

# MACROscope

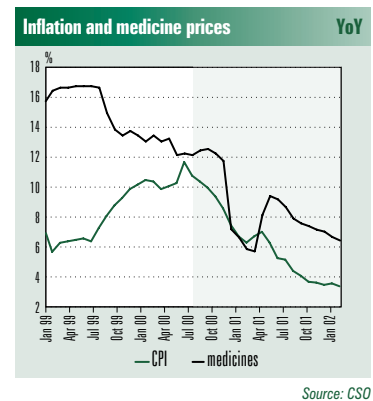
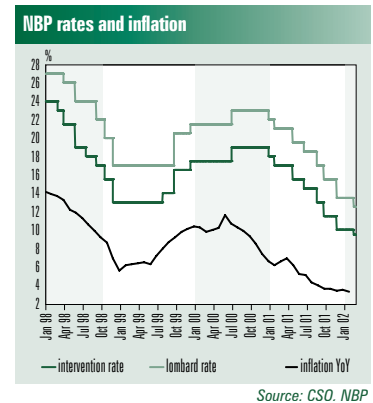
## Polish Economy and Financial Markets

May 2002

N° 34

### Łapiński's effect

- In April, Monetary Policy Council (MPC) cut the base rate by 50bp down to 9.50%.** This meant that for the first time in the history of the Polish post-war market economy interest rates went down to a single digit level. Neither in its announcement nor in the course of the press conference did the Central Bank give any clear signal suggesting the end of the interest rate cutting process. As a result, financial markets expect a 50bp cut by the end of Q2 – most likely in June – and some further cuts of ca. 100bp in H2 2002. In our opinion, the cut in June is quite likely, while the growth in the inflation rate expected to take place in H2 may result in the NBP maintenance of its intervention rate at 9% by the year-end.
- On 22-24 May, the Lower House of Parliament (Sejm) will hear the first reading of the draft NBP act developed by PSL-UP.** Our projections for the interest rates envisage that no statutory changes limiting directly or indirectly the MPC independence (by way of increasing the number of the MPC members) will be implemented either due to the insufficient number of votes in the Sejm, the President's veto or the adjudication of the Constitution Tribunal. However, the Sejm debate itself may lead to the growth in return for the risk of holding the Polish assets and the market may see more volatility.
- April will show us the implications of the Government's actions on the economic ratios.** Firstly, the budget income from PIT should be higher due to the application of "Belka's tax" (a deposit interest return tax), effect of the frozen tax thresholds and limitation of tax allowances. Secondly, income from indirect tax will be fed by the electricity excise duty income. Finally, we will learn the actual result of "Łapiński's effect" (NHS Minister) for inflation. The minister suggested a 20% decrease in the prices of medicines, while one of the Regional NHS Offices indicated an increase of 8%.
- According to our estimates, the so-called "Łapiński's effect", i.e. the introduction of a new list of subsidised medicines may lead to the growth in the inflation rate by ca. 0.2% in April,** if the CSO applies a "regular" procedure of calculating the price index, i.e. it does not make changes in the CPI basket in the course of a calendar year. We do not know exactly what method of calculating medicine prices will be applied, however, according to our best effort findings, the CSO may try to adjust the basket of medicines in CPI in response the change of the subsidised medicines list. In the most extreme case it may artificially decrease the April inflation rate by 0.4%. It seems, however, that the final result will consist in the arbitrary approval of the halfway



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Financial market		on 30 April 2002	
NBP deposit rate.....	<b>6.50</b>	WIBOR 3M .....	<b>10.10</b>
NBP intervention rate.....	<b>9.50</b>	Yield on 52-week T-bills.....	<b>9.37</b>
NBP lombard rate .....	<b>12.50</b>	Yield on 5-year T-bonds.....	<b>8.92</b>
		PLN/USD.....	<b>3.9802</b>
		PLN/EUR .....	<b>3.5910</b>
		EUR/USD .....	<b>0.9000</b>

option. The scale of the CSO calculating discretion seems to be increasingly worrying.

This month issue of MAKROskop includes two topics of the month. Firstly, we analyse the potential inflation scenarios in 2002. It turns out that more or less half of the price increases is beyond the control of the monetary policy and results from the external supply shocks and changes to the fiscal policy. The analysis indicates that if all supply drivers are favourable and PLN remains strong by the year-end, then the inflation rate may go down below 3% as at the year-end. However, under the scenario of high prices of crude oil, weak PLN and some ramp up in the food prices, the inflation may go up to 5.5%. What is more, the MPC has little headroom to substantially increase the likelihood of a given scenario materialisation, although it may still run the policy preventing the inflation bounce in 2003.

Another analysis presents the assessment of PLN and FX loans costs in the past as well as it gives some projections for the future. The analysis of the loan price sensitivity to the main parameters has been also presented. The analysis indicates that the interest rate risk has a very marginal impact on the loan price, contrary to the FX risk.

Enjoy reading this issue! As this is the last MAKROskop issue I have had the opportunity to co-develop, I would like to thank you for devoting your time to reading our work and wish you successful investment decisions in the future.

Krzysztof Rybiński

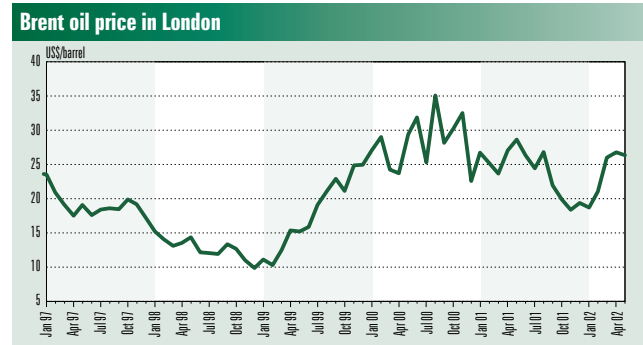
### Will the inflation rate bounce in 2002?

- 'Supply' drivers will add to the prices ramp up in H2 2002
- The most likely scenario indicates that the impact may be of 2.7%.
- This leaves little headroom for further loosening of the monetary policy this year.

### Inflation forecasts diverge on the market

Recently we've seen growing divergence between inflationary outlook for 2002 and 2003 not only between different market analysts but also between two major policymakers: finance ministry and Polish central bank. Conflicting scenarios regarding future price growth potential obviously lead to different expectations for monetary policy perspectives. This research note analyses three possible scenarios regarding price growth in 2002 in areas that are not dependent on Polish monetary policy

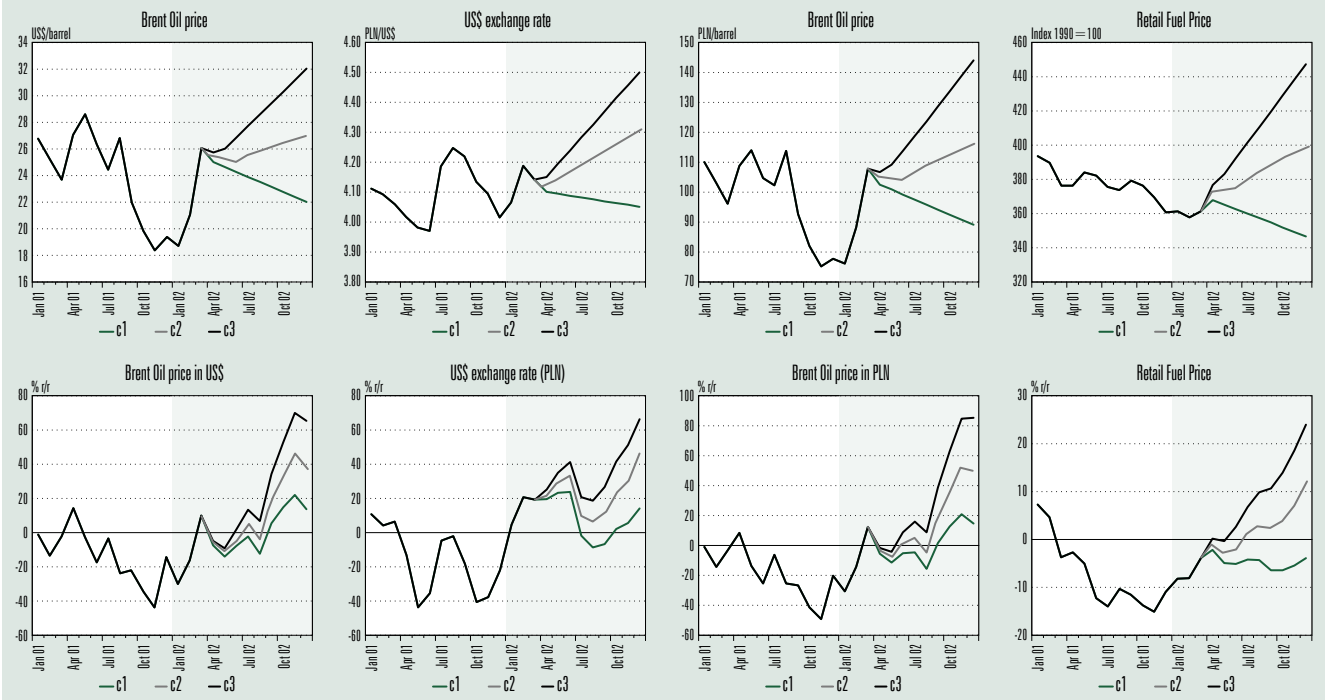
and show the possible impact of so-called 'supply shocks' on CPI inflation in 2002. This analysis provides a rationale for our inflation forecast, which is in the upper end of market expectations range. It also raises the question whether the scope for further interest rate cuts is indeed still there, given the assumption that medium-term inflation target below 4% should be met in 2003.



Source: Reuters

### Hot topic: oil prices

Recent developments on world oil markets proved that previous forecasts of stable or only gradually increasing oil prices in 2002 might be seriously misplaced and that we could experience sooner and more pronounced adverse oil shock. Of course we don't have any more sophisticated tool for predicting world oil prices than a standard set of black cat and crystal ball, therefore we've tried to base our calculations on the scenario analysis, drawing three different assumptions about Brent oil price path this year. We've matched those assumptions with three different scenarios for zloty exchange rate against US dollar (euro rate is irrelevant here as oil transactions are settled in US\$). Then we've estimated the possible impact of each scenario on Polish retail fuel prices. To measure this influence we estimated simple regression of domestic retail fuel prices on world oil prices and zloty-dollar exchange rate. Yes, we know that this approach is far from perfect, while it ignores the impact of excise tax changes, monopolistic power of Polish fuel producers, etc. Nevertheless, given the scarcity of resources and only indicative character of our analysis, we found the established behavioural relationship to be the plausible proxy for the change of retail fuel prices in Poland in 2002. The model indicated that domestic fuel prices are much more sensitive to zloty exchange rate changes than to crude oil price (for more details, see Methodological box on page 5).

**Fuel price growth scenarios**


Note: "c1" – the most optimistic assumptions for all variables; "c2" – 'most likely' scenario, basing on our actual forecasts; "c3" – gloomy scenario, the most pessimistic assumptions for all variables.

Source: BZ WBK

Figures on the next page displays the assumptions and the results of our scenario analysis regarding fuel prices. To limit the number of possible combinations below we've presented only three cases, „c1“, „c2“ and „c3“. Scenario „c2“ includes assumptions that we believe to be the most likely, while „c1“ and „c3“ build on the extreme assumptions, the most optimistic and the gloomiest (from inflationary perspective) respectively. In our base scenario we assume oil prices at the end of 2002 to be at ca. US\$27 p/b, in the upper end of OPEC's target band, pushed up by vigorous global recovery. Zloty is assumed to weaken to ca. 4.3 against US\$ by December amid decreasing interest spread, growing macroeconomic imbalance, and evaporating investors' expectations for further rate cuts. This simple calculations show that under the most likely scenario fuel prices would grow nearly 11% YoY at the end of 2002, therefore its contribution to CPI growth rate could be close to 0.4% (given its weight in CPI basket at ca. 3.5%).

**Other pieces of the puzzle**

Of course fuel is not the only factor that would contribute to faster price growth in 2H02, though it is surely one of the most significant. On Figure 2 we've put together all major sources of 'exogenous' inflationary impulses this year. Again we've presented three different scenarios: two extreme cases „c1“/„c3“ with the most optimistic/

pessimistic assumptions regarding all supply shocks, and the most likely „c2“ scenario presenting our internal view.

Some assumptions might call for more detailed explanation. Electricity prices will go up in July-August after energy market regulator URE allows for distributors' tariff revision. According to URE spokesman the magnitude of growth should amount to 10-11%, so there seems to be little manoeuvre for the forecaster. Gas prices have already been raised since the beginning of April, and the average cost hike for representative household could reach up to 10%. The most optimistic scenario assumes somewhat smaller increase here while the worst case (c3) anticipates another small gas price hike in September-October (the tariff can be revised twice a year). Central heating and warm water costs are obviously heavily dependent on electricity and fuel prices; their growth has been set arbitrary taking into account increases in the former areas. House rental and cold water costs have been estimated for „c2“ scenario assuming very conservative assumptions of limited price growth in March-May and completely flat prices for the rest of the year; in two extreme scenarios 2 percentage points have been added/subtracted. Growth of medicine prices in „c3“ scenario has been estimated under the assumption that average prices of drugs went up by 8% in April, as suggested by one of healthcare funds' calculations, an

then exhibited only limited growth for the rest of the year; in „c2” case we’ve assumed more limited price growth and the „c1” scenario calculations were based on the assumption that drug prices declined by 10% in April. Food market is a field where lots of discretion is possible and the weight is the highest. The ‘most likely’ scenario (c2) reflects our actual forecasts while two extreme cases base on the assumptions of very limited and intensified market intervention respectively (the temptation to gain some rural electorate by resorting to food market intervention ahead of local elections would be hard to resist this year).

### Que sera, sera?

Figures in table 1 represent assumed annual price growth rate for specific categories, their contribution to CPI growth rate and the resultant CPI inflation rate (last row) given the assumption that growth rate of other inflation components remains stable for the rest of the year. Computations assumed last year’s weights in CPI basket while the new ones are not available in details yet.

What conclusion could be drawn from these calculations? Primarily that almost every forecast could be justified by appropriate combination of basic assumptions. But this is not the constructive one. Indeed, if everything goes absolutely well, we could see inflation stable or even falling by the end of this year. But what probability would you attach to such set of events?

We would rather adopt more cautious approach. Column „c2” representing our headline scenario shows that joint effect of all adverse supply shocks on inflation rate amounts to 2.7 percentage points. It raises CPI inflation to ca. 4.4% under the assumption that contribution of other components of price growth remains unchanged at the level recorded in February. But mind that interest rate cuts engineered so far resulted in notable monetary policy easing in last couple of months. And it would be rather heroic to assume that this factor would have completely no impact on inflation rate (especially if at the same time one blames restrictive monetary policy in the past for being the major force jeopardising economic growth in Poland). We’ve probably bored you to death with the graph displaying the relationship between lagged narrow money, lagged MCI and CPI inflation in Poland. But it has to be reiterated once again: monetary factors suggest that one could expect ‘core’ inflation components to pick up in 2H02. Therefore it seems plausible to assume that

inflation rate at the end of this year would be even higher than suggested by our simulation. That’s why we stick to our inflation forecast and still believe that we could see some 4.7-4.8% YoY CPI growth by the end of this year (see graph below).

