail Sales Index (y/y %)	20.3	25.4	16.9	19.9	15.1	-
Household loans (y/y %)	52.5	51.8	52.1	49.8	49.9	79.4
Industrial Output (m/m %)	-19.0	7.3	11.6	-8.5	7.7*	1.3
Industrial Output (y/y %)	7.9	16.4	6.8	5.3	12.1*	13.5
Exports, current prices (in payment terms, y/y %)	-9.3	-19.1	-3.7	-5.9*	22.7	-
Imports, current prices (in payment terms, y/y %)	1.5	-3.8	7.3	-2.8*	10.0	-
Foreign trade (NBP, USD m)	-1 458	-1 140	-1 241	-1 075*	881	-
State Budget Balance (PLN m)	-0.9	-4.5	-6.9	-8.9	-10.0	-10.8

Tab. 3. Poland's Economy

	1996	1997	1998	1999	2000F
Gross Domestic Product (y/y %) (fixed prices) of which:	6.0	6.8	4.8	4.1	5.2
Individual Consumption (y/y %)	8.3	6.9	4.9	5.1	5.0
Gross expenses on fixed assets (y/y %)	19.7	21.7	14.5	6.9	6.5
Exports, constant prices (y/y %)	9.7	13.7	9.4	2.0	11.5
Imports, constant prices (y/y %)	28.0	22.0	14.6	4.4	7.0
Inflation (average annual %)	19.9	14.9	11.8	7.3	9.7
Inflation (year end, y/y %)	18.5	13.2	8.6	9.8	7.9
Unemployment Rate (year end, y/y %)	13.2	10.3	10.4	13.0	14.0
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	43.2

y/y - year on year m/m - month to month F - forecast

Sources: CSO, NBP, WBK forecasts&estimates.

* corrected data



Tab. 4. Poland – medium-term forecast (average in period unless otherwise stated)

Interest rate	1999	1Q 2000	2Q 2000	3Q 2000	4Q 2000	2000	2001	2002	2003	2004	2005
1 M	14.56	17.59	18.14	17.82	17.75	17.82	15.7	13.2	11.2	9.2	8.4
3 M	14.71	17.84	18.50	18.13	17.69	18.04	15.8	13.2	11.4	9.4	8.6
6 M	14.60	17.85	18.67	18.25	17.97	18.18	15.8	13.2	11.5	9.5	8.7
12 M	14.80	18.05	18.86	18.40	18.12	18.36	15.9	13.4	11.6	9.6	8.8
Lombard rate	17.59	21.17	21.50	21.50	21.50	21.42	18.8	15.5	13.0	11.0	10.2
Intervention rate	13.72	17.17	17.50	17.50	17.50	17.42	15.5	13.0	11.0	9.0	8.2
Treasury bonds yields											
3 Y	11.87	14.62	16.30	16.34	16.15	15.85	14.9	11.5	9.5	8.5	8.0
5 Y	11.12	12.78	14.01	14.18	13.98	13.74	13.0	10.2	9.0	8.2	7.8
10 Y	9.63	10.41	11.69	12.02	11.50	11.41	10.1	9.3	8.5	8.1	7.6
T-bills yields											
13-week	13.12	16.25	16.75	17.17	17.50	16.92	15.0	12.3	10.3	8.3	7.4
52-week	12.97	16.94	17.68	17.52	17.85	17.50	15.3	12.5	10.5	8.5	7.6
Exchange rates											
USD/PLN	3.9650	4.1132	4.3762	4.366	4.443	4.324	4.53	4.90	5.30	5.55	5.80
EUR/PLN	4.2260	4.0629	4.0872	4.105	4.366	4.156	4.59	5.03	5.40	5.49	5.56
EUR/USD	1.0660	0.9878	0.9344	0.940	0.983	0.962	1.01	1.03	1.02	0.99	0.96
Average depreciation (currency basket)	-	-	-	-	-	3.5%	7.6%	8.9%	7.7%	3.2%	2.8%
USD/PLN (end of period)	4.1483	4.1428	4.3907	4.410	4.460	4.460	4.60	5.20	5.40	5.70	5.90
EUR/PLN (end of period)	4.1689	3.9650	4.2075	4.181	4.460	4.460	4.72	5.34	5.45	5.53	5.58
EUR/USD (end of period)	1.0050	0.9571	0.9583	0.948	1.000	1.000	1.03	1.03	1.01	0.97	0.95
Macroeconomic indicators (end of period unless otherwise stated)											
Real GDP (y/y %)	4.1	6.0	5.5	4.7	4.4	5.2	5.5	5.2	5.1	5.5	6.0
Inflation (y/y %)	9.8	10.3	10.2	9.6	7.9	7.9	6.8	5.7	4.3	3.8	3.5
Inflation (y/y %) (average)	7.3	10.3	10.1	10.2	8.4	9.8	7.4	6.3	5.0	4.1	3.5
Current account/ GDP (%)	-7.6	-7.9	-7.9	-7.4	-7.0	-7.5	-7.1	-7.1	-7.0	-6.4	-5.9
Budget deficit/GDP (%)	-2.1	-2.8	-2.3	-1.9	-1.7	-2.2	-2.0	-1.9	-1.6	-1.4	-1.2
Public debt/GDP (%)	44.6	-	-	-	-	42.4	39.0	36.9	35.1	32.9	31.6
Domestic public debt/GDP (%)	20.7	-	-	-	-	20.2	18.3	17.4	16.7	15.4	14.2
Foreign debt total/GDP (%)	39.0	-	-	-	-	38.4	34.8	31.3	28.3	27.7	27.0

Forecast data: 19.07.2000

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

In June, inflation continued to rise. Inflation increased by 0.8% m/m and 10.2% y/y against 0.7% m/m and 10.0% y/y in May. The market expected inflation in a wider range of between 10.0 to 10.5 y/y, and therefore, despite moderately negative inflation data, their release did not have an impact on the financial markets. In June, the effect of the supply shock was still observable – food prices surged by 0.6% m/m after an increase of 0.4% in May. The increase in services prices amounted to 0.7% m/m after an increase of 0.8% in May, which was caused by pressure on the part of electricity prices. Inflationary tendencies are still not too favourable. If the increase in the prices of some food categories persists, in July deflation will not occur or will be very small. This could lead to an increase in annual inflation in July up to roughly 10.7%. It is hardly probable that the inflation target for 2000 will be met. We are still expecting inflation to considerably top 10% in the period from July to August and to fall to around 9.3% y/y in September this year. At the end of this year, inflation is likely to range from 7.8-7.9%.

Inflation – producer prices

In June, sold industrial output prices increased by 0.9% against 0.9% in May, staying much above market expectations. In year-on-year terms, the increase in producer prices amounted to 8.8% compared to 7.9% in May. In the period from January to June 2000, the increase in industrial output prices was 0.6% up on the same period last year, standing at 4.0%. The rise in industrial output prices has accelerated significantly over the last two months given a weakening of the zloty and an increase in electricity and fuel prices. The current increase in producer inflation should translate into consumer prices with a month's delay. Despite weak domestic demand, there will be pressure on inflation on the part of costs. Owing to July's strengthening of the zloty and a continuing decline in consumer sentiment, in the coming months the pace of the growth in producer prices is likely to slow down provided that supply shocks are not too strong in the food market.

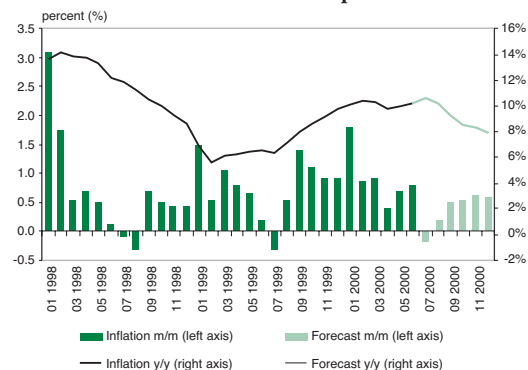
In June, in the construction industry, prices rose by 0.9% m/m and 9.0% y/y after an increase in May of 0.7 and 8.4% respectively.

Industrial output

In June, industrial output gained 1.3% m/m and 13.5% y/y. In the period from January to June 2000, industrial output increased by 10.2% against the same period last year. Given the same number of business days as in May and weak domestic demand, good industrial output data attest to an improvement in exports. After balance-of-payments data, this is another confirmation that Poland's exports are beginning to recover. There was an increase in the manufacturing industry (1.3% m/m) and in mining (4.8% m/m) while there was a drop in utilities (0.9% m/m). This year, we are expecting the average annual growth in industrial output to hit roughly 8%.

