

Poland's economy – Financial Markets

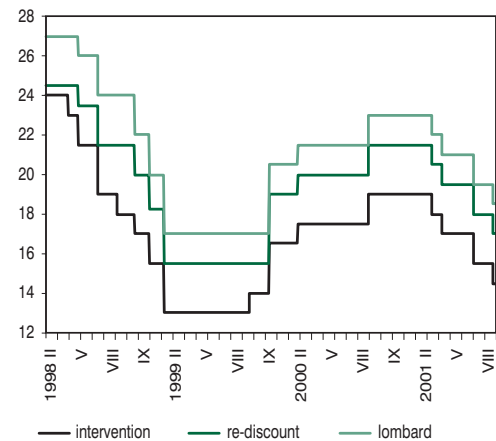
September 2001

No 26

Main economic trends

- The current account deficit amounted to merely USD 296m in June and was lowest since August 1998. In relation to GDP there was a fall of deficit to 5.0% from 5.3% a month ago. Also the trade deficit decreased due to growing exports that remain a factor stimulating economic growth in the situation of falling domestic demand.
- In July, prices of consumer goods and services diminished by 0.3% after the fall of 0.1% in June. Year-on-year inflation reduced to 5.2% from 6.2% in June and 11.6% in July 2000. Consumer inflation fell to the lowest level since the fall of communism in 1989.
- July was the second month in a row with a fall in all five core inflation indicators.
- Producer inflation totalled in July only 0.1% m/m and 0.4% y/y. In August, annual PPI will be still minimally above zero, however, in September, there will most probably be deflation in year-on-year terms.
- Very weak data on industrial output despite a low statistical base last year.
- After significant confusion in the foreign exchange market in July, in August the zloty moved in quite a narrow range between PLN 4.1890 and 4.3350 per USD. Till parliamentary election the Polish currency should be stable against dollar and may weaken against the euro.
- Since the beginning of July the euro is in a strong upward trend.
- In August the yield curve in bond sector has become more flat. At the shorter end the yields fell by about 40 bp and in longer terms yields increased by 20 bp.
- At the meeting in August the Monetary Policy Council reduced interest rates by 100 basis points. As the rationale to this decision, the MPC members pointed to the fact that favourable tendencies, from the point of view of inflation reduction, strengthened in July. The Council set the 2002 inflationary target at the level of 5% \pm 1 percent point.
- The new Finance Minister assured that she would continue the existing ministry's policy and present to the government the budget draft prepared by her predecessor. The 2002 budget deficit should not exceed PLN 40bn (5.1% of GDP). The final budget draft will certainly be submitted to the Sejm as early as after the parliamentary election scheduled for 23 September.

NBP Interest Rates (%)



Source: NBP

In this issue

In this issue	
Major economic trends	This page
Highlights	2
Medium term forecast of Poland's economy	3
Poland's economy	4-5
Foreign exchange market	6
Money and T-bond market	7
Fiscal policy	8-9
Monetary policy	10
Money supply	11
International survey	12
Macroeconomic calendar	13
A glance at the economy	14-15
Contacts in Treasury and International Division	16

Highlights

Public finance crisis is the most important problem of the Polish economy at present. The arisen situation is the effect of accumulation of wrong solutions over successive years (increasingly high inflexible expenditures) and unfavourable economic situation this and next year. The existing problems cannot be solved with small corrections. It is necessary to carry out a reform of the state finance, including system changes, especially restructuring and rationalisation of the budget expenditure.

According to the estimates of the finance ministry, the budget deficit would be PLN 88bn next year if structural reforms in the fiscal policy were desisted from. The level of deficit that can be financed on the market was agreed at maximum PLN 40bn, which accounts for ca. 5.1% of GDP. Therefore, it is necessary to reduce expenditure and find additional revenues of ca. PLN 50bn. It will be very difficult but it seems that the existing government will be ultimately capable of leaving a budget draft at this level of deficit for their successors. This draft will be presented to Parliament just after the election at the end of September. However, final decisions will be taken by the new government, which, most probably, will be formed by the Left Democratic Alliance (SLD) with the Labour Union (maybe in coalition with another political group).

Despite the continuing confusion around the budget, additionally heightened by the dismissal of Jarostaw Bauc, Finance Minister, the currency market was comparatively calm last month. The new minister, Halina Wasilewska-Trenkner, assured that she would not introduce changes in the ministry's policy. She also assured that she would present to the government the budget draft prepared by her predecessor. The zloty is quite stable and ranges from PLN 4.2-4.3 per USD. It will most probably stay at this level until the election.

Simultaneously, when cutting interest rates by 100bp in August, the Monetary Policy Council suggested that the reduction might have been bigger if not for so difficult and unclear budget situation. However, it seems that if the next year budget is really planned at the level of PLN 35-40bn, then, another cut by 100-150bp in October or November will be very probable. Commentaries of the Council members imply that the MPC is gradually loosening its stance in the monetary policy. The main reason for this situation is that inflation is under control and that inflation target for this year (6-8%) is not jeopardised. In July, the consumer price index dropped to the lowest level in the transformation period (5.2% y/y), and there can be deflation in producer prices y/y in September. At present, with the inflation at a low level, the Council seems to show more and more concern about the falling economic growth. After seven months this year, there are no symptoms of economic revival. Reductions of interest rates, made by the MPC in February and March this year, did not exert any noticeable impact on real processes, which is confirmed by very poor data on industrial output. In our opinion, by the end of the second half next year, the MPC may reduce the real interest rates from the present level of 9% to 5-6%.

Tab. 1. Inflation indicators

	03 2001	04 2001	05 2001	06 2001	07 2001	08 2001 F
Consumer Price Index (m/m, %)	0.5	0.8	1.1	-0.1	-0.3	-0.3
Consumer Price Index (y/y, %)	6.2	6.6	6.9	6.2	5.2	5.2
Producer Price Index (m/m, %)	0.2	0.2	0.0	-0.4	0.1	0.1
Producer Price Index (y/y, %)	3.8	3.4	2.3	0.9	0.4	0.1
Average monthly FX rate (USD, y/y, %)	-0.7	-5.1	-11.5	-9.7	-3.2	-2.6

Tab. 2. Activity indicators

	02 2001	03 2001	04 2001	05 2001	06 2001	07 2001
Retail Sales Index (m/m, %)	-1.7	17.5	4.0	1.7	-1.3	-
Retail Sales Index (y/y, %)	-0.2	0.1	1.9	4.3	0.2	-
Household loans (y/y, %)	29.4	25.7	25.1	22.1	-1.3	20.5
Industrial Output (m/m, %)	-2.5	14.7	-7.7	3.1	-2.8	-1.2
Industrial Output (y/y, %)	0.1	2.9	3.6	-0.9	-4.8	1.1
Exports, current prices (in payment terms, y/y, %)	17.9	10.3	26.2	2.7	3.3*	4.6
Imports, current prices (in payment terms, y/y, %)	-1.9	-2.5	5.3	10.2	-1.7*	-3.7
Foreign Trade Balance (NBP, USD m)	-724	-907	-708	-1 165	-902*	-798
State Budget Balance (PLN m)	-12.0	-15.1	-18.4	-20.4	-18.7	-19.4

Tab. 3. Poland's Economy

	1997	1998	1999	2000	2001 F
Gross Domestic Product (fixed prices, y/y, %)	6.8	4.8	4.1	4.0	2.4
Individual Consumption (y/y, %)	6.9	4.9	5.4	2.4	2.2
Gross expenses on fixed assets (y/y, %)	21.7	14.5	6.5	3.1	2.0
Exports, constant prices (y/y, %)	13.7	9.4	-2.6	16.0	6.5
Imports, constant prices (y/y, %)	22.0	14.6	1.0	7.6	3.2
Inflation (average annual, %)	14.9	11.8	7.3	10.1	6.0
Inflation (year end, y/y, %)	13.2	8.6	9.8	8.5	5.7
Unemployment Rate (year end, %)	10.3	10.4	13.1	15.0	17.0
Current Account Balance / GDP (%)	-3.2	-4.2	-7.5	-6.2	-5.3
Public debt / GDP (%)	47.2	43.2	43.0	42.3	46.0