**Sources of inflationary impulses in 2002** tab. 1

Type	Share in CPI basket 2001	last value % YoY Feb'02	Estimated growth %YoY			Contribution to CPI growth % t/r			
			c1	c2	c3	Feb'02	c1	c2	c3
fuel	3,5%	-8,0	-3,9	10,7	24,0	-0,28	-0,14	0,37	0,83
electricity	3,4%	11,6	9,0	10,0	11,0	0,39	0,30	0,34	0,37
gas	2,0%	6,5	7,5	10,0	15,0	0,13	0,15	0,20	0,30
central heating + warm water	3,1%	7,9	4,5	5,0	7,0	0,24	0,14	0,15	0,22
house rental + cold water	4,5%	10,1	5,2	7,2	9,2	0,46	0,24	0,33	0,42
medicines	2,9%	6,6	-8,0	5,0	10,5	0,19	-0,23	0,15	0,31
food	29,7%	2,2	2,2	3,8	4,5	0,65	0,65	1,13	1,34
sum:	49,1%	3,6	2,3	5,4	7,7	1,79	1,11	2,67	3,78
other components	50,9%	3,4	3,4	3,4	3,4	1,71	1,71	1,71	1,71
<b>CPI</b>		<b>3,50</b>	<b>2,82</b>	<b>4,38</b>	<b>5,49</b>				

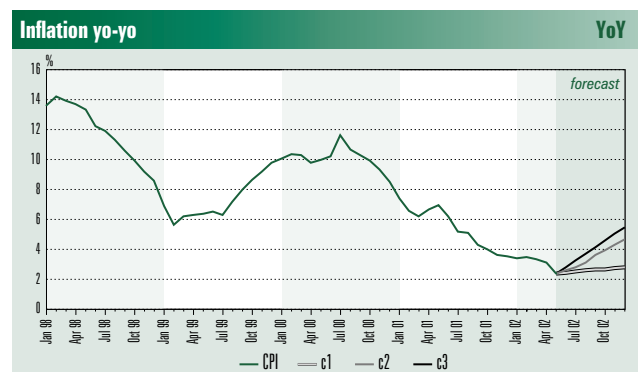
Note: “c1” – the most optimistic assumptions for all variables;  
 “c2” – ‘most likely’ scenario, basing on our actual forecasts;  
 “c3” – gloomy scenario, the most pessimistic assumptions for all variables.

Source: BZ WBK

### Half of inflation rate is out of monetary control

If you sum up the weights of exogenous factors in CPI basket listed in Figure 2 it turns out that ca. 50% of consumer price growth is already pre-determined this year, or at least depends very little on domestic monetary policy. Some might say that in such case lowering interest rates further wouldn’t harm inflation that much, so why hesitate? But of course there is always the other side of the coin. Given such high immunity of inflation rate to domestic interest rates and the length of monetary policy transmission process, delivering further monetary stimulus that would accompany the price hikes that are already determined for 2H02 would be a rather sophisticated method of targeting inflation at below 4% in 2003, especially that additional adverse supply shocks are probably on the way.

What comes up, must go down - says the common wisdom. But employing gravitation laws for inflation forecasting in Poland could be somewhat misleading.



Source: CSO, BZ WBK

Anyway, if one studied the complexity of Newton laws in more detail, he would know that after a deep fall the bounce-back effect is very likely. And the history of Polish

CPI growth in last 3-4 years provides clear example here. This year we have the good chance to see another round of inflationary yo-yo effect.

### Methodological box

For econometric nerds we attach some results of our simple regression analysis. We've modelled domestic retail prices of fuels in Poland using monthly data for Brent oil prices (US\$ p/b) and zloty-dollar exchange rate as explanatory variables. Estimation sample has been restricted to 1998:01-2002:03, because prior to that period Polish fuel market was heavily regulated and prices were extremely sticky downwards. All three variables proved to be non-stationary. However, they also seem to be co-integrated of order 1, as the simple OLS regression gives stationary residuals, confirmed by ADF statistics. We realise the shortcomings of the econometric approach adopted here, like for example omitted variables problem. We totally neglected the influence of excise taxes, customs, and producers' monopolistic power, which is probably responsible for the fact that estimated exchange rate coefficient is greater than one. The Durbin-Watson statistics also indicates that residuals are autocorrelated, suggesting that the coefficients might be biased. Nevertheless for the sake of simplicity we've decided to rely on the estimated behavioural relationship during our scenario simulation. Below is the estimated equation:

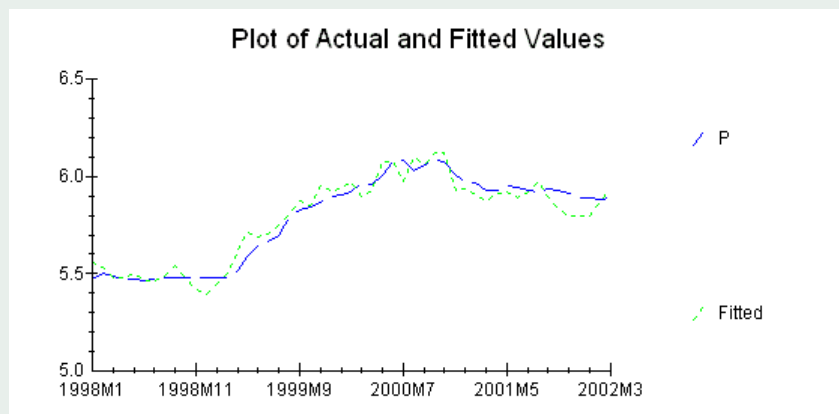
$$p_t = 3.1305 + .35226 * pb_t + 1.1648 * e_t + u_t$$

(.16468)    (.047151)                    (.19630)

where  $p_t$  stands for domestic fuel prices,  $pb_t$  for Brent oil prices,  $e_t$  zloty-dollar exchange rate, and  $u_t$  represents the error term, all variables expressed in logarithms. Numbers in parenthesis represent corresponding standard errors. Basic equation statistics are listed below:

R-Squared	.93396	R-Bar-Squared	.93121
DW-statistic	1.0658	F-stat.	F( 2, 48) 339.4434 [.000]
A:Serial Correlation*CHSQ( 12)=	17.2370 [.141]	F( 12, 36)=	1.5316 [.158]
B:Functional Form *CHSQ( 1)=	.88527 [.347]	F( 1, 47)=	.83025 [.367]
C:Normality *CHSQ( 2)=	1.4770 [.478]		Not applicable
D:Heteroscedasticity*CHSQ( 1)=	.12166 [.727]	F( 1, 49)=	.11717 [.734]

A:Lagrange multiplier test of residual serial correlation  
 B:Ramsey's RESET test using the square of the fitted values  
 C:Based on a test of skewness and kurtosis of residuals  
 D:Based on the regression of squared residuals on squared fitted values



## The cost of FX loans

- What impacts the cost of FX loans?
- Which currency is the best to raise a loan in?
- The costs of loans over the last 5 years
- Future prospects (2 options)
- Analysis of a loan sensitivity to exchange and interest rates
- Conclusion: Borrower, beware of the FX risk!

### On making the decision

Every time we make a decision we always ask ourselves if it was right or the best possible. Although our doubts related to a breakfast shopping decision on a piece of bread or buns wear off relatively fast, i.e. the very moment we have swallowed, the financial decisions may have a substantially longer term impact on us, as the resultant effects may define the menu of many of our breakfasts in the future.

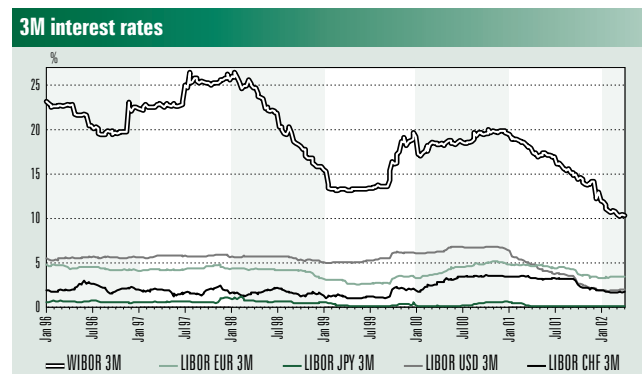
Every borrower who has raised an FX loan with a bank is permanently concerned with the stability of the exchange rate. This is the main risk driver which has a substantial impact on the cost of such a facility. FX borrowings turn out to be attractive if the total of the FX loan interest rate and the scale of PLN depreciation against the credit currency is lower than the PLN loan interest rate. Unfortunately, at the moment of raising a loan nobody knows the future exchange rate and how much more PLN than actually borrowed one will have to repay. However, one should not forget the substantial difference between the interest rates in Poland and other countries. The difference means that only in case of significant PLN depreciation would FX facilities cease to be attractive. A borrower is to assess the risk and make a relevant decision.

### What impacts the costs of FX loans?

The cost of the FX loan is primarily driven by the following two factors - interest rate and exchange rate. This analysis will focus on the very two market factors disregarding other costs, such as bank's margin, fees, charges, etc.

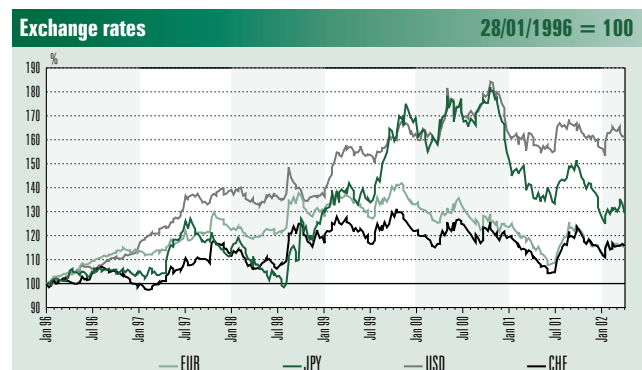
In Poland, as at the beginning of 1998 3 M WIBOR was over 25%. After the series of cuts in the main NBP rates (the intervention rate is of a key importance here) 3M WIBOR went down under 15%. However, in 1999 due to

the return of the restrictive approach to the monetary policy 3M WIBOR bounced up to 20% as at the end of 2000. The current loosening of the monetary policy by the MPC has led to the substantial reduction in the interest rates and the decrease in the intervention rate down to 10%. There were also cuts in other analysed countries and as a result the Polish rates remain higher by 7%-10%.



Source: Reuters

The chart below presents the history of changes in the PLN exchange rate with USD, EUR (ECU before przed 1999), CHF and JPY. At the level of 100 the exchange rates of 28 January 1996 were assumed. Bearing in mind that PLN exchange rate has been fully liquid only since 12 April 2000 (formerly there was a gradually extended range of acceptable fluctuations in place) it seems, that over the recent 6 years PLN has weakened to USD most, there was a strong depreciation to JPY in 2000 which was subsequently adjusted in 2001. The most stable were CHF and EURO. This results from the geographical distance and the foreseeable accession of Poland to the EU. Therefore, the conclusion is that raising a loan in CHF and EURO one can expect bigger stability of the debt service costs.

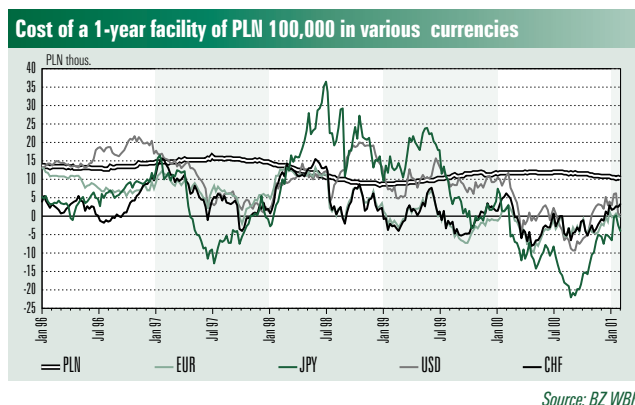


Source: Reuters, BZ WBK

### The cost of loans in the last 5 years

We have made an attempt to assess the cost of a loan depending on the fluctuations in interest rates and exchange rates. Our case study is a 1-year facility of PLN 100k charged with interest based on 3M market rate for individual currencies (for the purposes of transparency we excluded the bank's margin), repaid in quarterly instalments. The interest rate was floating and set at the beginning of each quarter. The repayments were made as at the end of each quarter and consisted of 1/4 principal amount and interest accrued for a given quarter (in PLN, i.e. including exchange rate fluctuations). Actually, such loans are raised for longer periods, but the repayment mechanism is the same. This analysis also excludes money value in time, comparing the nominal value of repayments.

The chart below presents the historical cost of such a facility raised in PLN, USD, EURO, CHF and JPY.



The calculated cost tells us how much more PLN we ultimately had to repay against the loan amount of PLN 100k raised on a given value date. As the quarterly repayments included some part of capital, it should not be strange, that e.g. with the interest rate over 20%, the ultimate total cost was below 15%. We realise that such a simplified analysis does not take full account of the money value in time, but on the other hand it reflects the reasoning of a representative borrower raising e.g. a mortgage (home) loan. The general rule in this case is that such a person does not think in terms of the money value in time but is interested how much money he/she will have to allocate to debt repayment in individual periods.

Of course, in the case of PLN loans the cost curve is very flat as we do not deal here with exchange rate fluctuations and the pricing depends solely on the interest rate whose

fluctuations are more limited. The total cost of the PLN loan went down from over PLN 15k for the loans raised in H2 1998 down to ca. PLN 10k in case of the last credit facilities covered by the analysis, i.e. those raised a year ago. The most favourable period for raising PLN loans was the beginning of 1999, when the „cash” cost of our loan was lower than PLN 9k.

The relation of the credit cost and exchange rate movements is clearly visible. In the periods of the strong depreciation of PLN, the cost of an FX facility was higher, and at times it was substantially higher, than the cost of a PLN loan. The risk related to FX facilities can be perfectly realised by analysing the data related to FX loans raised in 1998-1999. Due to the strong depreciation of PLN against JPY which took place in 1999, the total cost of a loan raised in JPY was as much as PLN 36.5k in August 1998. The USD facilities raised at the turn of 1998 turned out to be unattractive as well - their cost totalled PLN 20k.

It goes without saying, that undertaking any risk we may lose much but we can also gain a lot. As the interest rates in Poland were substantially higher than in other countries, and the end of 2000 and H1 2001 saw a substantial strengthening of PLN, FX facilities raised in 2000 turned out to be very profitable. The appreciation swing of the Polish currency might result in a situation that the cost of a loan (at least the mortgage one that we have been discussing) could be negative (even after all incremental costs in the form of commissions, fees and margins). De facto, a borrower would earn on the facility (!), i.e. would repay the bank nominally less than the originally raised equivalent of PLN 100k.

The better part of the borrowers in Poland were aware of the above-mentioned conditions and the resultant potential benefits. As a consequence, the borrowers took advantage of raising FX loans in recent years. It seems that their decisions were right, at least in case of short and medium-term loans. However, how long will it see no changes?

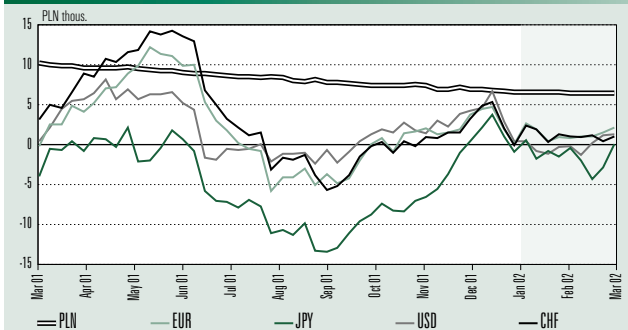
### Prospects for the future

While considering the potential attractiveness of the currently raised FX loans we have to assume some scenarios for the movements in the market interest rates and exchange rates. Having this case study 1-year facility, we have analysed two scenarios:

- 1) Both interest rates and exchange rates remain stable for a year after raising a loan
- 2) There are the following movements in the interest rates and exchange rates:
  - gradual depreciation of PLN against all currencies
  - by the total of 10% over a year
  - in Poland, interest rate cut by 100bp
  - in the USA, interest rate increase by 50bp
  - other interest rates remain stable.