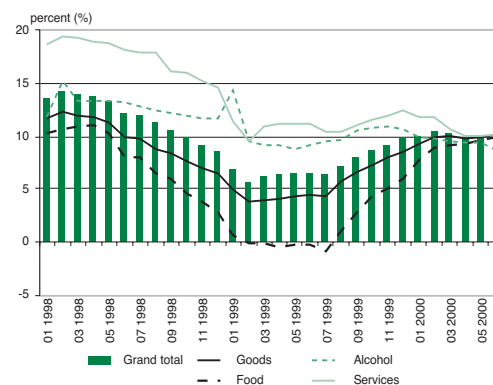
In June, construction and assembly output rose by 11.4% m/m and 1.1% y/y. Similarly to the previous month, the increase in monthly growth was of a seasonal nature.

Inflation – consumer prices



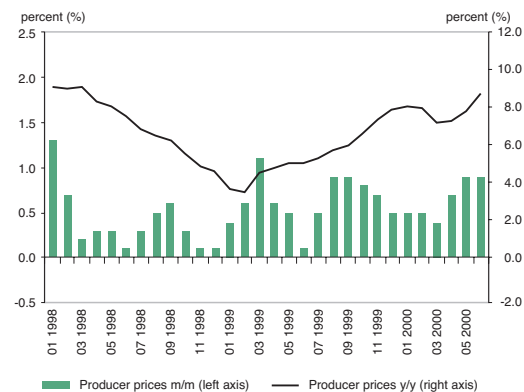
Source: CSO, own forecast

Inflation indicators y/y



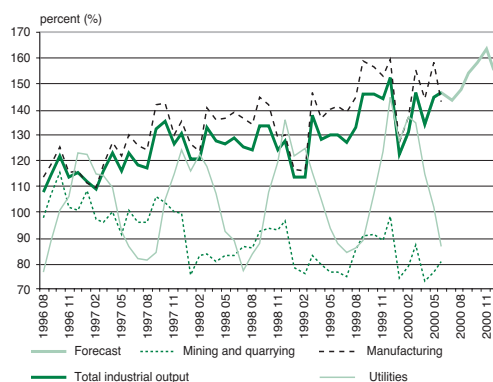
Source: CSO

Producer prices 1998-2000



Source: CSO

Industrial output (average, 1995=100)



Source: CSO, own forecast



Balance of payments

In May, the current account deficit shrank to USD 376m after April's gap of USD 850m. Nearly all the constituents of the current account deficit improved – the trade deficit decreased by USD 200m due to a significant improvement in exports. Exports rose by over 20% y/y whereas the annual growth in imports does not exceed 10% y/y. Another USD 100m of the reduction in the gap stems from an increase in the export of services. In addition, the cross-border trade shows signs of improvement. Although it may be related to the beginning of the holiday season, it seems that the trend has reversed and the cross-border trade is likely to stay at this higher level. The greatest improvement affected the revenue balance which had gained USD 250m m/m. Certainly, this is a once-off effect issuing from the payment of interest on foreign deposits. Next month, the revenue balance will be negative once again, making June's current account gap deteriorate, but hopefully, stay at USD 700-800m. The foreign trade balance is likely to continue to pick up on the improvement in business trends in the euro zone, especially Germany, and on the curb on import growth as a result of substantially weaker domestic demand in Poland.

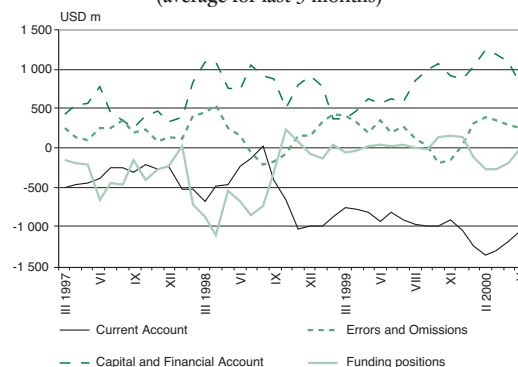
Money supply

June's money supply soared 5.9% m/m. This was largely due to a rapid increase in personal loans in June's third ten-day period related to loans for the purchase of PKN shares. Personal loans grew by PLN 10.2bn (25.1% m/m), of which roughly PLN 8.5-9bn represented loans for the purchase of PKN shares. Given a reduction in orders of 91%, money supply will reduce in July's first ten-day period following the repayment of loans for the purchase of PKN shares. Excluding these loans, money supply would have increased by only 2.5-2.8% m/m. On the deposit side, loans for the purchase of PKN shares are reflected in a significant increase in corporate PLN deposits of 18.3%, representing growth of over PLN 9.8bn. It corresponds to deposits with brokerage houses which, given the reduction in orders, will not be incorporated in July's data either. The growth in personal PLN deposits was relatively high, amounting to 2.7% m/m. Corporate loans increased by 2.0% m/m while the debt of the budget sector grew by 1.8% m/m.

Economic growth in 1Q2000

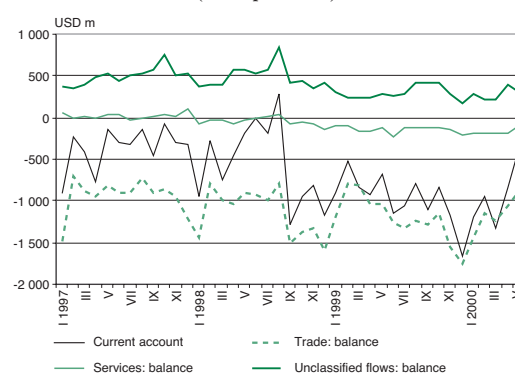
According to CSO estimates, gross domestic product climbed 6.0% y/y in 1Q2000 compared to an increase of 6.2% in 4Q last year. Domestic demand grew by 5.1%, which was largely due to an increase in stock. In 1Q this year, the pace of individual consumption growth decelerated to 4.6% y/y and gross expenses on fixed assets slowed down considerably to 5.5% y/y. In 1999, on the other hand, the average growth in individual consumption stood at 5.1% and the average growth in investments in fixed assets – at 6.9%. On the supply side, the effect of the interest rate hike of 4Q1999 is now clearly observable. A continuing decrease in consumption should be expected this year due to higher interest rates and a tighter fiscal policy. On the GDP side, the gross value added produced in industry gained 10.1% y/y in real terms, which was, however, due to a low base – a fall in GDP growth in industry of 2.8% in 1Q1999. The situation in the market services sector keeps improving as its real increase amounted to 5.8% in 1Q and the value added in the construction industry proves a steady rise of 4.0% y/y in real terms.

Balance of Payments
(average for last 3 months)



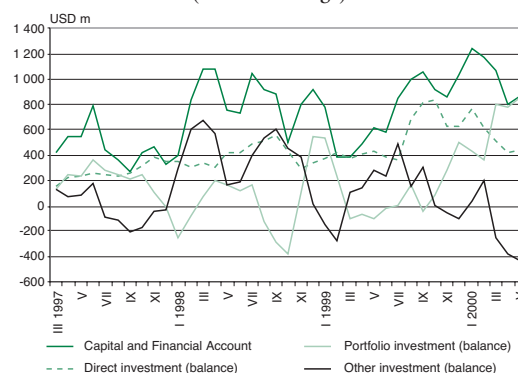
Source: NBP, own estimations

Current Account
(some positions)



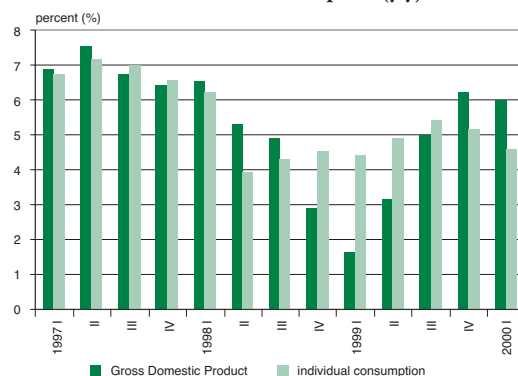
Source: NBP

Capital and Financial Account
(3-month average)



Source: NBP, own estimations

Growth of GDP
and individual consumption (y/y)



Source: CSO

The zloty strengthens on the impending privatisation of TP S.A.

