MACROscope
Polish Economy and Financial Markets

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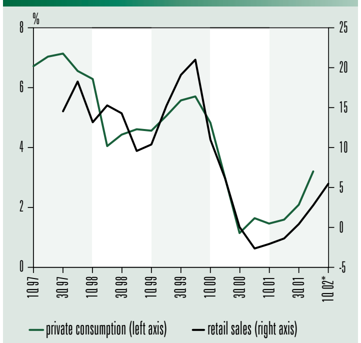
Slowly ahead

- **The data for Q4 published by CSO indicate bad financial standing of businesses.** It was the first time the business enterprises had recorded loss before tax. At the same time a strong decrease in the level of ready-made stock indicates that economy has been bouncing back. This process is supported by the old pensioners' income and the households penchant for keeping up with the existing life status at the expense of decreasing financial reserves. The biggest threat to the forthcoming recovery is represented by a difficult situation on the labour market and continued redundancies after the financially dramatic Q4.
- **There has been a lot of talk of the incoming recovery and there indeed are more and more signals that it is just around the corner.** The recent US indicators result in the monthly adjustments to the projected GDP annual growth. The PMI factor for the EU sets the projection that manufacturers' sector has been back on the development path after a few months of decreases. In Poland, the February budget VAT and CIT income indicate the better financial standing of the businesses and a growth in domestic demand. This information has been confirmed by a strong growth in the February retail sales up by ca. 8% YoY as well as by an unexpected growth in industrial output. The businesses' expectations are increasingly optimistic, while the consumers' optimism dived substantially in March as a result of the Government's decisions in respect of the list of the State subsidised medicines and work possibilities for old pensioners.
- **There were no interest rate cuts in March and in our opinion there will not by any in April either.** All information published abroad after the recent MPC meeting indicated the stronger economic recovery and growing risk of the inflation rate increase related to the pricing of electricity. Of course, the scale of this risk migration over to Poland depends on PLN FX rate. If it remains strong then the impact may be limited. However, the comments of the MPC members include some related to weakening PLN and concerns in respect of the next years inflation target set under 4% as at December 2003. Of course, the data related to the domestic market will be crucial. As the inflation rate scenario for H1 has been well-defined, with the inflation rate going below 3% for the short period of time in Q2, the crucial information will be related to money aggregates (including household deposits) and the labour market. A continued decrease in the deposits growth dynamics may reassure the MPC members in their reluctant approach towards cutting interest rates. On the other hand the acceleration in the job destruction dynamics down from the February 5% YoY, may induce the MPC to cut the interest rates slightly. Our projections indicate low deposits and some improvement on the labour market, hence we believe that the rates will be left unchanged.

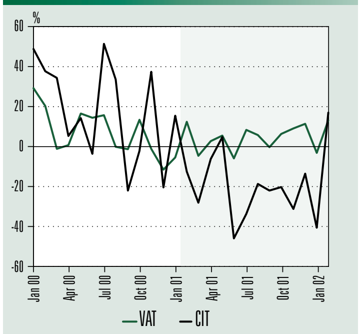
Financial market				on 29 March 2002	
NBP deposit rate	**6.50**	WIBOR 3M	**10,34**	PLN/USD	**4,1321**
NBP intervention rate	**10.00**	Yield on 52-week T-bills	**9,65**	PLN/EUR	**3,6036**
NBP lombard rate	**13.50**	Yield on 5-year T-bonds	**9,15**	EUR/USD	**0,8713**

Private consumption and retail sales **YoY**



* BZ WBK estimate Source: CSO, BZ WBK

Budget revenues from VAT and CIT **YoY**



Source: Finance Ministry, BZ WBK

In this issue:

Spcial focus 2
Can you see it coming?
Economic update 7
Central bank watch 15
Government and politics 21
Market monitor 24
International review 26
Economic calendar 28
Statistics & forecasts 29

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Can you see it coming?

- Vanishing working households' incomes…
- …while pension bill rises very fast…
- …and households consume their savings
- Corporates were bleeding in 4Q2001…
- …but inventories point to upcoming recovery
- Short-term debt decrease or its classification changed
- Too early to speak about investment rebound…
- …but there is something in the oven

Vanishing working households' incomes

Central Statistical Office has just released full data for 4Q01 so it is high time to look at some quarterly figures. This research note is divided into two parts. First we look at employment, wages and pensions then we turn into the corporate sector. We strongly encourage you to go through these few pages, as there are some truly Eyeopening observations.

Usual short-term analysis of labour market and wages is limited to the corporate sector due to data availability on a monthly basis. Figure 1 presents a broader picture. Average employment data includes all sectors although it excludes interior affairs and defence sectors (pssst, burn this note before reading). CSO has not released the employment estimate of 4Q01 so it is out own but all other figures in this note are based on CSO or NBP data. Employment data does reveal that the number of available jobs (excluding grey economy) has been reduced by 700,000 in the last four years, right ahead of baby boomers generation entering the labour market. Next columns show average wage in the economy in particular quarters (pre 1999 data has been grossed up) and the wage bill, which was computed as average employment times average wage times three. Wage bill changes could represent household disposable income changes if we assume unchanged taxes. Annual growth of the wage bill has decelerated to 1% in 4Q01 and was well below annual inflation in 4Q01, which implies real decline of the wage bill. It was a result of fast job destruction and a deceleration of the wage growth.

Senior citizens go shoppin'

Completely different trends have been observed in the pension bill. Indexation in June 2001 led to rapid acceleration of the pension bill to above 13%YoY. Interestingly, in 4Q98 pension bill was equal to 48.4% of wage bill, in 4Q01 this ratio rose to 52.7%. It somehow contradicts the public perception that pensioners are the poorest social group. In relative terms they have been doing very well in the last four years, and particularly well in 2H01. Of course pension bill underestimates the total income of this social group, as we would need to include transfers (for lack of pension indexation in 1991-1992, and from Nazi-slave fund) as well and extra incomes earned by those who collect pension and work at the same time.

Employment, wage bill and pension bill Fig.1

Quarters	Average employment m	Average wage PLN	Wage bill PLN m	Wage bill % YoY	Pension bill PLN m	Pension bill % YoY
1998 I	8564	1483	38103		18448	
1998 II	8575	1502	38631		19290	
1998 III	8538	1536	39347		19591	
1998 IV	8446	1654	41914		20274	
1999 I	8387	1599	40220	5.6	20439	10.8
1999 II	8357	1659	41605	7.7	21127	9.5
1999 III	8289	1714	42622	8.3	22393	14.3
1999 IV	8335	1856	46417	10.7	22499	11.0
2000 I	8139	1869	45627	13.4	22590	10.5
2000 II	8106	1870	45469	9.3	22924	8.5
2000 III	8083	1906	46213	8.4	23567	5.2
2000 IV	8152	2052	50177	8.1	23592	4.9
2001 I	7896	2044	48408	6.1	24019	6.3
2001 II	7852	2007	47275	4.0	24655	7.6
2001 III	7791	2047	47851	3.5	26678	13.2
2001 IV	7850*	2153	50703	1.0	26734	13.3

** BZ WBK estimate* *Source: CSO, BZ WBK*

The annual growth rate of both bills (wage and pension) together has been shown in the second column in figure 2. After a very strong 1999 this combined wage bill has been lagging behind CPI in 2001 and this continued until 2Q01. However in 3Q and 4Q 2001 annual growth of combined wage and pension bill was above annual inflation. Well these conclusions may require empirical verification. Piotr tells me that he encountered impossible traffic jams near shopping malls recently. You may try yourself on next visit to a supermarket, just take a look whether there are more elderly people shopping relative to their market share which is roughly 1/3.

Wage and pension bill and private consumption **Fig. 2**

Quarters	Wage and pension bill total	Wage and pension bill total	CPI	Private consumption	Private consumption	Ratio of both bills to private consumption
	PLN m	%YoY	%YoY	PLN m	%YoY	%
1998 I	56550			85.245		66.3
1998 II	57921			85.561		67.7
1998 III	58938			88.980		66.2
1998 IV	62188			87.151		71.4
1999 I	60660	7.3	6.2	94.868	11.3	63.9
1999 II	62732	8.3	6.4	97.427	13.9	64.4
1999 III	65015	10.3	7.2	98.441	10.6	66.0
1999 IV	68916	10.8	9.2	99.738	14.4	69.1
2000 I	68216	12.5	10.3	109.533	15.5	62.3
2000 II	68393	9.0	10.0	109.992	12.9	62.2
2000 III	69779	7.3	10.8	110.184	11.9	63.3
2000 IV	73770	7.0	9.2	110.678	11.0	66.7
2001 I	72427	6.2	6.7	118.189	7.9	61.3
2001 II	71930	5.2	6.6	118.038	7.3	60.9
2001 III	74529	6.8	4.9	117.812	6.9	63.3
2001 IV	77437	5.0	3.7	118.716	7.3	65.2

Source: CSO, BZ WBK

If one wants to have a better clue about private consumption trends it is not enough to analyze wage and pension bill. Last column in figure 2 illustrates this point. While it may be methodologically wrong we divided gross wage and pension bill by private consumption as computed by the CSO in GDP statistics. As expected this ratio is largest in 4Q every year reflecting seasonal increase in wages, but the ratio has been on steady decline in the last four years from 71.4% in 1998 to 65.2% in 2001. It shows that other sources of income explain larger and larger proportion of the private consumption. Part of this difference can be attributed to various social allowances (which amount to near 20% of the pension bill) and which have been rising amid higher jobless rate. But obviously the difference could come from a fact that household net wealth position changes. For example households could decide to smooth their consumption, which would imply a decline in their net financial wealth in order to maintain the current level of living standard. Given very shallow capital markets and lack of a mortgage market a good measure of changes in the household net financial wealth would be their net position vis-a-vis the banking sector. Obviously households can raise consumption by borrowing more or by saving less.

Figure 3 shows annual changes in household savings and borrowing in the banking sector as well as net households' position in the banking sector (includes both domestic and foreign currency assets and liabilities).

Household net position vis-a-vis banks **Fig. 3**

Quarters	Household bank savings EoQ	Household bank credit EoQ	Household net position vs. banks	CPI
	%YoY	%YoY	%YoY	%YoY
1999 I	27.4	35.8	25.8	6.2
1999 II	23.4	41.1	19.8	6.4
1999 III	20.8	47.6	15.2	7.2
1999 IV	15.2	53.0	7.0	9.2
2000 I	14.2	52.1	6.1	10.3
2000 II	18.5	79.4	3.9	10.0
2000 III	17.3	40.9	11.0	10.8
2000 IV	20.9	31.7	17.6	9.2
2001 I	20.1	25.7	18.4	6.7
2001 II	16.3	-1.3	23.6	6.6
2001 III	17.5	18.7	17.1	4.9
2001 IV	12.0	14.7	11.1	3.7
2002 luty	9.4	14.7	7.7	3.5

Source: CSO, NBP, BZ WBK

In early 2000 household net assets have grown less than inflation rate. They accelerated rapidly and topped 18%YoY in mid 2001, comparing to around 6.5% inflation (2Q01 results are biased amid leveraged subscriptions of large IPO in 2Q00, which inflated credit figures and reduced net wealth data in 2Q00). Second half of 2001 brought a rapid deterioration, and the trend even accelerated in early 2002. Obviously one would have to make a correction for 'Belka tax effect' which resulted in a shift from bank savings to investment funds, but even then net household assets would exhibit around 10%YoY growth. Yes, it is still way above 3.5% inflation, but real growth of household net assets has slowed from around 12% a year ago to 6% in early 2002. Because recent interest rate cuts and introduction of 'Belka tax' on 1 March have not yet affected household savings and borrowing patterns, we may expect these trends to continue, while inflation is expected to rebound in 2H02.

Above evidence does suggest that households do smooth consumption by reducing their net financial wealth in bad times. And indeed MPC worries about low saving rate appear justified.

Corporates are bleeding...

We now turn to the corporate sector. CSO on a basis of F-01 forms reports basic cumulative quarterly figures. However looking at cumulative data one looses a sense of dynamics taking place. Therefore in what follows we derived quarterly data from cumulative quarterly figures. Again, we are aware that such computations may lead to certain biases, because firms report on cumulative basis and we do not know whether their cumulative year-to-date sales where affected by revisions of earlier data or not. Bearing this in mind we took a look at single quarters, and we did not like the picture we saw, not at all.

Corporates' revenues, costs and financial results Fig. 4

Quarters	Revenues	PPI	Revenues, real terms	Costs	Wages	Gross financial result divided by revenues (net of coal mining)	
	%YoY	%YoY	PLN m	%YoY	%YoY	gross	net
1999 I	7.3	4.1	3.2	9.4	7.8	1.2	-0.2
1999 II	9.3	5.1	4.1	10.1	10.5	2.7	1.4
1999 III	9.2	5.9	3.3	10.9	11.6	1.3	0.0
1999 IV	13.2	7.5	5.8	13.5	12.2	1.5	0.3
2000 I	17.1	7.9	9.2	15.8	16.9	2.1	0.8
2000 II	19.8	8.1	11.7	20.2	12.7	1.7	0.8
2000 III	16.7	8.6	8.2	14.9	11.2	2.5	1.3
2000 IV	14.9	6.9	8.0	14.3	10.5	1.5	0.4
2001 I	7.1	4.2	2.9	8.1	9.4	1.2	0.1
2001 II	0.0	2.2	-2.2	0.3	7.3	1.4	0.5
2001 III	3.0	0.8	2.3	4.1	7.4	1.4	0.3
2001 IV	-0.2	-0.6	0.4	1.3	4.9	-0.1	-0.9

Source: CSO, BZ WBK

First column in figure 4 above shows annual growth rate of firms' revenues. For the first time since the Big Bang reform revenues went down in nominal terms and it happened in 4Q01. However at the same time producer prices have also been falling YoY, so in real terms revenues went up 0.4%YoY. Actually in real terms the worst quarter was recorded in 2Q01, when real revenues fell by more than 2%YoY. The 'hey days' of 2000 have abruptly ended last year. How about costs? Faced with below target revenues firms focus on cost reduction. Costs have been growing at 15-20%YoY rate in 2000 and between 0 and 4% for most of 2001. Moreover, costs' YoY growth in 2001 was well below average wage growth, which confirms that some firms heavily reduced employment as well as other types of costs. But it was not enough to prevent a dramatic deterioration of profitability. Last two columns in figure 4 present gross financial result and net financial result as a ratio of revenues. We have stripped coal sector from this analysis for a number of reasons. Most importantly its performance has little to do with market conditions and heavily depends of tax subsidies.

Corporates had fairly good 1-3Q2000 and then they barely broke even in 2001 to move deep into red in 4Q01. In the fourth quarter even gross result was negative, situation not seen in the last three years and probably also not seen after 1992. Now it is easier to understand why firms accelerated layoffs in 4Q01 and 1Q02, it was probably a 'panic' reaction' to horrific financial results in 4Q01. And press stories confirm this analysis, with shipyards and automotive sectors making the headlines.

... but inventories point to upcoming recovery

Obviously flow analysis reveals only part of the story. In what follows we look at corporate inventories and other assets, at short term debt, as well as at their investment plans.

Inventories Fig. 5

Quarters	Inventories - materials %YoY	Inventories - production in progress %YoY	Inventories - finished products %YoY	Inventories - goods %YoY
2000 I	13.3	13.0	5.7	19.1
2000 II	14.0	22.5	8.0	25.5
2000 III	13.6	20.4	16.6	15.6
2000 IV	7.7	22.0	12.0	8.1
2001 I	3.1	13.6	5.0	4.3
2001 II	-1.2	2.6	3.5	-2.8
2001 III	-4.4	2.4	0.3	-2.3
2001 IV	-7.7	1.0	-0.7	-2.7

Source: CSO, BZ WBK

Figure 5 is basically a continuation of cost reducing story. Stock of materials fell 7.7%YoY in nominal terms in 4Q01, production in progress was growing at mere 1% and stocks of finished products fell 0.7%YoY. Inventories of goods (this is mostly domestic trade sector) have been falling at near 3% rate YoY, but 4Q01 was no different than previous ones which reflects better performance of retails sales that that of industrial output.

These figures however give some food for thought. While sharply rising inventories of finished goods in 2H00 highlighted the risk of coming recession, 4Q01 decline of finished goods inventories may indicate upcoming recovery. Obviously without good knowledge about deflators that should be used to move from nominal to real values no firmer conclusions can be made. But if anything, after a 'horror' presented in figure 4 above figure 5 offers a heart-warming romance.

I paid my dues, did I?

Now we take a brief look at dues, claims, cash and short-term debt in figure 6 below. There is a wide-spread noise about firms not paying each other but data does not offer a confirmation. Yes, in 2000 there was a strong increase in both claims and short-term debt resulting from deliveries (some 10% above inflation) but in 2001 this trend has reversed and in 2H01 both claims and debt were falling in real terms.