In the first case, when PLN remains strong despite numerous comments of all parties (Government, MPC, economists) on its over-appreciation, raising FX loans will still be attractive and cheaper than PLN loans. As has been shown on the chart below, under this assumption the FX facilities raised in EURO and CHF in May and June last year turn out to be unfavourable. However, if we raised the loan today, we should take advantage of such a decision regardless of the chosen facility.

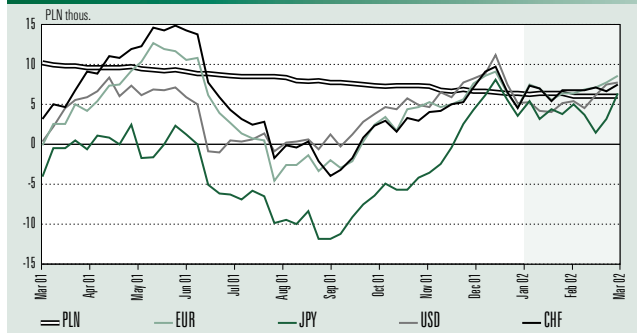
**The cost of a 1-year loan of PLN 100,000 in various currencies projection – stable exchange rates**



Source: BZ WBK

The situation, however, will change dramatically if take into account the assumptions under the other scenario. The projected changes to the interest rates are marginal and so is their impact. The level of PLN depreciation, however, is very important. Apparently, the assumed 10% is quite high as the PLN exchange rate would have to be 4.50 against USD and 3.95 against Euro next year. One cannot exclude this considering the risk related to FX loans, and the highlighting of the potential risk is the issue here. After all, this is not an unlikely case. The calculation output has been presented on the chart below.

**The cost of a 1-year PLN 100,000 in various currencies projection – a 10% PLN depreciation**



Source: BZ WBK

As it seems, with the assumed gradual depreciation of PLN, the cost of FX and PLN loans raised as the end of last year has been balancing. The following table presents the cost of the currently raised loans under two scenarios.

**The total cost of the loan of PLN 100,000**

**tab. 2**

Currency	scenario 1	scenario 2
PLN	6 481,25 zł	6 042,50 zł
USD	1 268,75 zł	7 752,27 zł
EUR	2 125,00 zł	8 556,45 zł
CHF	1 072,92 zł	7 450,94 zł
JPY	65,63 zł	6 392,49 zł

Source: BZ WBK

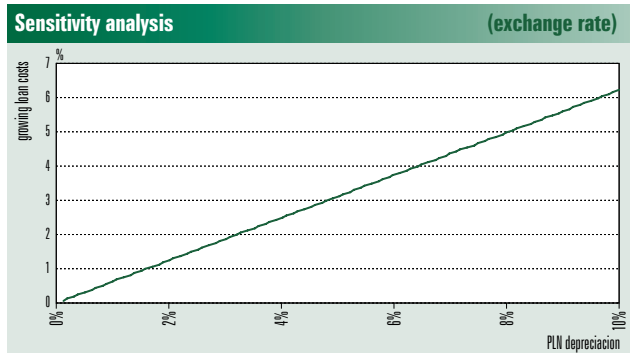
Much more expensive as the PLN loan is under the scenario 1, it turns out to be the cheapest under the scenario 2.

### So how much may I lose?

Surely many Readers of this analysis have been wondering on the practical meaning of the FX risk related to raising FX loans for their wallets, i.e. how much more PLN they will have to pay for the loan, if PLN weakens in the course of the lending period. In order to answer this question, we again used our case study and calculated the impact of the PLN depreciation on its cost (understood as the total repayments). It has been assumed that the facility bears the fixed interest rate and the next year will see a gradual weakening of PLN. Depending on the scale of this weakening the growth in the loan cost was calculated. The chart below shows the calculation output. As has been mentioned before, one cannot exclude the situation that PLN will be 10% weaker in a year's time. This would mean, that regardless of the loan amount, borrowers would have to repay 6.2% more than in case PLN remains at its current level. Is it much or not? Well, in the case of PLN 100k and the interest rate of 2%, a 10% depreciation of PLN one would have to pay as much PLN 6,300 more,

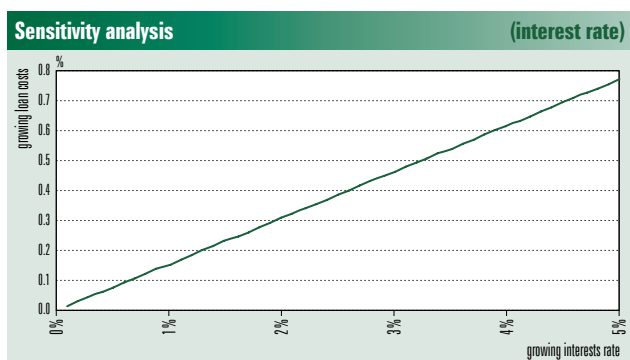


and every 1% weakening of PLN would represent the borrower's cost of PLN 630. The same facility bearing a 10% interest rate would cost PLN 6,500 more with the 10% depreciation of PLN.



Source: BZ WBK

In order to find out the increase in the cost of a loan due to the increase in its interest rate (which currently is very likely in case of FX loans due to the started global monetary tightening cycle), we put the assumptions in different order. This time a stable exchange rate has been assumed while the cost of a loan goes up together with the increase in the interest rate. The calculation output has been presented in the chart below. It seems that the cost of a loan is substantially less sensitive to changes resulting from the increase in the interest rates. If, in the course of a year for which our case study loan has been raised, the interest rates go up by 5%, its cost will go up only by 0.77%. Translating this into physical amounts, with the facility of PLN 100k, such an increase in the interest rates will mean additional PLN 780 more to be repaid, regardless of the original interest rates.



Source: BZ WBK

It seems that the changes of the exchange rates have a substantially higher impact on the cost of a loan than the changes in its interest rate. This is because the higher interest rate means we have to repay higher interest, while the capital instalments do not change. However, the change in the exchange rate effects both the interest and capital instalments - and this, due to the amounts

involved, has a critical impact on the total cost of the loan.

**Conclusion: Borrower, beware of the FX risk!**

The main conclusion drawn upon the conducted analysis is that while making a decision on raising an FX facility taking account of its tempting low interest rates, one should always bear in mind the risk related to the exchange rate. As has been evidenced, the depreciation of the domestic currency may result in a situation, where the FX loan which seemed definitely more attractive the a PLN one, will turn out to be more expensive in the final calculations. At present, we have a situation where the Polish currency is very strong (USD/ PLN: 4.03 as at 19 April 2002), therefore, there is some room for the potential weakening. On the other hand, however, in the foreseeable future Poland should join the EU and subsequently the EURO zone and these factors will represent a strong support for PLN. It seems that long-term FX facilities should turn out to be cheaper than the PLN ones under the better part of the scenarios (apart from the crisis scenario), while the gradual depreciation of PLN expected in the forthcoming year may mean that these loans will be less attractive. However, the assessment of the depreciation risk level must be made individually by each borrower. One may also try to identify the right moment for converting the facility. All in all, we have nothing else to add but to wish the best possible decisions!

## Economic update

- Economic data keeps on bringing ambiguous signals on the Polish economy standing
- The consumers' demand remains strong...
- ...but the business remain reluctant to investments
- However, there are increasingly more signals of the improvement in the general economic situation

### Signals are still ambiguous

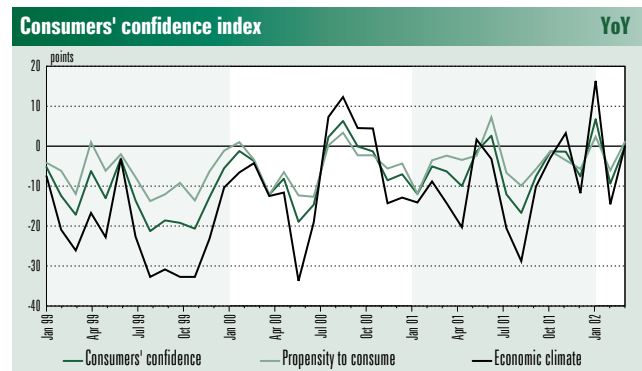
April has brought ambiguous signals re. economy standing and the prospects for the recovery of business activity. Similarly to previous months, questionnaire research of the businesses univocally indicated the growth in the business optimism, expected growth in demand and increase in the orders portfolio. After the March collapse, April saw the recovery of the consumers' optimism, their assessment of the current financial standing and penchant for shopping. There was a clear cut growth in the retail sales dynamics as well as in the personal credit delivery. The budget income from tax also saw a clear cut growth. On the other hand, however, there were further redundancies made in March, for the first time for a long time the nominal payroll fund shrank in enterprises, industry output dynamics returned to the deeply negative values after a once off bounce 'in plus' in February, the imports significantly decreased y/y, suggesting the maintained weak investment demand, the banking sector receivables due from businesses went down by over PLN 2.6bn in March, i.e. the scale unheard of before if we exclude the behavioural profile of cash aggregates in December.

The details can be found below.

### April brought improvement in household sentiment

According to Demoskop polling institute household sentiment index rose by 7 points to 86 in April, with 100 being a neutral level. While there are still more pessimists than optimists it does appear that our earlier hypothesis holds true. We argued that March collapse in sentiment was a result of government plans to reduce subsidies to medicine purchases and to make it more difficult for pensioners to earn an extra buck on top of their pension. Margin chart shows that WOK computed on YoY basis is again in neutral/positive territory, and in particular propensity to consume rose 1.2 points YoY.

Demoskop said that households are more optimistic with respect to their own financial standing that in their assessment of overall economic activity. And because households know much more about their own finances than about the shape of the economy we tend to attach much bigger weight to propensity to spend indicator than to economic climate one. Households are more often able to save some money from the current income, and for the first time in six months there was a significant increase in percentage of households planning durable goods purchases. Demoskop says that there are first signs of demand recovery in April, now put this statement in the context of retail sales growing almost 10% already in March and private consumption rising 3.2%YoY in 4Q01 GDP statistics.

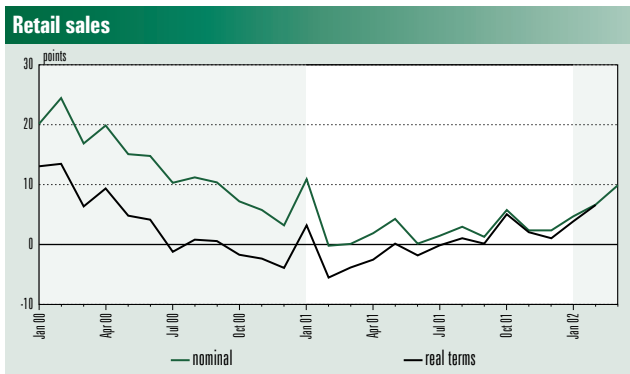


Source: Ipsos-Demoskop

Demoskop said that inflation expectations declined markedly third time in a row and that propensity to save increased, and reached level observed before introduction of Belka tax. But it is much too early to say whether a negative trend in household deposits will be stopped (actually Pentor banking poll showed an opposite picture of falling deposits and rising demand for credit).

### Retail sales accelerate, Easter held partly responsible

Poles are great shoppers. And March retail trade data confirm this thesis. Annual nominal growth of retail sales accelerated from 6.7% in February (revised downwards from 7.7%) to 9.9% in March. In 1Q02 on average nominal retail sales rose 7.1%YoY, while in 4Q01 only 3.5%. Recall that average annual inflation fell from 3.7% in 4Q01 to 3.4% in 1Q02, which makes the difference even bigger in real terms. It appears that private consumption, which rose 2.1%YoY in 3Q01 and 3.2%YoY in 4Q01 accelerated further in the first quarter of this year.



Source: CSO

Interestingly, YoY retail sales rose sharply in March despite one working day less this year. Of course you may immediately point out that with supermarkets gaining bigger market share this may be less relevant because they are open on weekends, but we think that it still matters to some extent. Actually we note that YoY growth rates of sales of furniture, household appliances, RTV, medicines and wearing apparel declined in March in comparison with February. At the same time car sales fell 4%YoY in comparison with -3.1%YoY in February (of course one should keep in mind second-hand car imports influx in 1Q02, and sales of these cars are probably not captured by CSO statistics, as they are often transactions between private persons). Anyway, if everything ticked down in March why retail sales went up. We think that a plausible explanation can be given by Easter holidays, which came two week earlier than in 2001 and resulted in much higher spending on food than in March 2001. Indeed YoY food sales accelerated from 6.9% in February to 18% in March. Yes, Poles do eat too much for Easter, and statistics reveal this bad habit.

Real growth of retail sales in February proved to be stronger than expected. Retail sales increased 6.6% YoY in real terms while nominal growth reached 6.7%. If such low deflator holds also for March, the 9.9% nominal increase of sales reported on Monday could translate into almost 10% real growth - the strongest result since April 2000.

Those who hoped that retail sales data would make the recovery picture clearer will certainly be disappointed. In order to see a 'clean' picture one would have to correct for fewer working days, second-hand car imports and earlier Easter, and the last correction would be in opposite direction to two former corrections. On balance we believe that there is a stable trend (seen in retail sales and in GDP data) of robust and rising private consumption, which should be followed by upswing in inventory cycle and then by higher fixed investments and employment.

### Unemployment flat in March, wage bill fell

According to CSO registered unemployment rate remained stable in March at 18.1%. Employment in corporate sector declined by 0.1% MoM. Both figures are better than in March 2001, when unemployment rate increased by 0.2% and employment declined by 0.4% MoM. Nevertheless the situation on labour market still remains very tough, being the main threat for the recovery scenario. In two subsequent months we can expect unemployment rate to decline a little amid seasonal increase of number of jobs outside industry, though in the third quarter it will rebound again when 900,000 graduates enter labour market. And by the end of year it should reach or even top 19%.

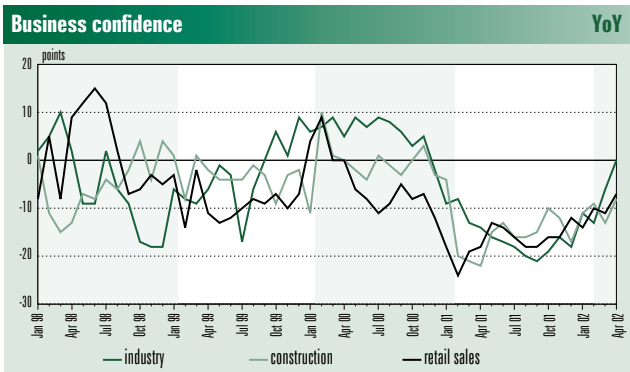
Average wage in the corporate sector seasonally rose 2.8%MoM and decelerated in annual terms to 4.8%YoY from 5.5% in February. Nominal wage bill (average employment times average wage) fell some 0.2%YoY in March for the first time in the last years. This is certainly good news for firms, which can pay less and reduce labour costs. But it is bad news for private consumption that has already been supported by declining household net financial wealth and this process cannot go forever.

### Business sentiment in April flat YoY, call recession off

Business sentiment indicators released by CSO are the first piece of evidence suggesting where the economy may be going in 2Q02. And as you can see on the margin chart, in YoY terms business sentiment in manufacturing left the negative territory calling the recession off. Similarly business sentiment indicators continue to rise in construction and retail trade, although the improvement is less impressive than in industry. In manufacturing business sentiment reached -5 (-9 in March, -5 in April 2001), in construction 7 (-3, 15 respectively) in retail trade -16 (-23, -9).