Last month, the zloty strengthened against the US dollar and the euro. This was due to very good current account performance and the expectations of the privatisation of TP S.A. At the end of June, the zloty gained against the US dollar given the expectations of a very good current account gap for May. On the other hand, the zloty weakened against the euro due to the strengthening of the euro against the US dollar. Following the release of unexpectedly good data of the current account deficit, the zloty strengthened both against the US dollar and against the euro. In addition, the initial response of the market to the release of budget assumptions was positive. On Wednesday, 5 July, the euro fixed at PLN 4.1064 and the US dollar fixed at PLN 4.3004. On subsequent days, the zloty weakened on concern about the degree of tightness of the 2001 budget and difficulties in interpreting new budget definitions by the financial markets. Following moderately positive interpretation of budget assumptions by the members of the Monetary Policy Council and the comment by Dariusz Rosati, a member of the MPC, that at least USD 1-1.5bn would be transferred to the special foreign exchange account with the NBP to be used for the repayment of Poland's external debt this year, the zloty strengthened. As at Tuesday, 11 July, the US dollar traded between PLN 4.2580 and PLN 4.2860. Subsequently, however, given comments by some members of monetary authorities criticising next year's budget bill, the zloty weakened to PLN 4.31 to 4.34 against the US dollar. Due to a fall in the euro against the US dollar, as early as 6 July, the zloty started picking up against the euro. After the release of relatively poor June inflation data, which were, however, within market expectations, the zloty stopped losing value against the US dollar. Following good June industrial output performance, the zloty strengthened on Tuesday, 18 July, to PLN 4.3050 per USD 1. The agreement to sell the package of 35% of TP S.A. shares to the consortium of France Telecom and Kulczyk Holding should be signed by the end of this week (by 21 July). The market is speculating about the amount that will flow through the foreign exchange market. The zloty is very likely to approximate PLN 4.30-4.35 per USD 1 in the coming weeks. If it turns out that greater amounts of the US dollar flow through the market, the zloty may strengthen to PLN 4.25 against the US dollar, the level tested on 11 July. It is probable that the payments for TP S.A. shares will be spread over a period of time. It is also possible that more than the expected USD 2bn will be transferred into the special account. Once proceeds coming from the privatisation of TP S.A. cease, the zloty should return to its equilibrium level against USD of around PLN 4.45-4.50 per USD 1.

The euro weakened against the US dollar

In July's third week, the euro started losing value against the US dollar given an increase in interest in Internet companies (following better results of Yahoo), better performance of US corporations and a comment by Alan Greenspan that productivity in the US will continue to strongly rise. This comment, along with macroeconomic data suggesting that the US economy is slowly decelerating, reduced the expectations of another interest rate hike in the US. On Tuesday, 18 July, the euro dropped below the technical level of USD 0.925. Poor performance of the sentiment indicator in the IFO business and a strong increase in inflation in the euro zone (2.4% y/y in June) will make the euro stay weak in the near term.

Average exchange rate of PLN against USD and EUR (fixing)



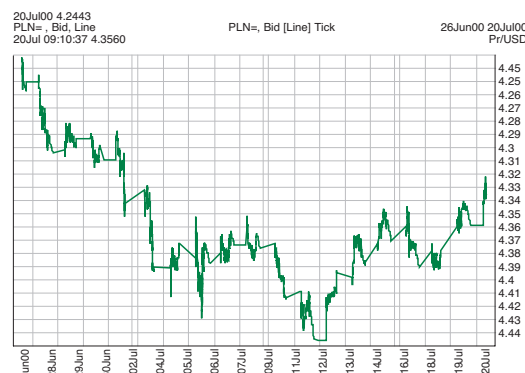
Source: NBP, Reuters

EUR/USD



Source: NBP, Reuters

Daily changes in PLN/USD exchange rate



Source: Reuters



Money and bond market

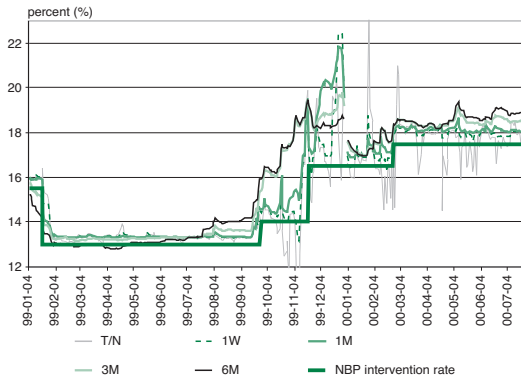
Interest rates

Last month, in the money market, rates were quite stable. Following typical overliquidity at the end of the month, in July's second week there was an interim shortage of funds in relation to short term rates, given the payment for additionally issued short term treasury bills. After the buy-up of treasury bills, in July's third week, short term WIBOR rates returned to the level of the intervention rate. Longer term WIBOR rates increased, especially 3M WIBOR rates. 1M WIBOR rates, following a small increase in July's first week, fell slightly on subsequent days. After a significant increase in mid-June, spreads between WIBOR and WIBID rates decreased in July.

Treasury bills and bonds

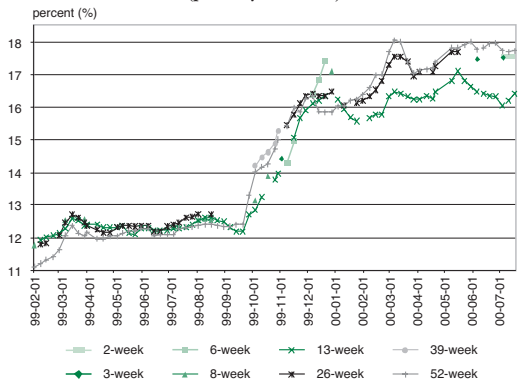
In June's last week, in the secondary market, yields on treasury bills were falling, affecting mainly short term rates. At its shorter end, the yield curve moved down 50 basis points (3M) and 40 basis points (12M). In the secondary market, yields on treasury bonds were also falling, decreasing by 10-15 basis points in the 3Y and 5Y sectors. In July's first week, in the secondary market, yields on treasury bills and bonds picked up slightly. The yields on 12-month treasury bills stood at 17.70% to 17.80% whereas those on 3-month treasury bills were 16.00% to 16.20%. In July's first week, yields on treasury bonds were falling by about 20-30 basis points. The reduction in the yields on treasury bonds in the secondary market were largely due to a low current account gap in May. In July's second week, in the secondary market, yields on treasury bonds stabilised. On the other hand, yields on treasury bills were characteristic of a fall. Despite uncertainty about the tightness of the 2001 budget, there was no cut in prices in the market of treasury bills and bonds. In July's third week, in the secondary market, there was an increase in yields on treasury papers relating to concern over weak inflation data and concern over too high a public finance deficit in 2001. Like last month, investors did not react to good industrial output data. The yield curve shifted 15-25 basis points up. Yields on treasury bills increased by 20-25 basis points as at Monday, 17 July, whereupon on the next two days they fell by 15-20 basis points in longer terms. Prior to the MPC meeting, 19 July, for fear of an interest rate hike, yields on shorter term treasury bonds gained roughly 10 basis points. In July, the Finance Ministry held additional auctions on 4 July of PLN 2.0bn of 3-week treasury bills and on 7 July of PLN 1.5bn of 2-week treasury bills. The average yields were 17.508% and 17.553% respectively. The total issue of treasury bills is to amount to PLN 6.5bn in July (of which PLN 1.5bn of 52-week treasury bills and PLN 900bn of 13-week treasury bills) compared to PLN 4.5bn of treasury bills in June. After a fall at the beginning of July, the yields on 1-year treasury bills were stable in the primary market while the yields on 13-week treasury bills were increasing on much greater supply of short term bills than in the previous month. June's supply of treasury bonds totalled PLN 2.4bn whereas in July it amounted to PLN 2.2bn. Average yields obtained at auctions in July were 17.372%, 13.778% and 12.938% on 2-year, 5-year and 10-year bonds respectively. In June, in the primary market, the yields on 2-year and 5-year treasury bonds stood at 17.613% and 14.609% respectively. The structure of treasury papers issued in July proves that the Finance Ministry has large borrowing needs with respect to short term funding.