Finally I would be more than happy to hear your explanation about the pile of cash on which the companies seemed to be sitting in 4Q01. It is not a year end effect because we are looking at YoY figures. Is it because firms stopped investing? Well 4Q01 GDP sort of confirms that it may be the case to some extent. We do not have a good story here, but if economy recovers and CEOs, CFOs and their board fellows become convinced that it is time to expand, then this cash will certainly come handy. Cash reported by firms correlates well with corporate bank deposits. In February 2002 YoY growth rate of corporate deposits fell to 14%, which may indicate that firms have less cash than in December 2001, but still YoY real growth is above 10%.

Finally we take a look at various categories of short-term debt in figure 6. Bank credit growth rate has virtually stalled in 4Q01. Well, if corporates do not invest and are cash rich why should they borrow more. But there are somewhat surprise developments in two remaining categories: unpaid taxes and unpaid social security contributions. Firms appear to pay taxes on time, as the nominal growth of overdue tax volume is almost flat in real terms. Even more surprising developments take place in overdue ZUS contributions. While we can explain a rapid improvement in 1Q01, because central budget gave money to ailing SOEs to pay dues to ZUS, even faster improvement in 2H01 is a puzzle. Well, one explanation would be that it is a short-term debt (up to one year), so simply a big chunk of overdue social security contributions has been classified as long-term and was dropped from these statistics. But even then data shows significant improvement.

Dues, claims and short-term debt **Fig. 6**

Quarters	Dues and claims resulting from deliveries %YoY	Cash %YoY	Corporate deposits in banking sector %YoY	Short-term debt - bank credit %YoY	Short-term debt - resulting from deliveries %YoY	Short-term debt - on account of taxes %YoY	Short-term debt - on account of taxes %YoY
2000 I	17.8	13.7	19.1	18.6	21.5	11.1	37.9
2000 II	22.6	22.3	36.0	20.7	21.2	24.3	37.2
2000 III	19.3	23.0	12.9	18.5	16.1	23.9	33.5
2000 IV	15.5	9.5	3.7	21.5	11.0	7.8	24.5
2001 I	8.1	12.0	8.3	14.6	5.6	17.3	6.6
2001 II	1.8	4.6	-7.5	11.1	2.6	8.1	-1.8
2001 III	2.3	5.2	10.3	8.4	3.4	4.2	-20.1
2001 IV	1.2	17.2	18.6	2.2	0.2	4.5	-36.7

Source: CSO, BZ WBK

Too early to speak about investment rebound...

We all know than long-term growth is about saving and investments. Obviously we should not forget about technical innovations, but so far there are little signs that Poland can give a birth to high-tech giant the way Finland delivered Nokia, well at least with such low spending on R&D and education. So below we focus on traditional stuff. Figure 7 shows YoY changes in nominal investment spending (you probably noticed that for some reason CSO does have separate 1Q data). It appears that investment gloom has been bigger than ever in 4Q01, which was apparently highlighted by 4Q01 GDP data some time ago. This trend, however, appears to be driven by falling demand for new buildings and by reduced spending on car fleet, which accounted for 38% and 8% of total fixed investments respectively in 4Q01. But there is also a negative trend in machinery installations' investments.

Annual changes in nominal investment outlays **Fig. 7**

Quarters	Investment outlays, for fixed assets %YoY	Investment outlays, buildings r/r %	Investment outlays, machinery installations and tools r/r %	Investment outlays, means of transport r/r %
2000 I-II	-9.5	-15.2	-4.9	-7.1
2000 III	-4.6	-15.5	-1.8	37.1
2000 IV	-5.2	-0.9	-7.3	9.8
2001 I-II	-5.6	-6.5	-4.6	3.7
2001 III	-20.5	-22.4	-12.7	-44.8
2001 IV	-27.8	-35.9	-14.9	-49.8

Source: CSO, BZ WBK

...but there is something in the oven

However the gloom and doom partly disappears if one looks at new investments data. In 4Q01 number of new investments rose 40%YoY after three quarters of a steady decline. All right, I know that estimated value is still some 26%YoY down but it was 260%YoY up in 1H01. Such high differences could result from at least two factors. Firstly data may not be reliable, but economists hate such explanation. Secondly, high reported new investments resulted from better financial results enjoyed by firms in 2000.

Investments newly started **Fig. 8**

Quarters	Investments newly started, number of tasks %YoY	Investments newly started, estimated value %YoY	Ratio of new investments to total fixed investments %YoY	Investments newly started, number of tasks, manufacturing %YoY	Investments newly started, estimated value, manufacturing %YoY
2000 I-II	12.1	0.0	8.3	4.6	-35.0
2000 III	16.1	-66.3	11.9	-4.5	22.4
2000 IV	-16.1	24.4	27.3	21.1	-40.1
2001 I-II	-10.6	258.4	31.7	-87.8	-31.0
2001 III	-15.1	91.4	28.7	-7.1	1.1
2001 IV	40.3	-25.8	28.0	-45.1	67.2

Source: CSO, BZ WBK

Take a look at the ratio of new investments to total investment. I know it is comparing apples with oranges, because fixed investment spending has already taken place in a given quarter, and new investments relate to an estimated value and to spending that may take place in possibly distant future. But keeping this in mind we note that the volume of committed new investments has gone up significantly in 2001 in comparison with actual spending. Of course we are still way below 38% ratio seen in investment hey days in 1998.

Somewhat different picture emerges in manufacturing sector, where the number of tasks has fallen, but the estimated value has gone up by near 70%. The difference is due to section transportation, warehousing and communication, which in 2000 committed some PLN9082 in new investments and in 2001 only PLN2483m. Interestingly in brown and black coal sector investment spending rose 7% in 2001 and new planned investments value more than doubled from PLN398m to PLN851m. We do not have information whether it was brown or black coal, but these figures raise some questions about the pace of restructuring of the coal sector (are coal mines being closed or they continue to expand).

What do you see dear Watson? Let me recall the famous question asked once by Sherlock Holmes. Well, it appears that many indicators point to upcoming recovery (wage and pension bill together perform well in real terms, households save less to keep consumption standards, stocks of finished products decline and planned new investments appear to have taken off in 2001). But evidence is not overwhelming and we will have to wait few more months before making definite conclusions. I know what you are thinking right now seeing such a concluding comment after so many pages filled with numbers. Yes, business economics is an art.

Economic update

- GDP went up by only 0.3% YoY in Q4 2001
- First signs of recovery in “real” data
- Increasingly better economic situation, time for business is coming
- Adverse monetary tendencies continued

It was worse than it seemed...

In March we learned the estimates with regard to economic growth in Poland for Q4 2001. It must be admitted that these results were not impressive. According to CSO, GDP went up by only 0.3% YoY in Q4 2001, while the market expectations oscillated within the range from 0.4% to 0.6%. At the same time, individual consumption went up by 3.2% YoY, and the public consumption increased (according to our estimates) by ca. 1.4% YoY. Investments saw a substantial decrease by 14.3% YoY, and the share of net exports in the GDP growth remained high. The dynamics of individual GDP components are presented in the table. The chart presents estimated contribution of individual components of economic growth (the extent of impact of the change in a given component on the GDP growth).

While analysing the recent GDP data and their impact on the current economic situation two things come to mind. Firstly, these data refer to the past – and let us not forget that we entered Q2 2002 a few days ago. Secondly, the better part of projections for the main GDP components, which envisaged a decrease in investments and acceleration in the private consumption, came true. The picture of economy based on the Q4 data is really slightly gloomier than everybody has imagined. However, the most recent data published at the same time suggest that there has been some improvement since the beginning of 2002 and the statistics for the following quarters should “clear-up”.

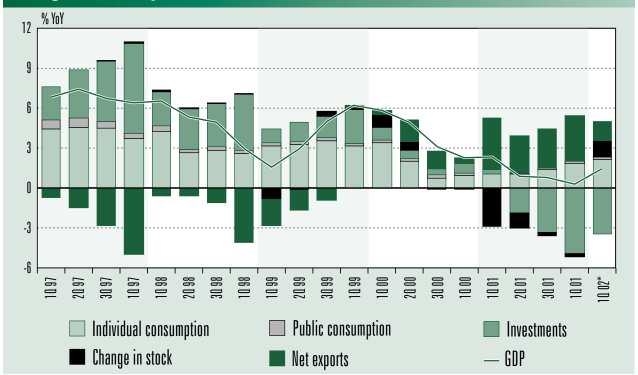
In February, retail sales went up by 7.7% YoY, after 4.7% recorded in January and 2.4% in December (see below), which indicates that individual consumption kept on accelerating in Q1 2002. Additionally, we should not forget the fact that the full effect of the recent interest rate cuts has not occurred yet. The dynamics of public spend has remained high as well at the beginning of this year, in particular due the fact that most likely some expenses have been postponed from the end of 2001 in order not to increase the deficit. These two factors are going to be the main economic recovery drivers as at the beginning of 2002. However, the restoration of stock is bound to take some time and the foreign trade performance will be worse than in 2001. Therefore, the growth dynamics recovery will be limited in H1 this year, and the improvement will be gradual. Nevertheless, our projection for GDP for Q1 in 2002 is as much as 1.5% YoY, as it is heavily impacted by a strongly positive stock contribution resulting from an exceptionally strong decrease in stock recorded in Q1 2001. Frankly speaking, however, it is not clear how CSO will treat the stock share. The recent inconsistencies in the industrial output (see below) clearly indicate, that CSO has a substantial impact on way data calculation and presentation methods. Excluding a stock component from GDP would decrease the growth dynamics for this quarter by ca. 1%.

Gross Domestic Product, % YoY (real) **Fig. 9**

	2000	2001 1Q	2001 2Q	2001 3Q	2001 4Q	2001
GDP	4.0	2.3	0.9	0.8	0.3	1.1
Total consumption	2.4	1.2	1.3	1.8	2.8	1.8
Individual consumption	2.6	1.5	1.6	2.1	3.2	2.1
Public consumption	x	0.2	0.4	0.8	1.4	x
Accumulation	3.9	-13.1	-12.5	-14.2	-14.5	-13.8
Investments	2.7	1.5	-8.4	-13.6	-14.3	-10.2
Change in stock	x	-316.7	-77.0	-26.0	-20.0	x
Added Value	3.7	2.1	0.8	0.6	0.1	0.9
Industry	6.5	3.3	-1.3	-1.5	-2.5	-0.6
Construction	-0.7	-5.2	-8.0	-8.2	-8.0	-7.6
Market Services	4.2	3.5	3.7	4.1	4.2	3.9

Source: CSO, BZ WBK

GDP growth components



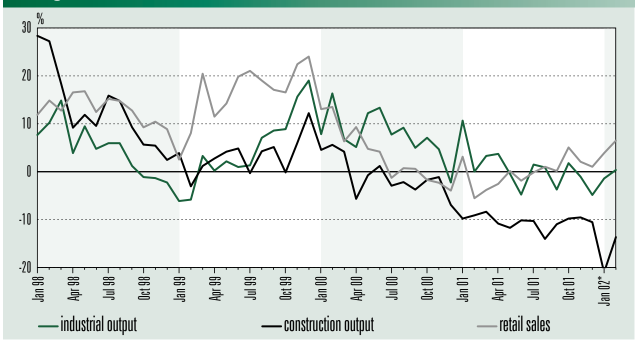
** BZ WBK estimate* *Source: CSO, BZ WBK*

...but there are many symptoms of improvement

Although the picture of the last months of 2001 is exceptionally gloomy, the analysis of data from the following months allows for more optimism. Probably you have already been bored to death with our repetitive rigmarole on the projected economic recovery. No matter if you believed us or not, in March CSO submitted the first clear confirmation of our assumptions based on the actual results and not only on answers of the questioned entrepreneurs.

In February the industrial output YoY was again positive, for the first time since October 2001, recording a growth of 0.4% YoY after a decrease by 1.4% YoY in January and – 4.8% YoY in December. A more interesting and promising is the fact that the improvement was related mainly to the performance in the manufacturers sector whose output went up by 0.3% YoY against the decrease of 2.7% YoY recorded in January. One can be rather optimistic looking only at the average industrial output annual growth rate in the first two months 2002: the output went down only by 0.5% YoY during this time, while in November – December it was –2.9% YoY, which may mean that the worst has been behind us. Of course, after good February data one should not expect growth dynamics to be robust and definite in the forthcoming months. As has already been mentioned, the recovery this year will be gradual, therefore H1 will see only moderate improvement signs. In March in particular, the output may be negative due to the lower number of working days than in 2001. Nevertheless, the output improvement signal confirms that loosening the monetary and fiscal policy will shortly fully reveal its impact on economic data and then any subsequent movements in respect of direction for further loosening will be questionable.

Real growth YoY



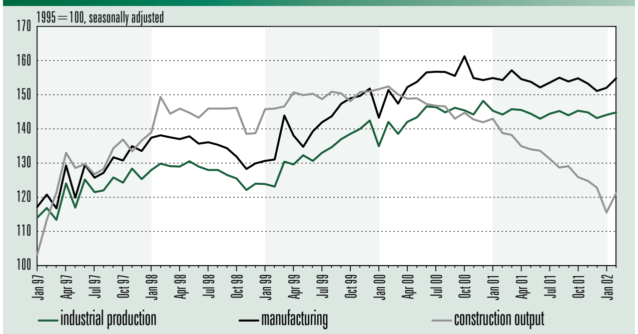
** BZ WBK estimate* *Source: CSO, BZ WBK*

As has been mentioned above, the February retail sales increased by 7.7% YoY in nominal terms. Although this result may be distorted to some extent due to "Łapiński's effect" (NHS Minister), i.e. increased purchasing of medicines due to the planned changes in the medicine subsidies announced by the Health Ministry, it reflects a strong and growing consumption demand. It has been evidenced by a significantly high double-figure growth in purchasing durable goods (furniture, white goods, RTV equipment), clothes and shoes. The acceleration in households' spend most probably results from a substantial decrease in interest rates last year, although substantial price discounts over the recent months have also played some role here. We should also bear in mind

There is something wrong about the output dynamics

It is worth noticing that the data published by CSO and related to the February industrial output are internally inconsistent. It is difficult to match the announced decrease in a monthly output down by 2.1% with the annual growth rate and the output index (1995=100) published at the same time. With the index 1995=100 which in January was 133.8 and the decrease in output of 2.1% MoM, the index in February should be ca. 131, while according to CSO it was 132.5. Similarly, the growth rate YoY should also be lower. A more in-depth analysis indicates that the inconsistencies between the monthly and annual dynamics are accumulated in the section "production and supplies of electricity, gas and water". We do not know the reasons for such inconsistencies, but they bring about at least two serious problems. Firstly, with the inconsistency between the monthly and annual growth rates, it is unclear which figure represents an actual trend, and which is untrue (we would be inclined to believe YoY rate as a more reliable one). Secondly, in this situation projecting the industrial output more than ever reminds of playing a fortune teller with a black cat and a crystal ball (it should be noted that, e.g. we were almost perfect on our February projections for a 2% monthly decrease in output, while the annual rate was substantially higher than expected).

Index of industrial and construction-assembly output YoY



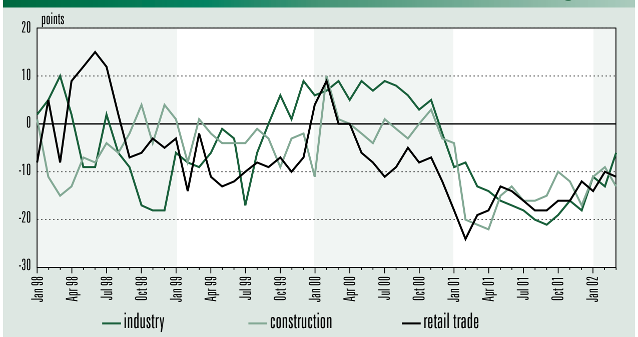
Source: CSO

that the full impact of the interest rates cuts since March has not been reflected in these data yet.

Increasingly better economic situation, time for making business is coming

The output of the economic situation analyses indicates a further improvement. According to CSO analyses, March showed the expected growth in the economic situation ratios in all three sectors. Despite the fact that all indices remain negative, as the graph below presents the dynamics YoY improved substantially in industry, slightly deteriorated in retail trade and went down in a construction-building sector. Therefore, the total picture is unclear. The economic situation in industry has been improving at the highest pace, which bodes well to the March industrial output despite the expected marginal decrease YoY due to one working day less this year. Retail trade suffered due to the decrease in consumers' optimism and the construction sector still faces problems due to the low investment demand.