Going into specifics we note that firms in manufacturing report improvement in both domestic and foreign demand (although on balance there are still more firms reporting a deterioration, but fewer than in March and similar to a year ago). Current production estimates are much more optimistic than in March and expectations regarding future production are also optimistic. As always the worrying bit is that employers continue their plans to reduce employment, although at a lower scale than a month ago. I remember writing this latter phrase in the last few months after every release of GUS business survey, and I keep wondering when corporates will start reporting plans to increase workforce on net basis. Polled firms expected producer prices to rise somewhat in next

few months. We smell the impact of electricity excise tax here but it may also result from better domestic demand conditions translating into more pricing power of producers, right now it is hard to tell.



Source: CSO, BZ WBK

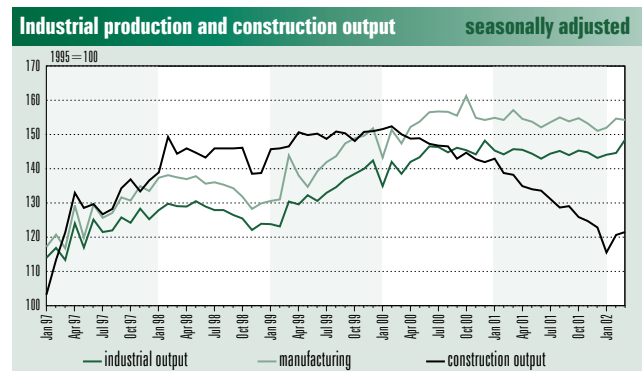
Construction sector exhibits seasonal improvement in business conditions. Interestingly the sector expects its prices to go down in next few months and will continue to trim the workforce, but at a rate slower than last month (again!).

In retail trade firms reported MoM fall in current sales and we just can't resist relating it to March collapse in consumer optimism. Moreover future sales expectations worsened and index turned into red. In the last three years April and May were on average better than March in terms of the volume of sales (in fixed prices). Therefore we note that this result may indicate some weakness of the household demand in the coming months, or may just be a one-off aberration, March retail sales data should shed some more light on this issue. Firms in retail trade will continue to trim the workforce, but at a rate slower than last month (again!).

### Industrial output turned into red again

Industrial output increased 10.2% MoM in March, while in annual terms it declined 3.2% YoY. The figure is somewhat weaker than our forecast (2.8%), and lower than market consensus (2.5%), but given the inconsistencies in CSO's industrial production figures increasing the randomness of any forecasts, we would say the difference is well within the range of prediction error. This year in March there was one working day more than in corresponding month 2001. Simple correction for this factor shows that the YoY production growth rate was comparable to that in February. However it should be interpreted with some caution, because such simple correction is obviously not a perfect measure, while for some sectors and companies (e.g. steel mills) the number of working days is irrelevant for output. Nevertheless we find headline figures not as bad as they might seem at a first glance. It has been confirmed by CSO's seasonally adjusted industrial

production index (1995=100) published in monthly Statistical Bulletin. The index picked up significantly in March. It was the biggest upsurge since December 2000. It was also the third increase in a row, suggesting that industrial production might have started to recover from the horizontal trend recorded since 2H00. Annual production growth rate computed on basis of this index reached 1.9% YoY. Seasonally adjusted index computed by CSO eliminates not only the effects of typical intra-year seasonality, but also accounts for the number of working days and other one-off factors.



Source: CSO

What raised our concerns however is the information that very big annual decline in March was recorded in sector producing electrical machinery and equipment (-10.6% YoY). We've recorded significant improvement of this figure in first two months of 2002 (up to 3.9% YoY in February), suggesting increase in corporate demand for investment goods. This rapid downturn requires further investigation, but it would be possible only after we receive some more data from CSO. Production of radio, television and telecommunication equipment also declined substantially (-10.5% YoY) after 3.8% YoY growth in Feb, suggesting some slowdown of private consumption demand, though it has not been confirmed by retail sales figures yet.

Production in construction sector remained very weak in March, falling 14.4% YoY after -13.9% YoY recorded in February. It leaves the figure for the first quarter 2002 at -16.7% YoY, notably lower than -9.9% YoY in 4Q01. Such results do not allow for much optimism in regard to fixed investment forecast for 1Q02, though our GDP forecast already anticipates that investment fall in first quarter will be deeper than recorded in 4Q01.

### Budget deficit reached 41.1% of plan after three months

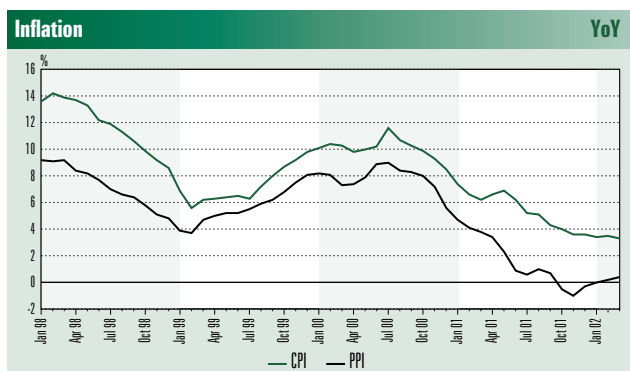
Budget deficit after first quarter this year reached PLN16.43bn i.e. 41.1% of whole-year plan, revenues increased to 21.6% of plan and expenditures to 25.8%. On the annual basis revenue growth deteriorated somehow

in relation to extremely strong February, but remained quite robust; spending growth declined substantially, mostly due to declining debt servicing costs and much lower transfer to FUS.

Budget tax revenues appear to have risen reasonably well in March, both indirect and income taxes (personal and corporate). And obviously there is no UMTS license fees this year so incomes of budget entities are down 70%YoY in March. On balance we would say that 1Q02 was not bad, and given that some taxes will start coming in only in April (interest income, electricity excise tax) and threshold freeze will inflate PIT revenues later this year, we are not too much concerned about budget revenue side.

### Inflation in lower end of expectations' range

Polish CPI increased 0.2% MoM and 3.3% YoY in March. Was it a big surprise? Not really, the figure was in lower end of market expectations' range. What was somewhat puzzling however was relatively low growth of fuel prices. Our data suggest that wholesale prices at Polish biggest refinery PKN Orlen went up by nearly 6% MoM in March (5.9% for petrol and 5.6% for oil). Reflex brokerage house monitoring fuel market in Poland reported earlier that retail prices of fuels on gas stations increased by 2.6-3.0% on average. Meanwhile CSO reported that fuel prices increased only 1% MoM last month. We do not exactly know the technique of data gathering by CSO but such low figure suggests that they didn't catch the biggest hike of prices that took place in the last week of March. Under such assumption the figure for April could be relatively higher.



Source: CSO

The March inflation rate does not change our projected inflation scenario for the remaining months of the year. It is very likely that the next two months will see a decrease in the inflation rate. In April, there was an increase in the prices of gas (up to 10% m/m for the average household) and a substantial growth in the retail prices of fuel by ca 6% m/m (according to the data of Reflex Brokerage House). Nevertheless, due to the „2001 high base” effect

we expect the inflation rate to go down to 3%-3.1%. The only one thing that could prevent that is the so-called 'Łapiński's effect', which results from the new list of the subsidised medicines introduced in the beginning of April. However, our information indicates that this effect will not have a substantial impact on the inflation rate in April (see the frame below).

### 'Łapiński's effect' vs the inflation rate in April

We have estimated that the list of the subsidised medicines may lead to the increase in the inflation rate by ca 0.2% in April, if the CSO applies a 'regular' procedure of calculating the price index, i.e. it does not change anything to the composition of the CPI basket in the course of a calendar year. We have made an attempt to make an in-depth analysis of the issue, as we had some premonition that the CSO would apply some vague method of calculation. We were right in our reasoning and the output was surprising. We do not know exactly what the method of calculating the medicines prices will be, however, according to our findings, the CSO may try to adjust the medicines basket in the CPI in order to take account of the adjustments to the subsidised medicines list. As we do not know the details, we are not able to assess the exact impact on the CPI inflation. In the extreme case it may be of -0.4%, but this rather is very unlikely. We are sure that the accepted solution will bring about relatively stable prices of medicines in April. Under this assumption, the April inflation is estimated at 3.1% y/y. If this holds true, the scale of the CSO calculating discretion should be assessed as substantially worrying and methodologically questionable.

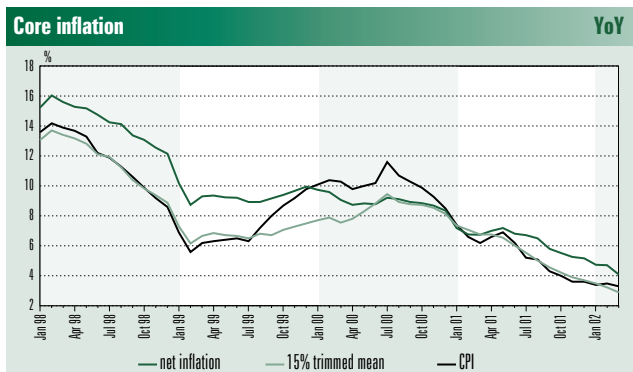
In May, the inflation will reach this year's minimum at ca 2.5% y/y. The projection is slightly higher than the last month, as according to the latest detailed data provided by the CSO, the base effect will not be so strong as projected. As of June we expect the downward tendency of the inflation rate to take off. The scale of the bounce in H2 2002 depends substantially upon the adverse supply shocks, which we may face this year, and PLN exchange rate fluctuations. Despite it all, we feel rather certain with the December inflation projected at 4.5%. This is even more so as our own analysis of the impact of the potential supply shocks on the consumer price index (see pages 2-5), facilitates our scenario of the inflation processes development.

### Producer prices inched up, and will grow further

Producer prices recorded 0.3% MoM and 0.4% YoY growth in March, mainly on the back of significant fuel price hike. The figure still remains very low, in manufacturing sector even below zero (-1% YoY), but clearly its downward trend is already over. In subsequent months changes in tax regulations and trends on global oil markets are likely to push PPI further up. In April power producers will suffer from new excise tax on electricity, but at the same time costs of gas supply will go down for most of large gas consumers. Increased VAT on some products (articles for children, tyres etc.) will also apply. All in all we expect negative effects to prevail, so in April-May period we will see PPI and CPI figures going in opposite directions, CPI will decline to record-low 2.5% in May amid strong base effect, and PPI will rise.

### Core inflation down in March, key measure below 3%

Core inflation measures fell in March as expected. We think that two indicators will be important for the MPC. Firstly, trimmed inflation, which is believed to be more reliable than others fell below 3%. Secondly, net inflation fell sharply from 4.7% to 4.1%. In the last few months central bank comments often related to net inflation pointing that it is well above CPI and it suggests a great role of fuel and food prices in falling inflation.



Source: CSO, NBP

### Money surprise

As expected new measure of money supply M3 showed much slower growth 3.1%YoY than old M2 8.6% (see margin chart). It was obviously affected by an introduction of „Belka tax“, and a run to tax-free deposits in November. Below in figure 1 we show that in November last year some PLN11bn of zloty deposits shifted from shorter tenors to tenors above 24 months. Because M3 definition excludes such deposits, suddenly M3 annual rate of growth fell in November from 11.5% to 7.8%.

While we can easily explain what happened in November, it is not so easy to understand what caused rapid decline on money supply in March by 2% or PLN6.6bn.

On accounting basis it can be shown, cash rose some PLN0.9bn while deposits collapsed by PLN7.6bn. While deposits of households have risen by 1.8bn, deposits of non-monetary financial institutions fell some 2.8bn and corporate deposits fell 4.4bn! Indeed in 1Q corporates typically run down their deposits but the trend has never been so strong as in 1Q02. Also deposits of non-profit institutions (such as church, foundations etc.) fell some PLN2.3bn in March, or almost 23%MoM, something unseen in the last four years for which we have M3 data. In annual terms household deposits decelerated to 3.3%YoY from 3.9% in February and 20.4% a year ago. Credit to households inched up from 14.6%YoY in February to 15.1%YoY in March, while corporate credit nose-dived 4.4%YoY in February to 2%YoY in March. At the same time credit growth to local government and some budgetary funds has accelerated to 64.6%YoY from 61% in February. Net credit to central government has decelerated to 18% from 31% in February, partly as a result of the Eurobond issue, which was also booked as an increase in net foreign assets.

So what happened in March that could justify such a dramatic decline in deposits? The prime suspect „Belka tax“ has already been imposed on 1 March, so it can hardly explain this effect. One plausible assumption is that large part of deposits in March were shifted from below 24 months tenor to above 24 months tenor and dropped from M3 statistics. We also found no evidence that these funds were allocated to other assets (such as investment funds or government bonds). Smaller decline in old M2 aggregate suggests that there was indeed some shift to longer deposits, which could explain roughly half of the March deep M3 money supply fall. Also exchange rate effect is not likely to explain March decline. In March zloty nominally appreciated some 2% against US dollar, but it can account only for up to PLN1bn decline in deposits, as foreign currency liabilities of the banking sector are five times smaller than zloty liabilities. Anyway, the bottom line is that total deposits growth rate has slowed from 6.1% in February to a mere 1.6%YoY in March. And if it cannot be explained by a move to long-term deposits then MPC may have a serious puzzle to solve. By the way, we keep wondering why central bank makes analysts' life so complicated and does not publish the volume of deposits with tenors longer than 24 months.

## Central bank watch

- MPC cut intervention rate to 9.50%
- Another cut by 50 bps likely in June

On 25 April the Monetary Policy Council cut intervention rate from 10% to 9.50%, lombard rate from 13.50% to 12.50% and kept deposit rate at 6.50%. MPC maintained neutral bias. The magnitude of the rate cut was smaller than 100bps expected and priced in by the markets, so instant comments after the cut clearly showed that there were further rate cut expectations. Because inflation is expected to head down till May, it is likely that MPC will cut intervention rate to 9% in June, after the release of May inflation figure.

According to „Puls Biznesu” voting was again 5-5 with Leszek Balcerowicz casting vote supporting the rate cut. Indeed such pattern appears very likely. In previous three cuts (150 bps each) probably MPC doves wanted to reduce rates by 200 bps, while hawks favoured 100 bps, and governor’s vote put the magnitude in the middle. Possibly yesterday doves wanted to trim rates by 100 bps and hawks did not want to cut at all, and Leszek Balcerowicz vote made the compromise possible again. Anyway it is only a guessing on a basis of leaks reported by „Puls Biznesu” (which may be wrong), we will find out for sure in six weeks.

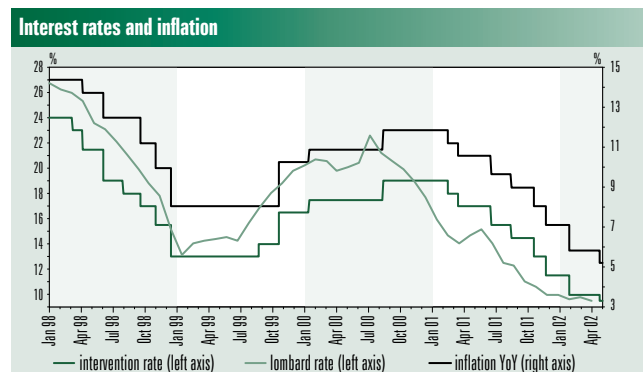
I went to the press conference to see how the rate decision will be announced. I recall that in January after the last 150bps move Balcerowicz sent a very strong signal at the press conference that the easing cycle in nearly over. It was not the case yesterday. He simply stressed that at single digit rate level MPC cannot move at the 150 speed and has to slow down to 50. Leaving the press conference I was even more convinced that another 50 bps rate cut is likely in near term.