WIBOR rates



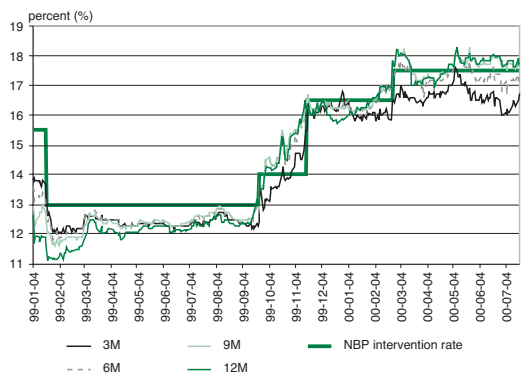
Source: NBP, WBK S.A. Treasury&International Division

T-Bill yield (primary auctions)



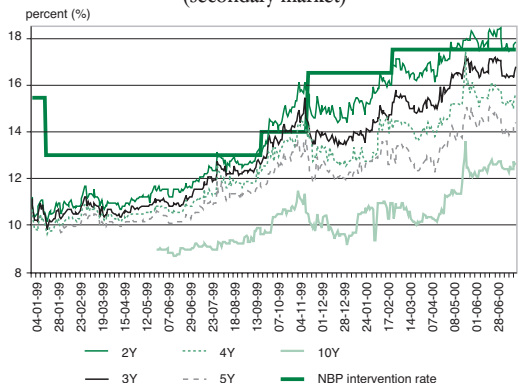
Source: NBP, WBK S.A. Treasury&International Division

T-Bill yield (secondary market)



Source: NBP, WBK S.A. Treasury&International Division

T-Bond yield (secondary market)



Source: NBP, WBK S.A. Treasury&International Division

Monetary policy

At their meeting on 21 June this year, the Monetary Policy Council decided not to make any changes to the monetary policy and to keep their tightening bias. Similarly, at their meeting on 19 July, the Monetary Policy Council, as expected, did not change the level of interest rates, and at the same time, strongly confirmed their tightening bias. The MPC indicated the following reasons of an increase in inflation: the government's pro-cyclical policy in the food market in 1999, supply shocks triggered off by the drought and late interventions in the agricultural market this year and supply shocks stemming from an increase in fuel prices worldwide. These pro-inflation factors, as stated by the MPC, are reinforced by a rise in excise duties and a quasi-monopolistic structure of Poland's fuel market. Given the increase in fuel and electricity prices, producer prices experienced a strong rise. The monetary policy is not capable of countering any primary, let alone secondary, effects of supply shocks. High growth in inflation persists despite a slower pace of money supply growth. In our opinion, consistent with the assessment of the MPC, Poland's economy is entering a slow-down phase of domestic demand. In this situation, the recovering external demand will make the current account gap fall. In the opinion of the MPC, the work on the budget should be aimed at curbing the economic deficit as in its current form the budget does not secure "a significant and continuing reduction in the gap of the balance of payments." We still believe that interest rates will not be hiked this year. Factors that could lead to an interest rate hike could be as follows: 1) a considerable increase in inflationary expectations (if in the coming months inflation approaches 11%); 2) a sudden rise in domestic demand; 3) rapid growth in personal loans; 4) an uncontrolled increase in the budget deficit; 5) deterioration of the current account deficit. We estimate the total likelihood of an NBP interest rate hike at 25-30%. If it were to take place, the hike would have to amount to 2 to 3 percentage points. The next MPC meeting is scheduled for 30 August this year. Then, the Council will set the inflation target for 2001.

Budget bill for 2001

2001 budget assumptions, approved by the government, do not mean a significant tightening of the fiscal policy next year. In order to be comparable to this year's, next year the central budget gap assumed at 1.4% of GDP must be increased to include receipts from the sale of third generation UMTS mobile phone licences. In table 1, we have presented fiscal assumptions for 2000 and 2001 on a comparable basis (% of GDP). The level of tightness of the proposed 2001 budget is similar to the anticipated outcome of this year's budget. In terms of the central budget, small relaxation of the fiscal policy is expected. On the other hand, the fiscal deficit assumed for next year is likely to be lower by 0.2% of GDP, equivalent to roughly PLN 1.6bn, and the economic deficit is likely to be lower by 0.4% of GDP, equivalent to about PLN 3.1bn. Therefore, no excess loosening of the fiscal policy can be observed when compared to this year. Certainly, however, this budget is much less restrictive than expected by the financial markets. In the assessment of the MPC, the tightening of the fiscal policy is also insufficient to ensure a continuing fall in the current account deficit. However, it seems that not only the size of the budget deficit but also, perhaps to a greater extent, the way of funding it has a crucial impact on the current account deficit. Funding the budget with privatisation

revenues, that is mainly with foreign revenues, leads to the appreciation of the zloty, and in consequence, to a disimprovement in the trade balance. It is definitely a better solution to finance the budget gap with the issue of treasury securities.

Tab. 5. The comparison of budget restrictiveness for 2000 and 2001.

Category (% of GDP)	2000	2001
Central budget deficit (included in draft)	-2.2	-1.4
Receipts from UMTS	-	-0.9
Central budget deficit (in comparable terms)	-2.2	-2.3
Local governments' balance	-0.3	-0.3
Funds' balance	-0.3	0.0
Fiscal deficit	-2.8	-2.6
Subsidies to 2 nd pillar	+1.3	+1.3
Compensations	-0.5	-0.3
Economic deficit	-2.0	-1.6

Source: Finance Ministry, own estimations

Tab. 6. Macroeconomic assumptions for 2001 budget.

	2000	2001
Real growth of GDP	5.3	5.7
Current account balance (% of GDP)	-7.7	-7.1
Average real wages growth	2.2	2.0
Average real wages growth in budget sphere	-2.2	0.4
Real pension and disability pension growth	-1.8	0.4 (2,3 including valorisation)
Average employment growth	-1.0	0.8
Number of unemployed growth	5.9	0.6
Unemployment rate	13.8	13.7
Annual average growth of consumer prices	9.1	6.1
Annual average growth of producer prices	6.7	4.5
Annual average PLN/USD exchange rate	4.32	4.42
Receipts from privatisation (% of GDP)	3.7	2.3