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

* corrected data

Source: CSO, NBP, own forecasts and estimations

Medium term forecast of Poland's economy



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

Category	2000	I kw. 2001	II kw. 2001	III kw. 2001	IV kw. 2001	2001	2002	2003	2004	2005
Interest rates										
1M	18.50	19.03	17.44	15.60	14.65	16.70	11.7	9.9	8.1	7.1
3M	18.78	18.53	17.09	15.40	14.40	16.40	11.5	9.7	8.0	7.0
6M	18.92	18.02	16.50	15.10	14.10	15.90	11.2	9.4	7.8	6.9
12M	19.01	17.61	16.07	14.90	13.90	15.60	11.0	9.2	7.6	6.7
Lombard rate	21.90	22.62	20.95	19.08	18.14	20.20	15.2	12.8	11.2	9.9
(end of period)	23.00	22.00	19.50	18.50	17.50	17.50	14.0	12.0	10.5	9.5
Intervention rate	17.90	18.62	16.95	15.08	14.14	16.20	11.2	9.4	7.7	6.7
(end of period)	19.00	18.00	15.50	14.50	13.50	13.50	10.0	8.5	7.0	6.5
Treasury bonds yields										
2L (bid)	17.37	15.59	14.91	14.55	13.60	14.70	9.8	8.7	7.5	6.6
3L (bid)	16.20	14.54	14.36	14.40	13.30	14.15	9.5	8.5	7.4	6.5
5L (bid)	14.00	13.12	13.38	13.50	12.00	13.00	9.0	8.2	7.3	6.4
10L (bid)	11.79	10.46	11.22	11.90	10.40	11.00	8.5	8.1	7.1	6.2
T-bills yields										
13-week	16.96	17.20	16.26	14.50	13.50	15.40	11.0	9.4	7.5	6.6
52-week	17.77	17.02	15.70	14.70	13.70	15.30	10.7	9.0	7.2	6.6
Exchange rates										
USD/PLN	4.347	4.0876	3.9895	4.23	4.33	4.16	4.45	4.60	4.76	4.94
EUR/PLN	4.011	3.7765	3.4884	3.77	3.98	3.75	4.14	4.28	4.33	4.40
EUR/USD	0.917	0.9240	0.8744	0.89	0.92	0.90	0.93	0.93	0.91	0.89
USD/PLN (end of period)	4.143	4.1000	3.9871	4.32	4.35	4.35	4.50	4.72	4.85	5.00
EUR/PLN (end of period)	3.854	3.6170	3.3783	3.97	4.00	4.00	4.28	4.34	4.37	4.40
EUR/USD (end of period)	0.930	0.8822	0.8473	0.92	0.92	0.92	0.95	0.92	0.90	0.88
Macroeconomic indicators										
Real GDP (y/y, %)	4.0	2.3	0.8	2.5	3.8	2.4	3.2	4.0	5.0	5.0
Industrial output (y/y, %)	7.1	4.4	-0.7	3.3	6.0	3.1	4.8	5.8	7.0	6.2
Inflation (y/y, %) (end of period)	8.5	6.2	6.2	5.2	5.7	5.7	5.3	4.2	4.0	3.6
Inflation (y/y, %)	10.1	6.7	6.6	5.2	5.4	6.0	5.5	4.8	4.2	3.7
Unemployment rate (%) (end of period)	15.0	15.9	15.8	16.1	17.0	17.0	18.8	18.5	17.5	16.0
Current account/GDP (%) (end of period)	-6.2	-5.3	-5.4	-5.1	-5.3	-5.3	-6.0	-6.2	-6.5	-6.8
Economic deficit/GDP (%)	-2.0	-	-	-	-	-3.5	-3.9	-3.9	-3.6	-2.8
Public debt/GDP (%)	42.3	-	-	-	-	46	49	47	45	40

Forecast date: 3 September 2001

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

Poland's economy

Current account deficit lowest since 1998

The current account deficit totalled in July USD 296m against USD 956m in June and USD 701m in July 2000. This data is much better than the market expectations that were at the level of USD 600-650m. In July the current account gap was lowest since August 1998. One of the reasons for such a considerable improvement in the Polish balance of payments is the income balance that showed a deficit lower by almost USD 400m than in June, as Polish companies paid dividends to their foreign owners last month. Also balance of unclassified transactions was very favourable in July - improvement by USD 177m compared to last month. Trade deficit decreased – in July it amounted to USD 798m against USD 902m in June and USD 1042m a year ago. Exports still remain at satisfying level of USD 2.586bn.

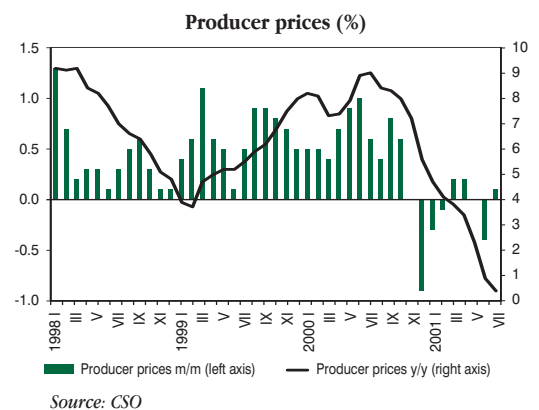
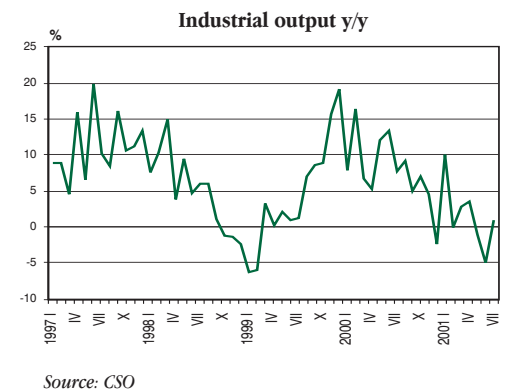
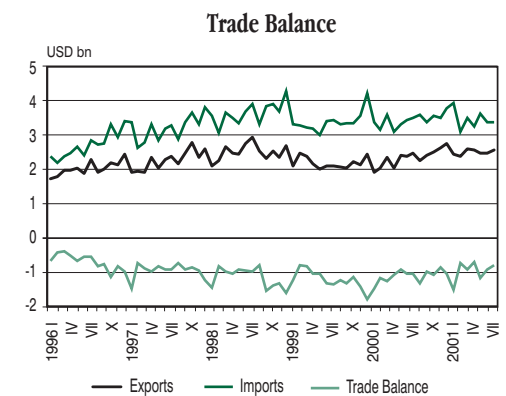
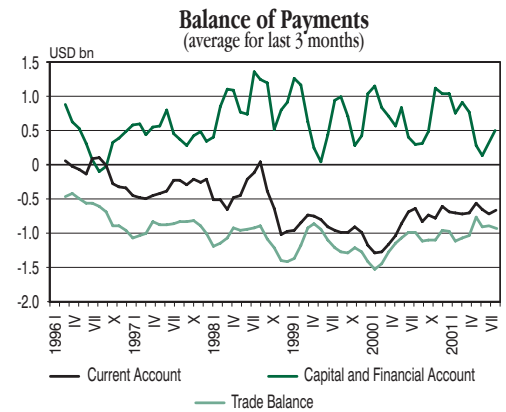
In January-July period, CA deficit reached USD 4.679bn. In relation to GDP it fell to 5.0% from 5.3% in June. Foreign trade deficit after seven months this year is at the level of USD 6.724bn. In January-July period exports rose by 12.1% in comparison to corresponding period last year and reached USD 17.530bn at the end of July. Imports grew that time by 3.1% totalling USD 24.254bn. Favourable tendencies were therefore maintained since exports increase faster than imports. Exports remain a factor stimulating economic growth in the situation of falling domestic demand.

Poor data on industrial output, very low producer inflation

In July, industrial output fell by 1.2% m/m after a drop by 2.8% in June and was 1.1% higher than in July 2000. Between January- July, industrial output rose by 1.4% against the corresponding period last year. Certainly, the best situation can be observed in the case of manufacturers and suppliers of electricity, gas and water. Their output increased by 0.9% m/m and 8.3% y/y in July. However, construction and assembly output fell by 5.0% m/m and 10.4% y/y in July. A drop in construction output is a typical seasonal effect, however, a very small annual growth reflects considerable scale of slowdown in that sector. July data on industrial as well as construction and assembly output should be considered very poor, taking into account a low statistical base last year.

In July, prices of sold industrial output rose by 0.1% m/m and 0.4% y/y. Prices of construction and assembly output increased by 0.3% m/m and 3.8% y/y in July. Low producer inflation confirms that due to low domestic demand, price pressure is very low at present. In August, annual PPI will be still minimally above zero, however, in September, there will most probably be deflation year-on-year.

Data on production and producer prices imply that high interest rates considerably reduced the economic growth and the effects of rate cuts conducted by the Monetary Policy Council in February and March this year are not yet visible.





Record low consumer inflation

In July, prices of consumer goods and services diminished by 0.3% after the fall by 0.1% in June. Year-on-year inflation reduced to 5.2% from 6.2% in June and 11.6% in July 2000. Between January - July 2001, inflation was 2.8% when in the corresponding period last year it was 6.2%. This data was in line with expectations. A strong falling trend in prices of food (-2.4% m/m) and fuel (-1.7% m/m) were main reasons for inflation decrease. At present, fuel is cheaper by 13.9% than a year ago. In June, no main category growth exceeded 0.2% m/m, however, in July, there was a significant increase in apartment utilisation costs, mainly due to higher energy prices by as much as 2.6% m/m. Also year-on-year, their increase was highest and amounted to 11.5%.

Taking into account the information on food prices fall by 0.9% in the first half of August, it is very probable that August will be the third month in a row that will see deflation. Such a situation has not been observed in Poland in recent years. We estimate that August inflation was -0.3% m/m and 5.2% y/y. In the further part of this year, inflation will be slightly rising, reaching 5.7-5.8% at year end, which is lower than the inflation target of the MPC for this year, which was set in the range 6-8%. The inflation target for 2002, set by the MPC at 5% +/- 1% at the last sitting, seems quite realistic to be achieved.

High real interest rates considerably reduced domestic demand, which had a positive effect of low consumer inflation, which dropped to the lowest level since the fall of communism in 1989. However, on the other hand, slender demand inhibits economic development, which is clearly implied by data on industrial output.