NBP governor presented arguments supporting and against the rate cut in comparison with previous month situation. The list was as follows,

- **supporting:** reduction of inflationary threats, the role of potentially transitory factors in reducing inflation diminished, reduction of inflationary expectations, deceleration of money supply, deceleration of credit to corporates
- **against:** higher oil price forecasts, lower growth rate of deposits, higher growth rate of household credit, rising retail sales (although there is uncertain impact of earlier Easter), impact of earlier rate cuts has not been fully revealed yet, significant reduction of bank lending rates to household and corporate sector since January, international experience in countries reducing inflation from moderate to low levels.

If you recall our argument counting before the meeting there were more arguments against the rate cut, and also in yesterday presentation Balcerowicz spent more time on arguments against the rate cut. It appears, however that the MPC put very high weight to falling core inflation and falling inflation expectations, which made the rate cut possible. We note that in yesterday statement MPC totally ignored the fact that inflation expectations in manufacturing and retail trade sector have been rising in the last few months, maybe they think that it is not a reliable indicator.

We reiterate our view that MPC is likely to cut all rates by 50 bps in June. If economic revival evidence is noticeable by that time it may be the last rate cut this year. We also do not rule out that MPC may cut intervention rate by 25 bps and lombard rate by 50 bps, keeping deposit rate unchanged, but such scenario is less likely.



Source: BZ WBK

## Comments of the MPC members

April was very prolific in terms of the public comments made by the MPC members and the NBP representatives. This month we would like to focus on numerous projections stitched into the comments. The festival of projections was opened by Bogusław Grabowski who expects the unemployment rate of ca 20% in 2003 and suggests that if everybody goes skiing to the Alps then we will pay PLN 5 for USD 1. Dariusz Rosati expects GDP to grow by 0.5% y/y in Q1. He also gave the projection for the GDP growth ranging from 1%-1.5% in Q2, which was subsequently narrowed to 1%-1.2%, and finally changed to 1% or even above. According to Rosati, the annual GDP should exceed or equal ca 2%, and in 2003 it will be 3.5%. According to Grzegorz Wójtowicz, Q1 will not be worse than Q4. The inflation rate projections were started by Dariusz Rosati with a 2.5% inflation expected in May and some growth in H2. Andrzej Bratkowski believes the May inflation may go down to 2%-3% with some subsequent bounce, but as at the end of the year it may go below 4% (floor limit of the inflation goal), providing there are no supply shocks. Grzegorz Wójtowicz expects the inflation of 4% and Cezary Jozefiak projects the December inflation at the level slightly over 4%. Moreover, Andrzej Bratkowski expects that the recovery in H2, slow as it may be it will lead to the deepening of the current turnovers deficit down to 4%-5% of GDP. Due to the lack of any official projections of the central bank, the opinion on the expectations of the monetary authorities can be developed based on their comments. The above-mentioned summary indicates that in respect of the economic growth the expectations are similar and everybody expects a gradual recovery. However, there are some differences in the inflation rate projections. The NBP Vice-President expects the December inflation to go down below the floor limit of the inflation goal, while some members of the MPC project the inflation will not exceed the goal but will be close to the floor limit.

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### WHO? WHERE? WHEN? QUOTE

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Bogusław Grabowski, MPC member;  
 gazeta.pl, 4 Apr

„I think economic growth will accelerate gradually, especially in 2H02. Every factors that would lead to rapid recovery, would be short-term in nature, therefore we should not be concerned about this slow pace of improvement.”

„I don't consider foreign exchange interventions to be necessary.”

„I think that [unemployment rate] will rise to ca. 20% at the end of 2003, but much depends on government performance.”

„The most important is medium-term inflation target, it will be the core benchmark for evaluation of MPC performance. [...] MPC stressed many times that short-term targets are only indicative.”

„I hope that if it happens [MPC misses inflation target again], it would be below rather than above the target.”

„I think that [EMU entry] can take place 2-3 years after EU entry, but in this regard Polish government's stance will be crucial and namely its will to pursue responsible fiscal policy.”

„I think that [zloty exchange rate at the moment of ERM2 entry] would be similar to present exchange rate against the basket.”

Q: Are we going to face interest rate hike in Poland this year amid likely tightening cycle in other countries and rising oil prices?

A: „Let's hope not. The caution in reducing rates was aimed at avoiding necessity to hike rates. [...] When ECB will start to raise rates, maybe we won't have to.”

Q: Whom would you like to see in extended MPC?

A: „I can say, whom I won't see. Myself.”

Q: Where are you going to spend holidays?

A: „In Alps.”

Q: In Alps? You're fuelling C/A deficit!

A: „I go to Alps principally in order to weaken the zloty. [...] If we all went to Alps, the dollar would be much more expensive than PLN5.0.”

Reuters, 10 Apr

„The government missed a chance to tackle heavyweight reforms just after being elected.”

„The pains of such early reforms would have more easily been blamed the previous administration or on the central bank...If you cut off your arm little by little, people are going to realise it hurts.”

„[Government's economic strategy] is like a cake with only a few raisins, whose flavour could be diluted further unless they (reforms) are quickly implemented.”

„The cabinet will struggle to tighten its budget deficit to meet strict euro-zone entry criteria after its planned EU accession.”

„The worst of Poland's economic slowdown may be over, but growth prospects remain grim in the short-term.”

„We must pay the short-term price from achieving the long-term goal of strong sustainable growth.”

Rzeczpospolita, 24 Apr

„We have a confirmation of earlier data about low inflation, we also have first weak symptoms of economic recovery. So far there is no threat that price growth dynamics will go up. However, we have to take into account that our decisions will have an impact on the level of inflation in 2003, when Poland will be in the phase of economic revival. From this point of view every month that passes marks an upcoming end of the easing cycle”.

„From now on our decisions will have an impact on price level in 2003”.

„We are closer to the moment when then results of earlier rate cuts will be revealed.”

Dariusz Rosati, MPC member;  
 PAP, 8 Apr

„At present we have no threat for economic growth in Poland, but for monetary policy there are worrying trends regarding growth of deposits and cash in circulation, oil prices are also important.”

„There is no crisis in Polish economy. GDP keeps growing, I hope that GDP growth in 2Q02 will reach 1-1.5%.”

„We [MPC] are interested in developments on world oil markets.”

„We also want to have more information about deposits and cash growth, because there we have two worrying trends. [...] We want to know the reasons of these trends. Whether it reflects money de-stocking or if it is just temporary phenomenon. Probably in a couple of weeks we'll have some knowledge about it.”

„We know that inflation in May would reach whole-year minimum for three months, therefore it's not the new information. From this point of view our outlook hasn't changed.”

„Industrial output data came in slightly worse than expected, but one must remember that the number of working days in March was one less than in the same month of last year. If this was considered, then we could talk of stagnation or even a very small increase.”

Reuters, G.Wyborcza, 19 Apr

„The situation is similar to February's. There is no further deterioration, but we also don't see much improvement.”

„The PPI increase is very apparent and higher than expected, mainly because of global oil price hikes. We must wait for future monthly data to see if this is a sustained trend.”



PAP, 19.04	<p>„In a certain sense, the worse-than-expected output data coupled with higher than forecast PPI, cancel each other out.”</p> <p>„It seems that the recovery is somewhat lagging. Figures are somehow surprising, because after retail sales growth in January and February one could expect improvement in factories. But it was probably import and de-stocking that satisfied consumers' demand. After correction for the number of working days we can say that there is a stagnation in industry.”</p> <p>„I think we're slowly approaching the upturn. Already in 2Q02 we should feel significant improvement - GDP growth would jump to 1%, or maybe higher. In 2Q02 the effects of previous rate cuts would become visible. In whole year we will have 2% GDP growth, or higher.”</p> <p>„Inflation would fall to ca. 2.5% in May. We could expect the rebound in 2H02.”</p> <p>„Recent inflation and production data show that there is a certain scope for further monetary easing. If nothing bad happens, maybe some decisions will be taken. But we have to be cautious, because we still do not know the behaviour of retail sales and deposits”.</p> <p>„I think that if there is a scope for further cuts, these cuts have to be very cautious. I do not see inflationary threats this year, but with respect to next year we still cannot sleep safely. And our decisions will have bigger importance for next year”.</p> <p>„In 2H02 I expect higher economic growth, higher inflation and higher imports, which will worsen the current account deficit, but the situation will remain under control”.</p> <p>„One cannot exclude that some day we will have to raise rates, because one can never fully exclude budget collapse or oil price shock. But it is rather unlikely scenario”.</p> <p>„We would raise rates if next year inflation target was jeopardised. Next year target is 4% and we will try to achieve it in situation of rapid growth acceleration”.</p> <p>„Mandatory reserve reduction decision will probably be considered this Fall, such that they could be reduced next year”</p> <p>„Personally I would not convert junk bonds into market bonds and would favour reducing mandatory reserves. The cost of reducing mandatory reserves to 2% is some PLN600-800m and we will have to pay interest on the remaining 2%.”</p> <p>„Today excess liquidity is not a problem for us, the scale is not big”.</p> <p>„The dominant view at NBP is that benefits of quick EMU entry will outweigh the costs. I think that also in the government there is a growing understanding that it is beneficial to enter EMU as soon as possible. Central bank and government views seem to be converging”.</p> <p>„Assumption related to economic growth 1-3-5 are realistic. I even think that this year growth will be 2% and next year 3.5%. Poland has a chance to rebound much quicker than government assumes”.</p> <p>„More explicit effects of rate cuts will be seen in 2Q02. Banks will be more interested to extend credit.”</p> <p>„April is the last months of government massive bond supply. The profile assumed by the finance ministry put February and April as two months of the highest bond supply. So later faced with fewer bonds banks will have to focus on private sector clients”.</p>
Andrzej Bratkowski, deputy NBP governor; PAP, Reuters, 11 Apr	<p>„Inflation will slightly decline this year, but this is good, not the bad news. It could go down to 2-3% before some rebound. Now NBP will want to stabilise inflation rate at the present level.”</p> <p>„If inflation in 2002 falls below MPC's inflation target because of other than monetary reasons, MPC would not react to such situation.”</p> <p>„There is no macroeconomic reason for neither radical nor systematic zloty weakening.”</p> <p>„I wouldn't count on a rate cut helping resolve the problem of the strong zloty. A violent reduction in rates would be difficult for both the budget and the economy.”</p> <p>„Low inflation and perspective of economic recovery abroad that could prop up export growth, could allow for some manoeuvre in monetary policy.”</p> <p>„Finance Minister Marek Belka's forecast that inflation might undershoot the central bank's year-end target range of 4-6 percent would be too optimistic if oil prices remained high.”</p> <p>„Why risk inflation rebound to, say, 10% by propelling economic growth for several months? In such situation we would have to go through painful disinflation process again.”</p> <p>„Poland should pursue gradual domestic demand recovery policy, not the rapid stimulation, because the latter could cause rapid price hike.”</p>
PAP, 12 Apr	<p>„It's possible that at the end of 2002 inflation would be below 4%, under the condition that oil prices would go down reasonably fast and there would be no negative supply shocks from food market.”</p> <p>„3.1% GDP growth in 2003 assumed by government seems realistic.”</p> <p>„There is still uncertainty whether economic deficit would be maintained at present level under the assumption that wages are supposed to grow 1%.”</p> <p>„One should expect [current account] deficit deterioration. For maintaining present level monetary policy tightening would be necessary, nevertheless it seems unreasonable to maintain this level.”</p> <p>„It seems that economic recovery in 2H02 would lead to current account deterioration to 4-5% of GDP, though the recovery would be sluggish.”</p>
PAP, 18 Apr	<p>„Both monetary integration theory and research made at NBP prove unanimously that long-term balance of profits and losses connected with Poland's accession to EMU would be positive.”</p> <p>„It advocates not to hesitate with the decision on accession to ERM2 and EMU and to limit the period of participating in ERM2 system to required two years.”</p> <p>„Macroeconomic policy, fiscal policy restrictiveness in particular, has fundamental influence on the speed of convergence in three of five Maastricht criteria, i.e. size of deficit and debt of public finance sector, and the stability of exchange rate. It also has significant influence on the speed in regard to two other criterions: the level of inflation and long-term interest rates.”</p> <p>„The major factor considered when setting zloty exchange rate parity against euro at ERM2 entry from NBP perspective would be the market rate of the zloty.”</p> <p>„It's worth to stress however that the decision on the exchange rate parity at the moment of ERM2 entry will be the mutual decision of government and NBP, and it has to be consulted with EU. Therefore one could anticipate that it would consider the results of empirical research made at NBP and other analytical teams, aimed at finding so-called equilibrium exchange rate, which is not always identical to market-determined rate.”</p> <p>„The length of the period necessary for meeting Maastricht criteria in Poland is highly correlated with expected restrictiveness of fiscal policy over the next several years.”</p>

„So far there is no official government’s statement addressing preferred time path for EMU entry. Meanwhile the budget deficit forecast presented in government’s economic strategy at 3.9% of GDP in 2006, consistent with so-called development scenario, means that in the medium term low fiscal policy discipline might hamper the efforts to meet fiscal convergence criterion.”

„Inflation and public finance deficit criteria are crucial amongst Maastricht convergence criteria. Their fulfilment conditions our ability to meet convergence in other areas.”

„The key to lower costs of disinflation process are structural reforms. For example: increasing labour market elasticity, modification of present wage negotiation system, demonopolisation of sectors responsible for inflation persistence, continuation of privatisation, especially in sectors closed to international competition, tightening fiscal policy, allowing for decreasing monetary policy restrictiveness and fast reconstruction of investment demand.”

Grzegorz Wojtowicz, MPC member;

Reuters ,11 Apr

„Already in 2002 we will see the effects of previous rate cuts. It will be visible in factors influencing GDP, especially in fixed investments and net exports.”

„We had a working meeting about this [change in money measures definition] and we will be able to interpret the data correctly.”

Reuters, PAP, 15 Apr

„This is no surprise; the most recent predictions indicated a similar level of consumer prices. We’re simply in a period of stabilisation. For five months, we have had inflation of about 3.5 percent.”

„Inflation has stabilised at a low level, so the anti-inflation policy has produced results.”

„It is probable that inflation will decline in the next two months. However, there are many questions about the more distant future. It’s difficult to make concrete predictions about inflation in the summer months. Most likely, however, it will not be as good as it was last year.”

„There is a high probability that end-year inflation will be about four percent, within the lower boundary of the MPC’s target.”

„Current inflation is not a sufficient argument for changing interest rates. Monetary policy refers to the future, and inflation is just one of the factors considered while making decision about interest rate change.”

Reuters, 18 Apr

„In my view, it’s not only a question of dynamics but also structural changes in industry, which allow us to be very, very cautious optimists about the economy.”

PAP, 22 Apr

„That the economy is no longer slowing...and that the situation will not deteriorate further.”

„Latest information regarding industrial production, balance of payments and budget situation indicate that economic situation does not deteriorate further. I hope that clearer recovery signs will be visible in second quarter.”

„It seems that [retail sales growth] is just another proof for economic recovery. These are positive figures.”

„Effects of rate cuts will become visible gradually. We will see how the demand for credit evolves. Since last MPC meeting some trends reinforced, like for example inflation stabilisation amid lack of inflationary threats at the same time.”

Leszek Balcerowicz, NBP governor;

PAP, 12 Apr

„If this 3% [govt’s average inflation for 2003 underlying budget construction] was to be treated as a target, one could say that it would be consistent with MPC’s much earlier announced medium-term inflation target, assuming inflation below 4% in 2003.”

„Under such assumption, one could treat this as a proof of will to cooperate between government and NBP in realisation of this goal.”

„Obviously reaching such objective needs the proper macroeconomic policy, both fiscal and monetary.”