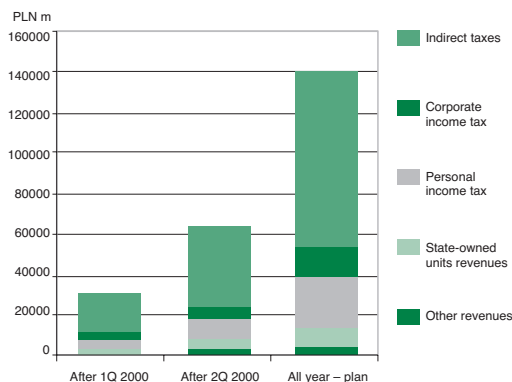
Source: Finance Ministry



Execution of the budget after the first half-year of 2000

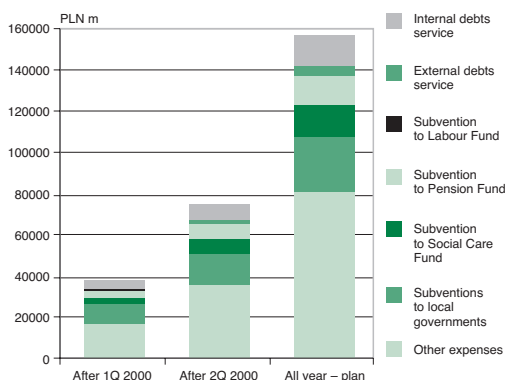
As at the end of June, the budget deficit totalled PLN 10.76bn, which represents 70% of the yearlong budgeted figure. After May, it represented 65% while after April 57.6% of the plan, which means that the deficit had been growing slower. At the time being, the size of the gap executed does not arouse concern. On the other hand, despite a decelerating pace of the execution of the planned budget, a close analysis of individual expenditure and revenue positions proves that some of them pose a potential danger. Compared to 36.8% last month, during the first six months of this year, revenues of PLN 64.2bn have been realised, representing 45.6% of this year's plan. In June, the highest revenues were realised compared to previous months due to once-off proceeds from NBP profits of over PLN 2bn. Therefore, 90% of revenues from this source were realised. Although they represent the most important revenue positions, receipts from indirect taxes and personal and corporate income taxes were realised to a small extent (62.2%, 17.9% and 10% of the budgeted proceeds). Revenues from personal income tax were realised in 37.2% whereas the Finance Ministry expects them to be realised in 99% in the whole year on the assumption that tax payers will cross next tax thresholds and tax refunds for last year will shortly discontinue. It will be very difficult to achieve the amount planned for this year given quite a low pace of increase in nominal prices. Revenues from indirect taxes were realised in 44.8% while the Ministry assumes them to be realised in over 99%, which, given a fall in domestic demand, can be hard to accomplish despite a rise in VAT and excise duties (in the case of cigarettes, by an average 20%, beer – 4%, motor fuel – 4%). It seems that such high realisation of revenues from these two sources may encounter certain difficulties. Revenues from corporate tax were realised in the highest degree – 45.3%. The realisation of revenues from customs duties increased significantly from 45.8% of the yearlong plan after May to 54.9% after June. During the first six months of this year, expenditures of PLN 75bn were realised, representing 48% of this year's plan, compared to 39.5% last month. In other words, budget expenditures had been growing slower than budget revenues. Against the previous month, the realisation of expenditures on domestic debt service significantly increased from 36.7% to 54%, equivalent to PLN 2.3bn. This increase can be partly explained by a payment of interest on five series of 5-year bonds and the service costs of an additional issue of PLN 2bn of 3-week treasury bills. However, it seems that the remaining amount of growth in expenditures followed from some other reasons. Expenditures on external debt service are still low (37.9%). The subsidy to the Labour Fund was realised to an even greater extent (66.3%). This year, the subsidy has been transferred faster than in previous years, given the higher than assumed unemployment rate and lower balance of funds available to the Fund. The planned figure of the subsidy may turn out insufficient (PLN 738m). General subsidies for local governments, planned for PLN 25.9bn, were realised in the amount of PLN 15bn, equivalent to 58.2%. Recently, however, it has been disclosed that these expenditures were underestimated by about PLN 800m (5%) missing for rises for teachers, which will make it necessary to exceed these expenditures. The realisation of the subsidy to the Social Insurance Fund and pension and disability pension fund (44.1% and 48.5% respectively) proves that the Social Insurance Company (ZUS) has been functioning without any problems since the beginning of this year. There still occur delays in transferring premiums to the Open Pension Fund, however, according to the Pension Fund Supervision Office they stem from technical problems and the situation this year improved after payers had submitted their annual declarations. There seem to be no serious threats to executing this year's budget, either on the revenue side or on the expenditure side, though there may appear certain difficulties in the second half of this year in relation to expenditures on the Labour Fund and subsidies to local governments. The costs of domestic debt service can also turn out underestimated.

Revenues



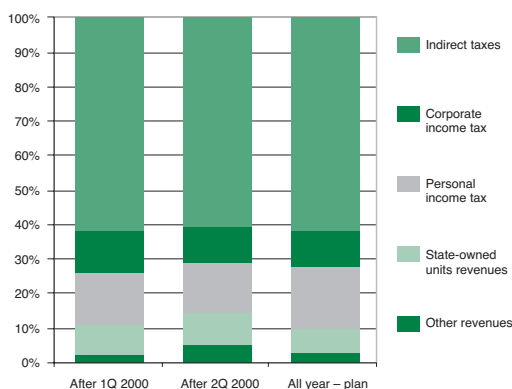
Source: Finance Ministry

Expenses



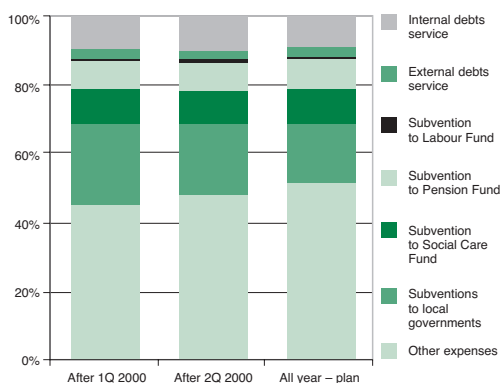
Source: Finance Ministry

Revenues - structure



Source: Finance Ministry

Expenses - structure

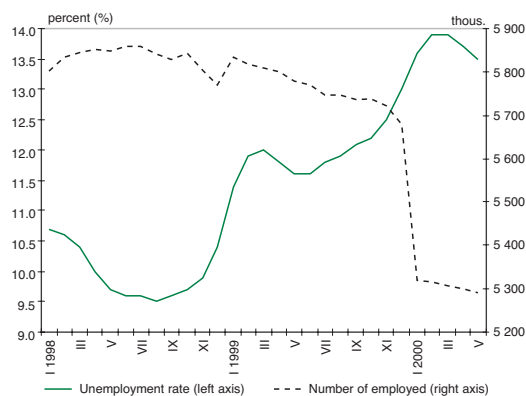


Source: Finance Ministry

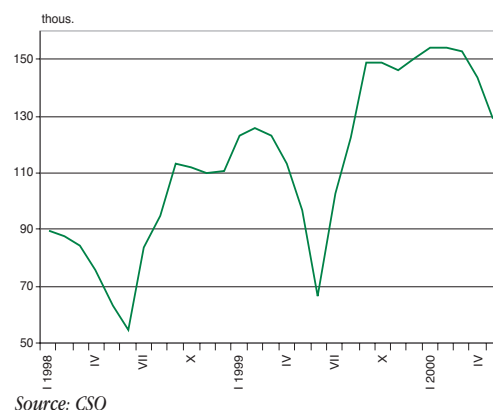
January 1998 – May 2000

In the period from January 1998 to May 2000, Poland's unemployment rate was characterised by an upward trend. Although from January to August it fell from 10.7% to 9.5% due to the delayed effect of a GDP growth rate in 1997, then it decreased rapidly in response to the Russian crisis and (to a much smaller degree) to the pursued policy of cooling down the economy at the beginning of 1998. As at March 1999, unemployment hit 12%. During the next few months, unemployment was slightly falling – to 11.6% as at May and June, but in the second half of 1999 a strong upward trend returned and the unemployment rate rose to 13.9% as at February and March 2000. Since then, a small decrease in the unemployment rate has been observable (13.5% as at May 2000). The unemployment rate is subject to seasonal fluctuations. Unemployment grows strongly from the mid-year, reaching its peak at the end of the first quarter of the next year. Then, a small downward trend appears in the mid-year, whereupon the upward trend continues again. Between 1998 and 1999, the number of jobless was slowly sliding – in total by 122k, equivalent to 2%, but at the turn of 1999/2000 a more dramatic drop was observable – as at January 2000 the number of employed was 360k down on December 1999, and thus, just within one month, this figure fell by 6.3% (threefold compared to the previous two years). Such a large drop was largely due to cuts in employment in industry (of 135k), trade, both retail (53k) and wholesale (47k) and in the construction industry where 51k employees were dismissed. Following this decrease, the minimum downward trend continued for the rest of the year. On the graph presenting the number of registered school-leavers staying out of work, the seasonality effect is clearly observable. In June, when graduates leave schools this level is lowest. Then, as time elapses, those who have not managed to find work register in job agencies. Their number is highest in the first quarter of each year. This cycle recurs regularly, but year in, year out this level become increasingly higher (in 1998 and 1999, the increase was 16% and 19% respectively compared to the previous year). The decreasing number of job offers every month proves negative tendencies in Poland's labour market. Every year, this level declined by slightly more than 10%: in 1999 it was 10.5% down on 1998 and in January-May 2000 10.7% down on the first five months of 1999 and 22.6% down on the same period in 1998. In this case, the seasonality effect is also observable. In winter, there are significantly fewer offers – from March to October, the number of offers is 54% up on November to February. The share of unemployed without the right to unemployment benefit was growing very dramatically from the beginning of 1998 – from January to September that year an increase from 71.9% to 79.6% was observed. This can be explained by the fact that, given a declining number of jobless, those who received the benefit shortest find work first. Since then, this indicator has been characteristic of a slight downward trend with a narrow range of fluctuations. After hitting 76.2% in January 2000, it bounced reaching 77.5% in May this year.