Business trends YoY growth



Source: CSO, BZ WBK

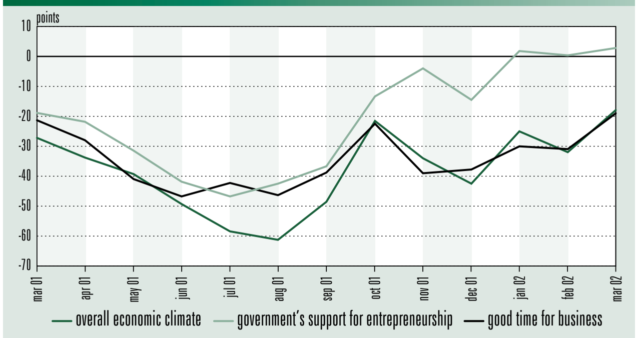
According to companies from the manufacturing sector, internal demand improved in March and the foreign demand did not change. Responders expect some further improvement in subsequent months. Producers' prices may go slightly down in the near future. Entrepreneurs plan staff redundancies at a pace similar to the one expected last month. 13% of the analysed enterprises do not plan any investments over the next 12 months (in March 2001 the percentage was 18%). 62% of businesses plan new investments against 51% last year. 92% respondents specified the retained profits as the investments financing source, 36% will raise loans with banks and 12% are interested in leasing. According to CSO, the construction witnessed a seasonal improvement in economic situation, although the general standing remains poor. Although the planned staff redundancies are down on the last month, still 33% of respondents have excessively large production capacity against the demand planned for H1, and only 6% did report insufficient staff numbers. Moreover, this sector's companies expect further decreases in pricing in the construction and building sector. The retail trade enterprises reported higher sales and an improvement in the financial standing. For the first time since 1st June 2001, the sales projections have been optimistic. The companies would like to increase orders and expect a growth in retail prices at a rate similar to the February expectations. Staff redundancies may be limited.

In March, WML ratio (the Polish equivalent of PMI, calculated by NTC Research) went up to 45.9 points from 45.5 points in February, and was below the neutral level of 50% for the 19th time in a row which means a continued regress in the manufacturers' sector. Logistics managers signalled a growth in new orders, including exports, which bodes well for the output prospects, in particular if we take into consideration the reported decrease in the ready-made stock. Nevertheless, the improvement on the optimism level is accompanied by the inflation growth expectations: in March this index went up to 48.6 from 43.4 last month, which according to the authors of the analysis may suggest an "inflation surprise" in March. There were further redundancies made in March, although at a rate lower than in previous months.

The pre-market index for the Polish economy calculated by Maria Drozdowicz increased by 0.4% last month which also confirms the upcoming recovery, although it repeatedly indicates that the recovery dynamics may be slow.

Recently, there has appeared a new economic situation ratio calculated by Pentor Institute at the request of Puls Biznesu. The survey has a short track record (it was initiated in March 2001) but is a source of detailed information on economic situation as well as on entrepreneurs' expectations. In March, the general index of economic situation was still negative and amounted to –2.8 against –9.0 in February and –1.8 in March 2001, but according to Pentor the improvement has been established on solid bases and the index will be positive for the first time since the survey was launched. What is interesting, the macroeconomic assessment developed by businesses improved on the last year. The general economy assessment totalled –18 points (against –27.2 in March 2001), and the index "time for making business" totalled –19 (–21.3). At the same time, the Government was positively assessed for creating pro-business support – the ratio was 2.8 points, while a year ago it was –18.9. Of course such a high assessment of the Government's actions is related to hopes that its programme "Entrepreneurship First" will not limit itself to a paper form but will be supported by the Parliament's majority. On the other hand (we are economists, mind you, therefore there

Business situation barometer — macroeconomic assessment



Source: Pentor

always be some "on the other hand"), the macroeconomic situation of businesses has been improving very slowly. The general standing of businesses was assessed at 4.3 points against –2.8 in February and 8.6 in March 2001 and the competitiveness on the Polish market at 11.0 points against 5.8 in February and 21.1 a year ago.

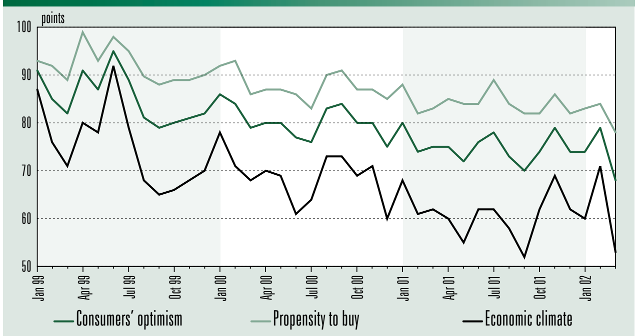
What is the result of all these assessments of economic situation? Once again, the results can be summated as "it is bad but not as bad as a month ago". Although economic situation is still worse than a year ago, the difference is marginal. Bad news still comes from the labour market as businesses plan further staff redundancies, although smaller than a month ago. Good news is represented by investment plans as more companies look for new investment opportunities. All of this confirms our opinion that the revival is coming. The main threat to our scenario is represented by continued staff redundancies. The Labour Code should be amended by the Government – the sooner the better.

Labour market still below expectations

The labour market data do not show any signs of economic recovery. The February statistics published by CSO turned out to be below the expected levels and it did not show any slowdown in staff redundancies. The average staff numbers in the business sector decreased by 0.2% MoM and 5% YoY, reaching the lowest level since the beginning of the transformation process in Poland, even including the change in the CSO methodology in 2000. This tendency represents the biggest threat to the durability of the economic recovery, as the group of the unemployed which grows fast cripples the consumption level even despite the fact that increasingly lower interest rates and growing expectations in respect of the economic standing prospects, encourage to increase current spending at the expense of savings.

In February, there were nearly no changes in the average remuneration in the businesses sector MoM which increased by 5.5% YoY. Along with the decreasing employment this translates into a very limited growth in the nominal remuneration fund by 0.3% YoY. The real remuneration fund decreased by 3.3% YoY.

Consumer Optimism Index



Source: Ipsos-Demoskop

Lower consumers' optimism: flaw in a crystal glass?

Let us emphasise once again: the increasing unemployment and no signals of improvement on the labour market in the near future are the largest threats to economic recovery this year, as they may be effective in cutting off the delicate roots of the blooming consumption demand of households .

In this context, the recent research on consumers' optimism conducted by Ipsos-Demposkop appear to be a little bit unfavourable. The Consumers' Optimism Ratio for March went 11 points down on February, a propensity to consume down by 6 points, and the assessment of the economic climate down by as much as 18 points. According to the institute, the main reason for the increase in pessimism is represented by a accumulation of unfavourable information provided by the Government and the market. The clash of the Government and the labour unions with regard to the labour code as well as the publicised financial problems of the two large shipyards which could bring about some redundancies and added to the staff's concerns in relation to the stability of employment. The proposals of limiting the employment opportunities for old age pensioners as well as changes in the ways of subsidising medicines upset a group of the oldest consumers. In addition, the general atmosphere was substantially spoiled by the conflict between the Government and the MPC, and since 1 March people have started to pay savings tax which increased the group of respondents believing that saving does not make any sense. What is equally important, Adam Małysz (a ski jumper) failed to win a gold medal in Salt Lake City. Fortunately, in March the assessment of financial standing of households improved. Still only 9% of the respondents is able to save, but the percentage of those who cannot afford it went down. This may mean that the March decrease in optimism is not a beginning of a regular trend. Nevertheless, the Government has some food for thoughts. If it keeps on upsetting large social groups (old age pensioners) or on cutting the trust of the society for the State's institutions (e.g. attacking the NBP), the negative tendencies observed in March may reappear.

As regards the consumers' behaviour, we have been given another disturbing signal recently. Talking to a person who knows everything that there is to know about the chocolate market, we have learned that the sales of chocolate were poor in the first months this year. As you do not need to raise a loan to buy a bar of chocolate, the consumption of chocolate is usually positively correlated to households' disposable income. Therefore, chocolate would suggest that personal income was not that promising in Q1. Of course these data do not stitch well into our scenario of economic recovery and indicate the largest risk factor for this scenario. If the employment fall remains at 5% p.a., and there is a slowdown in the remuneration growth dynamics, then, when the higher prices of gas and electricity have slimmed households' budgets, in H2 there may be a slowdown in private consumption. This in turn would limit the recovery dynamics in H2. Well, time will tell and in the meantime let us eat a bar of chocolate to help the statistics.

The State's budget revenues confirm the recovery

Let us go back to more optimistic news which outnumbered the unfavourable ones over the recent weeks. After the dramatic January, February saw substantial inflows into the budget. The following two tables present percentage changes YoY in the budget income and expenses against the 2002 plan. The first table presents accumulated data (i.e. e.g. January-September against the same period last year). The other table presents the dynamics YoY for individual months.

Budget income and expenses **Fig. 10**

% YoY	IX 01	X 01	XI 01	XII 01	I 02	II 02	plan '02
Income	**5.0**	**4.6**	**3.9**	**3.4**	**-10.7**	**0.0**	**3.4**
Indirect taxes	1.4	2.0	2.6	3.3	-3.2	3.9	10.8
CIT	-20.5	-20.4	-21.9	-20.9	-40.8	6.3	4.2
PIT	1.5	1.6	1.9	1.7	-5.0	-0.8	13.5
Budget units income	40.1	36.3	29.4	21.4	-47.3	-24.2	
Import duties	-20.4	-19.4	-19.9	-19.6	-14.0	-8.9	-14.9
Exports	**11.4**	**11.4**	**12.8**	**14.5**	**3.1**	**5.3**	**7.1**
National debt service	11.6	12.5	12.5	24.6	6.7	43.0	
Foreign debt service	-7.6	-12.4	-11.9	-11.7	-22.9	117.2	
Subsidies to the Labour Fund	161.5	145.1	154.7	216.0	101.9	150.3	
Subsidies to KRUS	13.7	12.9	12.7	12.6	7.7	4.0	
Subsidies to FUS	32.2	31.1	42.0	35.1	57.8	20.6	
Subsidies to self-governments	13.0	12.8	13.9	13.8	3.3	3.9	

Source: BZ WBK's estimates based on the MF's data

After the first two months the budget has continued to be still far behind the plan. Income is nominally stable against the planned growth by 3.4%, but at the same time expenses grow slower than envisaged in the annual plan. Nevertheless, in February the tax revenues from VAT and CIT were much better than planned. The PIT inflows will improve in time as the savings tax and frozen tax thresholds become effective. Since April the inflows from excise tax will grow as well as the energy producers wills start paying 0.02 PLN for each generated kWh.

After February the budget deficit amounted to 34.3% of the annual plan against the average 42% in 1999-2001.

Budget income and expenses **Fig. 11**

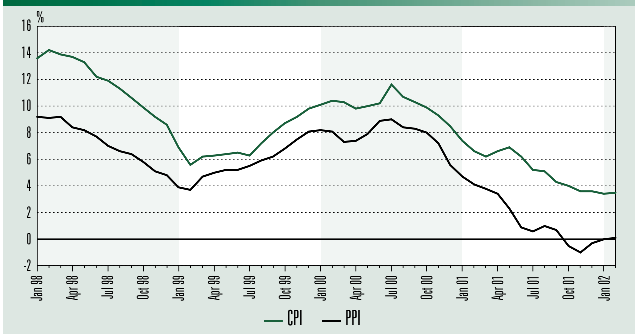
% YoY monthly	IX 01	X 01	XI 01	XII 01	I 02	II 02	forecast '02
INCOME	**6.3**	**2.1**	**-2.5**	**-1.4**	**-10.7**	**13.3**	**3.4**
Indirect taxes	-0.4	6.2	9.0	11.3	-3.2	13.0	10.8
CIT	-22.2	-20.3	-31.4	-13.6	-40.8	16.9	4.2
PIT	3.2	2.0	3.8	0.5	-5.0	4.8	13.5
Budget units income	105.4	-1.2	-36.5	-26.4	-47.3	44.0	
Import duties	-22.2	-10.9	-24.2	-16.5	-14.0	-4.2	-14.9
EXPENSES	**5.0**	**11.9**	**26.9**	**32.1**	**3.1**	**7.6**	**7.1**
National debt service	-0.6	18.0	11.8	234.4	6.7	74.4	
Foreign debt service	-26.0	-35.4	10.8	-2.7	-22.9	372.8	
Subsidies to the Labour Fund	-26.4	-52.1	373.7	1390.4	101.9	198.3	
Subsidies to KRUS	13.2	7.4	10.3	12.1	7.7	-0.7	
Subsidies to FUS	16.2	23.4	164.4	-21.9	57.8	-12.4	
Subsidies to self-governments	9.1	9.9	28.6	12.1	3.3	4.4	

Source: BZ WBK's estimates based on the MF's data

Currently low inflation rate will grow in H2

Is it not nice? In February the inflation remained low – only 3.5% YoY and 0.1% MoM. And in January it was even lower, i.e. 3.4% YoY (the initial estimate was 3.5%). It may be that in 2002 the new weighing system, calculated based on the households' consumption expenses structure in 2001 resulted in decline in the inflation rate by ca. 0.1%. Frankly speaking it is difficult to explain. Looking at new weights for 2002, they changed substantially in line with our expectations: the biggest decrease in weights was recorded in these categories which recorded an increase in prices below the average (food and alcohol-free beverages, clothes and shoes, flat fit-out and durable goods). The group of the highest increases in prices (cost of living and electricity carriers) saw the substantial increase in weight. Given this fact one could expect the inflation rate calculated in line with the new weighting system to be rather higher and not lower than the previous one. Meanwhile, the CSO calculations indicate something else.

Inflation **YoY**

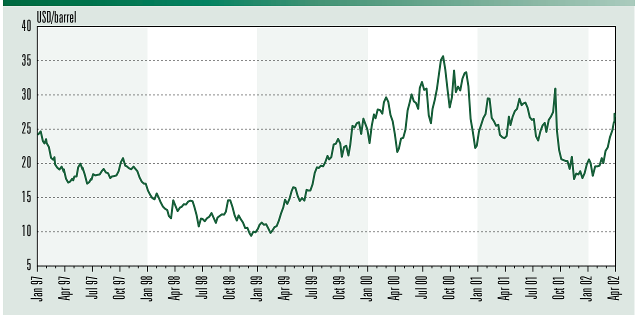


Source: GUS

The low inflation rate had an impact on the market expectations in respect of further loosening of monetary policy in the short run. Nevertheless, one should not be too enthusiastic about these data as this is not the temporarily low inflation that will have an impact on the MPC'd decisions, but rather the medium and long-term inflation trends. It has been common knowledge for some time now that the inflation rate will be exceptionally low in H1 2002 and 0.1-0.2 percentage point does not make the world of difference here. What is important, however, is the extent of the inflation growth in the following months and quarters. We still see a strong inflation upward tendency in June-July, which will drive the inflation up to 5% as at the year end. This will result from both the sales supplies factors and from loosening the monetary and fiscal policies.

The prices of crude oil went up by over 20% already in March and are likely to keep on growing in H2 when the global economy recovery has come. Since April higher prices for gas will have been applied. URE (Energy Regulation Office) approved new gas tariffs, which represents an increase in

Price of Brent crude oil in London



Source: Reuters

costs by ca. 10% for the majority of households. Enterprises, which are substantial consumers of natural gas, will pay ca. 10% less. Since April the higher VAT on some products and services will represent another brick in the inflation wall too. Finally, the excise tax on electricity will increase the inflation rate since July. It should be remembered that the recent changes of weights in the CPI basket should strengthen the impact of gas and electricity price raises, as the share of the group "costs of living and energy carriers" increased by 0.6%. Aha, do not forget a food market. So far it has "behaved" appropriately, but the closer the self-government elections are the bigger penchant will be for winning the larger support of country electorate by way of a pro-active intervention policy on agri-market. At the same time, the looser monetary and fiscal policy will start to translate into changes in the economic ratios in H2. On several occasions we have presented some charts depicting the delayed effects of monetary loosening on CPI. Let us not forget either that in Q1 2002 the State's budget deficit will amount to ca. 11% GDP.

We project that the inflation rate will stay at 3.5% in March supported by food and fuel prices, bust will go down to ca. 2.5% over the next two months due to the exceptionally high reference base last year .

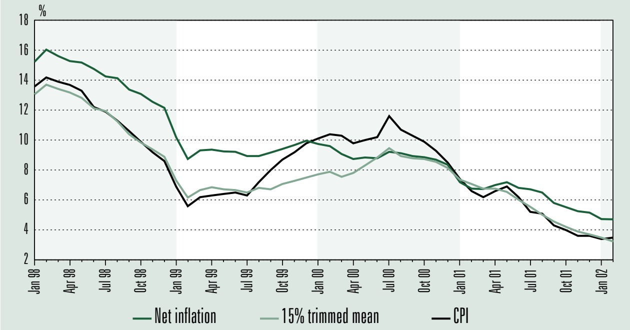
Nearly no changes in the producers' prices

In February, the prices of the industrial output did not change on January and went up only by 0.1% YoY. This is good news, at least from the point of view of the inflation pressure. However, it should be borne in mind that PPI will start to grow already in March and April as a result of the sudden increase in fuel prices and the new excise tax on electricity. By the year end, PPI should amount to ca. 3% YoY.