PAP, Rzeczpospolita, 20 Apr

„The precondition [for interest rate cut] must be persistent reduction of inflation rate, then also society’s expectation that inflation will not rise again.”

„Everyone I spoke with was interested in maintaining central bank independence in Poland, which they treat as a very important issue for every country. [...] Information about different legislative motions are of course known in the whole world and I was asked here about the continuation.”

„[Continuing recession in Japan and oil price fluctuations] are the main factors that obscure quite optimistic scenario.”

„There are mixed signals from the economy which suggest both that there is the recovery and that there isn’t.”

„Industrial production figures did not differ much from expectations. Let’s recall that March had one working day less than last year.”

„Q: Can we expect further rate cuts?”

„A: Decisions will be taken after careful examination of all important information. Very important criterion is that we shall not jeopardise what we have already achieved, i.e. reducing inflation to low level, because it would do economy an ill turn”.

PAP, Reuters, 25 Apr

„I will not make any declarations, but you have to look at the scale of past rate cuts, which have been very significant. [...] It is very significant signal for financial markets.”

„This rate cut signals that after previous deep rate cuts we have reached a point when monetary policy has to use smaller steps than previously.”

„It is probable that this year we will reach inflation at the lower end of target range. Moreover, we would like to stabilise it at such low level.”

„We are making decisions considering also medium-term inflation target, i.e. below 4% in 2003.”

Wieslawa Ziolkowska, MPC member;

PAP, 12 Apr „There is no threat of inflation growth. If personal income grew rapidly and deposits declined, then such threat would exist, but households’ financial standing is not good.”

„Deposits declined, but if one accounts for exchange rate change in foreign currency deposits, then they remain at the same level. Similarly with credits.”

„[Increased growth of cash in circulation] could be the effect of exchange of foreign currencies into euro. There is a grey economy issue too. Besides, most current accounts bear negative real interest rate, so it’s more profitable to keep money in cash. Furthermore, amid decline of liquidity and increased number of insolvent companies, most transactions of small companies are settled in cash.”

„Corporate deposits declined recently, which may confirm the hypothesis that companies demand cash for the merchandise.”

PAP, 15 Apr

„These data are very positive for the economy. They suggest that conflict on Middle East has not brought adverse shock for oil prices so far.”

„It signals that we face not a seasonal price decline but the trend, which is good. Every price growth slowdown is considered when making decisions about monetary policy.”

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- Cezary Jozefiak, MPC member;  
 Gazeta Wyborcza, 13 Apr „Deep rate cuts would be dangerous as inflationary pressure could pick up because of budget borrowing and an expected rise in economic activity later this year.”  
 „Whatever good is said about the budget, its (economic) deficit is still at five percent of GDP this year -- the same as last year’s catastrophic level.”  
 „Generally, the economy is expected to pick up this year and this means increasing prices, which does not help rate cuts.”  
 „Finance Minister Marek Belka’s end-2002 CPI forecast of under four percent is overly optimistic.”  
 „I think that inflation behaves roughly as expected. Everybody now has an impression that inflation will be falling till May and I share these opinions.”
- PAP, 19 Apr „We need to make sure that inflation expectations do not pick up in 2Q02”  
 „In 2H02 inflation will rise amid expected increases of regulated prices, energy, gas and excise tax. Fuel prices are a pure surprise”  
 „Year end inflation will be marginally above 4%”  
 „It is not known what fuelled higher consumption demand in 1Q02. Household incomes rather somewhat declined while consumption rose. It would suggest that savings declined. This decline can stem from lower return on deposits amid interest income tax and low deposit rates in banks”  
 „Situation in which money supply grows faster than production and prices may lead to inflation impulse. Behaviour of monetary aggregates call for a caution in monetary policy”.
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- Jerzy Pruski, MPC member;  
 Reuters, 15 Apr „Polish inflation is expected to pick up in the second half of 2002 after holding around or just below March’s 3.3 percent rate over the next three months.”  
 „March’s lower-than-expected CPI suggested that global fuel price growth recorded did not filter in to Polish prices last month.”  
 „Our inflation expectations are stabilising...This stable, or slightly downward trend, should remain intact over the first half of the year. But in the second half of the year we should expect some pick-up.”
- 
- Krzysztof Jakubiszyn, NBP governor’s advisor;  
 PAP, 23 Apr „Assuming that Poland enters EU in 2004 the earliest technically possible date of EMU entry is 1 January 2006. But I think it is completely impossible because of for example inability to meet convergence criteria.”  
 „Nevertheless final decision regarding Poland’s EMU entry would depend on EU and present legislation allows for quite flexible interpretation of convergence criteria fulfilment.”  
 „For example only 2 of 11 countries introducing euro met all convergence criteria. Union might assess that trend towards required criteria is appropriate and could accept Poland even without meeting all the criteria.”  
 „It is likely that the parity of zloty against euro at the moment of ERM2 entry would be weaker by maximum 10% that actual market rate.”  
 „If at the moment of ERM2 entry zloty exchange rate remains at the present level, then the probability of devaluation will rise. [...] The deeper market depreciates zloty exchange rate, the less likely is official devaluation.”  
 „If it turns out that we have capital outflow, then I don’t think that devaluation would be made, because it would worsen the conditions for foreign capital. Today it’s difficult to day under which conditions devaluation could be made.”

# Information on the meeting of the Monetary Policy Council on April 24-25, 2002

The Monetary Policy Council held its meeting on April 24-25, 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. The data that have been released since the last meeting of the Monetary Policy Council indicate more clearly than a month ago that the boom in the world economy begins:
  - \* In the United States, in March this year, the biggest increase since May 2000 of the sold industrial output was noted (by 0.7%), the manufacturing capacity utilization in industry increased, the consumer confidence index increased; the average forecast for the economic growth in the United States in 2002 increased as compared to March this year by 0.5 percentage point (to 2.2% GDP);
  - \* An insignificant increase (by 0.1 percentage point) was noted in case of the average growth forecast in the euro zone (to 1.2% GDP); in case of Germany it remained on the level 0.9%.
2. Within the recent period the risk of oil prices rise on world markets increased what would adversely affect future inflation and economic boom worldwide. As a result of a bigger political risk in Middle East and Venezuela, oil prices in March and April this year significantly rose. This situation led to the subsequent rise of the forecasted oil price. At present, according to the average market forecast, in 2002 a price per barrel will amount to USD 23 on average (by USD 1.5 more than a month before). It should be emphasized that the present oil price forecasts are very uncertain and they are within a range from USD 19.5 to USD 40 per barrel.

## II. Production, economic growth.

1. Signals coming from the Polish economy are not explicit. Some data indicate that a gradual economic boom should take place.
2. An improvement of the situation is signaled by:
  - \* Strengthening of the growth tendency of retail sales that has been lasting for several months; after the annualized rise by 4.7% in January and by 6.7% in February this year, in March the noted rise amounted to 9.9% (in a way it resulted from the shifting of the Easter shopping from April to March this year);
  - \* An increase - a second month in a row - of consumer loans dynamics (from 14.4% in January and 14.6% in February to 15.1% in March this year);
  - \* Higher than a year before were tax revenues of the budget within the period January-March (by 6.2%), including especially income tax from legal persons (by 13.7%) and indirect taxes (by 6.0%) which are the most sensitive to the economic situation;
  - \* A further improvement of the economic situation survey results in April this year;
  - \* In the industrial processing the assessments of the current production and forecasts for the future demand and production are positive; better than a month ago - although still negative - are the assessments of the current demand;
  - \* As compared to March this year, the improvement was also noted in case of the general indicators of the situation in construction (to +7) and in retail sales (to -16), although they are lower than in the same month of 2001.
3. The prudence in forecasting the boom is prompted by:
  - \* The sold industrial output that in March this year was lower by 3.2% than a year before; although it should be remembered that this year there was one business day less than last year;
  - \* The construction and assembling production that was lower by 14.4% than in March 2001 (a month ago the drop scale amounted to 13.9%).

## III. Wages, social benefits.

1. The situation in the area of employment should reduce the wage pressure in the economy. In March this year, the unemployment rate maintained on the level observed a month before at 18.1%. The average employment in the enterprise sector in March this year was lower by 0.1% than a month before and as compared to the period January-March 2001 it lowered by 4.8%. In the economic situation survey the entrepreneurs forecasted further reductions of employment within the next months, however, smaller than they forecasted in March this year.
2. Within the period January-March this year, average gross wages in the enterprise sector were higher by 5.3% than in the same period last year and the increase in real terms amounted to 1.8% (as compared to the increase by 5.7% in nominal terms and 2.2% in real terms within the period January-February this year).
3. The March data on employment and wages are convergent with the assumptions that constitute the basis for the forecast of income at disposal according to which in the first quarter this year this income can be smaller in real terms.

## IV. Situation in public finance sector.

1. The insofar state budget accomplishment, a forecasted gradual improvement of the economic situation and additional revenues resulting from tax changes that come into force indicate that there is no visible bigger threats to the accomplishment of the Act on the State Budget for the Year 2002.
2. However, it does not change the fact that the public finance deficit will be maintained in 2002 at a very high level (approximately 5% GDP). It will adversely affect the economy. In the situation of a big deficit and small revenues from privatization the Government - in order to finance high lending needs - has to issue a considerable amount of Treasury securities. In the first quarter this year, the total of new issues of Treasury bills amounted to PLN 6.7 billion (by 116.1% more than in the same period of 2001), and of Treasury bonds - PLN 12 billion (by 128.7% more than in the 1st quarter of 2001). This situation contributes to the maintaining of a high level of long-term market interest rates and limits the possibilities to finance the development of enterprises. Moreover, the inflow of foreign portfolio capital invested in Government bonds is a factor that affects the strengthening of the zloty exchange rate without the strengthening of the economy competitiveness at the same time.
3. There is maintained uncertainty concerning the shape of the state budget and of other parts of the public finance sector in 2003. The basic task while constructing the budget should be the reduction of expenses in order to enable a considerable decrease of the public finance deficit and - thanks to this - reduce the intensity of the unfavorable impacts for the development of the economy that have been mentioned above.

## V. Money supply, loans, interest rates.

1. As compared to the situation of the previous meeting of the Monetary Policy Council, the scale of threats to the future inflation by monetary factors decreased:
  - \* The annualized growth pace of money supply (aggregate M3) lowered from 7.2% in February to 3.1% in March this year; the decrease was also noted in case of the dynamics of the insofar basic measure of money supply (M2) (from 11.5% to 8.6%);
  - \* The annualized dynamics of cash in circulation dropped as well (from 16.7% a month before to 15.6%);
  - \* The growth pace of lending to businesses on the twelve-month scale lowered from 4.4% a month before to 2.0%.
2. At the same time, a decreasing tendency of the annualized dynamics of deposits placed by households is maintained (from 5.4% in February this year to 3.5%). Moreover, March was the second month in a row when the annualized dynamics of loans to individuals increased (from 14.4% in January and 14.6% in February to 15.1%).
3. In March this year, in reaction to the interest rate cut by the Monetary Policy Council in January banks made further cuts of interest rates on loans. With the simultaneous maintaining of interest rates on deposits at the level noted a month before it means the reduction of commercial banks' margins. An average interest rate on loans to businesses was decreased by 0.5 percentage point as compared to February this year. Significantly - by 1.2 percentage point as compared to February this year and by 2.8 percentage points since December 2001 - banks also lowered interest rates on consumer loans to individuals. An average interest rate on PLN-denominated deposits placed by individuals did not change.

Since February 2001, in total, in reaction to the cut of the reference rate by 9 percentage points by the Monetary Policy Council, banks cut the average interest rates:

- \* On deposits placed by individuals by 7.7 percentage points to 6.7%;
- \* On loans to individuals by 4.9 percentage points to 18%;
- \* On deposits placed by businesses by 6.8 percentage points to 7.1%;
- \* On loans to businesses by 6.8 percentage points to 14.1%.

#### VI. Prices, inflation expectations.

1. The annualized consumer price index in February this year amounted to 3.3%, i.e. by 0.2 percentage points less than a month before. Within the next months a further drop of consumer price index is probable. The lowest level should be reached in May this year. In the remaining part of the year, a gradual increase of the consumer price index is forecasted that will result from, inter alia, the rise of controlled prices.
2. The role of potentially temporary factors in the drop of inflation is getting smaller. The evidence for this is the fact that in March this year all the annualized core inflation measures lowered, with the „net“ inflation measure the most:
  - \* „net“ inflation (excluding foodstuff and fuel prices) from 4.7% to 4.1%;
  - \* inflation excluding the most variable and fuel prices from 3.3% to 2.9%;
  - \* 15%-cut average from 3.2% to 2.9%;
  - \* inflation excluding the most variable prices from 2.8% to 2.6%;
  - \* inflation excluding the controlled prices from 3.1% to 3.0%.
3. In March this year, the sold industrial output prices were higher by 0.4% than a year before. In the 4th quarter of 2001, a decreasing tendency of the sold industrial output prices maintained, and since January 2002 a slight increasing tendency of the PPI has been observed.
4. Prices in industrial processing were still lower than a year before (by 1.0%), but the scale of the drop decreased (in November 2001 the drop amounted to 3.1%). A still high increase of prices takes place in the provision of electric energy, natural gas and water (by 6.4%) and in mining (by 5.2%). These are sections where the wages constitute the highest in the enterprise sector (in the 1st quarter this year they amounted to PLN 3501.7 in mining and PLN 2933.7 in production and provision of electric energy, natural gas and water as compared to the average in all enterprises at the level PLN 2211.0). Additionally, in the 1st quarter this year, the annualized dynamics of wages in these enterprises was higher than the average in enterprises in general (7.5% in mining and 6.4% in the provision of electric energy, while the average wage increase in enterprises amounted to 5.3%).

It results from the fact that in these sections a state ownership dominates and there is no competition. Instead of the effectiveness improvement, the enterprises shift the excessive and growing costs onto clients. Such actions result in the increase of costs in enterprises what weakens their competitiveness. Moreover, they reduce consumers' spending on the purchase of other goods and services. Both are not favorable for a permanent development of the economy.

5. Changes that took place in the structure of answers to the questions of the survey made by Demoskop in April this year indicate a further improvement of individuals' expectations about the future inflation. A percentage of individuals who expect the prices to grow slower than now increased (by 0.5 percentage point) or that they will be maintained on the existing level (by 2.3 percentage points). The number of people in the remaining groups of the surveyed decreased, including those most pessimistic who expect that prices will grow faster than so far (by 0.8 percentage point). The observed improvement and then the stabilization of a favorable structure of inflation expectations took place in the situation of a gradual decrease of inflation. There is a threat that if the inflation impulses appear they may lead to the reverse 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 lowered by 0.2 percentage point (to 4.4%) as compared to the situation observed a month before.

#### VII. Decision of the Monetary Policy Council.

1. As compared to the situation noted a month before, the following signals indicating the weakening of inflation threats appeared:
  - \* The consumer price index lowered further;
  - \* All core inflation measures lowered, and the „net“ inflation measure the most what indicates that the role of potentially temporary factors in inflation drop decreases;
  - \* An improvement of inflation expectations by both bank analysts and individuals took place;
  - \* A scale of threats to future inflation posed by monetary factors decreased: the dynamics of money supply decreased significantly and the growth pace of cash in circulation and lending to businesses decreased;
  - \* A difficult situation on labor market is maintained that should reduce the wage pressure.
2. Signals concerning the growth of Poland's economy are not explicit. Some data indicate that a gradual economic boom should take place. For a long-term development of basic importance is the improvement of public finance condition, restructuring of the existing sector of public enterprises, and a labor market reform.
3. The prudence in monetary policy is prompted by:
  - \* An increase of oil prices on the world markets and further increase in the forecasts about the prices for this raw material;
  - \* A drop of dynamics of deposits;
  - \* An increase - the second month in a row - of the dynamics of lending to individuals;
  - \* A strengthening of - lasting for several months - growth tendency in retail sales;
  - \* A risk of the maintaining of a too lax fiscal policy and unfavorable impact of this situation on future economic processes, including inflation ones;
  - \* An improvement of the outlook for the economic situation worldwide, which - although favorable for the Polish exporters and economic growth - will affect the inflation less favorably than was forecasted earlier.