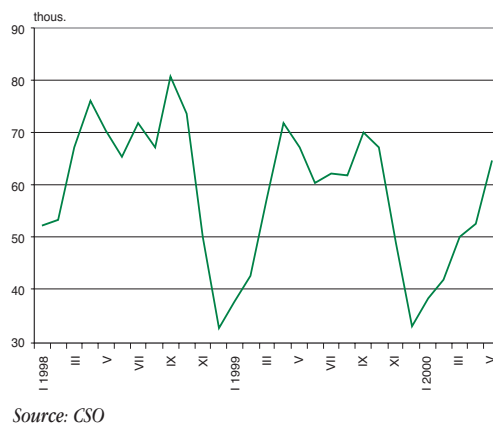
Unemployment rate and number of employed



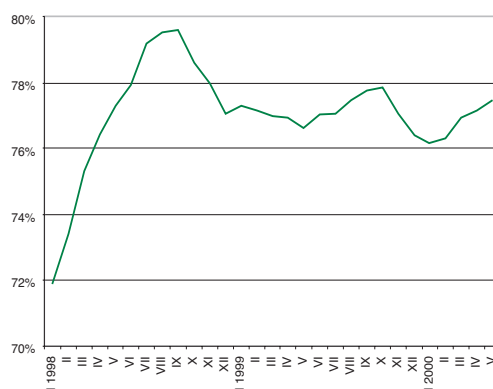
Registered unemployed graduates



Job offers during a month



Share of unemployed without benefit rights in total number of unemployed





Industrial output

Unemployment in voivodships – May 2000

The lowest unemployment rate is in the voivodship of mazowieckie (10.1%), małopolskie (10.7%), śląskie (10.8%) and wielkopolskie (11%). Lower unemployment rate than Poland's average (13.5%) is also seen in the voivodships of podlaskie (12.5%) and lubelskie (13%). On the contrary, in warmińsko-mazurskie voivodship, the unemployment rate is the highest (23.3%). This rate is also very high in such voivodships as: lubuskie (18.3%), zachodniopomorskie (17.8%) and kujawsko-pomorskie (17.5%). Compared to April 2000, a fall in number of unemployed persons was reported in all voivodships, most significant in podkarpackie (by 2.8%), podlaskie (by 2.6%), lubelskie (by 2.4%), dolnośląskie, małopolskie and zachodniopomorskie (by 2.2%). The highest number of newly registered persons was in lubuskie, warmińsko-mazurskie (1.4%) and zachodniopomorskie (1.3%). Such voivodships as małopolskie and mazowieckie were characteristic of the smallest inflow of unemployed persons (0.6%). Quite a large outflow of unemployed persons was registered in opolskie, zachodniopomorskie (9.1%) and dolnośląskim (9.0%), while a low outflow was reported in łódzkie, kujawsko-pomorskie (7.0%) and świętokrzyskie (7.3%).

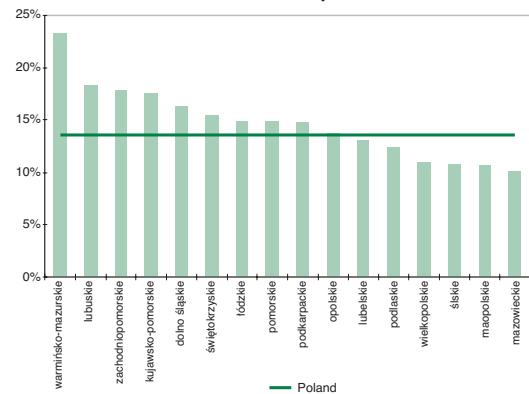
Wages and salaries

Average monthly gross wages and salaries in the enterprises sector from January 1998 to June 2000 were characterised by an upward trend. They grew from PLN 1232.58 in January 1998 to PLN 2049.49 in June 2000, so the nominal growth amounted to 66.3% and real growth to 36.3%. In previous years it was as follows: in 1998 nominal growth of 15.6%, real growth of 6.5%, in 1999 38.2% and 25.8% respectively. The highest level reached was PLN 2186.03 in December 1999, while the lowest was PLN 1223.90 in February 1998. The highest wages and salaries in May 2000 were in such branches as: Manufacture of Coke, Refined Petroleum Products and Derivatives (PLN 4055.75), Manufacture of Tobacco Products (PLN 3328.48) and Electricity, Gas, Steam and Hot Water Supply (PLN 2687.83). Mining of Coal and Lignite dropped to 4th place (PLN 2684.89), though in the past, workers of this branch received the highest wages and salaries (even as much as PLN 6120.22 in December 1999). On the other hand, the sectors, where wages and salaries remained at the lowest level are Manufacture of Clothing and Furriery (PLN 1071.39 in May 2000), Processing of Leather and Manufacture of Leather Products (PLN 1262.43) and Manufacture of Textiles (PLN 1422.76). To compare, average monthly wages and salaries in the whole enterprises sector in May amounted to PLN 1987.94.

Demographic forecasts

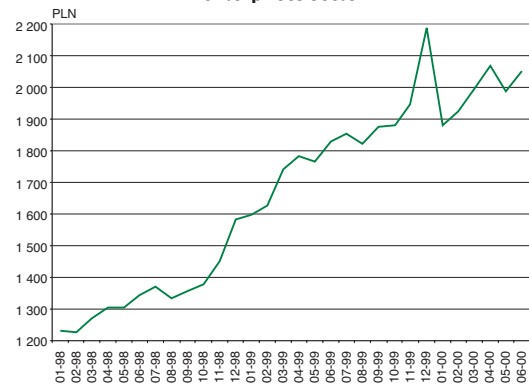
According to Central Statistical Office forecasts, the population of working age in next five years will rise from 23,665k in 2000 to 24,819k in 2005, which means an increase in the share of this group in the whole population from 61.2% to 64.2%. It can cause a tension in the labour market following a labour force oversupply. Slight growth will keep up until 2010, but afterwards the trend will reverse and the population of working age will decrease to 22,015k in 2030 (57% of total population). The relation between number of population at younger and older age will deteriorate in the future. It follows the ageing of Poland's population – the population at post-working age will grow from 5,680k in 2000 to 9,112k in 2030, (from 14.7% to 23.6%). Population at age younger than 17 will decrease from 9,304k thousands to 6,898k thousands, that is from 24.1% to 18.1%.

Rates of unemployment in voivodships – as of end of May 2000



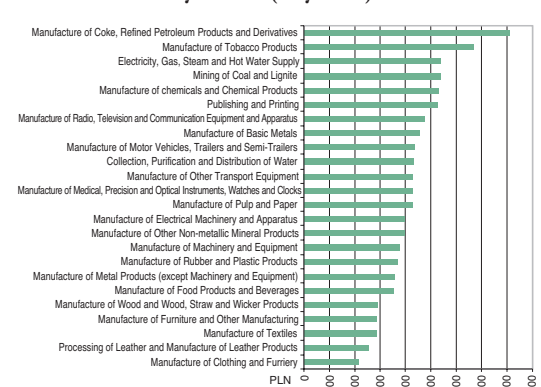
Source: CSO

Average monthly gross wages and salaries in enterprises sector



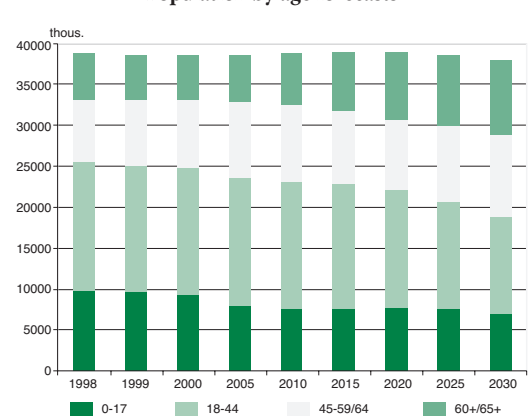
Source: CSO

Average monthly gross wages and salaries by sectors (May 2000)



Source: CSO

Population by age forecasts



Source: CSO

Trends in manufacturing

In June, the deterioration of the general business trends occurred, but was still better than in the same period of previous year. According to Central Statistical Office enquiry, enterprises assessed their financial situation more critical than in May. Assessments of their future were still moderate. 23% of enterprises surveyed considered the business climate positive, and 18% negative. Others did not report any changes in their situation. The indicator of the general business trends in industry in June amounted to plus 5 points against 10 points in May. The general business climate was assessed better in the private sector than in the state sector. The assessments were diversified depending on individual sectors. Printing and Publishing companies provided the best assessment of the business climate, where the indicator of the business climate was plus 25 points. In addition, positive, relatively high assessments came from the manufacturers of Wood and Wood Products, Non-metallic Products, Motor Vehicles, Trailers and Semi-trailers and Other Transport Equipment. Manufacturers of Textiles, Radio, Television and Communication Equipment and Apparatus, Machinery, Leather and Metal Products gave negative assessments of the business climate. In June, the assessment of domestic demand deteriorated substantially. Assessments of external demand were a little better, and therefore, the manufacturers decided to increase slightly the output. In the future, the manufacturers expect increased demand, but their expectations are less optimistic than in May. In July increase in industrial output is anticipated, but not as big as previously predicted. Decreased demand for industrial products caused a rise in the size of already excessive stocks. The companies surveyed, because of difficulties connected with settling financial commitments and smaller, but still visible problems related to collecting receivables judged the corporate financial situation in May as negative. On the other hand, in the nearest future, the enterprises surveyed expect an improvement in the corporate financial situation and predict further staff dismissals, but smaller than in the previous month.