The decrease in the majority of base inflation measures in February, net inflation stable

After a two-month break due to the change in weights, the NBP published base inflation ratios. They continued to fall both in January and February and one of the ratios (excluding the most volatile prices) dived below 3%.

Core inflation r/r



Source: CSO, NBP

The inflation expectations of households have been decreasing

According to the survey published by Ipsos-Demoskop, the inflation expectations of the Polish households improved slightly in March. The index reflecting the percentage of respondents expecting the inflation to fall in the future went up, reaching the second highest level over two years. The index over 100 points means that the majority of respondents expect the inflation to fall, and if it is below that figure it means that public opinion expects the inflation to grow. The apparently low current inflation rate along with the strong anti-inflation reputation the Central Bank enjoys (no matter if it is right or wrong) have a strong impact on the inflation expectations of households. It is good. The costs of keeping inflation under control will be lower in future and the risk of the inflation increases as a result of the supply shocks expected in H2 slightly decreased. This will be one of the factors supporting the arguments of "doves" in the Monetary Policy Council. Nevertheless, it still is not enough to expect any interest rate cuts in April. We should remember, that the inflation expectations are volatile and strongly dependent on a current situation. Therefore, they may start growing as soon as there is a growth in the inflation rate in H2 2002.

Slowdown in money supply, adverse tendencies continue

In February, money supply went up by 0.2% MoM and 11.4% YoY on –1.9% and 12.3% last month, respectively. "In line with expectations" – this is the most appropriate comment in this respect. As has been repeated on numerous occasions, the key variable to be observed is the personal deposits dynamics which has shown a strong downturn trend. In detail, the most important is the position of the households' net savings, i.e. the total of personal deposits (PLN and FX) minus personal loans. However, the total of personal PLN deposits is of the highest value and recently the changes in it created the entire trend.

The disturbing tendencies in the monetary zone continue: the growth in the PLN personal deposits is increasingly marginal – in February it was 7.9% YoY against 11.7% in December and 20.2% in July 2001. At the same time cash in turnover accelerated up to 16.7% YoY from 12% in December and only 0.6% in July. The change in the structure of households' savings for more liquid assets is more apparent and sudden. In the course of the first decade of March the PLN personal deposits went up only by 0.2%, and went up by 6.8% YoY.

Money supply **Fig. 12**

		10 III	28 II	20 II	10 II	31 I	20 I	10 I
MoM	%	0.1	0.2	-0.2	1.0	-1.9	-0.9	-0.5
Money in	PLN bn	329.40	329.17	327.91	331.1	328.54	331.63	332.79
National currency		276.24	276.12	274.65	276.48	274.75	277.26	280.08
Cash in circulation		39.68	37.93	37.24	38.29	36.76	38.24	38.71
Zloty deposits total		236.56	238.19	237.42	238.20	237.99	239.02	241.37
personal		175.37	175.06	173.47	174.86	173.44	171.77	172.90
corporate		61.19	63.13	63.95	63.34	64.55	67.25	68.48
FX depos in	PLN bn	53.16	53.05	53.26	54.60	53.79	54.37	52.71
FX depos in	USD bn	12.77	12.62	12.80	12.92	12.92	13.64	13.30
Net foreign assets in	PLN bn	135.30	136.36	134.86	138.91	135.65	133.34	131.80
Net foreign assets in	USD bn	32.51	32.43	32.41	32.88	32.58	33.45	33.25
Lending to non-financial sector		222.90	224.27	224.78	224.03	223.66	224.29	221.13
to households		55.01	55.24	55.64	55.30	55.26	55.71	54.80
to corporates		167.89	169.03	169.14	168.73	168.40	168.58	166.33
Credit to general government		69.04	67.76	65.36	68.96	66.06	63.58	69.07

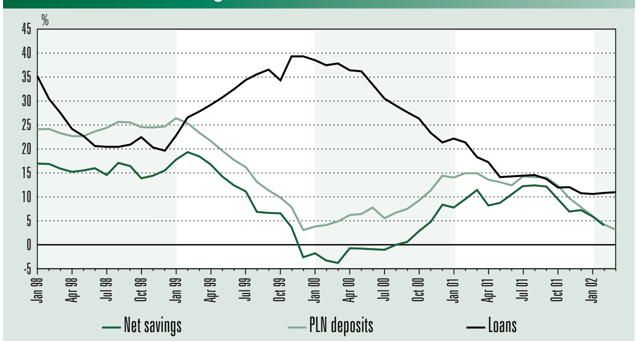
Source: NBP, BZ WBK

The households' net savings have also seen an increasing slowdown (see the chart below), although the dynamics of personal loans has still shown a downturn trend. It seems that the slowdown in the growth of consumer loans has already reached its bottom end. Therefore, in the following months the increased borrowings will add to the erosion of the private savings.

In our opinion, it may lead to the growth in consumption expenses in the months to come. We should bear in mind, however, that in February the savings tax had not been effective yet and its negative impact on the private savings will be visible only in subsequent months.

Neither personal nor business loans have shown any sign of improvement so far. Despite that, one should remember that households' loans have been growing at a relatively good pace: in February it was 14.7% YoY nominally and 10.6% YoY in real terms. We believe that monetary trends

Position of households against banks YoY real



Source: BZ WBK

represent one of the main MPC arguments against interest rate cuts in the near future.

High current account deficit, decline in trade turnovers

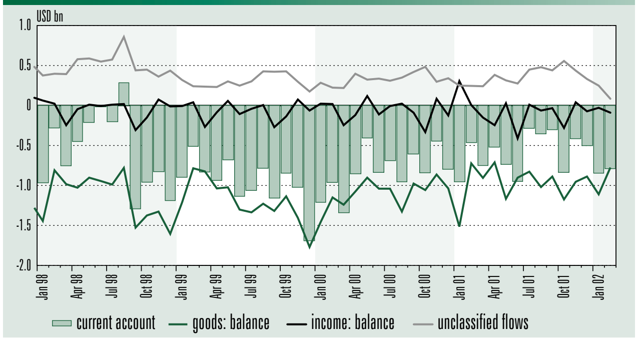
The February current account deficit was surprising not only for its value but also that it exceeded the level of trade deficit as well. Such a situation took place only three times over the last five years, usually in a month which saw substantial payments of foreign debt. This time the reason was the balance of unclassified turnovers.

In February, the current account deficit was USD 789mln against USD 847mln on the previous month. As has been mentioned, the main driver of the above was the surplus of unclassified turnovers which totalled only USD 84mln – the lowest level for at least five years, over four times lower than the average value over the last 12 months. Secondly, the exports did not meet the expected level going down to 4.6% MoM and 7.9% YoY. Along with the relatively good imports (decrease in February by 12.9% MoM was slightly lower than usually in this month, and the annual dynamics improved up to –4.4% from –13.4% a month ago) this resulted in the increased trade deficit.

The exceptionally low surplus of unclassified turnovers may be the reason for substantial concerns as it reflects non-recurring phenomena – the exceptionally high demand for Euro resulting from the large imports of second-hand cars before the increase in the excise duty as well as the second stage of adjusting households and enterprises after the introduction of Euro into the financial turnover. It may be expected that the following months will see an improvement, as the imports of the second-hand cars should practically cease to exist and the demand for Euro will stabilise. A more important issue is represented by the slowdown in exports with relatively good imports. It is evident that exports react to the economic situation of our main trade partners with substantial delay and we can fully experience the consequences of the European economic slowdown which reached its bottom end in Q4 2001. Although recently there have appeared vivid signs of recovery in the Euro zone, its impact on our trade turnovers will be delayed and no substantial improvement on the exports dynamics should be expected in the near future. On the other hand, the imports response to the internal demand revival should be much quicker and the recently recorded positive data in respect of retail sales should increase the imports in subsequent months.

All signs indicate that the prospects for external non-equilibrium will not be positive in the near future. The downturn trend of the current account deficit to GDP has

Current account



Source: NBP

been probably halted – in February there was an increase in the ratio up to ca. 4.1% from 3.9% on the last month. At the year end the deficit may exceed 4.5% GDP, which would increase Poland's vulnerability to the changes in the investors' moods, given in particular that the coverage of the current account deficit with the foreign direct investments should go down this year.

Central bank watch

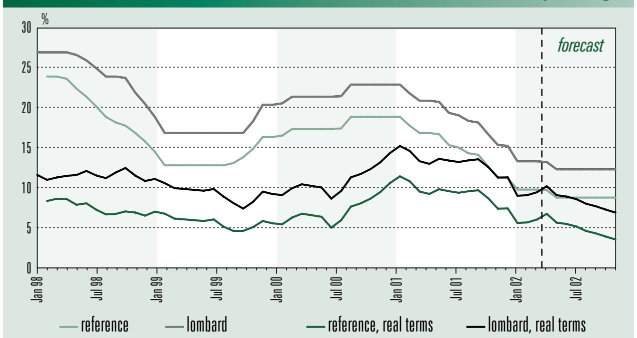
- Interest rates left unchanged
- In her "minutes" Wiesława Ziółkowska suggests that once again there was a dispute at the MPC meeting
- We do not expect interest rate cuts in April

Interest rate cuts left unchanged, the MPC indicates the better external environment and money supply

"In line with the expectations" again is the best summation for the outcome of the last MPC meeting. Indeed, the decision itself, the press conference as well as the contents of the official statement after the Council' meeting could not be a surprise given the recent tendencies in the economic environment and on the political stage.

Let us look at the statement. We do not know if the sequence of sections reflects the importance of arguments on which the Council's decision was based, but this month it differed from previous statements. At the very beginning, the MPC emphasised that the global economy recovery was bound to be faster and stronger than it had been expected. It would take place not only in the US but in Euro zone as well, in particular in Germany – our main trade partner. As a consequence, the global monetary policy loosening cycle has been finished, and the likelihood of the series of interest rate raises to be started as soon as in H2 2002 increased substantially. This in turn – as the statement says – may lead to decreasing the difference in interest rates between Poland and abroad, and thus the decrease in investors' interest in Poland and weakening of PLN, or at least halting the appreciation.

NBP interest rates monthly average



Note: Real rates calculated based on the assumed adaptation inflation expectations (discounted with current inflation).

Source: NBP, BZ WBK

What is more, the global recovery drives the crude oil prices which exceeded USD 25 per barrel over the recent weeks. This will translate into fuel prices at home and inflation rate. In the second part of the statement the MPC indicates the results from the economy real sphere which were better than expected – better industrial output, high retail sales, improved economic situation and increasing tax revenues. This, together with the fact that the effects of the recent interest rate cuts have not been evident yet, may suggest that the gradual recovery is just around the corner. The subsequent section is dedicated to the labour market. Even though the general picture here is gloomy, we can find the "hawks'" comment that the lower real disposable income of households in Q1 2002 may decrease substantially the propensity to save while the consumption will remain rather strong.

Other areas of the MPC's deep concern are:

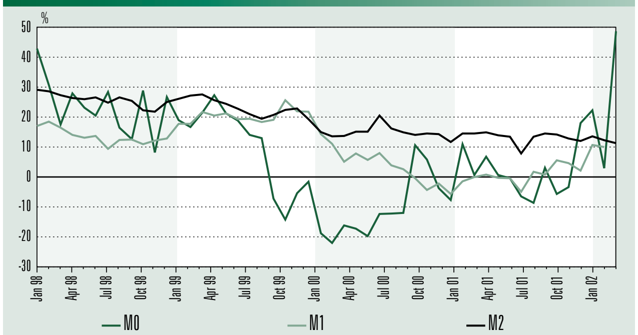
- Situation in public finances: the projected economic deficit remains at the high level of 5% which results in the high long-term interest rates and strong PLN, which deteriorates the financial prospects of private businesses.
- Money sales: its dynamics remains relatively high, the NBP analyses show that M2 dynamics exceeding 10% is very rare in low inflation countries. There has been an increase in the cash in turnover and a decrease in personal deposits. The Government's net debt has been growing very quickly. All of this may represent a threat to a stable inflation in the future.

Price tendencies and inflation expectations were mentioned at the end of the statement. Let us remind you what we said some time ago, namely, that the other factors (e.g. deposit dynamics) can tell us more on the MPC's future policy than the current inflation trends. This clearly reflects the fact that the current exceptionally low inflation is impossible to be maintained in the medium run. Frankly speaking, almost everybody expects that the inflation will reach the bottom end in May and will bounce back in H2. We project the inflation of 2.5%-2.6% in May and then its increase up to 4.8%-4.9% in December. Even though the expectations as at the year end may be lower, the MPC faces the following challenge. It is aware that the current decisions on interest rates will have an impact on the inflation rate at the beginning of 2003 (at the conference, Leszek Balcerowicz said that interest rates' impact on business activity was delayed by 4-6 months, and on the inflation rate by 8-10 months). At the same time, the Council is determined to meet the medium term objective (under 4%) for 2003. And 2003 will probably start with the inflation rate upward tendency. Any loosening now will add to the inflation increase in H1 2003. With the gradual economic recovery and no signs of tightening fiscal policy, the chances for a change in this inflation trend are very limited, at least without any monetary tightening. We believe that the MPC's members are increasingly aware of the fact, which has been reflected in the statement and the recent comments (even in the "doves" fraction). We believe that further loosening may take place in May or June and only if the economic ratios do not show any signs of recovery in the following months.

Change in the money supply statistics

The NBP announced that it was going to change the definition of the money supply so that it is compliant with the standards of the European System of Central Banks. The NBP is going to implement a new measure of wide money - M3. The methods of calculating basic aggregates will also be changed. New measures will be applied for the first time in respect of the March data (to be published on 12 April). We acknowledge that these changes are necessary on the path leading to both the EU and EMU. However, we hope that the NBP will provide the calculated and comparable time sets in line with the new definitions. Otherwise, any attempts to carry out a quantitative analysis of monetary transmission in Poland would be practically non-feasible again.

Money measures growth YoY



Source: NBP, BZ WBK

The Sejm (Lower House) approved the resolution requesting the MPC to amend the monetary policy

The Sejm approved the resolution which accuses the NBP of effecting too restrictive and irresponsible monetary policy which ruins the domestic economy, impinges on the economic growth and serves the enrichment of the banking sector only. The resolution requests the MPC to meet the constitutional task of supporting the Government's policy instead of focusing on squeezing the inflation only. It is clear that politicians have been making their best to popularise "correct" opinion on the current economic situation among the public opinion.

As long as the chances for amending the Act on the NBP are small, markets will draw limited attention to these games. And as for the time being the chances are marginal as President Kwaśniewski reassured that he would not support changes which would limit the NBP's independence. Nevertheless, the entire story may be perceived in the EU context. Last month we witnessed the reaction of the international opinion on the political tension related to the NBP. The representatives of the International Foreign Currency, while completing their mission in Poland, stated that the political pressure on the MPC should be immediately ceased. ECB and the European Commission share this view. In view of the above there comes a question: could the Sejm's work on the motion for limiting the Council's independence delay or impinge the process of negotiations?

On good Thursday, the heads of two Sejm clubs: Janusz Lisak, Unia Pracy (Labour Union) and Andrzej Lepper, Samoobrona (Self-defence) sent letters to Marek Borowski, the Sejm's Marshal, where they requested that the NBP Act amendment drafts placed by both clubs should be on the agenda of the subsequent Sejm's meeting on 4-5 April. Let us remind you that Zbigniew Ku miuk, Head of PSL club, expressed his opinions in a similar tone. The recent comments of Marek Borowski, the Marshal, do not throw any light when can we expect the debate on amending the NBP Act to be held.

Comments of the Monetary Policy Council's Members and "minutes" of Wiesława Ziółkowska

The public comments of the MPC's members in March focused on a few topics. Firstly, they expressed their opinion that some signals of economic recovery had been visible although the recovery scale had been uncertain and difficult to estimate. Secondly, according to them inflation is bound to increase in H2. Thirdly, they indicated that the problem did not consist in meeting the inflation target in 2002 but in 2003 as well as in keeping low inflation rate in the long run. In view of the above, there appeared a thesis that the process of cutting interest rates had been almost finished.
Within the general tone of comments special attention is drawn by the comments made by Wiesława Ziółkowska after the March meeting of the MPC. In general, she briefed the first "minutes" of the Council's meeting. It is clearer now that Wiesława Ziółkowska is in favour of further cuts in interest rates but she did not manage to find a sufficient number of followers in the course of the MPC's meeting. The better part of the March comments was represented by the opinion of the "hawks".