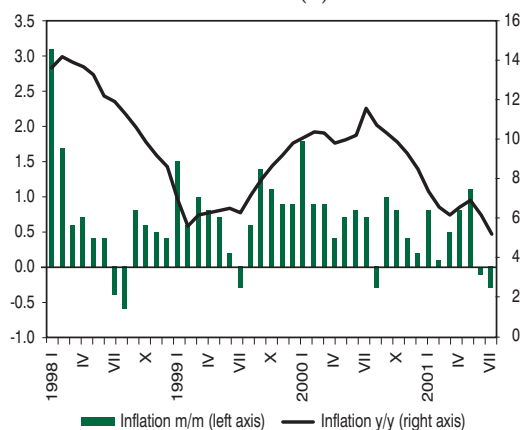
Further core inflation fall

July was the second month in a row with a fall in all five core inflation indicators. They ranged 4.5-6.7% against 5.3-6.8% in June.

This time the biggest fall occurred in the core inflation calculated after the exclusion of controlled prices from the basket (controlled prices are those whose significant part consists of excise tax – e.g. in the case of fuel or alcohol products, or those which are subject to other regulations – e.g. electricity). In July, this indicator dropped to 5.2% from 6.6% in June. The indicator measured after the exclusion of highest volatility prices is still at the lowest level of all the core inflation indicators and amounts to 4.5% against 5.3% in the previous month. After the exclusion of highest volatility prices and fuel prices, inflation decreased to 5.4% from 6.2% in June.

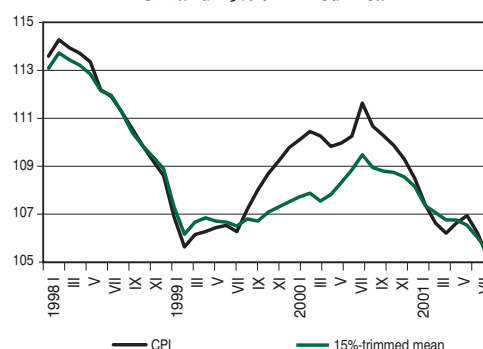
The core inflation indicator in the form of the 15%-trimmed average reduced to 5.5% from 6.0% a month earlier. Out of all core inflation indicators, the net inflation is at the highest level. It does not comprise food and fuel prices, decreasing in the recent months. In July, it dropped only slightly - to 6.7% from 6.8% in the previous month.

Inflation (%)



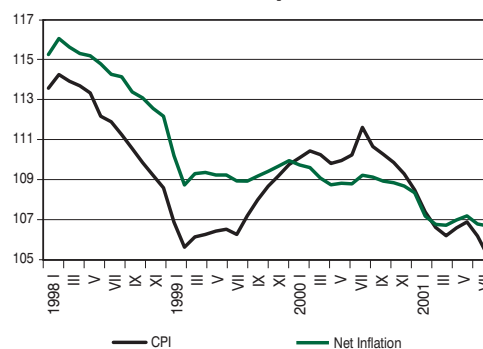
Source: CSO

CPI and 15%-trimmed mean



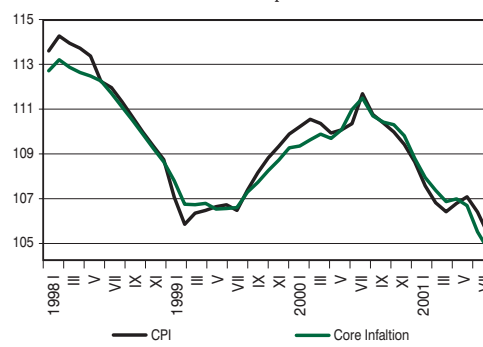
Source: GUS, NBP

CPI and Net Inflation with food and fuel prices excluded



Source: GUS, NBP

CPI and Core Inflation with most volatile prices excluded



Source: GUS, NBP

The zloty

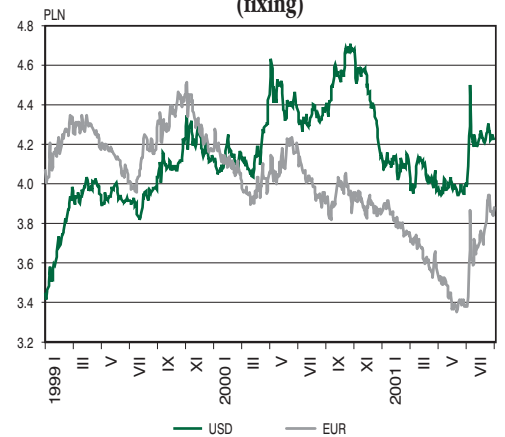
At the beginning of August the zloty strengthened against the EUR-USD currency basket. The deviation from the old parity on the appreciation side increased from 7.1% on 3 August to 8.6% on 8 August. The zloty reached in the interbank market the level of PLN 3.6840 per EUR and PLN 4.1890 per USD on 8 August. The strengthening of the Polish currency might result from higher activity of German banks buying the zloty. Following days given the budget situation the zloty weakened considerably. On 20 August, after weak data on industrial production, deviation from the old parity decreased to 4.3% and the zloty rate in the interbank market reached PLN 3.96 per EUR and PLN 4.3350 per USD. Decision of the Monetary Policy Council on reducing interest rates (22 August) strengthened the zloty. The market interpreted statements of the MPC members, in which they commented that the interest rate cut might be bigger if it had not been for the uncertain budget situation, as declarations of willingness to conduct further cuts if the confusion around the budget calmed down and the final draft would be approved by the Council. In addition, the firming of the Polish currency was also impacted by better perception of emerging markets due to the improvement of the situation in Argentina after the International Monetary Fund's credit of USD 8bn. On 23 August deviation from the parity exceeded 6% and remained at this level for the next week. The last day of August deviation fell temporary below 6% due to the stronger euro that strengthened against the dollar after the ECB decision on interest rate cut. After very good data on Polish current account deficit, deviation of the zloty from the parity increased again to 6.5%. Until the parliamentary election, the Polish currency should be quite stable and fluctuate in the band PLN 4.20-4.30 per USD. However, a slight weakening of the zloty against the euro is possible as a result of the euro strengthening against the dollar.

The euro

In August the European currency was strengthening against the dollar. Since the beginning of July (USD 0.8380 per EUR on 6 July) the euro is in an upward trend. On Monday 13 August the psychological level of 90 cents per 1 euro was exceeded. The dollar drop was impacted – apart from concerns about the condition of the American economy – by the IMF report, in which the Fund warned that the dollar may go on depreciating. Over the following days the euro rate remained over the level of USD 0.91 per EUR, excluding short moments after the Fed decision on interest rate cut, when it reached USD 0.9089. On Wednesday 22 August, unexpectedly good data on IFO index (German business sentiment indicator) that has broken a downward trend lasting since May 2000, caused the strengthening of the euro against the dollar to the highest level within last 5 months – USD 0.9240 per EUR. Afterwards the euro weakened due to weak data on German GDP growth and profit taking. Interest rate reduction by 25 basis points introduced by the European Central Bank on Thursday 30 August strengthened the euro only slightly. The European currency reached temporary the level of USD 0.9180, but the end of the month brought the return of the euro FX rate to USD 0.9080.

Taking into account still weak macroeconomic data in the USA, not indicate of an early improvement in the American economy (GDP growth totalled merely 0.2% q/q in 2Q2001), continuation of the euro upward trend against the dollar should be expected.

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



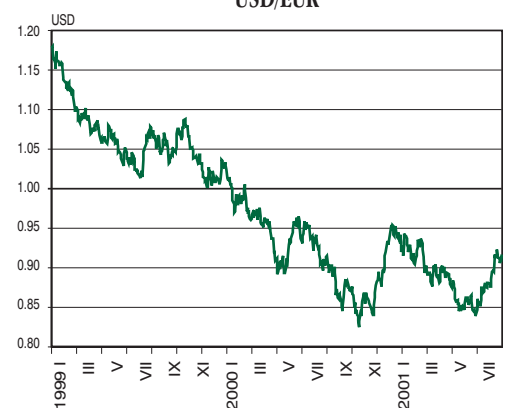
Source: NBP, Reuters

Deviation of the zloty from the parity



Source: NBP, own calculations

USD/EUR



Source: Reuters



Money and T-bond market

Interest rates

Since the end of July longer WIBOR rates (in 1M to 12M terms) have fallen by 40 to 60 bps and a bigger fall was observed in longer terms. A fall in money market rates resulted from the MPC's decision to cut main interest rates by 100 bps since 23 August. However, the scope of the fall is smaller than of rate cut, because at the end of July and in the first half of August the market was discounting such a decision of the Council. After information on difficulties with 2002 budget had appeared hopes for lower interest rates decreased and market rates rose slightly. A few days after interest rate cut the fall in WIBOR rates totalled 60 to 70 bps.

One-day WIBOR rates have been very unstable over this period. Starting from mid-August they were above the level of open market operations. Firstly, in 17-21 August period, tax payments caused a lack of liquidity and increase in O/N and T/N rates to 19-20%. In next days, low liquidity resulted from significant issue of NBP bills just before interest rates cut. Settlement of mandatory reserve by banks at the end of August resulted in further increase in daily rates and exceeding lombard rate level. On 28-30 August they were at the level of 20-25%.