It should be also remembered that full results of the interest rate cuts by 9 percentage points in total made since February 2001 to January 2002 have not been revealed yet.

Considering these arguments, the Monetary Policy Council decided to:

- \* Cut the minimum yield on 28-day open market operations from 10% to 9.5%;
- \* Cut the rediscount rate from 12% to 11%;
- \* Cut the lombard rate from 13.5% to 12.5%;
- \* Maintain the deposit rate on the same level (6.5%);
- \* Maintain its neutral position in monetary policy.

#### VIII.

The next meeting of the Monetary Policy Council will be held on May 16, 2002 in order to accept the Report on the Performance of Monetary Policy Guidelines in 2001 and the Report on NBP Operations in 2001, and the next one on May 28-29, 2002.

## Government and politics watch

- First reading of the amendment to the NBP act 22-24 May ...
- ...we expect the project will be forwarded to the commission and hot debate...
- ...what can lead to the growth in risk and volatility on markets...
- ...yet limiting the independence of the Central Bank is rather unlikely

### **Amendment to the NBP Act, first reading on 22-24 May**

Parliamentary European Commission communicated that both draft amendments to the NBP Act are not compliant with the European Union laws. Speaker of the Sejm, Marek Borowski mentioned that according to the Sejm analyses, the Samoobrona project is inconsistent with the Constitution and most likely will not be further processed. Still the project drafted by PSL-UP will be subject to the Sejm debate and its first reading will be on 22-24 May. The atmosphere at the recent debate on monetary policy indicates that the debate on amendments to the NBP Act will also witness heated discussions. Most likely, the draft bill after its first reading will be forwarded to the commission, which will delete provisions inconsistent with the EU laws, such as commitment of the MPC to reduce unemployment and support the economic growth. An open issue remains the enlargement of the MPC composition. Also other „smashing“ ideas may pop up such as further reduction of the MPC members' remuneration, which has already been cut by half.

It is hard to predict what the end of the legislative process in Sejm will be - a lot depends on SLD stance. Of course, if PLN weakens strongly and permanently in the next upcoming months, then the project may fail to win the support of the Sejm majority. After all, the government wants a weaker PLN and the MPC pressure is only a means to achieve this target. Yet, even if the project wins the support, it seems that President Kwaśniewski will forward the amendment to the Constitutional Tribunal with a view to checking whether the increase in the number of the MPC members during the term of office is compliant with the Constitution.

Nonetheless, the likelihood that the entire legislative process will end up with changes leading in fact to cutting the MPC independence is very low. Although resignations

from the MPC membership of some of the hawks cannot be ruled out after passing the amendments by the Sejm and prior to issuing the verdict by the Constitutional Tribunal.

### **Poland makes a „Financial Times“ first page headline**

It happens rarely that Poland related story occupies front page in FT. This time it is related to the government's decision to pullout of the PZU deal with Eureko. It appears that government is pursuing treasury minister plans to retain control over PZU, biggest Polish insurer, especially with respect to strategic decisions, which includes where PZU assets are invested and who is managing the company. It remains to be seen what will be the consequences of such decision. For example it may complicate Polish negotiations with the EU as Dutch government may be less willing to accept difficult compromises or give a nod to numerous transition periods that Poland seeks.

### **Government puts restrictions on employment of old age pensioners**

In April 2002, the government worked on a package of acts which are to counteract unemployment. The adopted solution assumes a seven-fold raise of contribution to the Labour Fund paid by employers on remuneration for old age pensioners. In addition, the government wants to prohibit the employment of a pensioner in their parent company for two years after becoming retired. Minister of Labour, Jerzy Hausner said that these changes would allow to reduce the number of unemployed by 100k within 6-12 months. Well, an exceptional situation calls for exceptional solutions. Yet, it may turn out that they are less advantageous than it seemed at the start. First, if we are talking about getting ready for employment of the demographic peak generation who will enter the labour market this year, then cutback on the employment of pensioners will not of that much help. Old people do not apply for the same jobs as youngsters. Second, the adopted changes can drive the growth of unit labour costs in enterprises, which will cut down on the demand for manpower.

### **Just a food for thought**

Gazeta Wyborcza reported that PM Miller and Sejm speaker Borowski clashed during the SLD caucus. Their views diverge with respect to three issues: whether parliament should prohibit concentration of private

capital in the media, should Senate be dissolved and whether NBP should be forced by politicians to prop up growth. This clash should be seen in a broader context of a big shock coming to Polish political scene in 2005. Aleksander Kwasniewski will finish his second term as President and it is possible that he would still want to remain active politician in Poland (although another option would certainly include international role). If he goes for the former, then there are more and more voices suggesting that he may try to build strong party that could challenge SLD supremacy. And given his 70%+ support such goal is certainly attainable.

In such case there will be a question of his succession. It now appears that Leszek Miller will be SLD candidate for President's office in 2005, while Marek Borowski could run for president on Aleksander Kwasniewski recommendation. Yes it is a political fiction, but these political factors will weigh more and more in the coming months. So if there are more clashes in the future between President Kwasniewski and PM Miller, the above-mentioned scenario can become reality.

### **You may wish to reconsider long term growth path for Poland**

Can economy grow fast when taxes are high? It is possible but very difficult. Can economy grow fast when taxes are high and growing? No, it is impossible. Now reconsider government decisions and plans regarding taxes. Tax thresholds were frozen in 2001 and some deductions were eliminated which led to higher effective tax rate. Government introduced tax on interest income, imposed excise tax on electricity and hiked some VAT rates. Government is planning to increase the cost of hiring a pensioner, which effectively is a tax on his income. Last week media reported that for next year finance minister is planning to modify tax system by introducing 0 and 12% tax thresholds (and keeping current 19, 30 and 40%) and lowering tax thresholds, which will reduce tax burden for the poorest and tax more the wealthier families. Budget is expected to gain as a result of this change, so the overall tax burden will rise. Finally the healthcare minister announced plans to increase the healthcare contribution from 7.75% of personal income to 9% within next four years. Because recent legal changes freeze the amount of healthcare contribution that can be written off in tax return, it means an increase in personal tax rate by 1.25% in next four years. Last but not least in next two years VAT on food will go up from 0 or 3% to 7%. You may wish

to ask where all that new tax money will be going? Well, with heavy tax burden economy will have hard times to grow, so a lot of money will have to go to social aid and unemployment benefits.

### **Government provides investment incentive**

In April the government approved a package of bills, which should simplify the tax system and reduce the red tape and labour costs facing entrepreneurs. This decision is part of a praised program „Entrepreneurship above all” and was warmly welcome by businessmen. Government decided that 30% of the value of purchased new machinery and tools may be treated as costs and will reduce the tax burden. Finance minister commented that it is a powerful tax deduction, and obviously government hopes that it will lead to higher investment spending. Economic research finds that tax incentives are a powerful tool indeed in many countries around the globe. The first well-known example of such research dates back to eighteen century, when Russian Peter the Great granted a lifetime duty waiver to Dutch vessel who was the first ship to visit St. Petersburg. This vessel then continued to function for the next hundred years, three times longer than average life of a typical vessel in those days, only to benefit from this duty waiver. This example shows that tax deductions introduce distortions to business incentives. Similarly investment tax deduction can lead to biased investment decisions, for example there may be a machine that could still function for some time, but this tax incentive will lead to earlier than optimal replacement, which would be a misallocation of resources. Therefore economists often recommend that is much more efficient to reduce tax rates that to provide selective tax deductions.

### **SLD-UP support drops, peasant parties gain popularity**

According to CBOS polling institute in April SLD was the most popular party with 33% support (down 2% from March), PSL has 12% support (+3), PO also 12% (+2), PiS 11% (unchanged). Then follows Samoobrona with 10% and LPR with 6% popularity. Leftist UP, SLD close collaborator has 4% support. According to poll conducted by PBS institute in 13-14 April SLD-UP popularity fell from 43% in March to 39%, Samoobrona came second with 13% support (up 2%), PO enjoyed 12% approval (down 1%) and PSL saw its popularity rising 2% to 11%. PiS had 9% and LPR 8% support. These popularity ratings are becoming increasingly important because they may

effect PSL policy stance, especially if they start lagging badly behind their chief competitor Samoobrona.

### **Opinion polls show low PSL popularity**

According to Demoskop in April SLD-UP was a most popular party with 32% rating, followed by PO and PiS with 11% popularity each. Samoobrona scored 10%, anti-European LPR enjoyed 5% support, while SLD-UP coalition partner PSL had only 4% popularity, below 5% cut-of threshold. Why bother you may ask, parliamentary elections will be held in 2005. True, but local elections are scheduled for this Fall and is Samoobrona win massively against PSL in the countryside then PSL existence may be jeopardised. With such low ratings PSL rhetoric is likely to be more populist and its stance in agricultural chapter negotiations as hard as Arnie's biceps at his Conan Barbarian times.

### **Poles do not accept government activity**

In April government support declined further with number of opponents rising to 45% from 39% in March, while the number of supporters reaching 33% (up 2%). 47% of respondents say that government economic policy does not create conditions for economic recovery, while 33% has the opposite opinion. These ratings will carry large weight amid upcoming local elections this September.

### **Government tells pension funds to invest at home**

The first rule of every portfolio manager says „never put all eggs into the same basket“. Those who studies models by Markovitz (Nobel price winner in economics) know that diversification across asset classes may give good returns with reduced risk. Unfortunately these arguments are not welcome by the government, which decided to keep tight 5% limit on pension funds investments abroad. Pension funds assets are growing at some PLN750m per month, while the only market which witnesses the supply increase at similar speed are government bonds. Such decision makes it easier for the government to finance the budget deficit, but exposes future pensioners to higher risk because diversification of pension assets is heavily limited.



# Statements of the government members and politicians

In April, the monetary policy continued to be the leading theme in politicians' statements. Nearly each of the government members in interviews would say that according to him/her the interest rates should be cut. On occasions like this, Minister M. Belka would express hope that the cut would be done in such a way as to facilitate the weakening of PLN, which would very beneficial for Poland's economy. On the other hand, economic advisor to President, W. Orłowski, defended the MPC policy and its independence. Comments of the Prime Minister, L. Miller, on Poland's accession to the European Union also deserve attention, and in particular his declaration that if the the Polish society will vote against the accession to the EU, his government will resign.

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**WHO? WHERE? WHEN? QUOTE**


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Jerzy Hausner, labour minister;

PAP, 4 Apr

„Government's intention is to stimulate the entrepreneurship, lower employers' costs and in general to improve the labour market situation, which would be fruitful for employers, employees and for unemployed.”

„Government's objective was not and is not to impose the solution that would be harmful for one of the groups.”

„If agreement with social partners is not possible, we cannot reach consensus on this essential issue, the cabinet must act anyway, because otherwise it would have been accused of giving up and not responding to dramatic labour market situation, it would have been charged of being irresponsible and unreliable.”

„Although we couldn't reach the agreement on labour code, the will to proceed with dialogue has remained.”

„Government will struggle to make its draft being passed in present form.”

PAP, 17 Apr

„Labour code amendment is oriented mainly at removing the regulations that jeopardise the development of entrepreneurship today. The amendment is aimed at removing excess burden from employers, at improving companies' financial standing without abandoning employees' protection.”

„Labour code does not match the conditions of emerging economy and therefore substantial change of labour code model is necessary, that would respect much wider economic freedom and regulate legal matters.”

Leszek Miller, prime minister,

Reuters, 8 Apr

„The unrest would come at an unfortunate time, giving the impression Poland was unstable just as it tries to convince the European Union it is worth offering good EU entry terms in difficult last-stage talks due to end by December.”

„My worry now is how little time would remain for complicated bargaining over the cost of enlargement, given that the French and German elections would likely prevent any tough decisions on EU budgets being taken until October.”

„Poland is sticking to its demand to join on January 1, 2004, and on the most generous terms possible. Poland does not want to live on EU subsidies forever, but needs a sharp injection of cash to help it modernise fast.”

„We have great potential, a well-educated labour force and a readiness to work hard. But we also have problems - our farming and heavy industry - which we need outside help to reform.”

„Poland is a tiger, but it needs something to eat.”

„This referendum [on EU accession] is so important that if it was to be lost it would mean a failure of the government. And a government that failed would have to resign.”

„I am so convinced of the value of EU entry for Poland, despite the pain of reforms needed for joining and complaints aid for Polish farmers will be miserly, that my government would resign if it loses a referendum on the issue.”

„But I am an optimist, and the grounds for that optimism are simple -- I am confident in the wisdom of my nation and that is why this referendum will be won.”

„We want to seal the negotiations by the end of the year. But it is tough because [...] we are just about to start the most difficult discussions on money.”

„I don't want to be specific because tomorrow I would be accused of interfering with central bank independence. But I do think rates should be cut. Without rate cuts our economic recovery plan will not succeed.”

PAP, 24 Apr

„If some see the NBP as a cathedral to be prayed to, I do not hold this view. The MPC is heavily polarised and this shows the panel itself is not sure about its policy.”

„The ball is now in parliament's court. Deputies feel ignored and no parliament likes that. In ... time, parliamentarians will ask the central bank why it is ignoring them and whether it is planning to fulfil their (rate cut) expectations.”

PAP, 25 Apr

„We expect what we have always expected, i.e. the interest rate cut. I hope that MPC would join the government and parliament's effort aimed at delivering Polish economy pro-growth stimulus.”

„We can only ask MPC, nevertheless I have noticed that monetary policy has become incomprehensible also for external observers.”

„[During the meeting with IMF] it was pointed out that the interest rates are too high.”

„One sparrow does not make a spring, especially if this is a feeble one.”

„It looks like MPC doesn't know exactly whether it would support government's pursue to rescue Polish economy, or it would not join this effort. We will see what will be further.”

„Obviously I expected deeper rate cut, like most of entrepreneurs did, for which expensive credit is an obstacle for economic development.”

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 Witold Orłowski, President's advisor;

Radio ZET, 8 Apr

„I have no doubts that monetary policy two years ago, in 2000, contributed to high unemployment, though making MPC the main responsible here is a misunderstanding. Then it [the policy] was wrong. During last 12 months, despite opposite rhetoric, MPC's effort to lower interest rates is clearly visible. Rates declined by half. I think there is still space for lowering, but one should not convince people that there is still huge reserve here that could be employed. Further interest rate cuts are possible and desired, but they wouldn't be deep and definitely they would not define the shape of Polish economy. But there is a hope that Polish economy will react to cuts made so far within next quarters [...]”

„One has to remember one thing: if NBP is stripped of independence, the effect would be most likely inflation growth that would have to be opposed at the expense of further unemployment growth.”

„I think that [tax system in Poland] should be less progressive, which does not mean that we have to head towards linear tax.”

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 Stanislaw Gomulka, finance minister's advisor;

Reuters, PAP, 9 Apr

„Poland cannot slash its budget deficit next year and must wait for a pick-up in economic growth before it does so.”

„Finance ministry is drafting a 2003 budget plan targeting the broad economic deficit at around 3.6 percent of GDP in 2003, down from 4.9 percent this year. The narrow central budget deficit is to be set around five percent of GDP, against 5.3 percent this year.”