WHO? WHERE? WHEN?	QUOTE
Boguslaw Grabowski, MPC member;	
ISB, 8.03	"There will be some fluctuations in 1H02, inflation will oscillate from 3%, maybe even below 3%, to 4%. In May it could drop below 3% due to statistical reasons." "Different distribution of seasonal price changes, e.g. food prices or administered prices, could influence inflation but it should not cause too much excitement. Such small seasonal changes cannot influence MPC decisions. One has to look at long-term inflation trend." "Since second half of the year we can expect gradual, permanent inflation growth, to the level consistent with MPC's inflation target at the end of the year." "Since 2H02 we will experience the effect of looser monetary policy, i.e. higher demand growth. [...] Fiscal policy is not more restrictive than last year." "We cannot allow for inflation growth trend to be permanent and to be fuelled by demand growth. In such case MPC would have to react by tightening policy on the turn of 2002/2003 in order to meet medium-term inflation target." "The cost of tightening monetary policy would be very high for the growth rate and would be visible in 2003/2004, the period that would be crucial due to public finance reform and EU integration process."
PAP, 19.03	"I think that GDP growth this year will amount to at least 1.5%." "More evident effects of interest rate cuts made in October, November and January will be visible in 2H02. Such effect already becomes visible in fast declining deposit growth rate and deceleration of credit decline." "Inflation acceleration in 2H02 will be caused by domestic demand growth, mainly due to looser monetary policy, and reversion of supply shocks that have supported fast inflation fall last year." "We are getting happy that there are no threats for budget realisation after two months, but meanwhile this budget is a 'survival' one and it does not foretell well for 2003 if it is not backed by major changes in public finance leading to expenditure cut." "Budget deficit at 5.2% of GDP is possible and realistic. But I think that still very difficult task is to limit economic deficit below 5% this year. Here we have the threats that are difficult to keep an eye on because we don't have the data." "Threats are possible in public finance outside central budget, especially borrowing in banking sector by public finance entities, healthcare sector, or some funds and local governments."
Dariusz Rosati, MPC member;	
PAP, 14.03	"Money supply figures are lower than market expected and they do not provide any surprises. However they might signal upcoming recovery in economy as well as falling propensity to save and some inflationary impulse in next six months." "We have confirmation of cash in circulation growth. This trend lasts for a longish time and rises concerns, because it means that people hold more cash which in turn might suggest higher expenditure and higher inflation." "Trend of deposit slowdown confirmed again. We have two developments jointly: cash growth and deposit deceleration." "I think that these tends will continue if it turns out that we face gradual acceleration of GDP growth, which is very likely in my opinion. Then we'll see credit growth as well." "It's visible that budget sector participates in credit creation to greater extent that private sector does."
Reuters, 25.03	"With each cut, we are nearing the limit beyond which rates should not fall. I am not sure if this means leaving the main market rate at 8, 9 or 10 percent, or 7." "The central bank is already closer to the end of the present easing cycle." "Consumption will power growth in 2002. Last year, spending was curbed to match economic prospects. But now savings are lowered as people protect their consumption levels." "I forecast full year economic growth at 2-2.5 percent in 2002." "Higher consumption will increase the current account deficit to some 4-4.5 percent of GDP (from 3.9 percent in January) and this will help a mild weakening of the zloty in the next three months." "Poland has to live with a higher current account deficit and there is no danger here." "Restrictive monetary policy and some controlled price changes will help meet the MPC's main target of pushing CPI below four percent in 2003." "Inflation, which the central bank has depressed by more than eight percentage points since mid-2000 to 3.5 percent now, was likely to edge up to more than four percent in the last three months of 2002, before stabilising at below four in 2003." "I do not see rate rises before the end of our (MPC) term in 2004, unless something unexpected happens." "Poland's weak producer price index (PPI), which has lingered near zero since late 2001, as well as high jobless rates and low consumer inflation still created room for easing." "CPI would fall below three percent in May before it rebounds later this year." "There are also arguments for caution as monetary indicators showed a sharp rise in M1 money supply, which is seen as highly inflationary." "The changes to the central bank charter will not see the light of day, although they may go through nearly the entire legislative process." "If the MPC decides not to cut rates this time, the government will have to follow up on its threats."

	"If rates are not cut, the bills will reach the president's desk and he will veto them. But by then, in May or June, EU pressure will be high and Miller will not risk that. [...] He knows very well that at the end of the day he cannot change the NBP charter. By then also the economy will be sending more positive signals and this will lessen the pressure on the government from the public."
Wiesława Ziółkowska, MPC member;	
PAP, 21.03	"There is a space for interest rate reduction still. More appropriate would be earlier rate cut because the longer we would delay the decision, the stronger will be expectations for the cut and so higher would be zloty appreciation risk." "We would like currency to be stabilised rather than fluctuate amid foreign capital inflow in anticipation for interest rate cut." "Arguments for the rate cut are: still slow growth rate in real sector, diminishing export growth, and lack of personal credit growth. Against the rate cut is money growth acceleration and not revealed consequences of interest rate cuts made so far." "One cannot rule out that GDP growth in 1Q02 will be lower than 0.3%. [...] There are no signals that GDP deceleration trend have reversed, but rather there are signals that GDP growth would be still on low level."
RMF FM, 28.03	"Rate cut enthusiasts used arguments that present inflation is very low – 3.5% - and probably will be even lower next month, and in May even 2.5%." "If one counts the arguments it appears that the majority is on the side supporting the rate cut. But different MPC members attach different weights to particular arguments and have different uncertainty distribution. The faction believing that arguments against rate cut have overwhelming importance won this time." "I don't feel [the political pressure]. If I felt it, I would have to admit that MPC is the political body." "Interest rate in Poland is very high indeed, but one has to remember that not only central bank influences high interest on credits. The interest is pushed up by the fact that state budget borrows and this net borrowing grows very fast."
Leszek Balcerowicz, NBP governor;	
Radio ZET, 28.03	"Growth in 2Q may be better than in 1Q". "GDP may rise if signals of economic revival in Poland and abroad are confirmed". "Year end inflation will probably be around 4%. In May it may fall below 3%". "There are many regards encouraging being very cautious, not to waste what people are really interested in: the state close to stability. Nobody wants prices to start rising again." "Some effects of earlier rate cuts are already visible. For example loan interest rates begin to decline and the lowest interest on credits that amounted to 19% in February 2001 – I am referring to corporate credits – now is below 11%. [...] But on the other hand interest on deposits declines as well." "I may say that neither MPC nor I [...] would consider political pressure as arguments, because we are obliged by Constitution to make decision on the ground of economic analysis. That's all." "There are some signals that might indicate the beginning of recovery. I am especially vigilant here, because there is always lots of uncertainty. Even in market economies the beginning [of the cycle] is never predicted correctly, because economy is very complicated. But I may say that during last month there are more positive signs." "In normal economy if one forecasts demand growth, it's the indication that one should be cautious with interest rate reductions." "We would like to avoid the situation when rate cuts turned out to be excessive and should be reversed later. It's better to maintain smooth trend and to lead to a point where no rate hikes are necessary. Although it can never be ruled out, but it's better to avoid it. And it's one of the factors that calls for caution."
Jerzy Pruski, MPC member;	
Reuters, 22.03	"Retail sales and the business climate show some signs of recovery. Most likely we have reached the trough or even passed it. However, we do not have quarter-on-quarter GDP data to confirm it."
Puls Biznesu, 29.03	"Effects of previous rate cuts are not fully visible yet." "Now we have some inflation stabilisation. We forecast it to stay low in near term. But at the year-end we could see some rebound – inflation growth. Now the problem is to maintain relatively low inflation rate in long run." "[Industrial production] growth proved to be stronger than expected, at the same time we observed very high retail sales growth. Therefore there are signals that after sharp interest rate reduction on turn of the year we should exhibit some caution and carefully monitor market situation for some time." "I've pointed out many times that government's perspective is totally different that MPC view. In all countries all over the world governments have short-term economic perspective." "The fact that budget legislation has come to end introduces nothing new to the macroeconomic scenario."

INFORMATION ON THE MEETING OF THE MONETARY POLICY COUNCIL ON MARCH 26-27, 2002

The Monetary Policy Council held its meeting on March 26-27, 2002. The Council was submitted the materials prepared by the Management Board and departments of the NBP as well as information and analytical materials prepared by the Ministry of Finance, banks and research institutes. On this basis the Council discussed the external conditions of the Polish economy, the situation in the real sector of the economy and tendencies in the area of wages and social benefits, in public finance sector, money supply, lending and interest rates and the formation of prices and inflation expectations.

I. External conditions.

1. Within the recent period there appeared data indicating that the boom in the world economy will come faster and it will be stronger than it was expected earlier. It is good information for the outlook of Polish exports and the development of the economy, but the anti-inflationary impact of the external economic situation may be weaker than it was expected earlier.
2. In the United States, the purchasing managers index (PMI) in industry rose in February this year to 54.7, the highest level since April 2000, and the index of new orders exceeded 60. Joined with the biggest since June 2000 rise of industrial production noted last month, the increased level of manufacturing capacity utilization in industry (to 74.8% from 74.5% in January and 74.4% in December) and the fact that capital goods flows in January this year were significantly bigger than on average in the 4th quarter last year - it increases the chances of bigger capital investments in the American economy. Due to these data, even though the consumer confidence index dropped, a high level of household indebtedness and the current account deficit maintained, in March this year the economic growth forecasts in the United States were increased to 1.3 - 2.6% GDP (from 1.3 - 1.9% a month before). According to the latest data, the consumer confidence index in the United States rose from 95 a month before to 110.2 in March this year. In 2003, the growth is expected to be at the level 3.5 - 4.4% GDP.
3. Despite still poor economic results, in the recent period there have been released the data indicating a future improvement of the economic situation in the euro zone. After a clear rise in February this year (to 88.5), the German business climate index (IFO) increased significantly again in March (to 91.8) and it reached the highest level since April 2001. In February this year, the improvement was also noted in case of the purchasing managers index for the euro zone (to 48.6 from 46.3 a month before and 42.9 in October 2001) and the European consumer confidence index. The current forecasts indicate that the growth pace in the European economy will increase during the year (from the level close to zero in the 1st quarter to approximately 2.5% in the 4th quarter this year). During the whole year, GDP in the euro zone will grow this year by 1.1% and in 2003 by 2.9%.
4. In connection with the improvement of the economic situation outlook, as compared to the previous month, the probability of interest rate raises in Poland's external conditions in the second half of the year increased. Due to the decreasing interest rates difference, the foreign investors' tendency to place their portfolio capital in Poland may be reduced what would contribute to the weakening of the exchange rate of the zloty or at least counteract its appreciation. The Swedish Riksbank, at its last meeting, was the first to make a decision to tighten monetary policy.
5. In March this year - as a result of the increase of forecasts of the demand for oil connected with better outlook of the economic growth worldwide, the increase of tension between the United States and Iraq and the OPEC decision to maintain the production on the actual level - oil prices on world markets rose to the level of USD 25 per barrel. This situation prompts to verify upward the actual forecasts of oil prices. The insofar forecasts indicating that the oil price in the first six months will amount to USD 18 per barrel (now, according to the market forecast average, it will be USD 21) appear to be not actual. This will probably mean the increase of fuel prices on the domestic market and the reverse of the observed so far halting impact of fuel prices on inflation.

II. Production, economic growth.

1. In 2001, the economic growth pace amounted to 1.1%. The GDP dynamics decreased in subsequent quarters (from 2.3% in the 1st quarter to 0.3% in the 4th quarter). The domestic demand decreased by 2% and the demand drop increased in the subsequent quarters (from 1.3% in the 1st quarter to 2.9% in the 4th quarter). Individual consumption increased in the whole year 2001 by 2.1% and the dynamics of this category grew from quarter to quarter (from 1.5% in the 1st quarter to 3.2% in the 4th quarter). The main factor that halted the GDP growth was the drop of gross investments in fixed assets that amounted to 10.2% last year.
2. In February this year, the sold industrial output was bigger by 0.4% than a year before while its drop by approximately 0.8% was forecasted.
3. Better than expected data on the sold industrial output joined with:
   * The results of the research of the economic situation in March this year indicating the improvement of both current and expected in the nearest period demand and production and the sales of goods by trade enterprises (in March this year, the sales forecasts are not negative for the first time since June 2001);
   * The data on retail sales (rise by 4.7% in January and by 7.7% in February this year as compared to the same months last year);
   * Bigger than in February last year revenues from indirect taxes and income tax from legal entities that are the most sensitive to the economic situation;
   * Better outlook of the economic situation worldwide;
   * And the fact that full results of interest rates cuts have not been revealed yet can suggest that a gradual economic boom should take place. However, drawing firm conclusions is premature and one should wait for the confirmation of positive trends in subsequent months.

III. Wages, social benefits.

1. The situation on labor market is getting worse constantly - in February this year the unemployment rate rose to 18.1%. In the economic situation survey, entrepreneurs announced further employment reductions within next months, however, clearly smaller than it resulted from assessments expressed in January this year. The Government's adoption of the project to make the labor law more flexible gives hope for a gradual improvement of the situation on labor market. It is a very important positive part of the Government's program.
2. Within the period January - February this year, average gross wages in the enterprise sector were higher by 5.7% than in the same period last year, and the growth in real terms amounted to 2.2%.
3. The employment in the enterprise sector lowered in February this year by 0.2% as compared to January. As compared to the period February - January 2001, the average employment was lower by 5% what in conditions of the increase of average real wages by 2.2% means the drop of purchasing power of total income generated from the work in enterprises.
4. The average pension and disability benefit in the period January - February this year was bigger by 14.6% than in the same period of 2001 and its purchasing power increased by 10.8%. The increase on a similar scale is also related to pensions and disability benefits in agriculture. However, joined with:
   * A drop of the number of pension and disability benefits recipients,
   * The fact that in the same period last year a single adjusting payment for too low valorization of benefits in 2000 was made,

   in the 1st quarter this year a drop of total income generated from pensions and disability benefits is expected.
5. The above mentioned data suggest that in the 1st quarter this year real income at disposal can be decreased. In this situation, a probable relatively high increase of individual consumption will mean a drop of households' tendency to save. In the next quarters of 2002, a gradual acceleration of the growth pace of income at disposal is forecasted.

IV. Situation in public finance sector.

1. In February this year, the revenue situation of the state budget improved - tax revenues were higher by 12.7% than a year before. Within the period January - February, the budget revenues were at the level close to the observed in the same period of 2001 and tax revenues were higher by 3.2%. The budget deficit accomplishment after February amounted to 34.3% of the limit planned in the enacted Act on the State Budget for the Year 2002.
2. However, according to present forecasts, the economic deficit in 2002 will be maintained at a very high level (5% of GDP) that is close to the level noted in 2001.
3. A big supply of Treasury securities that is necessary to finance lending needs of the budget - a result of a big deficit and small revenues from privatization:
   * Contributes to maintaining a high level of long-term market interest rates;
   * Reduces possibilities of financing the development of enterprises;
   * Results in the inflow of a foreign portfolio capital placed in Government bonds through which it contributes to the appreciation of the exchange rate of the zloty without the strengthening at the same time of the competitiveness of the economy - unlike direct foreign investments.

That is why it is necessary to take firm actions to lower the economic deficit of the public finance sector.

V. Money supply, loans, interest rates.

1. The growth pace of total money supply (M2) on the twelve-month scale lowered to 11.4% from 12.3% in January this year. According to the analyses made at the NBP, the money supply dynamics exceeding 10% in countries where inflation is low was a very rare phenomenon.
2. Cash in circulation (except the banks cashiers desks) increased in February this year by PLN 1.2 billion (by 3.2%) as compared to the amount at the end of January. The annualized dynamics increased from 15% in January this year to 16.7%. The reasons of this phenomenon and its possible impact on inflation require a further detailed recognition.
3. A further drop (from 9.6% in January this year to 7.9%) was noted in case of an annual growth pace of PLN-denominated deposits of individuals.
   In January and February this year, a monthly growth pace of PLN-denominated bank deposits is decidedly smaller than in the same periods in previous years. The available information indicates that a lower dynamics of bank deposits this year is not connected with putting the funds into alternative forms of saving - the growth of investment funds assets and the volume of sold bonds returned to the level noted before November last year.
   The dynamics of foreign currency deposits of households increased to 16.8% from 16.3% a month before. However, the growth of foreign currency deposits amount converted into PLN took place while there was noted a drop of these accounts balance as converted into USD and it resulted from the depreciation of the exchange rate of the zloty.
4. In February this year, the dynamics of lending to individuals increased from 14.4% in January this year to 14.7%. The growth pace of lending to businesses on the twelve-month scale lowered from 5.2% to 4.7% in February this year.
5. A big shortage of budget revenues with small revenues from privatization results in the increase of lending needs of the public sector. In February this year, the budget sector net debt in the banking system increased by 3.2% and the twelve-month dynamics amounted to 50%. February was the consecutive month of the increasing role of the budget sector in total money creation. The relationship of the net debt of the budget sector and M2 increased from 15.4% in February 2001 and 20.3% in January this year to 20.7%.
6. In February this year, as a reaction to the cut of basic interest rates of the NBP in January, banks made considerable adjustments of interest rates on deposits and loans. An average interest rate on PLN-denominated deposits of individuals was reduced from 7.7% in January this year to 6.6% (the smallest changes were made in case of the interest rate on savings and settlement accounts - ROR). The interest rates on consumer loans to individuals were considerably reduced - on average by 1.6 percentage point and it was the biggest cut since the beginning of 2001. The scale of reduction of an average interest rate on loans to businesses was close to the one noted in January this year and it amounted to approximately 0.5 percentage point. During recent year, the differentiation of interest rates on loans offered by commercial banks increased: in February 2001 the interest rate of a one-year loan to businesses was within a range 19.4 - 24.4%, while in February this year from 10.9 to 20.7%.
7. The recently observed tendencies in monetary aggregates:
   * Maintained high growth pace of money supply,
   * Drop of a deposit dynamics,
   * Growth of the dynamics of cash in circulation,

   can make it difficult to stabilize and lower inflation further in future.