Treasury bills

At three tenders in August a total supply of Treasury bills amounted to PLN 2.1bn (in nominal value) compared with PLN 2.9bn offered at five tenders in July. The supply of 13-week bills totalled PLN 500m and was unchanged from July and the supply of 52-week bills was reduced to PLN 1.6bn from 2.4bn in July. The average yields on T-bills decreased significantly in August for a second month in a row due to both an interest rate cut and expectations of it. The yield on 13-week bills fell by 96 bps, reaching 13.81% and the yield on 52-week bills decreased by 76 bps to 14.34%. The ratio of T-bill demand to T-bill supply deteriorated slightly, totalling 2.77 for 13-week bills, 3.56 for 52-week bills and 3.37 on the average versus 2.56 in July.

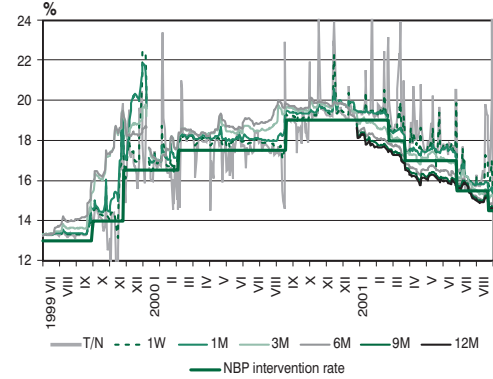
In August the yields on T-bills traded on the secondary market have been changing slightly and only after NBP interest rates cut they fell. At the end of August, compared with the end of July the yields on bills were 60 bps down except for yields on 3M bills that were 30 bps down.

Treasury bonds

The yields on Treasury bonds decreased at the tender held on 1 August compared to July due to market expectations that the MPC would cut interest rates at the meeting in August. The yield on 2-year bonds (OK 0803) reached 14.06% versus 14.99% a month earlier, and the yield on 5-year bonds (PS 0506) were at the level of 13.09% versus 13.38% in July. The supply of 2-year bonds totalled PLN 1.4bn and the supply of 5-year bonds PLN 900m. Investors' demand was relatively high. The ratio of bond demand to bond supply totalled 3.3 and 3.1 respectively. At the auction of 10-year variable-rate bonds (DZ 0811), that was held on 8 August the offer of bonds totalled PLN 300m. The average price totalled PLN 1001.06 per PLN 1000 of nominal value.

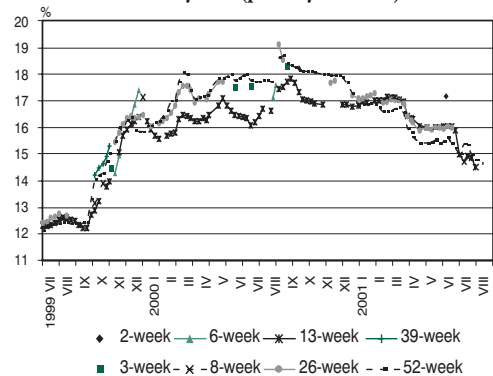
In August the yield curve in bond sector has become more flat. At the shorter end the yields fell by about 40 bps and in longer terms yields increased by 20 bps. In mid-August when uncertainty around 2002 budget was increasing bond rates were rising. After assurance from the government that they will not plan deficit higher than PLN 40bn (the level considered to be financed safely) and after MPC's decision, this trend reversed.

WIBOR rates



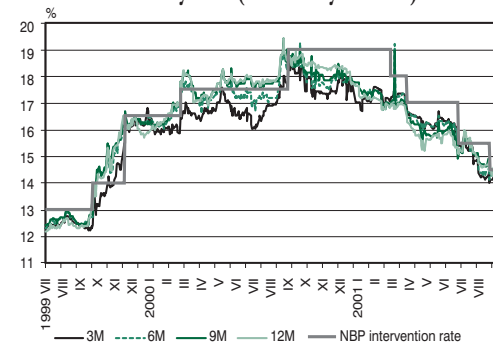
Source: BZ WBK S.A. Treasury and International Division

T-Bill yields (primary auctions)



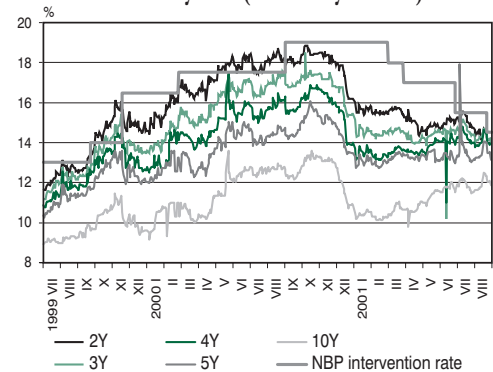
Source: BZ WBK S.A. Treasury and International Division

T-Bill yields (secondary market)



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

T-Bond yields (secondary market)



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

State budget draft for 2002

In the middle of August, the Finance Ministry presented to the government assumptions to the next year budget. These imply that the deficit would be even PLN 88.2bn (11.3% of GDP) without any rehabilitation measures. The rehabilitation plan prepared in the ministry assumed an increase in revenues and a decrease in expenditure (see tables 5 and 6) in such a way so that the deficit would amount to PLN 35.3bn (4.5% of GDP).

The plan was critically received by government members, who considered it too pessimistic. KERM and KSERM (Cabinet's Economic and Social-Economic Committees) did not accept the ministry's draft and recommended its revision. Deputy Prime Minister and Minister of Economy, Janusz Steinhoff, appointed a committee of independent experts to revise the budget assumptions presented by the Finance Ministry. The establishment of this group was a sort of a vote of no confidence against Minister Bauc. The experts confirmed the ministry's estimates and estimated the next year budget deficit in the passive option (without cuts in expenditure and raising revenues) at PLN 85-93bn. In this situation, Minister Bauc announced another presentation of the draft prepared in the ministry and a withdrawal only from freezing an inflationary increase of old age and disability pensions.

Despite the confirmation of the finance ministry's budget calculations by an independent group of experts, the Prime Minister unexpectedly deposed Minister Jarostaw Bauc from his position, saying that he had lost confidence in the minister as the minister had informed the Cabinet about difficult situation in public finance too late and not abiding by governmental co-operation principles. Simultaneously, the Prime Minister appointed the deputy minister, Halina Wasilewska-Trenkner as Finance Minister. Markets positively reacted to her appointment as she is considered a specialist on the state budget.

Earlier, before the Monetary Policy meeting, the government and opposition SLD assured that the 2002 budget deficit would not exceed PLN 40bn (5.1% of GDP). Dismissing the Finance Minister, the Prime Minister stood by this announcement. The government reached a consensus on the maximum level of budget deficit, however, problems appear when it comes to proposals of expenditure cuts. So far, ministers have planned far too insufficient savings in their ministries and a number of agreements will be required before the planned level of deficit is finally worked out. In addition, after the parliamentary election, SLD will most probably come to power and will have a decisive impact on the final deficit level.

In line with the expectations, the new finance minister ensured that she would continue the existing ministry's policy and present to the government the budget draft prepared by her predecessor. In addition, the minister announced that she would try to submit the budget draft to the Parliament to the constitutional deadline by the end of September. Due to little amount of time and a political aspect of the issue, the final budget draft will certainly be submitted to the Sejm as early as after the parliamentary election scheduled for 23 September.

Tab. 5. Proposals to increase revenues in 2002

Suggested action	PLN m
Cancel acts reducing revenues	3,299
Change rates of indirect taxes	4,415
Cancel PIT exemptions due to various titles	900
Cancel joint settlement of taxes by spouses	1,800
Put PIT allowances in order	200
Introduce import tax temporarily	10,152
Return to 7.5% membership fee for medical care	1,633
Change the system financing ZPChr*	1,100
TOTAL	23,499

* Protected Labour Enterprises (enjoy tax benefits owing to the employment of the disabled)

Source: Finance Ministry

Tab. 6. Proposals to reduce expenditures in 2002

Suggested action	PLN m
Reduce expenditures of state administration, agencies and specific funds	870
Suspend or cancel acts increasing expenditures	11,809
Change the system financing social expenditures	9,785
Withhold for 2 years an inflationary increase of salaries in the budget sector as well as of old age and disability pensions	1,956
Limit privileges of some professional groups	1,520
Modify principles of the Teacher's Chart	3,796
Renegotiate regional contracts	1,000
Change the system financing local governments	1,618
Other	1,938
TOTAL	34,292
NET*	30,562

* after taking into account an increase of expenditures offsetting some savings (PLN 3,730 m)

Source: Finance Ministry

Tab. 7. Main macroeconomic assumptions

	1999	2000	2001		2002	2003	2004
			Budget Act	forecast			
GDP real growth	104.1	104.0	104.5	102.0	101.7-102.9	102.3-103.4	104.0-104.6
Wages' real growth	104.8	102.5	102.0	100.6	99.8-101.3	100.2-102.4	102.3-102.6
Pensions' real growth	103.5	97.7	103.7	104.7	101.5-101.7	97.3-101.8	101.8-101.8
Employment growth	97.7	99.7	100.2	97.5	99.0-99.8	100.4-100.5	101.8-101.3
Unemployment rate (year end)	13.1	15.0	15.4	17.3	18.2-18.8	18.4-19.1	18.1-18.5
Average annual growth of consumer prices	7.3	10.1	7.0	6.0	4.8-5.4	4.1-4.6	3.6-4.0
Average annual growth of producer prices	5.7	7.8	6.2	1.9	3.0-4.2	3.0-4.3	3.3-3.8
Average annual growth of investment prices	5.9	5.4	5.6	3.5	3.0-4.0	3.0-4.0	3.2-3.8
Average annual USDPLN rate	3.97	4.35	4.45	4.13-4.26	4.27-4.59	4.25-4.58	4.25-4.58
Average intervention rate	13.7	17.9	16.4	16.1	13.2-14.2	11.1-12.1	9.2-10.2

Source: Finance Ministry



Immaterial increase of budget deficit in July

Between January-July, the state budget deficit amounted to PLN 19.377bn, which accounted for 94.3% of the deficit planned in the budget before the amendment against 91.1% of the old plan after June. As the amendment to the budget act became effective only in August, official data of the Finance Ministry for July still included references to the original plan for 2001. According to the estimates, the budget deficit after July accounted for 66.5% of the amended plan. Comparing this figure to previous years' data, it can be noticed that this level is relatively low.