Retail trade

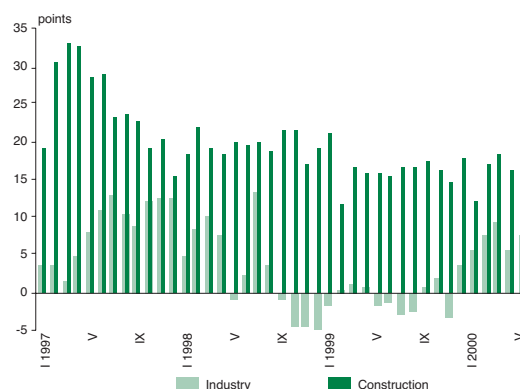
In June, the business climate in retail trade deteriorated and the general business climate indicator was minus 3 points against minus 1 in May. The business climate deterioration was seen in the smallest units (employing up to 9 persons) and in the units selling Textile, Clothing and Footwear. A positive view about business trends is seen among the sellers of Food, Furniture, Household Goods and Radio and Television Equipment. The trade companies employing over 250 persons evaluated the situation the best. The retail trade companies evaluated their current economic situation as negative, worse than in May. They expect its improvement in future (to a lesser degree than a month ago). The evaluation of the current sales was less negative than in May and within next three months the retail trade units expect its decrease. The companies selling cars make the most pessimistic forecasts.

Consumer sentiment

In June, there was a further deterioration in already negative consumer sentiment. According to survey carried out by Demoskop, the consumer optimism indicator decreased by one point against May, to 76 points. Within the last twenty months, the decreasing trend in consumer optimism can be seen. In June the inclination to purchase fell and inflation expectations increased. According to Samar agency, the sale of cars fell by 23% in June. The main reason for this is the increase in car excise tax rates in April, the agency says. Other factors are high interest rates and the rise in fuel prices. Mainly, the sale of cars made in Poland decreased. The situation of traders selling cars made abroad and small cars was much better. In the period of January to June the number

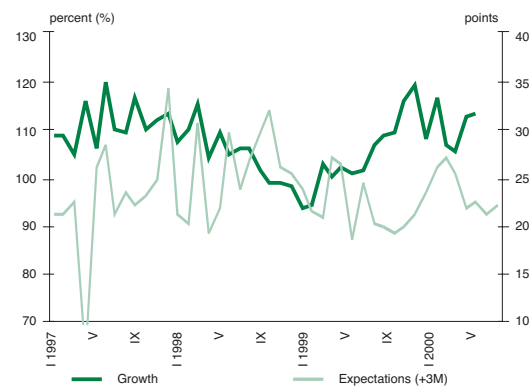
of cars bought was 13,5% lower. The business climate surveys prove a significant limitation in domestic demand, which is confirmed by car sales data. The above surveys prove a limitation in demand that was noticed by manufacturers, tradesmen and consumers. In the future, producers expect an improvement both in domestic and external demand. In the opinion of tradesmen, a significant increase in sales is hardly probable (excluding purchases). Consumers are not planning to increase their expenditures on fixed goods either and are expecting a rise in inflation.

Business trends in Poland



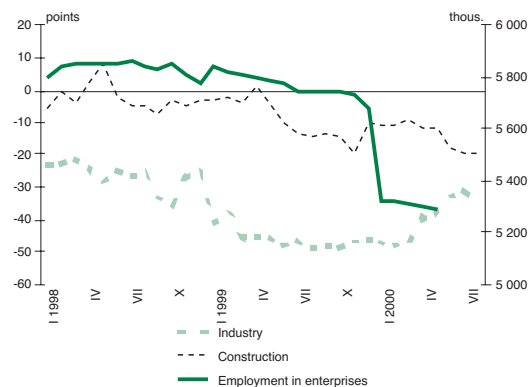
Source: CSO

Industrial output



Source: CSO

Employment and expectations



Source: CSO



Economic Release Calendar July/August 2000					
Monday	Tuesday	Wednesday	Thursday	Friday	
17 July POL: Inflation (VI) POL: State budget (VI) CZ: Producer prices (VI) GER: IFO Business climate (VI)	18 POL: Industrial output (VI) POL: Producer price index in industry and construction (VI) USA: Inflation (VI) CZ: Retail sales (V)	19 POL: Monetary Policy Council meeting USA: Foreign trade (V)	20 POL: Unemployment (VI) EUR: EBC meeting	21	
24 POL: Food prices (1 half of VII) GER: Producer price (VI)	25 CZ: Foreign trade (VI)	26	27 USA: Durable goods orders (VI)	28 POL: Employment in national economy (II Q. 2000) USA: Consumer sentiment (VII)	
31 CZ: Money supply (VI)	1 August CZ: State budget (VII)	2 POL: Food prices (II half of VII)	3 POL: Balance of payments (VI) POL: Foreign trade on a cash basis (VI) EUR: EBC meeting USA: Factory orders (VI)	4 GER: Factory orders (VI) USA: Employment (VII)	
7 POL: Economic trends in industry, construction and retail trade (VII) POL: Balance of NBP (VII) POL: Gross official reserves (VII) GER: Industrial output (VI)	8 CZ: Foreign reserves (VII) CZ: Inflation (VII) CZ: Unemployment (VII) GER: Unemployment (VI)	9 CZ: Output, sales, average earnings and employment in industry and construction (VI)	10 GER: Foreign trade (VI) USA: Money supply (VII)	11 CZ: Producer prices (VII) USA: Retail sales (VII)	
14 POL: Money supply (VII) CZ: Retail sales (VI) GER: Retail sales (VII) GER: Inflation (VII)	15 Assumption Day USA: Industrial output (VII)	16 POL: Inflation (VII) POL: Employment and wages in corporate sector (VII) POL: State budget (VII) USA: Inflation (VII)	17	18 POL: Corporate financial results (IIQ 2000) POL: Industrial output (VII) POL: Producer price index in industry and construction (VII) USA: Foreign trade (VI)	
21 POL: Unemployment (VII) CZ: Foreign trade (VII) GER: IFO Business climate (VII)	22 USA: FED meeting	23 POL: Food prices (1 half of VIII) USA: FED meeting	24 USA: Durable goods orders (VII)	25	
28	29	30 POL: Monetary Policy Council meeting	31 CZ: Money supply (VII) USA: Factory orders (VII)	1 September CZ: State budget (VIII) USA: Consumer sentiment (VIII) USA: Employment (VIII)	