VI. Prices, inflation expectations.

1. The consumer price index on the twelve-month scale in February this year amounted to 3.5%, i.e. slightly above the amount noted last month (3.4%). The CPI growth was affected the most by the growth of prices connected with the apartment lease and energy carriers, and halting impact on inflation was made by prices for clothes and footwear and mainly dropping prices for fuels.
2. During next several months, a further drop of consumer price index is probable. The lowest level should be achieved in May this year what will result from the so-called base effect, i.e. an exceptionally big growth of prices in May 2001 that mainly resulted from the disturbances in the seasonal nature of fruit prices and a considerable increase of prices for medicines and phone subscription fees. The actual forecasts provide for a gradual growth of the consumer price index in the further part of the year.
3. In February 2002 - as compared to January - the majority of annualized core inflation measures lowered and the "net" inflation (excluding foodstuff and fuel prices) was maintained at the level observed a month before (4.7%):
   * 15%-cut average from 3.5% to 3.2%;
   * inflation excluding the controlled prices from 3.2% to 3.1%;
   * inflation excluding the most variable prices from 2.9% to 2.8%;
   * inflation excluding the most variable and fuel prices from 3.4% to 3.3%.

   The formation of the "net" inflation measure over the CPI confirms the statement of a favorable impact on inflation of groups of goods that are excluded from this index, i.e. foodstuffs and fuels. A tendency to drop of the remaining core inflation measures indicates, however, that the observed drop of inflation is related to all major groups of consumer goods and services and it is not caused only by potentially temporary factors.
4. In February this year, the sold industrial output prices were higher by 0.1% than a year before. In the 4th quarter 2001, a decreasing tendency of the sold industrial output prices was maintained, but in January 2002, these prices remained at the same level as in January last year.
5. Changes that took place in the structure of answers to the questions of Demoskop survey in March this year indicate a further, although very slight, improvement of individuals expectations concerning the future inflation. On one hand, after a clear drop a month before, the percentage of individuals forecasting that the prices will grow faster than now slightly increased. On the other hand, a group of people expecting that in 12 months' time prices will be lower than now increased. It should be remembered, however, that the observed improvement and then stabilization of a favorable structure of inflation expectations took place in the situation of a gradual drop of inflation. There is a risk that if inflation impulses appear they can lead to a fast reversal of this favorable tendency for future inflation.
   The inflation rate expected by bank analysts both in December this year and in the 11-month horizon was maintained at the level noted a month before (4.6%).

VII. Decision of the Monetary Policy Council.

1. Within a recent period:
   * Inflation is maintained at a relatively low level;
   * Core inflation measures lowered further indicating that a lower inflation does not only result from a favorable formation of potentially temporary prices, however, indisputable is a positive impact of a smaller growth of foodstuff prices and a drop of fuel prices;
   * Favorable for future inflation is a stabilization of inflation expectations of both bank analysts and individuals; in case of the latter, it should be remembered that favorable changes in the structure of expectations took place in the situation of decreasing inflation and the reversal of this tendency is possible at the moment when inflation impulses appear.
2. In favor of prudence in monetary policy are the following:
   * The fact that full results of interest rates cuts by 9 percentage points in total made since February 2001 to January 2002 have not been revealed yet;
   * The formation of monetary aggregates, especially the drop of the dynamics of deposits, the increase of the dynamics of cash in circulation, maintained high pace of money supply growth what may make it difficult to stabilize and lower inflation further in future;
   * A risk of conducting of a too loose fiscal policy and an unfavorable impact of this situation on future economic processes, including inflation processes;
   * An improvement of the outlook of the economic situation worldwide, which, although favorable for Polish exporters and the economic growth, means a smaller than earlier forecasted anti-inflation impact;
   * Information that may suggest a gradual boom in the economy;
   * The observed in March this year increase of oil prices on the world markets and the improvement of forecasts for these prices formation what will probably lead to the increase of fuel prices on the domestic market.

Considering these arguments, the Monetary Policy Council decided not to change interest rates of the NBP and to maintain its neutral position in monetary policy.

IX. The next meeting of the Monetary Policy Council will be held on April 24-25, 2002.

Government and politics watch

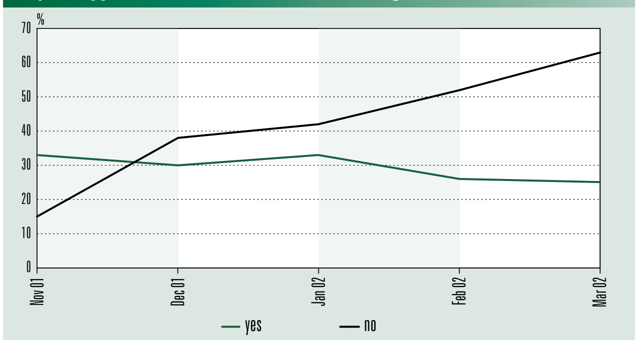
- Support for the government decreased considerably in March...
- …which raises a question about the political backing for socially unpopular reforms
- …the more so that the trade unions announce severe protests shortly

Support for the government decreased in March

According to OBOP (opinion poll agency), in March, the social support for the Government dropped. 25% of respondents supported Leszek Miller's Cabinet, and 63% of respondents expressed negative opinions in this respect. The Prime Minster is perceived better than the entire government, however, for the first time since the elections, there were more negative assessments (40% against 39% positive ones). This popularity ranking is certainly under a big influence of a number of events, which took place in March. Here, we mean, e.g. capital gains tax, which became effective as of 1 March, a reduced list of refunded medicines, which raised a lot of fuss in the media as well as the governmental plans to reduce the possibility of simultaneous employment and collection of a pension.

However, even taking into account these factors, a clear trend of losing support by the SLD-UP-PSL government really fast is visible. And 11 April will face the trade unions' protests against the planned liberalisation of the labour code, which will be another blow to the government popularity. Therefore, a crucial question arises, how long the government will want to follow the reform path. We would like to remind that the discussion on the next years budget is not yet started and according to our estimates, cuts in social expenditures in the next year budget will have to be deeper than those executed by the finance

Do you support the actions of the SLD-UP-PSL government?



Source: OBOP

minister in 2002. And now, let's look at all this in the context of September local government elections …

Events on the political scene, the labour code and the NBP act

In March, the political scene was dominated by a few events: closing two politically sensitive chapters in negotiations with the EU, the issue of combining pensions and salaries by old age pensioners, a list and limits on refunded medicines as well as the government proposal on the amendment of the labour code. As usual, there was also a heated discussion on the MPC issues.

It seems that in the first half of April, the amendment of the labour code will be the hottest issue. After the failure of talks in the Tripartite Commission, the government submitted their draft for the Sejm (Lower House) discussion, however, the trade unions do not agree with numerous provisions of this draft. In particular, they protest against the possibility of terminating group contracts and cheaper overtime hours. They also question a thesis, obvious for economists, that a greater flexibility of the market will allow to reduce the unemployment, especially, the one, which is most socially painful, i.e. a long-term one.

OPZZ announced protests for 11 April. Also Solidarno will be protesting towards the end of April. How sad is our Polish reality! In countries which succeeded in reducing the unemployment (Ireland, The Netherlands, Spain), the trade unions signed treaties with social partners, agreed to make the labour market more flexible (in particular, for young people) and to reduce payroll demands. In Poland, unfortunately, the trade unions do not show such a will and it is not possible to implement reforms in the atmosphere of a social conflict.

Maybe, in the latter half of April, the issue of the NBP act amendment will come back. For the time being, the draft designed by the PSL-UP was submitted to the Sejm European Commission to be checked for its compliance with the union law. We are not worried about the monetary policy target. In the EU, the central bank's objective is primarily to focus on low inflation, other objectives are of secondary importance. However, the issue of increasing the MPC headcount is probably not contradictory with the union law, although this proposal, in turn, seems unconstitutional. This way or other, the debate over the amendment to the NBP act can again stir up emotions on the market and impact the valuation of financial assets.

Commentaries of the government members

The representatives of the government attach increasing importance to the issue of the unemployment, perceiving emerging threats, especially, the upcoming demographic boom generation. The suggested solutions, however, do not ensure them the social support, which was confirmed by the last polls. The attacks of the governing coalition against the Monetary Policy Council are continued. PSL and Unia Pracy aim at amending the NBP act. SLD also criticises the MPC, demands a reduction in interest rates (even by 5 percent), however, they are afraid of introducing legal changes, perceiving related threats (e.g. a sudden fall in the zloty rate). The markets are being calmed down by President Aleksander Kwaśniewski, who promises to protect the constitution and veto an act, which would significantly change the role of the MPC.

WHO? WHERE? WHEN?	QUOTE
Jerzy Hausner, labour minister;	
PAP, Reuters, 4.03	"Jobless rate may rise to 19.7-19.9 percent later in the year, when dole queues are lengthened by school graduates." "The business climate is still weakening and nothing indicates that this trend could revert soon. It means that unemployment forecasts that were presented to MPs last week are real." "Even with 1% GDP growth this year it would be hard to reduce unemployment. Government doesn't want to allow for pessimistic scenarios realisation. Therefore we have to fight unemployment forcefully by creating new jobs and realisation of graduate aid programme." "Government considers partly limitations for pensioners' employment, to let unemployed find new jobs." "In February unemployment rate increased to 18.1%. It is consistent with annual cycle. I hope that March will be the firs month when unemployment rate would decline slightly, but it would be transitory." "In subsequent months we should see a seasonal improvement on the labour market." "I hope that since autumn unemployment would stop rising."
PR 3, PAP, 20.03	"March is likely to be another month of rising unemployment, unemployment rate will rise to 18.2% by the end of the month."
Aleksander Kwaśniewski, President;	
Radio ZET, 5.03	"I warn against conflict between MPC and government. Responsibility for this situation is on both sides, also on central bank." "I will guard constitutional order." "A law that would significantly change the rules of operation of the MPC is wrong and I would not support it."
PAP 14.03	„Ustawa, która by istotnie zmieniała zasady działania i kształt działania Rady Polityki Pieniężnej jest błędna i jej popierać "We need good cooperation between government and MPC in order to support Polish economy." "I think that discussion over NBP charter and possible change of MPC shape would only be problem for economy and entrepreneurs rather than being helpful." "It would contribute to building conflict and will make MPC more hesitant with [interest rate] decisions."
PAP, 27.03	"It would be wrong to see again the following scenario: no rate cut and then discussion about the role of the central bank". "I do not change my view. Central bank position is guaranteed in the Constitution, and I will remain a guardian of the Constitution"
Marek Dyduch, SLD general secretary;	
RMF FM 5.03	Q: "How deep should MPC lower rates to make SLD back off from motion support?" A: "Around 5 percent. Lowering by 1 percent causes that banks don't react."
Zbigniew Kuźmiuk, head of PSL caucus;	
Rzeczpospolita 14.03	"If after analysing first quarter revenues government sees budget revenues as insufficient, excellent source of additional revenue will be import tax, that would improve budget liquidity significantly."
PAP, 27.03	"We have no other way than to demand from Sejm speaker to put the motion [central bank charter amendment] on the agenda. I don't know whether it would be possible already on the firs Sejm session after the Easter, but it should be possible during next session." "It's already three months since we've submitted the bill. Although the Speaker has six months to put the motion on the Sejm's agenda, but it is high time we proceeded." "I hope that UP will be determined about this subject as well. Just after the Easter we'll meet UP caucus leader Janusz Lisak and we'll discuss this issue."
Marek Belka, deputy PM, finance minister;	
Reuters, PAP, 14.03	"Zloty remained strong during last year because due to privatisation process, i.e. in telecom, foreign capital kept flowing. Therefore now we can expect some natural weakening." "From exporters' point of view [zloty] weakening by several percent would be profitable and safe." "However I wouldn't be too optimistic on exporters' place, because zloty weakening could be not very strong, not too deep." "One can enter ERM2 with market or some other exchange rate. One of the options is zloty devaluation. Today we cannot change the floating exchange rate mechanism, but one could imagine a limited intervention system".
PAP, 27.03	"After three months we have some surplus in the budget in comparison with the plan". "I hope that 2H will be better. First quarter may look because of significant increase of inventories. But the trend could reverse in the second quarter". "In Poland we presently experience deep deflationary disequlibrium, which is exhibited by inflation and the current account deficit". "We see a snowballing disinflation".
Jacek Piechota, economy minister;	
PR 3, 14.03	"The resolution doesn't breach central bank or MPC independence, it doesn't change legal or constitutional regulations. But the parliament has the right to express its view whether MPC supports government's strategy and economic recovery with its decisions, and we need this economic recovery very badly." "I think that everything suggests it [that MPC will cut rates sin short time] and I think that MPC must consider that it's still hard to talk about economic recovery, our exporters' profitability declines sharply. [...] Therefore MPC must consider all these facts, although – I must admit – it must also consider that polish companies' debt today is mostly foreign currency denominated."

"Increasing labour market elasticity is another element crucial in our opinion for economic recovery, especially for small and medium companies. The problem is that trade unions don't represent this [SME] sector. [...] Meanwhile 50% of GDP is created in SME sector."

Leszek Miller, PM;

TVP1, 19.03 — "Government can't wait. Unemployed can't wait either. Therefore the cabinet has decided to submit [labour code] amendment to the parliament. Delaying it would be irresponsible."

"During last four years in Poland economic growth rate declined fourfold and the number of unemployed increased by over million people. It's one of the most visible dramatic consequences of right wing government."

Jarosław Kalinowski, deputy PM, agriculture mininster;

PAP, 19.03 — "EC's proposals are against fundamental principles of single market. Their major disadvantage is huge diversity between the level of support for agriculture in single market conditions."

"Because of this Polish farmers would have been crowded out from the market not because they would be less efficient, but because their competitors would receive financial support from EU budget."

"Even temporary differentiation between competition conditions could lead to permanent effects i.e. loss of market share and deepening of technological gap."

Marek Pol, deputy PM, infrastructure mininster;

PAP, 27.03 — "Information that MPC sticks to its restrictive policy is a bad information not only for the government, but for all of us."

"It's the information that zloty will remain overvalued and loans will be still among the most expensive in Europe. Those factors that should stimulate Polish economy – better availability of credit and better export conditions – would not have effect still."

"The target is at 5%. Present MPC actions maintaining restrictive monetary policy are made amid much lower inflation rate."

"In countries where central banks react normally in such circumstances, rates usually go down, sometimes very sharply, sometimes even to negative real levels."

"Here central bank interest rates remain very high which with certainty causes credits to remain extremely expensive."

Marek Sawicki, PSL deputy head;

Reuters, Rzeczpospolita, 28.03 — "The MPC continues to be stubborn. We believe it is contradicting its agreement with the government and are convinced the speaker of parliament will push forward the proposed legislation."

"PSL considers fast real interest rate reduction as one of its major objectives in ruling coalition with SLD-UP."

Janusz Wojciechowski, Sejm deputy speaker;

Gazeta Wyborcza, 28.03 — "MPC in its comments leaves no doubts that one should not count for change of its restrictive monetary policy."

"Even if they cut rates now, we wouldn't have backed form it [NBP charter amendment]. We just want to set MPC objectives differently"

Marek Borowski, Sejm speaker;

Polskie Radio, 28.03 — "First of all, MPC decision is disappointing indeed and I share the view of all those who say something like that."

"Nothing would happen immediately if interest rates were cut. [...] Maintaining rates unchanged for two months is – I want to make it gently – too cautious. It's difficult to understand."