At the end of July, total budget revenues amounted to PLN 78.901bn, equivalent to 49.0% of the old plan, compared to 42.1% after previous month. Budget expenditures totalled PLN 98.278bn, which accounted for 54.1% of the plan against 47.6% after June. In July, revenues were relatively high and expenditures were lower than the average of the previous months, which can prove that the Finance Ministry reduces spending on an ongoing basis. Budget amendment included lower revenues, so at the end of July they represented about 52% of the changed plan. The level of expenditures was not amended.

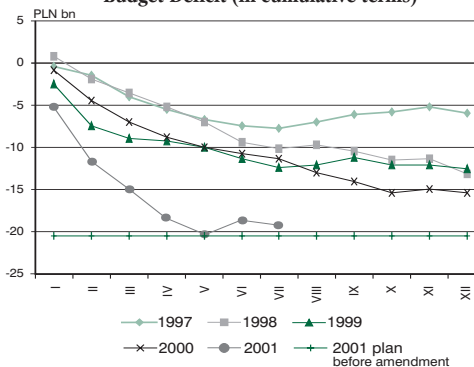
On the revenue side, still low level of realisation of tax revenues must be stressed. It is the lowest for corporate income tax, which means that enterprises' finances are in really poor condition. On the expenditure side, realisation in two items is quite low: foreign debt servicing cost (majority of payments is made in the second year-half) and subsidy to Social Insurance Fund (money transfer to Pension Funds is probably slower than assumed). Generally, there is no threat to the budget performance of the budget act on that side.

Relatively low level of the deficit after July related to a new whole-year plan can not cause too much optimism. One should still remember that this year's problems with revenues would be observed by the end of the year. On her first day as minister, the new Finance Minister said that budget revenues would be lower than planned in amended budget. Moreover, a plan of cuts in expenditures has not been presented yet. All these facts make that the fourth quarter will be very difficult in budget performing.

Privatisation

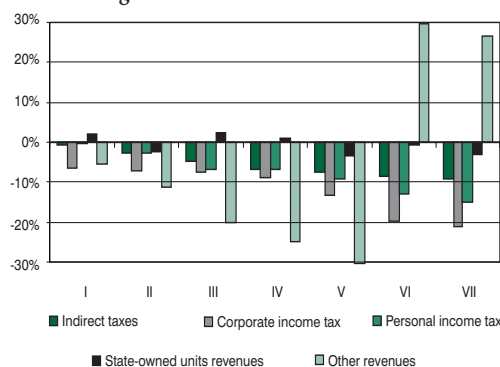
- In coming days decision on PKN Orlen privatisation should be made. Strategy of this privatisation assumes establishment of the Central-European oil concern. Therefore invitations to put offers for 17.58% stake in PKN were sent only to two companies: Hungarian MOL and Austrian OMV. Hungarians offered 25 PLN per 1 share and a loose alliance with PKN, while Austrians proposed 26 PLN and wanted to conduct a merger of companies. Depending on the final price the State Treasury may obtain PLN 2-2.5bn.
- Till mid of September the sale transaction of 75% shares of Rafineria Gdanska to Rotch Energy Ltd. This stake is priced at USD 250m.
- The Treasury Ministry has chosen the Spanish concern Iberdrola from four companies that made offers to purchase shares of the so called G8 group (group of eight energy companies in the North of Poland). The ministry granted the Spanish exclusive rights to the negotiation until 14 September. Sale of 25% shares of G8 group is the only distribution company privatisation planned for this year. Predicted worth of this transaction is about USD 400m.

Budget Deficit (in cumulative terms)



Source: Finance Ministry

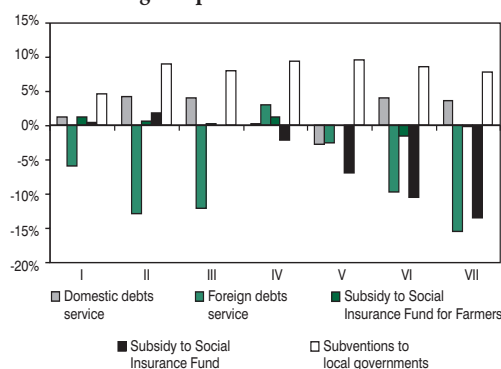
Budget Revenues – deviation from trend*



*) trend means the constant increase by 8.33% a month

Source: Finance Ministry, own calculations

Budget Expenses – deviation from trend*



*) trend means the constant increase by 8.33% a month

Source: Finance Ministry, own calculations

Monetary policy

Fourth interest rate cut in 2001

In the course of the meeting held on 21-22 August, the Monetary Policy Council took the decision to reduce the NBP interest rates by 100 basis points. From 23 August, the minimum interest rate of open market operations (the so-called intervention rate) amounts to 14.5%, the rediscount loan rate 17.0%, and the lombard loan rate 18.5%. The Council maintained a neutral stance in the monetary policy. The August cut was the fourth this year. Earlier this year, the MPC reduced interest rates twice by 100 bp (February and March) and once by 150 bp (June). Consequently, the current interest rates are 450 basis points lower than at the beginning of the year.

Effective from	Intervention rate	Rediscount rate	Lombard rate
31 August 2000	19.00%	21.50%	23.00%
01 March 2001	18.00%	20.50%	22.00%
29 March 2001	17.00%	19.50%	21.00%
28 June 2001	15.50%	18.00%	19.50%
23 August 2001	14.50%	17.00%	18.50%

As the rationale to the August decision, the MPC members pointed to the fact that favourable tendencies, from the point of view of inflation reduction, strengthened in July. July was the second month in a row that saw deflation and considerable reduction in the annual inflation. All five core inflation indicators also decreased. The PPI year-on-year continued a strong falling trend. Banking analysts reduced their inflationary expectations at the end of 2001 and so did personal customers with regard to the next 12 months.

The MPC is of the opinion that tendencies positively influencing future prices remain unchanged with regard to monetary phenomena. Households' inclination to save is high and the growth in the loan value in July mainly resulted from the zloty depreciation.

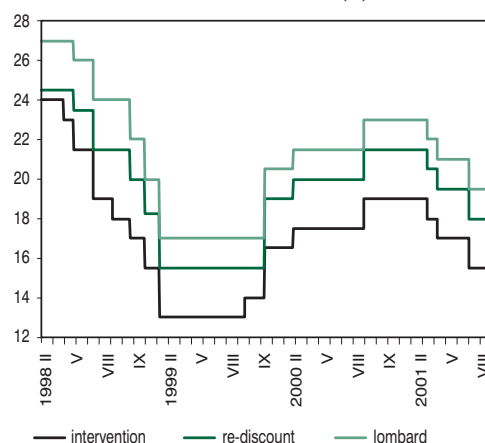
As far as external conditions are concerned, low crude oil prices on the world markets facilitate inflation reduction. It is little probable that there would be an inflationary impulse from the fuel market.

The MPC took the decision to reduce interest rates despite the uncertainty related to the 2002 budget draft. It was found out that the uncertainty was partially diminished by the government decision that the budget deficit would not exceed PLN 40bn next year. Simultaneously, the Council assessed that lower level of deficit would be more favourable for economic stability and called for the introduction of changes in the public finances by expenditure rationalisation.

Moreover, at the August meeting, the Council set the 2002 inflationary target at the level of 5% ± 1 percent point. It is in line with the medium-term target (below 4% at the end of 2003). Changing the way of setting the inflationary target (from a "range" to a "point" plus / minus a percentage), the MPC expressed its opinion that along with the inflation drop, its required level should be clearly defined.

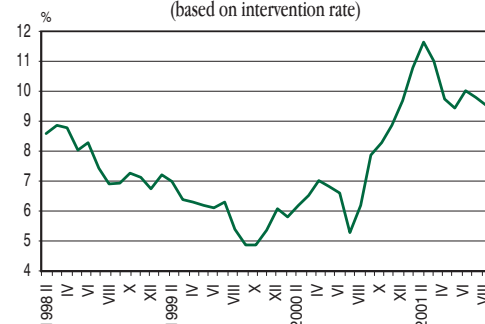
The next MPC meeting will be held on 25-26 September. We do not expect any further rate cut at this meeting. In our assessment, if the government set the deficit at PLN 35-40bn in the final draft of the budget for 2002, a rate cut by 100-150 bp will be possible in the fourth quarter 2001. In the first half next year, further two or three cuts are possible.