Basic Macroeconomic Data

CATEGORY	unit	1999						2000					
		July	August	September	October	November	December	January	February	March	April	May	June
PRICES													
Consumer price index (y/y)	%	6.3	7.2	8.0	8.7	9.2	9.8	10.1	10.4	10.3	9.8	10.0	10.2
Consumer price index (m/m)	%	-0.3	0.6	1.4	1.1	0.9	0.9	1.8	0.9	0.9	0.4	0.7	0.8
Production price index (y/y)	%	5.5	5.9	6.2	6.8	7.5	8.0	8.2	8.1	7.3	7.4	7.9*	8.8
Production price index (m/m)	%	0.5	0.9	0.9	0.8	0.7	0.5	0.5	0.5	0.4	0.7	0.9*	0.9
Price index of assembly and construction production (y/y)	%	7.8	7.8	8.2	8.3	8.8	9.1	7.7	7.5	7.7	8.3	8.4*	9.0
Price index of assembly and construction production (m/m)	%	0.3	0.6	0.9	0.7	0.8	0.5	0.6	0.6	0.9	1.1	0.7*	0.9
Exchange rate USD/PLN (y/y)	%	12.2	10.2	13.1	17.6	23.3	19.6	15.9	9.0	3.7	5.8	14.3	11.6
Exchange rate USD/PLN (m/m)	%	-1.5	1.8	3.3	0.7	3.5	-2.0	-1.6	0.8	-1.1	3.5	6.2	-2.2
Exchange rate EUR/PLN (y/y)	%	-	-	-	-	-	-	1.3	-3.9	-7.9	-6.6	-2.6	1.9
Exchange rate EUR/PLN (m/m)	%	-2.0	4.4	2.2	2.7	-0.1	-4.0	-1.4	-1.8	-3.3	1.3	1.8	2.4
Real gross wages in enterprise sector (y/y)	%	3.2	3.4	3.9	1.9	-0.3	2.3	6.5	6.8	3.1	5.2	1.8	1.3
ACTIVITY INDICATORS													
Gross domestic product (y/y)	%	-	-	4.9	-	-	6.2	-	-	6.0	-	-	-
Industrial output (y/y)	%	1.4	7.1	8.6	8.9	15.9	19.1	7.9	16.4	6.8	5.3	12.1*	13.5
Industrial output (m/m)	%	-2.0	4.6	9.3	0.1	-0.9	5.7	-19.0	7.3	11.6	-8.4	7.7*	1.3
Construction and assembly production (y/y)	%	-0.3	4.3	5.2	-0.1	5.9	12.3	4.6	5.6	4.2	-5.6	-0.6*	1.1
Construction and assembly production (m/m)	%	-0.5	6.4	8.9	4.4	-18.2	49.3	-57.7	6.6	17.5	-0.1	16.8*	11.4
Retail sales of goods (y/y)	%	26.4	25.9	24.8	25.1	32.2	34.6	20.3	25.4	16.9	19.9	15.1	-
Retail sales of goods (m/m)	%	4.2	0.6	0.4	4.6	-2.3	23.2	-32.1	5.0	17.2	2.2	-0.6	-
Exports on a customs basis (y/y)	%	-0.6	13.0	17.8	15.3	29.3	27.0	29.4	12.6	20.1	24.1	-	-
Exports on a customs basis (m/m)	%	-3.0	4.9	14.9	7.0	-0.5	-4.4	-9.4	-3.5	31.5	-7.9	-	-
Imports on a customs basis (y/y)	%	7.3	14.9	12.5	15.1	30.4	34.7	30.0	27.4	8.7	14.8	-	-
Imports on a customs basis (m/m)	%	1.0	-1.6	15.9	6.2	4.1	-2.9	-20.1	8.1	12.0	-4.1	-	-
LABOUR MARKET													
Number of unemployed	thous. persons	2 116	2 144	2 178	2 187	2 257	2 350	2 478	2 528	2 534	2 490	2 446	-
Unemployment rate	%	11.8	11.9	12.1	12.2	12.5	13.0	13.6	13.9	13.9	13.7	13.5	-
Average employment in corporate sector	thous. persons	5 748	5 747	5 735	5 738	5 723	5 679	5 319	5 316	5 308	5 301	5 292	5 295
Average monthly gross wages in corporate sector	PLN	1 852	1 823	1 875	1 881	1 946	2 186	1 882	1 926	1 992	2 067	1 988	2 049
Nominal increase in wages (y/y)	%	9.9	11.1	12.3	10.9	9.0	12.3	17.2	17.9	13.7	15.5	12.0	11.5
STATE BUDGET													
Budget revenues	PLN bn	65.8	76.8	89.0	100.6	112.5	125.9	11.0	20.3	31.0	40.9	51.8	64.2
Budget expenditures	PLN bn	78.4	88.9	100.2	112.6	124.6	138.5	11.8	24.8	38.0	49.8	61.8	75.0
State budget deficit	PLN bn	-12.5	-12.1	-11.3	-12.1	-12.1	-12.6	-0.9	-4.5	-6.9	-8.9	-10.0	-10.8
Domestic government debt	PLN bn	-	-	130.9	-	-	134.7*	-	-	141.9	-	-	-
Foreign government debt	PLN bn	-	-	130.5	-	-	129.7	-	-	128.2	-	-	-

Basic Macroeconomic Data



CATEGORY	unit	1999						2000						
		July	August	September	October	November	December	January	February	March	April	May	June	
BALANCE OF PAYMENTS														
Current account	USD m	-1 055	-786	-1 147	-849	-1 178	-1 683	-1 207	-954	-1 344	-850*	-376	-	
Trade balance	USD m	-1 322	-1 233	-1 309	-1139	-1 561	-1 765	-1 458	-1 140	-1 241	-1 075*	-881	-	
Exports	USD m	2 092	2 078	2 044	2221	2 151	2 470	1 922	2 038	2 371	2 032*	2 440	-	
Imports	USD m	3 414	3 311	3 353	3360	3 712	4 235	3 380	3 178	3 612	3 107*	3 321	-	
Services: net	USD m	-125	-129	-127	-128	-140	-208	-174	-171	-202	-177*	-98	-	
Unclassified transactions: net	USD m	301	429	423	426	299	174	286	225	218	398	324	-	
Capital and financial account	USD m	1 279	1 015	877	863	834	1 405	1 485	647	1 074	672*	676	-	
Direct investments	USD m	297	1 393	745	363	789	744	763	354	430	449*	278	-	
Portfolio investments	USD m	70	227	-432	451	809	256	244	587	1 598	131*	17	-	
MONEY SUPPLY														
Money supply	PLN bn	238	242	246	251	255	263	255	258	262	266	269	285	
Money supply (y/y)	%	21.1	19.6	20.9	22.4	22.9	19.3	15.1	13.7	13.8	15.2	15.2*	20.5	
Money supply (m/m)	%	0.9	1.4	1.7	1.9	1.5	3.5	-3.1	1.0	1.6	1.5	1.1	5.9	
Total deposits (y/y)	%	22.5	21.2	22.3	23.5	24.2	18.3	15.7	14.7	15.5	16.6	16.8	23.2	
Total deposits (m/m)	%	0.8	1.7	1.9	1.8	2.1	2.4	-1.6	1.3	1.9	0.9	1.6*	6.3	
Household loans (y/y)	%	42.9	45.4	47.6	46.0	52.2	53.0	52.5	51.8	52.1	49.8	49.9*	79.4	
Household loans (m/m)	%	4.7	4.5	4.5	3.7	4.3	4.5	0.6	1.2	3.4	1.6	3.8*	25.1	
Corporate loans (y/y)	%	25.4	24.0	23.8	24.5	23.7	21.6	20.8	18.8	18.1	19.1	17.9*	19.5	
Corporate loans (m/m)	%	0.8	2.0	3.0	2.5	2.2	-1.5	2.5	1.0	0.9	2.0	0.6*	2.0	
FINANCIAL INDICATORS														
Average deviation from the central parity**	%	-5.6	-2.9	-0.5	0.8	2.0	-1.3	-3.0	-3.7	-6.2	-5.1**	-	-	
Average exchange rate USD	PLN	3.8827	3.9510	4.0799	4.1092	4.2527	4.1696	4.1036	4.1353	4.0902	4.2347	4.4988	4.3994	
Average exchange rate EUR	PLN	4.0166	4.1946	4.2881	4.4031	4.3974	4.2200	4.1608	4.0850	3.9507	4.0033	4.0758	4.1740	
Average exchange rate DEM	PLN	2.0537	2.1447	2.1925	2.2513	2.2484	2.1577	2.1274	2.0886	2.0200	2.0469	2.0839	2.1341	
Average T/N	WIBOR T/N	%	13.30	13.27	13.67	13.82	15.49	17.64	17.42	16.43	17.97	17.58	18.00	17.72
	WIBOR 1M	%	13.34	13.39	13.83	14.72	16.94	20.47	17.11	17.43	18.18	18.17	18.12	18.12
	WIBOR 3M	%	13.38	13.64	14.32	16.64	18.55	19.03	17.18	17.84	18.44	18.34	18.40	18.53
Average 3M T-bill yield	%	12.40	12.56	12.54	13.71	15.41	16.29	16.01	16.11	16.57	16.72	16.98	16.45	
Average 12M T-bill yield	%	12.33	12.44	12.91	14.63	15.98	16.01	16.19	16.99	17.55	17.29	17.86	17.84	
Average 2Y T-bond yield	%	12.09	12.75	13.09	14.63	15.39	14.78	14.87	14.91	16.57	16.39	17.42	17.91	
Average 10Y T-bond yield	%	9.06	9.23	9.59	10.50	10.59	9.83	10.14	10.20	10.78	10.55	11.89	12.48	
MONETARY POLICY INSTRUMENTS														
Intervention rate	%	13.0	13.0	14.0	14.0	16.5	16.5	16.5	17.5	17.5	17.5	17.5	17.5	
Rediscount rate	%	15.5	15.5	15.5	15.5	19.0	19.0	19.0	20.0	20.0	20.0	20.0	20.0	
Lombard rate	%	17.0	17.0	17.0	17.0	20.5	20.5	20.5	21.5	21.5	21.5	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	0.0	0.0	

* corrected data, ** up to April 11 2000, Sources: Central Statistical Office, National Bank of Poland, Finance Ministry, Reuters, own estimations



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