"MPC makes decisions to some extent by the rule: we criticise us, then we show that we don't bow to the political pressure and we do it differently."

"Today majority of serious economists do not understand MPC policy. It cannot be explained by any solid argument."

"One have to consider all the time whether the cure to be applied, like e.g. the central bank charter amendment, would not be more dangerous than the sickness itself."

"[NBP charter amendment] is the extreme measure that could be undertaken when everybody around are aware that there is no possibility to communicate, that we are heading for a fall. Then if there is such assessment [...] and furthermore the consequences of such decision are analysed, because different consequences have to be considered. I'm not talking about legal consequences, but about economic consequences. [...] Today many companies have foreign currency debt. Consequences of abrupt foreign exchange adjustment have to be calculated. Exchange rate adjustment is necessary, but not very sharp. [...]"

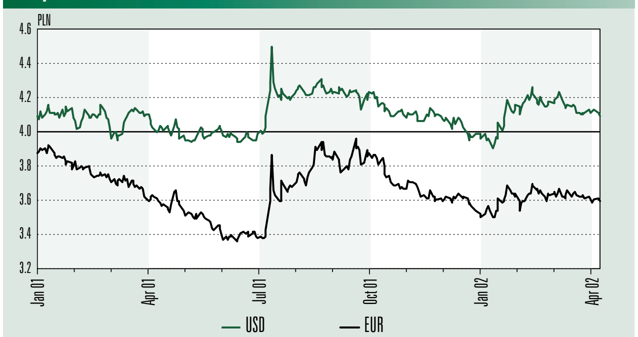
Market monitor

- The zloty remains strong
- Quite on the market, small range of daily exchange rate fluctuations
- Stabilised zloty rate in the range of PLN 4.10-4.15 per USD
- The weakening will occur only after the rate reduction in May or in June
- New financial instrument: 20Y bonds
- Rising spread between 2Y and 5Y bonds
- Fall in demand for Polish bonds

Recently, the zloty rate has been stable

Recently, there is not much happening on the Polish fx market. The zloty remains strong and relatively stable, the range of its daily fluctuations is very small, usually not exceeding PLN 0.02. Almost for a month, the Polish currency has ranged in the band 4.10-4.15 against the dollar with a slight tendency to firm up. Only when slightly higher levels were hit and foreign currencies became a little more expensive, investors immediately availed of the situation to sell them. On the other hand, the barrier of 4.10 per USD represented for the zloty a very strong resistance level, which defended itself throughout the entire second half of March. Only at the beginning of April, just before the auction of the treasury bonds, there was a break through and strengthening to 4.09 per USD. However, it is not out of question that this movement will turn out to be temporary as, in comparison with the situation before the previous auctions, this time the strengthening of the zloty was rather small, parallel to the demand for the Polish securities. Therefore, in the near future, the zloty can again return to the band of PLN 4.10-4.15 per USD and stay within it until the moment when other factors emerge, which would result in a movement in any direction. If nothing special happens, then, only the reduction in interest rates by the Monetary Policy Council can turn out such a factor. It should bring about the weakening of the Polish currency. In our assessment, it will not occur in April but in May or even only in June, when the MPC sees an inflation fall in May below 3% YoY.

Zloty fx rate



Source: BZ WBK

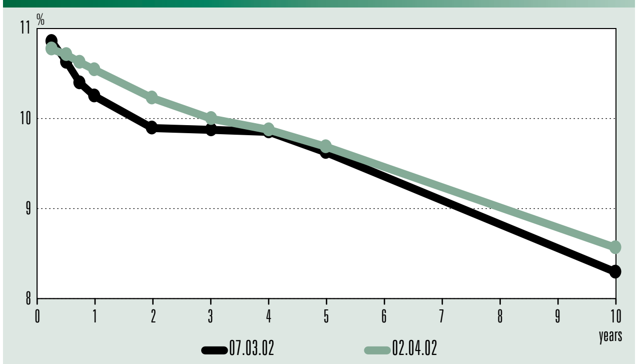
The first auction of 20Y bonds in April

The April auction of 10Y bonds was cancelled and instead the ministry will issue 20Y bonds at 5.75% fixed rate. The auction will take place on 17 April, and the supply will be announced before 15 April. It seems that pension funds and foreign investors playing on convergence will finally get what they wanted – duration. Certainly, liquidity is required for these bonds (called WS0922) to become a serious instrument. Therefore, we will not be surprised seeing an offering in excess of PLN 1bn. Another 20Y bond auction will take place at the turn of the 2nd quarter. In April, the finance ministry will make the payment of interest and principal instalments of the domestic debt of PLN 6.8bn.

Yield curve up, spread 2Y – 5Y rising

During the last month, the yield curve moved up in the sectors from 6M to 3Y and in the 10Y term. In the case of 3M bills, the yields dropped by 5 basis points, and yields on 4Y and 5Y remained stable. The spread between 2Y and 5Y securities amounts already to 35 basis points now, whereas, when at the beginning of February, the curve was here ideally flat. This results from smaller investors' interest in 2Y securities as they prefer to buy shorter and higher yield treasury bills, projecting further interest rate reductions this year. Moreover, in March, the structure of 2Y and 5Y securities supply differed from the one in February (respectively PLN 2.0 and 1.8bn against PLN 2.0 and 2.9bn in the previous month), which also impacted the curve shape.

Yield curve

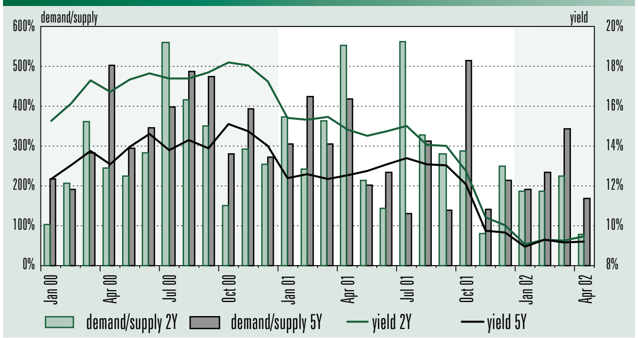


Source: BZ WBK

Fall in demand for Polish bonds

These trends were continued at the April auction. This time the supply of 2Y bonds was considerably higher than 5Y ones (PLN 2.5bn against PLN 1.2bn). However, it turned out that the demand on the market was significantly lower. Investors' demand was only PLN 2.03bn of 2Y bonds. In the case of 5Y bonds, the demand was higher than the supply but at the same time was not too high – PLN 1.93bn, whereas the offering was PLN 1.2bn. Finally, PLN 1756.5bn worth of 2Y bonds was sold as well as all offered 5Y securities. The entire demand, which in the first three months this year was on average PLN 10bn, did not reach PLN 4bn this time.

Demand, supply and yields on 2Y and 5Y T-bonds



Source: BZ WBK

As it is shown in the graph, such a low ratio of the supply to demand (in the case of 2Y bonds, it was 77%) is very rare and it occurred only in November 2001 and to some extent in January 2000. Simultaneously, the trend was in the course of changing at that time. After a poor auction in January, the yields started being bearish on the bond market, which continued over the entire 2000. November 2001, in turn, ended a good "bullish" trend on the market, commenced in August 2001. Although the yields continued a fall over the two successive months, it was an opportunity to take profits rather than make further purchases.

Therefore, the results of the last auction raise the question if a more serious problem has emerged and the finance ministry will start feeling the limitations in the possibility of financing the deficit in the coming months, or whether it was only a one off effect arising from longer holidays after Easter. The yields on the April auction raised considerably, reaching 9.496% / 9.446% (max/average) for 2Y securities and 9.231% / 9.204% for 5Y ones. It appears that the finance ministry rejected all the purchase offerings, which would force them to accept the yields above 9.50% in the 2Y term. The breaking through of this limit might open the way towards 10% for 2Y bonds, which is in line with the recently revised expectations for the interest rate reduction. At present, the markets are again giving a serious thought to whether we are witnessing the end of the loosening cycle or whether still there is some room for an adjustment.

Certainly, the consensus as well as the NBP forecasts indicate an inflation fall in May below 3%, which will support the bond market. However, everybody knows that it will be only short-term before the inflation rise in the latter part of the year and should be used to take profits. It is too early yet for final conclusions, especially before the 20Y bond auction scheduled for 17 April. Maybe pension funds would decide to reduce their demand for 2Y bonds and wait for the auction of 20Y securities. It should also be taken into account that signals of the coming revival make the expected earnings per share rate more attractive in relation to bonds, with the assumption that stock exchange companies will participate in this revival.

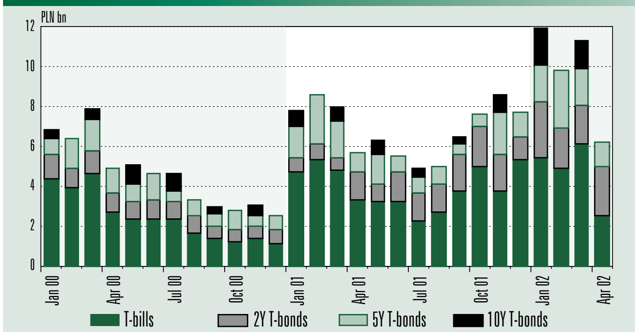
Our dealers are now more and more inclined towards the scenario of stabilisation in the coming days or even weeks. And they can be right as long as the annual inflation and the current account deficit against the GDP stay below the levels of 4%. However, both these figures should exceed this limit in the second half of this year. It seems that the bond market will not offer a too high yield this year; on the contrary, there is a high risk of losses in its second half.

T-bill auctions in March and April 2002 (PLN m)

Date of auction	OFFER (SALE)			
	13-week	26-week	52-week	total
04.03.2002	–	400 (400)	800 (800)	1200 (1200)
11.03.2002	–	300 (300)	900 (900)	1200 (1200)
28.03.2002	–	200 (200)	1000 (1000)	1200 (1200)
25.03.2002	100 (100)	–	1300 (1300)	1400 (1400)
29.03.2002	100 (97.52)	–	1000 (1000)	1100 (1097.52)
total	**200 (197.52)**	**900 (900)**	**5000 (5000)**	**6100 (6097.52)**
08.04.2002	100	–	600	700
15.04.2002	100	–	700	800
22.04.2002	–	100	900	1000
total	**200**	**100**	**2200**	**2500**

Source: Finance Ministry

Supply of treasury papers



Source: Finance Ministry

T-bond auctions in 2002

month	1st auction							2nd auction			
	date	T-bonds	offer (PLN m)	sale (PLN m)	T-bonds	offer (PLN m)	sale (PLN m)	date	T-bonds	offer (PLN m)	sale (PLN m)
January	09.01	OK1203	2 800	2 800	PS1106	1 900	1 900	16.01	DS1110	1 800	1 800
February	06.02	OK1203	2 000	2 000	PS1106	2 900	2 900	13.02	DZ0811	500	495.5
March	06.03	OK1203	2 000	2 000	PS1106	1 800	1 800	20.03	DS1110	1 400	1 400
April	03.04	OK0404	2 500	1756.5	PS1106	1 200	1 200	10.04	WS0922	–	–
May	08.05	OK0404	–	–	PS0507	–	–	–	–	–	–
Juni	05.06	OK0404	–	–	PS0507	–	–	12.06	–	–	–
July	03.07	OK0404	–	–		–	–	17.07	DS1110	–	–
August	07.08	OK0804	–	–	PS0507	–	–	14.08	–	–	–
September	04.09	OK0804	–	–	PS0507	–	–	18.09	DS1110	–	–
October	02.10	OK0804	–	–	PS0507	–	–	09.10	–	–	–
November	06.11	OK0804	–	–	PS1107	–	–	20.11	DS1112	–	–
December	04.12	OK1204	–	–	–	–	–	11.12	–	–	–

Source: Finance Ministry

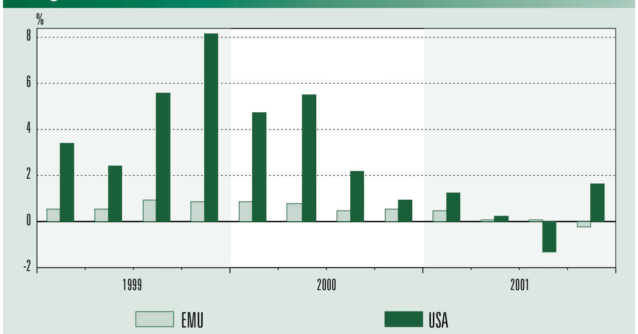
International review

- Economic recovery in US and Euro-zone is coming
- Interest rates unchanged, but Fed turned its stance for neutral
- Activity indicators still rise
- Increase in oil prices

Eurozone GDP declined 0.2% QoQ and increased 0.6% YoY in 4Q01. These figures were consistent with market expectations. Investments contracted by 0.8% and consumption increased only by 0.1%. Eurozone export declined 0.9% in 4Q01 and import was lower by 1.1%. GDP figures for whole European Union reached –0.1% QoQ and 0.8% YoY. In European Commission's opinion slowdown in European economy has already finished, although the recovery would come only gradually. ECB economists also consider 4Q01 to be the lowest point of economic cycle.

US GDP growth reached 1.7% in 4Q01 – correction from previously released 1.4% (first release showed only 0.2%).

GDP growth in US and Euro-zone QoQ



Source: Reuters

According to International Monetary Fund world economy avoided recession and will start to accelerate now. The Fund says economic recovery in Europe will start later and will be weaker than in the US. IMF estimates US GDP growth this year at 1.4% and for 2003 it forecasts 3.8%. Japan is expected to remain in recession this year and recover to 0.8% next year. Eurozone economic growth is forecasted at 1.2% in 2002 and 2.8% in 2003. World economy should expand 2.5% this year.

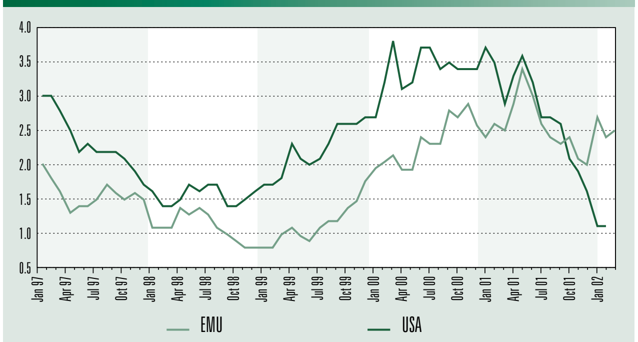
At the same time ECB said that European economy has already hit the bottom and would return to high growth rate by the end of this year. According to ECB estimates long term growth potential should be reached in this period, amounting to 2-2.5% per annum. ECB also reiterated that inflation rate remains under control in Eurozone and it should fall below target 2% level fairly soon.

Last European Commission's report said that world economy is about to recover. Despite this the Commission does not see inflation getting out of control. Among the risks that can reduce global growth prospects Commission mentioned indebtedness of US consumers, bad economic situation in Japan, crisis in Argentina and the risk of rising oil prices.

In line with expectations Fed left interest rates unchanged on its last meeting on 19 March. Federal Funds Rate remains at 1.75%. Monetary policy stance has been changed to neutral, indicating that easing cycle has already finished and in several months time one could expect interest rate hike. Most polled analysts now expect Fed to raise rates in June.

US inflation rate reached 0.2% MoM in February, in line with market expectations. Annual inflation rate remained at 1.1% YoY. Eurozone inflation in February was slightly lower than suggested by preliminary estimates and reached 0.1% MoM, 2.4% YoY. In March inflation in EMU increased to 2.5% YoY, while a fall to 2.3% was expected.

Inflation in US and Eurozone YoY



Source: Reuters

ECB said that Eurozone M3 growth decelerated to 7.4% in February from 7.9% in January. Forecasts pointed to 7.6% on average. Three-month moving average declined to 7.8% from 8.0% last month. ECB's target level that does not increase inflationary pressure is 4.5%. According to ECB excessive money growth is the result of portfolio investments inflow amid uncertain global economic situation.

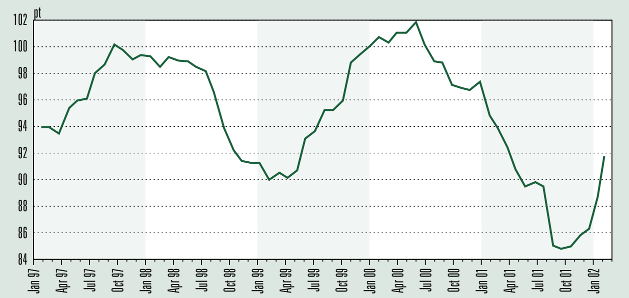
Durable goods orders in US economy increased 1.5% MoM in February while in previous month it grew 1.3%. Markets expected the figure to be close to 1%.