NBP Interest Rates (%)



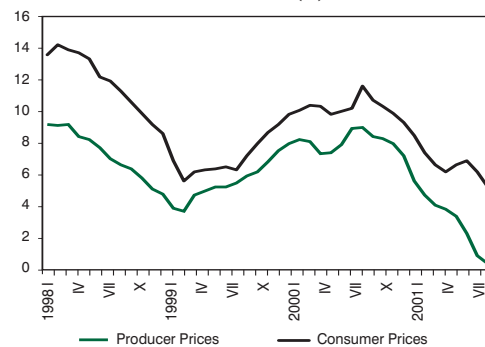
Source: NBP

Real Interest Rate
(based on intervention rate)



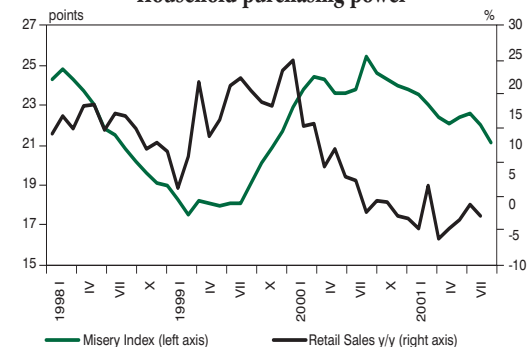
Source: NBP, CSO, own calculations

Inflation (%)



Source: CSO

Household purchasing power



Source: CSO, own calculations

Money supply

In July, money supply increased by 2.2% m/m. The monthly growth was the highest since October 2000. After seven months this year, the money supply growth is 6.8% against 5.2% in the same period last year. Since August 2000, the annual growth in money supply has remained stable in the range 13.4-14.9% except for December 2000, when the growth diminished to 11.9%, and June 2001, when, as a result of a high base from June 2000 resulting from a sudden increase of lending for the purchase of PKN Orlen shares, the annual growth dropped to 8%.

In July, customer interest in borrowing increased, in particular, among personal customers. However, this growth results mainly from the zloty depreciation, which increases the value of fx loans expressed in PLN. To a smaller degree, it follows from previous interest rate cuts. In addition, this period saw interest in summer holiday loans. Loans for the whole non-financial sector rose by 2.3% in July, which was the highest m/m growth since September 2000. This growth can be substantiated with the quickest personal loan growth, i.e. by 3.8% in over a year. However, between January – July 2001, the growth was only 8% against 18% in the corresponding period last year. The value of loans drew down by business customers rose by 1.8% in July. After seven months this year, it is only 5.2% higher than in December 2000. In the same period last year, this growth was 9.6%. The existing trend of falling annual growth in business loans – observed from the beginning of 2000 – was stopped. However, it continued in the case of personal loans despite a strong growth m/m.

In July, zloty deposits from the non-financial sector increased by 1.5%, which is the fastest m/m growth this year. Personal deposits growth m/m was 1.3%, which was sufficient for this ratio to return to the level in excess of 20% (after one-month drop to 19.4% in June), at which it had been since October 2000. Thus, the inclination to save remains high. Still high real interest rates (despite four cuts this year), low consumption and households concerns about further deterioration of their financial standing facilitate the growth in savings.

In July, the public sector debt increased by 2.1%. After the fall by 3.2% in June, an upward trend, continuing from April this year, returned. In the coming months, the level of the public sector debt in the banking system will be going up, which will be due to rising financial problems of the state budget.

Slower economic growth means poorer business financial performance and thinner wallets of personal customers. Deterioration of loan portfolios quality can already be observed. At the end of 2000, the proportion of substandard loans to total receivables was 13.7%, when in June 2001 – as preliminary data on biggest banks imply – the ratio increased to ca. 18%. Lost loans constitute one third of total irregular loans.

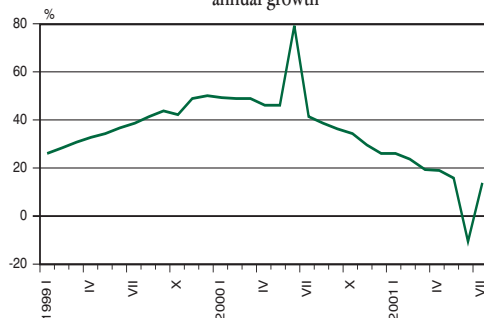


Money Supply
annual growth



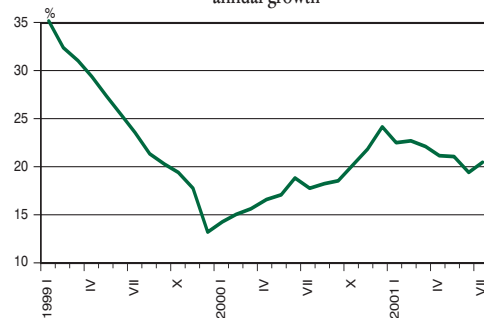
Source: NBP, own calculations

Personal Credits
annual growth



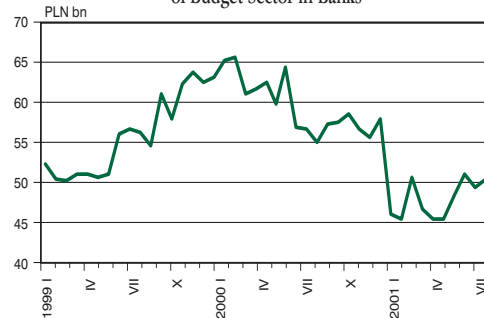
Source: NBP, own calculations

Personal Deposits
annual growth



Source: NBP, own calculations

Net Debt
of Budget Sector in Banks



Source: NBP

International survey

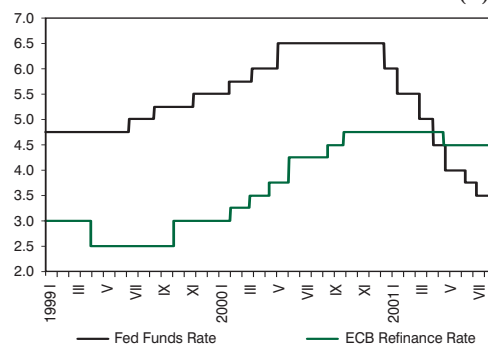
The USA

- In line with analysts' expectations, at the meeting on Tuesday 21 August the Federal Reserve cut interest rates, this time by 25 bp. It was the seventh cut this year. The Fed signalled that is ready for further reduction in funding costs. The Fed Funds Rate amounts to 3.5% and it is the lowest level since March 1984. The press statement said that "household's demand remains unaffected, but companies' profits and capital expenditures weaken. The world economic growth is slower and slower and it has a negative impact on the US economy". The Fed underlined that the inflation remains under control.
- According to revised data, GDP growth in United States amounted to 0.2 q/q in the second quarter this year, which means the slowest economic growth since the first quarter 1993. However, such a weak data was better than market expectations, because markets were afraid of zero economic growth.
- In July US consumer prices fell by 0.3% compared with June, while analysts expected no change in the prices. Inflation y/y decreased to 2.7% from 3.2% in previous month.
- US consumer confidence indicator fell to 114.3 points in August from 116.3 p. in July, while a growth to 117 p. was expected.
- In July US industrial production fell by 0.1% m/m, i.e. less than expected (0.2%), and decreased by 3.2% y/y. This is a tenth fall in a row.

The Euro-zone

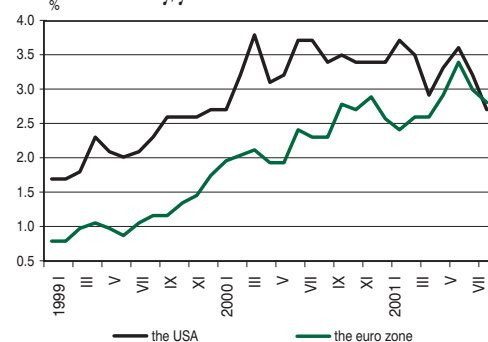
- At the meeting on Thursday 30 August the Council of the European Central Bank reduced interest rates by 25 basis points. The main interest rate – refinance rate is currently at the level of 4.25%. It was the second rate cut in the euro-zone this year. The ECB decision resulted from decreasing inflation and slowing down economic growth. The ECB was sure that inflation is under control. This year another one cut is possible.
- According to final data from Eurostat, in the first quarter this year euro zone GDP increased by 0.5% q/q and 2.6% y/y.
- In the second quarter 2001 German GDP growth amounted to 0.0% q/q and 0.6% y/y. In the first quarter it totalled 0.4% q/q and 1.4% y/y. This data was in line with market expectations. German economic growth in the second quarter in y/y terms was lowest since a beginning of 1997.
- According to preliminary data, in August German retail prices decreased by 0.2% m/m and annual increase was 2.6% against 2.7% expected by markets. Producer prices fell by 0.5% m/m in July and they rose by 3.1% y/y, significantly less than 3.6% expected by the markets.
- IFO index, showing German business sentiment, increased in July to 89.8 from 89.5 points in June, while analysts expected a fall to 88.6 points. Moreover, IFO indicator of future entrepreneurs' expectations rose to 95.0 from 93.5 p. IFO index was in a downward trend since May 2000.

Interest Rates in the USA and the euro zone (%)



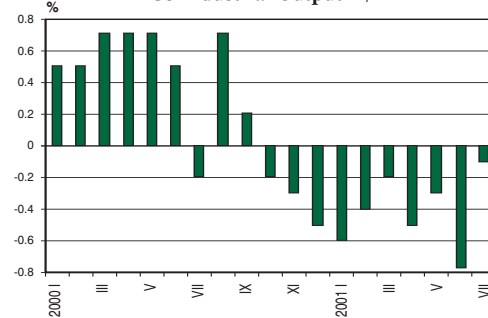
Source: Fed, ECB

Inflation y/y in the USA and the euro zone



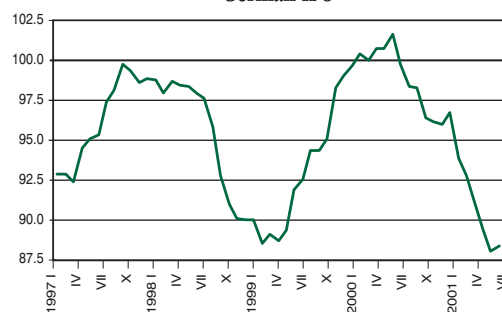
Source: Reuters

US Industrial Output m/m



Source: Reuters

German IFO



Source: Reuters



Economic Release Calendar September / October 2001				
Monday	Tuesday	Wednesday	Thursday	Friday
3 September	4 POL: Food prices (2nd half of Aug) EUR: Retail sales (June) EUR: Unemployment (July) USA: NAPM (Aug)	5 POL: Economic trends in industry, construction and retail trade (Aug) GER: Unemployment (Aug)	6 GER: Factory orders (July) EUR: Producer prices (July)	7 POL: Balance of NBP (Aug) POL: Official reserve assets (Aug) GER: Industrial output (July) EUR: Foreign trade (June) USA: Unemployment (Aug)
10	11 GER: Current account (July) GER: Trade balance (July) FRA: GDP (2Q)	12 FRA: Inflation (Aug)	13 EUR: ECB meeting EUR: GDP (2Q)	14 POL: Money supply (Aug) POL: Employment and wages in corporate sector (Aug) EUR: Balance of payments (2Q) USA: Retail sales (Aug) USA: Producer prices (Aug)
17 POL: Inflation (Aug) POL: State budget (Aug)	18 POL: Industrial output (Aug) POL: Producer price index in industry and construction (Aug) ITA: Inflation (Aug) EUR: Inflation (Aug) USA: Inflation (Aug)	19 USA: Foreign trade (July)	20 POL: Unemployment (Aug) ITA: GDP (2Q) ITA: Industrial output (July)	21 GER: Business climate IFO (Aug)
24 EUR: Industrial output (July)	25 POL: Food prices (1st half of Sep) POL: MPC meeting ITA: Unemployment (July) USA: Consumer sentiment (Sep)	26 POL: MPC meeting (decision) EUR: Foreign trade (July)	27 EUR: ECB meeting EUR: Money supply (Aug) USA: Durable goods orders (Aug)	28 POL: Balance of payments (Aug) POL: Foreign trade on a cash basis (Aug) FRA: Unemployment (Aug) FRA: Producer prices (Aug) ITA: Producer prices (Sep)
1 October ITA: Producer prices (Aug)	2 EUR: Unemployment (Aug) EUR: Business climate indicators (Sep) USA: Fed meeting	3 POL: Food prices (2nd half of Sep) POL: Economic trends in industry, construction and retail trade (Sep) EUR: Retail sales (July) EUR: Producer prices (Aug)	4	5 POL: Balance of NBP (Sep) POL: Official reserve assets (Sep) GER: Factory orders (Aug) USA: Unemployment (Sep)

A glance at the economy

Category	unit	September	October	November	December	January	February	March	April	May	June	July	August
PRICES													
Consumer price index (y/y)	%	10.3	9.9	9.3	8.5	7.4	6.6	6.2	6.6	6.9	6.2	5.2	-
Consumer price index (m/m)	%	1.0	0.8	0.4	0.2	0.8	0.1	0.5	0.8	1.1	-0.1	-0.3	-
Production price index (y/y)	%	8.3	8.0	7.2	5.6	4.7	4.1	3.8	3.4	2.3	0.9	0.4	-
Production price index (m/m)	%	0.8	0.6	0.0	-0.9	-0.3	-0.1	0.2	0.2	0.0	-0.4	0.1	-
Price index of assembly and construction production (y/y)	%	8.1	7.8	7.6	6.9	6.8	6.5	5.7	5.0	4.5	3.8*	3.8	-
Price index of assembly and construction production (m/m)	%	0.2	0.5	0.4	0.2	0.4	0.4	0.1	0.3	0.3	0.1	0.3	-
Exchange rate USD/PLN (y/y)	%	10.1	12.8	7.2	3.5	0.2	-1.0	-0.7	-5.1	-11.5	-9.7	-3.2	-2.6
Exchange rate USD/PLN (m/m)	%	3.0	3.3	-1.6	-5.4	-4.7	-0.4	-0.8	-1.0	-0.9	-0.3	5.4	1.4
Exchange rate EUR/PLN (y/y)	%	-8.7	-9.8	-11.2	-8.1	-7.1	-7.7	-6.5	-10.3	-14.5	-18.8	-11.5	-3.2
Exchange rate EUR/PLN (m/m)	%	-0.8	1.4	-1.7	-0.6	-0.4	-2.5	-2.0	-2.8	-2.9	-2.8	6.2	6.2
Real gross wages in enterprise sector (y/y)	%	0.4	0.5	0.8	-1.9	2.4	1.1	1.6	-1.3	1.8	-1.3	2.7	-
ACTIVITY INDICATORS													
Gross domestic product (y/y)	%	3.3	-	-	2.4	-	-	2.3	-	-	-	-	-
Industrial output (y/y)	%	5.0	7.1	4.7	-2.2	10.1	0.1	2.9	3.6	-0.9	-4.8	1.1	-
Industrial output (m/m)	%	5.0	2.1	-3.1	-1.4	-8.9	-2.5	14.7	-7.8	3.1	-2.8	-1.2	-
Construction and assembly production (y/y)	%	-3.7	-1.7	-1.1	-6.9	-9.7	-9.1	-8.2	-10.8	-11.7	-10.0*	-10.4	-
Construction and assembly production (m/m)	%	7.0	6.6	-17.6	40.3	-59.3	7.4	18.6	-2.9	15.5	13.8*	-5.0	-
Retail sales of goods ^a (y/y)	%	10.4	7.2	5.8	3.2	10.9	-0.2	0.1	1.9	4.3	0.2	-	-
Retail sales of goods ^a (m/m)	%	-0.8	1.5	-3.4	20.8	-27.6	-1.7	17.5	4.0	1.7	-1.3	-	-
Exports on a customs basis (y/y)	%	24.4	27.9	24.0	18.6	29.9	13.4	17.9*	9.3*	5.6*	-5.3	-	-
Exports on a customs basis (m/m)	%	10.5	10.0	-3.6	-8.5	1.1*	-0.5	9.6*	-13.5*	0.7*	-5.7	-	-
Imports on a customs basis (y/y)	%	8.2	16.2	3.7	3.7	14.5	-3.1*	2.8	0.8*	-12.3*	-11.3	-	-
Imports on a customs basis (m/m)	%	8.1	14.0	-7.0	-2.9	-11.0	-4.2	16.1	-9.8*	1.4*	-5.2	-	-
LABOUR MARKET													
Number of unemployed	thous.	2 529	2 548	2 613	2 703	2 836	2 877	2 899	2 878	2 841	2 849	2 872	-
Unemployment rate	%	14.0	14.1	14.5	15.0	15.6	15.8	15.9	15.8	15.7	15.8	15.9	-
Average employment in corporate sector	thous.	5 269	5 274	5 247	5 199	5 184	5 189	5 170	5 156	5 135	5 121	5 097	-
Average monthly gross wages in corporate sector	PLN	2 088	2 089	2 160	2 350	2 069	2 075	2 149	2 176	2 163	2 148	2 199	-
Nominal increase in wages (y/y)	%	10.7	10.4	10.2	6.4	9.9	7.7	7.9	5.2	8.8	4.9	8.0	-
STATE BUDGET													
Budget revenues	PLN bn	98.0	110.5	123.0	135.7	11.6	21.0	31.6	42.4	52.6	67.8	78.9	-
Budget expenditures	PLN bn	111.9	125.9	137.9	151.1	16.7	32.9	46.7	60.8	73.0	86.5	98.3	-
State budget deficit	PLN bn	-14.0	-15.4	-14.9	-15.4	-5.1	-12.0	-15.1	-18.4	-20.4	-18.7	-19.4	-
Domestic government debt	PLN bn	153.8	-	-	146.0	-	-	155.0	-	-	160.3	-	-
Foreign government debt	PLN bn	134.2	-	-	120.8	-	-	118.2	-	-	111.2	-	-