Inventories in American companies increased 0.2% in January after 0.5% decline in December. At present stage of economic cycle it might suggest that companies prepare for expected demand growth.

US industrial production increased 0.4% MoM in February. Figure was stronger than expected. It was the highest monthly growth since June 2000. Capacity utilisation in American manufacturing companies increased to 74.8% from 74.5% in January. Producer prices increased 0.2% after 0.1% rise in January. Core PPI inflation rate excluding food and energy remained stable.

IFO index of German business sentiment increased for the fifth consecutive time, reaching 91.8 points in March from 88.5 in February. Furthermore for the second time in a row the improvement was much stronger than expected (market forecasted 90.4 points). Reaching the highest level in 11 months IFO gave clear signal that European largest economy is recovering from recession. Nevertheless March improvement was almost entirely the effect of better expectations for the future.

German IFO index



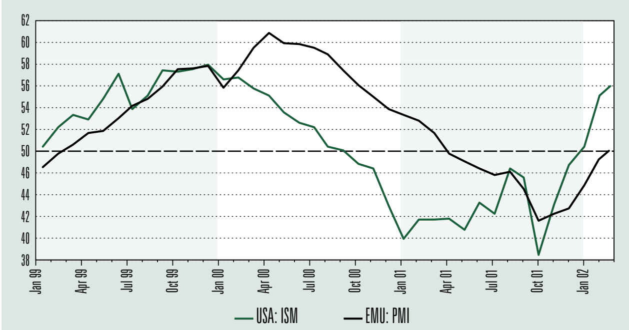
Source: Reuters

Eurozone PMI index reflecting business activity in EU12 countries increased in March for the fifth consecutive time, reaching 50 points (from 48.6 in February). The level of 50 was reached for the first time in 12 months. Markets expected that index could be even higher and reach 50.2 points.In March US consumer confidence index surged to 110.2 from 95 (revised down) recorded in February. Market expected a rise to 98.8 points. March figure is the highest since August last year and the improvement is driven both by expectations for the future and the assessment of present situation.

University of Michigan consumers' confidence index increased to 95.7 in March from 90.7 in February, giving yet another signal of American economy revitalisation.

ISM institute provided more evidence that US economy rebounds from recession that never happened. ISM index (former NAPM) rose in March to 55.6 from 54.7 versus market expected 54.3. ISM said that producers start seeing more pricing power and some of the stalled capacity is being put back to use. ISM also said that after a period of low energy prices they were becoming a concern again.

Activity indicators in US and Euro-zone



Source: Reuters

OPEC countries intend to maintain present output limits in first half of 2002. Their aim is to keep oil price in the target band of 22-28 US$ p/b. Output growth is expected only when world economy accelerates, stimulating global demand for fuels and pushing up prices.

Due to the conflict between Israel and Palestine, Iraq called on all Arab states to approved use of oil weapon and the call was backed by Iran which said that it would be a very effective method to force Western states to force Israel out of Palestine. While other Arab states said using oil weapon was unlikely, it appears that a period of significantly higher energy prices is ahead of us. Brent price exceeded US$27 p/b and in the US oil futures broke the level of US$28 for some time, the highest level since August last year. Crude oil price surged nearly 24% MoM in March and hiked by additional 7-8% in first two days of April. Now you can compare this with retail fuel price changes on Polish market and see that there is still a big potential for further hikes, especially if zloty somewhat looses its strength amid diminishing market expectations for rate cut in April and growing political tension around central bank. According to data reported by Reflex (brokerage house monitoring fuel market in Poland) retail fuel prices increased ca. 2.6% MoM in March on average, while the increase amounted to 5% MoM in last week of March.

Brent oil price **USD/barrel**

Source: Reuters

What's hot this month

Monday	*Tuesday*	*Wednesday*	*Thursday*	*Friday*
1 April **Easter Monday** *USA: ISM (Mar)*	**2** *EMU: PMI (Mar)* *EMU: Inflation preliminary (Mar)* *USA: Factory orders (Feb)*	**3** POL: T-bond auction OK0404 & PS 1106 (PLN 2.5 and 1.2bn) *EMU: Business climate (Mar)* *EMU: Economic sentiment (Mar)* *EMU: Unemployment (Feb)* *EMU: Producer prices (Feb)*	**4** *EMU: ECB meeting* *EMU: Industrial output (Jan)* *EMU: Retail sales (Jan)*	**5** POL: Food prices (2H Mar) *GER: Industrial orders (Feb)* *USA: Unemployment (Mar)*
8 POL: T-bill auction (PLN 700m)	**9** *GER: Unemployment (Mar)*	**10**	**11** *EMU: GDP (4Q)*	**12** POL: Money supply (Mar) *FRA: Inflation preliminary (Mar)* *FRA: Industrial output (Feb)* *USA: Producer prices (Mar)* *USA: Retail sales (Mar)*
15 POL: T-bill auction (PLN 800m) POL: Inflation (Mar) POL: Budget deficit (Mar) POL: Wages & employment (Mar) *ITA: Industrial output (Feb)*	**16** *GER: Industrial production (Feb)* *ITA: Inflation final (Mar)* *USA: Inflation (Mar)*	**17** POL: T-bond auction WS0922 *EMU: Inflation final (Mar)*	**18** POL: Industrial output (Mar) POL: Producer prices (Mar) POL: Business climate (Apr) *EMU: Industrial output (Feb)*	**19** *EMU: Foreign trade (Feb)*
22 POL: T-bill auction (PLN 1.0bn) POL: Unemployment (Mar)	**23**	**24** POL: MPC meeting *FRA: Inflation final (Mar)*	**25** POL: MPC meeting (decision) *GER: IFO business climate (Apr)*	**26** POL: Food prices (1H Apr) *EMU: Money supply (Mar)*
29	**30** POL: Balance of payment (Mar) *EMU: Inflation preliminary (Apr)* *EMU: Unemployment (Mar)* *EMU: Retail sales (Feb)*	**1 May** **Labour Day**	**2** *ITA: Inflation preliminary (Apr)*	**3** **Constitution Day** *EMU: Economic sentiment (Apr)* *EMU: Producer prices (Mar)* *USA: Unemployment (Apr)*

Source: CSO, NBP, Finance Ministry, Reuters

Data release calendar

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
MPC meeting	29-30	26-27	26-27[a]	23-24[a]	28-29[a]	25-26[a]	30-31[a]	27-28[a]	24-25[a]	29-30[a]	26-27[a]	17-18[a]
CPI	15	15[b]	15[c]	15	15	17	15	16 or 19	16	15	15	16
PPI	18	19	18	18	20	19	17	20	18	17	20	18
Industrial output	18	19	18	18	20	19	17	20	18	17	20	18
Gross wages, employment	15	14	14	15	17	18	12	14	13	14	18	13
Trade	About 50 working days after reported period											
Balance of payments	31	28	28	30	29	28	31	-	-	-	-	-
Money supply	14	14	14	12	14	14	12	-	-	-	-	-
NBP balance sheet	7	7	7	5	7	7	5	-	-	-	-	-
Business climate indices	7[d] & 22[e]	20	20	18	21	19	18	22	19	18	21	19
Food prices, 1-15	-	8[e] & 27[f]	27	26	27	27	26	27	27	25	27	30
Food prices, 16-30	3	8	8	5	7	6	5	6	6	7	6	6

a) according to the preliminary schedule, b) preliminary data, c) final data (January, February), d) December 01, e) January 02, f) February 02

Source: CSO, NBP

Monthly indicators

		Feb 01	Mar 01	Apr 01	May 01	Jun 01	Jul 01	Aug 01	Sep 01	Oct 01	Nov 01	Dec 01	Jan 02	Feb 02	Mar 02 *forecast*	Apr 02 *forecast*
GDP	% YoY	x	2.3	x	x	0.9	x	x	0.8	x	x	0.3	x	x	1.5	x
Industrial output	% YoY	0.0	3.3	3.8	-0.4	-4.7	1.5	0.9	-3.7	1.8	-1.0	-4.8	-1.4	0.4	-2.8	5.6
Retail sales***	% YoY	-0.2	0.1	1.9	4.3	0.2	1.5	3.0	1.3	5.8	2.4	2.4	4.7	7.7	x	x
Unemployment rate	%	15.9	16.1	16.0	15.9	15.9	16.0	16.2	16.3	16.4	16.8	17.4	18.0	18.1	18.2	18.0
Gross wages**	% YoY	7.7	7.9	5.2	8.8	4.9	8.0	6.9	6.2	7.8	6.6	5.3	5.7	5.5	5.3	5.1
Exports (acc. to NBP)	USDm	2 392	2 614	2 559	2 472	2 477	2 556	2 616	2 287	2 778	2 555	2 540	2 308	2 202	2 312	2 381
Imports (acc. to NBP)	USDm	3 116	3 522	3 269	3 638	3 379	3 382	3 635	3 176	3 953	3 509	3 430	3 418	2 978	3 425	3 390
Trade balance (acc. to NBP)	USDm	-724	-908	-710	-1 166	-902	-826	-1 019	-889	-1 175	-954	-890	-1 110	-776	-1 113	-1 009
Current account	USDm	-463	-751	-520	-737	-948	-287	-354	-304	-838	-417	-500	-847	-789	-735	-774
Budget deficit	PLN bn	-12.0	-15.1	-18.4	-20.4	-18.7	-19.4	-21.0	-21.8	-24.6	-27.7	-32.6	-6.9	-14.0	-18.0	x
Inflation (CPI)	% YoY	6.6	6.2	6.6	6.9	6.2	5.2	5.1	4.3	4.0	3.6	3.6	3.4	3.5	3.4	3.2
Producer prices (PPI)	% YoY	4.1	3.8	3.4	2.3	0.9	0.6	1.0	0.7	-0.5	-1.0	-0.3	0.0	0.1	0.8	1.1
Money supply	% YoY	14.6	14.9	14.0	13.5	8.0	13.5	14.6	14.3	13.0	12.1	13.7	12.3	11.4	9.4	9.6
Deposits	% YoY	17.1	16.8	16.1	15.5	9.1	15.4	16.3	15.5	13.7	12.4	13.9	12.0	10.8	9.1	9.0
Credits	% YoY	15.6	14.6	12.7	11.3	5.0	11.6	11.7	10.7	8.7	8.4	7.6	7.3	7.0	7.0	7.2
USD/PLN	PLN	4.09	4.06	4.02	3.98	3.97	4.19	4.25	4.22	4.13	4.09	4.01	4.06	4.19	4.14	4.15
EUR/PLN	PLN	3.77	3.70	3.59	3.49	3.39	3.60	3.82	3.85	3.74	3.64	3.58	3.59	3.64	3.63	3.63
Intervention rate*	%	19.00	17.00	17.00	17.00	15.50	15.50	14.50	14.50	13.00	11.50	11.50	10.00	10.00	10.00	10.00
WIBOR 3M	%	18.61	18.01	17.17	17.22	16.88	16.01	15.35	14.73	14.01	13.91	12.29	11.04	10.60	10.32	10.25
Lombard rate*	%	23.00	21.00	21.00	21.00	19.50	19.50	18.50	18.50	17.00	15.50	15.50	13.50	13.50	13.50	13.50
Yield on 52-week T-bills	%	16.97	16.85	15.80	15.67	15.61	15.38	14.61	14.01	12.64	11.80	10.66	9.62	9.68	9.62	9.70
Yield on 2-year T-bonds	%	15.48	15.60	14.59	14.92	15.22	15.13	14.40	13.57	11.36	11.00	10.70	9.11	9.37	9.32	9.55
Yield on 5-year T-bonds	%	12.92	13.33	13.47	13.38	13.29	13.85	13.50	12.92	11.32	10.13	9.91	8.91	9.26	9.11	9.25
Yield on 10-year T-bonds	%	10.23	10.68	10.61	11.30	11.74	11.87	11.97	11.57	10.31	9.19	8.92	8.25	8.34	8.25	8.45

** at the end of period   ** in corporate sector   *** nominal*

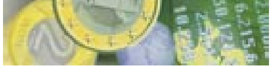
Source: CSO, NBP, BZ WBK

Quarterly and yearly

		1997	1998	1999	2000	2001	2002	2003	1Q01	2Q01	3Q01	4Q01	1Q02	2Q02
							forecast						forecast	
GDP	PLN bn	472.4	553.6	615.1	685.6	722.3	770.0	830.0	165.6	176.6	179.9	200.3	170.0	184.3
GDP	% YoY	6.8	4.8	4.1	4.0	1.1	1.9	3.5	2.3	0.9	0.8	0.3	1.5	1.0
Industrial output	% YoY	11.5	3.5	3.6	6.8	-0.2	3.0	3.4	4.5	-0.7	-0.8	-2.6	-1.3	1.3
Real retail sales	% YoY	6.8	2.6	4.0	1.0	0.4	x	x	-3.1	-0.2	1.2	3.7	x	x
Unemployment rate*	%	10.3	10.4	13.1	15.1	17.4	19.0	19.0	16.1	15.9	16.3	17.4	18.2	17.8
Real gross wage	% YoY	5.9	3.3	4.7	1.0	3.3	0.4	1.5	2.5	0.8	2.5	1.3	1.2	1.0
Exports (acc. to NBP)	USDm	27 229	30 122	26 347	28 256	30 276	31 728	34 000	7 436	7 508	7 459	7 873	6 822	7 216
Imports (acc. to NBP)	USDm	38 549	43 842	40 727	41 424	41 955	43 992	47 000	10 584	10 286	10 193	10 892	9 821	10 411
Trade balance (acc. to NBP)	USDm	-11 320	-13 720	-14 380	-13 168	-11 679	-12 263	-13 000	-3 148	-2 778	-2 734	-3 019	-2 999	-3 195
Current account	USD	-4 309	-6 862	-11 558	-9 946	-7 075	-8 380	-9 150	-2 170	-2 205	-945	-1 755	-2 371	-2 088
Current account	% PKB	-3.0	-4.3	-7.4	-6.3	-4.0	-4.6	-5.0	-4.9	-5.2	-4.2	-4.0	-4.1	-4.0
Budget deficit*	PLN bn	-5.9	-13.2	-12.5	-15.4	-32.6	-40.0	-42.0	-15.0	-18.8	-21.9	-32.6	-18.0	-28.0
Budget deficit*	% PKB	-1.2	-2.4	-2.0	-2.2	-4.5	-5.2	-5.1	-9.1	-2.2	-1.7	-5.3	-10.6	-5.4
Inflation	% YoY	14.9	11.8	7.3	10.1	5.5	3.6	4.5	6.7	6.6	4.9	3.8	3.4	2.9
Inflation*	% YoY	13.2	8.6	9.8	8.5	3.6	4.9	4.0	6.2	6.2	4.3	3.7	3.4	2.8
Producer prices	% YoY	12.2	7.3	5.7	7.8	1.6	1.2	2.5	4.2	2.2	0.8	-0.6	0.3	1.3
Money supply	% YoY	30.3	25.8	23.2	14.9	13.4	8.6	11.0	14.7	11.8	14.1	12.9	11.0	9.3
Deposits	% YoY	33.0	28.8	24.7	17.0	14.9	8.3	10.5	17.1	13.6	15.7	13.3	10.6	8.8
Credits	% YoY	44.6	29.3	28.3	23.0	11.1	8.8	15.0	15.4	9.7	11.3	8.1	7.1	7.7
USD/PLN	PLN	3.28	3.49	3.97	4.35	4.09	4.22	4.50	4.09	3.99	4.22	4.08	4.13	4.19
EUR/PLN	PLN	3.71	3.92	4.23	4.01	3.67	3.74	4.00	3.78	3.49	3.76	3.66	3.62	3.67
Intervention rate*	%	23.50	15.50	16.50	19.00	11.50	9.00	9.00	18.00	15.50	14.50	11.50	10.00	9.00
WIBOR 3M	%	23.93	21.34	14.73	18.78	16.08	9.71	9.20	18.53	17.09	15.37	13.45	10.65	9.40
Lombard rate*	%	27.00	20.00	20.50	23.00	15.50	12.50	12.00	22.00	19.50	18.50	15.50	13.50	12.50
Yield on 52-week T-bills	%	23.44	18.59	12.95	17.77	14.77	9.40	9.20	17.02	15.70	14.67	11.72	9.64	9.50
Yield on 2-year T-bonds	%	23.47	18.08	12.41	17.37	13.91	8.70	8.60	15.59	14.91	14.37	10.83	9.27	9.30
Yield on 5-year T-bonds	%	21.03	15.83	10.87	14.00	12.59	8.60	8.50	13.12	13.38	13.43	10.45	9.09	9.05
Yield on 10-year T-bonds	%	x	x	9.60	11.79	10.74	7.90	7.80	10.46	11.22	11.81	9.48	8.28	8.25

** at the end of period*

Source: CSO, NBP, BZ WBK



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