A glance at the economy



Category	unit	September	October	November	December	January	February	March	April	May	June	July	August
BALANCE OF PAYMENTS													
Current account	USD m	-592	-852	-416	-816	-932	-461	-749	-519	-734	-956*	-296	-
Trade balance	USD m	-972	-1 058	-858	-1 038	-1 499	-724	-907	-708	-1 165	-902*	-798	-
Exports	USD m	2 424	2 520	2 654	2 759	2 448	2 393	2 615	2 564	2 473	2 477*	2 586	-
Imports	USD m	3 396	3 578	3 512	3 797	3 947	3 117	3 522	3 272	3 638	3 379*	3 384	-
Services: net	USD m	-90	-100	-104	-155	-111	-85	-82	-62	-68	-67*	-95	-
Unclassified transactions: net	USD m	420	485	295	340	248	243	239	385	315	274	451	-
Capital and financial account	USD m	357	2 192	528	351	1 359	964	-33	-143	525	636*	478	-
Direct investments	USD m	242	4 653	537	570	486	383	343	535	321	604*	432	-
Portfolio investments	USD m	-72	-345	504	135	788	699	891	-177	-471	-304*	76	-
MONEY SUPPLY													
Money supply	PLN bn	281	287	291	294	293	296	301	303	305	308	314	-
Money supply (y/y)	%	14.1	14.6	14.4	11.8	14.6	14.6	14.9	14.0	13.5	8.0	13.4	-
Money supply (m/m)	%	1.0	2.4	1.3	1.1	-0.6	1.0	1.9	0.6	0.7	0.8*	2.2	-
Total deposits (y/y)	%	16.1	17.4	17.0	15.5	17.5	17.1	16.8	16.1	15.5	9.1*	15.3	-
Total deposits (m/m)	%	1.1	3.0	1.7	1.1	0.1	0.9	1.7	0.4	1.0	0.5	2.4	-
Household loans (y/y)	%	40.9	38.9	34.8	31.7	31.3	29.4	25.7	25.1	22.1	-1.3	20.5	-
Household loans (m/m)	%	3.0	2.3	1.2	2.1	0.2	-0.3	0.4	1.1	1.3	1.2*	3.8	-
Corporate loans (y/y)	%	17.4	16.1	14.0	13.5	12.2	12.0	11.7	9.5	8.4	7.1*	8.9	-
Corporate loans (m/m)	%	2.3	1.4	0.4	-1.9	1.2	0.9	0.6	0.0	-0.4	0.9*	1.8	-
FINANCIAL INDICATORS													
Average deviation from the central parity	%	-2.8	-0.6	-2.4	-5.0	-7.4	-8.8	-10.1	-11.8	-13.7	-15.0	-9.9	-6.6
Average exchange rate USD	PLN	4.4900	4.6369	4.5606	4.3143	4.1108	4.0925	4.0599	4.0175	3.9807	3.9705	4.1859	4.2459
Average exchange rate EUR	PLN	3.9152	3.9696	3.9035	3.8802	3.8648	3.7689	3.6952	3.5904	3.4856	3.3894	3.5998	3.8218
Average exchange rate DEM	PLN	2.0018	2.0296	1.9958	1.9839	1.9761	1.9270	1.8893	1.8357	1.7822	1.7330	1.8405	1.9541
Average WIBOR T/N	%	18.84	19.74	20.07	19.50	19.73	19.82	19.33	18.56	17.91	17.78	15.99	17.19
Average WIBOR 1M	%	19.39	19.47	19.65	19.83	19.44	19.33	18.36	17.45	17.50	17.38	16.11	15.73
Average WIBOR 3M	%	19.55	19.68	19.75	19.67	18.97	18.61	18.01	17.17	17.22	16.88	16.01	15.35
Average 3M T-bill yield	%	18.17	17.53	17.44	17.60	17.12	17.29	17.20	16.44	16.24	16.12	15.28	14.23
Average 6M T-bill yield	%	18.47	17.83	17.78	17.84	17.43	17.09	17.16	16.36	16.21	16.03	15.30	14.38
Average 9M T-bill yield	%	18.55	18.11	17.97	17.91	17.40	17.15	17.01	16.11	15.84	15.81	15.33	14.65
Average 12M T-bill yield	%	18.65	18.41	18.31	18.01	17.23	16.97	16.85	15.80	15.67	15.61	15.39	14.61
Average 2Y T-bond yield	%	18.11	18.54	18.23	17.20	15.68	15.48	15.60	14.59	14.92	15.22	15.14	14.40
Average 5Y T-bond yield	%	14.50	15.53	15.10	13.93	13.08	12.92	13.33	13.47	13.38	13.29	13.87	13.50
Average 10Y T-bond yield	%	12.40	13.24	13.06	11.50	10.44	10.23	10.68	10.61	11.30	11.74	11.88	11.97
MONETARY POLICY INSTRUMENTS													
Intervention rate	%	19.0	19.0	19.0	19.0	19.0	19.0	17.0	17.0	17.0	15.5	15.5	14.5
Rediscount rate	%	21.5	21.5	21.5	21.5	21.5	21.5	19.5	19.5	19.5	18.0	18.0	17.0
Lombard rate	%	23.0	23.0	23.0	23.0	23.0	23.0	21.0	21.0	21.0	19.5	19.5	18.5

* data officially corrected, * in current prices

Sources: CSO, NBP, Finance Ministry, Reuters, own estimations



Bank Zachodni WBK S.A.

TREASURY AND INTERNATIONAL DIVISION

Plac Gen. Władysława Andersa 5, 61-894 Poznań
tel. 0 61 856 58 35 secretary, fax 0 61 856 55 65

This analysis based on information until 3.09.2001 has been prepared by:

ECONOMIC ANALYSIS UNIT

Barbara Kołcio – Analyst, tel. 0 71 370 26 27
Aleksander Krzyżaniak – Analyst, tel. 0 61 856 55 80
Sławomir Nosal – Analyst, tel. 0 61 856 55 67
fax 0 61 856 55 65
e-mail ekonomia@bzwbk.pl

Web site (including Economic Service web page): <http://www.bzwbk.pl>

TREASURY SERVICES DEPARTMENT

Dealing Unit – Poznań

Pl. Gen. Wł. Andersa 5, 61-894 Poznań
fax 0 61 856 55 65

Piotr Kinastowski – Deputy Director
tel. 0 61 856 58 22, fax 0 61 856 55 65
e-mail: piotr.kinastowski@bzwbk.pl

Corporate Desk

Juliusz Szymański	Head of the Unit	0 61 856 58 25
Grzegorz Glowacki	Dealer	0 61 856 58 25
Katarzyna Kamińska	Dealer	0 61 856 58 25
Marzenna Urbańska	Dealer	0 61 856 58 25

Commercial desk

Waldemar Polowczyk	Head of the Unit	0 61 856 58 14
Robert Król	Dealer	0 61 856 58 14
Zbigniew Mańke	Dealer	0 61 856 58 14
Hanna Nowak	Dealer	0 61 856 58 14
Adam Wandzilak	Dealer	0 61 856 58 14
Juliusz Szymański	Naczelnik Wydziału	0 61 856 58 25

Dealing Unit – Warszawa

Al. Jana Pawła II 25, Atrium Tower, 00-854 Warszawa
fax 0 22 653 46 79

Krzysztof Pietrkiewicz Deputy Director
tel. 0 22 653 46 70

Jarosław Górski	Treasury Executive	0 22 653 46 57
Tomasz Dziedzic	Treasury Executive	0 22 653 46 67
Bartosz Bielak	Dealer	0 22 653 46 66

Dealing Unit – Wrocław

ul. Ofiar Oświęcimskich 38/40, 50-950 Wrocław
fax 0 71 370 26 22

Agnieszka Skrzypek	Deputy Director	0 71 370 25 90
Maciej Błęcki	Dealer	0 71 370 26 63
Rafał Czyż	Dealer	0 71 370 25 25
Bogusława Krasicka-Mazur	Dealer	0 71 370 24 18
Ewa Podgórska	Dealer	0 71 370 24 86
Jerzy Rybczak	Dealer	0 71 370 24 26
Aleksandra Skiba	Dealer	0 71 370 24 86
Anna Tarnacka	Dealer	0 71 370 26 24

Business Development Department

Tadeusz Kopeć – Director of Department
tel. 0 61 856 50 10, fax 0 61 856 55 65
e-mail: tadeusz.kopiec@bzwbk.pl

Anna Talarczyk
Head of the Unit
tel. 0 61 856 58 49,
fax 0 61 856 44 56
e-mail: anna.talarczyk@bzwbk.pl

Agnieszka Skrzypek
Head of the Unit
tel. 0 71 370 25 90,
fax 0 71 370 26 22
e-mail: agnieszka.skrzypek@bzwbk.pl

Department Operacji Zagranicznych

Dorota Bernatowicz – Director of Department
tel. 0 61 856 48 20, fax 0 61 856 48 28
e-mail: dorota.bernatowicz@bzwbk.pl

This publication is for information purposes only and cannot be regarded as a recommendation or an offer to enter into any deals. Any information in this bulletin is obtained from public sources and believed to be reliable but its accuracy or completeness cannot be guaranteed. The Polish Economy. Financial Markets bulletin is the intellectual property of Wielkopolski Bank Kredytowy S.A. and cannot be reprinted, photocopied or otherwise distributed without the prior permission of the WBK S.A. Treasury and International Division. This bulletin has been approved for publication by the Treasury and International Division.

Please telephone contact the Marketing Unit if you wish to obtain our bulletin via e-mail.