„High unemployment and resulting low wage pressures would keep a lid on inflation next year. Average annual inflation is seen at or below three percent versus the Finance Ministry’s 2002 forecast of 3.4 percent.”

„We are entering a new sphere of economic policy making with unemployment levels around 20 percent. This requires a new way of thinking -- for the next two years we have to worry about the demand side, not the supply side.”

„Only after unemployment falls to 15 percent or less will we enter another phase when we will have to be concerned about things like inflationary pressure and savings.”

„As a result of this, the budget deficit must be large next year...although the finance ministry is set on setting a slightly lower deficit than was set this year.”

„Once economic growth boosts tax inflows, the budget gap would shrink given Belka’s long-term pledge to contain state spending growth at inflation plus one percent.”

„Government’s medium-term budget plans were still at odds with a quick path towards the euro.”

„The cabinet has been focused on this year’s and next year’s budget, but I expect this error to be fixed. As growth picks up next year, I expect a large revision in the medium-term budget target enabling Poland to meet the fiscal criteria needed to enter the euro zone in 2007.”

„I forecast gross domestic product growth at around three percent next year from between 0.9 and 1.2 percent in 2002. Finance ministry expects GDP growth to amount to around zero in the first quarter of 2002 and gradually speed up to 1.9-2.2 percent in the fourth”

„This gradual recovery -- which should be fuelled by private consumption -- will continue in 2003 with quarterly growth picking up to five percent by year-end.”

„But even with growth set to pick up, the output gap in Poland’s economy -- firms producing less than their potential -- was great enough to keep unemployment from falling until 2004.”

„Unemployment will grow even if GDP increases four percent because of huge reserves. Of course if the new labour law is passed, fewer jobs would be lost but the measure’s impact will be fully felt only after several years.”

„Possible reduction of budget deficit next year will be limited. [...] Economic deficit could decline to 3.6% [of GDP] in 2003 from 4.8% planned for this year, mostly due to increased transfers to pension funds. But European Union [...] is much more interested in central budget deficit. It is crucial to reduce it below 3%. If Poland does not want to delay EMU entry too much, we should start the attempts to reduce central deficit already next year.”

„In nominal terms [next year’s] deficit would be again close to PLN40bn.”

„Even accounting for MPC’s big caution in lowering rates, this year two rate cuts are still possible.”

„I think that market will force on MPC two additional rate cuts in next few months, 100bps each. Then there will be some pause and time for clearing up uncertainty regarding oil prices and results in agriculture. If there is no significant inflation rebound, then NBP could consider further rate reduction in first half of next year.”

Reuters, 15 Apr

„Inflation would be flat this month after 3.3 percent in March and fall to between two and three percent in the following months.”

„Inflationary pressure is weak. The second half of this year is unclear but inflation should be well below four percent at year-end, maybe between 3 and 3.5 percent.”

 Marek Belka, deputy PM, finance minister;  
 PAP, 10 Apr

„We long for the rate cut, and we hope that it would be done in a way that would allow to dispel the expectations for further cuts; this would allow for zloty depreciation by more than 10% and would give some breath to exporters.”

„So far budget revenue execution is good.”

„All in all I’m pleased, because when we’ve started to lower our inflation forecasts, it was obvious that from budgetary perspective that should have negative effects. But no such effects are visible so far.”

„We estimate GDP growth [in 1Q02] at 0.5%. Economy is in stagnation. The only force that could prop up the economy since second half of the year is domestic demand.”

„In 2003 average inflation could be close to 3%. Inflationary rebound could take place in 2004 at earliest, but it would start from very low level. I don’t see the steam in our economy that could lead to inflationary rebound.”

„Therefore there is obviously the scope for lowering interest rates.”

Reuters, PAP, 11 Apr

„According to preliminary estimates public finance deficit reached 5.3% of GDP and economic deficit 4.8% GDP. The economic deficit more than doubled last year but was still less than we had feared.”

„Poland’s economy is suffering from stagnation and severe deflationary pressure, but the government has borrowing under control.”

„We don’t think economic deficit next year will be higher than this year.”

„For the economy it would be good if we had some weakening of the zloty. A sudden depreciation, however, would be dangerous. A level of 4.25-4.30 to the dollar would not threaten price stability and would help exporters.”

„According to finance ministry’s preliminary estimates GDP growth in first quarter reached 0.5%, or in fact between 0.4% and 0.6%. It would be around 1% in whole year.”

„Poland’s preliminary 2003 budget plans envisage the economy growing 3.1 percent next year and average annual inflation at 3.0 percent.”

„Average wages would rise by about one percent in real terms and that pensions would rise slightly more than the expected inflation rate.”

Rzeczpospolita, 16 Apr

„This deep [inflationary] imbalance can be seen in rising unemployment, and falling investment and inflation.”

„Poland could become EMU member in 2007”

„Yield on 20-year bonds with be a yardstick of the cost of money in first years of Polish membership in EMU. We will not be pleased with 7.6% yield”.

„Before entering to EMU zloty should be devalued 8-10% in comparison with the current market rate”.

„Year-end inflation will reach 3.3-3.5%”.

„Last year budget deficit reached 5.2% of GDP, economic deficit 4.7%, fiscal deficit according to Eurostat methodology reached 3.7%”

Radio ZET, 16 Apr

„Poland is obliged to increase VAT rate on foodstuffs within next two years from the current 0% or 3% to 7%”.

„In a situation where there is a danger of social unrest, we have to respond (by) shifting the tax burden to the better off.”

„Details of the proposed personal tax changes had not yet been finalised, but the plan would be neutral for budget revenues.”

„I am big enthusiast of zero VAT rate introduction.”

- „The propositions are neutral for the budget. Even if we reduce some tax burden, the consequence would be the stimulation of economic activity, which will offset the reduction of tax revenues. Budget would benefit from these changes, as economy will receive pro-growth stimulus.”
- Puls Biznesu, 23 Apr „Today market intervention is not that simple, which doesn't mean that it's impossible. Therefore we talk about one-off operation, connected with close accession to European Union. This is the time for making important decision and the chance to catch some breath. If we agreed today on both sides on Swietokrzyska Street on the need to depreciate zloty by several percent, the exchange rate would go down.”
- RMF FM, 30 Apr „There is no doubt that MPC should cut interest rates further this year. Market assessed their last cut as an introduction to the next one and reacted with strengthening the zloty, which is unfavourable.”
- 
- Andrzej Raczko, deputy finance minister;  
Reuters, 18 Apr „The auction [of 20-year bonds] showed that the market has a lot of trust for the Polish economy and our strategy for joining the European Union and later, the euro-zone.”
- „The maximum accepted yield at the tender was 7.24 percent and the minimum was 7.18 percent, signalling that offers were bunched together despite the inaugural nature of the auction.”
- „Bids from Polish financial institutions dominated at the tender, but this was expected.”
- „The results of the tender persuade us to act in line with market expectations, so this (larger offer) can be expected, but I cannot give any details so far in advance.”
- 
- Marek Borowski, Sejm Speaker;  
Radio ZET, 25 Apr „I will appeal to authors of NBP charter amendments to rethink once again whether they stand by their determination in this issue.”
- „It happened in the past that there were negative opinions regardless of which Sejm worked on the subject and for example it had changed some records under the influence of such opinions. I cannot rule it out also this time.”
- „Government prepared the motion modifying NBP charter in accordance with EU standards. This motion would be proceeded and obviously, as always, it could be amended by the deputies. I cannot say whether deputies would propose such improvements. Probably yes, if they're concerned that they're right.”

## Market monitor

- Strengthening of PLN against USD, strong Euro
- What exchange rate regime for Poland?
- 17 April saw the first auction of 20Y Bonds in Poland
- Yield curve down, though it is still higher than in the Czech Republic and Hungary
- Market expects further cut by 50 bps over next two months
- At the T-bond auction in May, demand was much higher than in April

### Strengthening of PLN against USD, strong Euro

PLN significantly strengthened against USD last month. On 7 May 1 USD was only PLN 3.95. As regards PLN against Euro, it slightly weakened which was driven by Euro growth on the global financial markets - on 7 May its rate against USD was up to the level of 0.9190. Measuring the strength of PLN with a deviation from the old parity, it strengthened up to 12.3% at April-end as compared to 10.6% at March-end

### Deviation of the zloty from the old parity



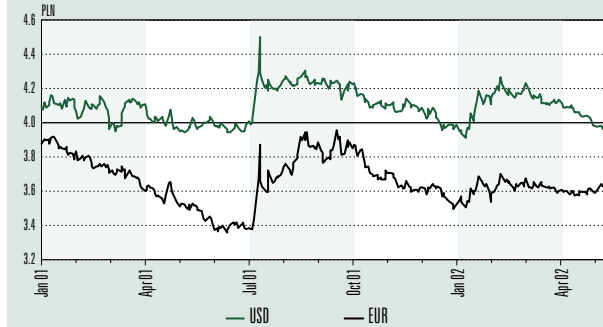
Source: BZ WBK

Pressure on strong PLN in April was driven by investor strong expectations of interest rate cuts. As the cut was lower than anticipated, i.e. by only 50 Bps, expectations of further rate cuts are still in the air. Most likely, PLN will stay strong by the time of the next cut which is expected in June (likely the last one this year). Depreciation is not possible until in the latter part of the year (2H).

### What exchange rate regime for Poland?

Finance minister Marek Belka started recently discussion what exchange rate regime should be adopted in Poland. He openly said that we should abandon direct inflation targeting regime and move to exchange rate targeting regime. He also suggested that it should be done by adopting a wide band with significantly depreciated

### Zloty fix rate

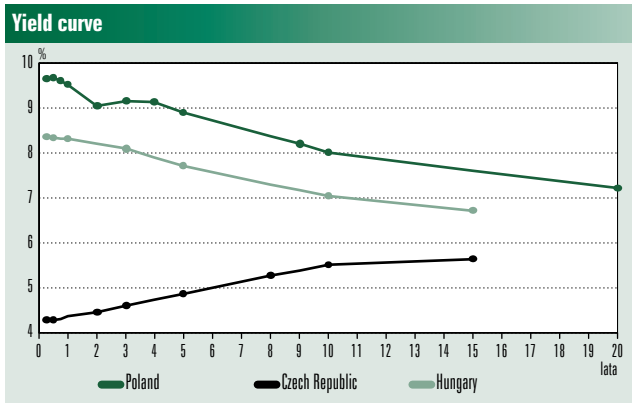


Source: BZ WBK

central parity rate. In this context he mentioned 10% needed devaluation, while economy minister Jacek Piechota said that 20% would be more appropriate. As we said many times before, the ultimate goal for the government is to weaken the zloty, and pressure on central bank to lower interest rates was just a tool to achieve that goal. Since SLD took over interest rates fell by 500 bps, and zloty remained strong, so government is now planning to resort to other tools to weaken the zloty. Therefore in short-time we expect that government will approach MPC with a proposal to change the exchange rate regime. Will MPC accept it? Immediate comments of MPC members and NBP deputy governor suggest that central bank would prefer to stick to so-called corner solutions. Therefore if government wants a fixed or managed exchange rate, the central bank, if anything, would opt for the most credible peg, i.e. for the currency board versus euro. But one should keep in mind that one of pre-conditions to adopt a currency board is very sound fiscal and structural policy. And we have already seen Argentina example when currency board badly failed because of lack of such sound policies. We would argue that with 5% fiscal deficit and slowing privatisation adopting a currency board might carry a significant risk. Of course that risk will be even bigger for simple fixed exchange rate regime, which carries even less credibility.

### First auction of 20-year bonds

First auction of 20-year bonds in Poland (on 17 April) produced very decent results for finance ministry. Investors' demand was very high (6.5 times more than the supply), so all papers on offer were sold without the problem and average yield settled well below finance minister's desired threshold level. Average yield reached 7.215% and maximum yield stood at 7.243%. Supply of the bonds was insignificant (only PLN 400m), so these papers are currently not fluent. As shown on the next graph, the yield curve of Polish treasury papers are still at the higher level than in Hungary or Czech Republic.



Source: BZ WBK

### Yield curve down

During the last month, the yield curve went down along all its line by ca 30bps. The highest drop (by 52bps) was recorded for 2Y bonds. Actually, the yield was falling throughout April as the market had strong expectations of interest rate cuts by the MPC. It was anticipated that the intervention rate would be down by 100bps and such a movement was discounted in prices of bills and bonds. When it turned out that the cut was only by 50bps, an adjustment and yield growth by ca 10bps followed. Yet this trend did not last long, as nearly immediately the expectations of another cut by 50bps in the next two months arose. Yield on the new 20Y benchmark was very stable on the secondary market (7.12%-7.15%), as for the time being it is not marketable yet.

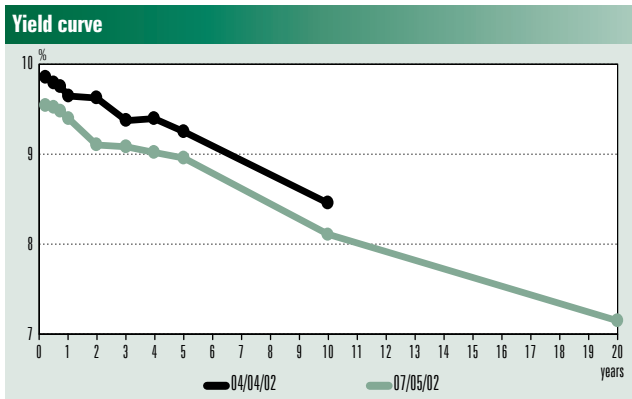
### At the T-bond auction in May, demand was much higher than in April

During the auction on 8 May, the finance ministry sold all offered bonds: PLN1.5bn of 2-year and PLN2.4bn of 5-year papers. Unlike in April this time the demand was relatively high, reaching PLN8.65bn. Demand was twice as big as the supply for both kind of papers. In case of 2-year bonds such event happened for the first time this year, but the supply in May was lower than in previous months. High demand and the fact that interest rates have been lowered caused yields to decline by 28 and 22 bps respectively, compared to previous auction. Such levels were slightly in line with market expectations. It was the only bond auction this month, because there is no 10-year bond auction.

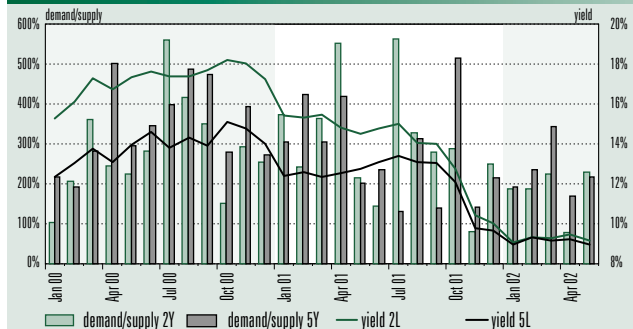
### T-bill auctions in April and May 2002 (PLN m)

Date of auction	OFFER (SALE)			
	13-week	26-week	52-week	total
08.04.2002	100 (100)	–	600 (600)	700 (700)
15.04.2002	100 (100)	–	700 (700)	800 (800)
22.04.2002	–	100 (100)	900 (900)	1000 (1200)
<b>Total</b>	<b>200 (200)</b>	<b>100 (100)</b>	<b>2400 (2400)</b>	<b>2700 (2700)</b>
06.05.2002	100 (100)	–	600 (599,86)	700 (699,86)
13.05.2002	–	–	600	600
20.05.2002	–	–	700	700
27.05.2002	–	–	800	800
<b>Total</b>	<b>100 (100)</b>	<b>–</b>	<b>2700</b>	<b>2800</b>

Source: Finance Ministry



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



Source: BZ WBK

### 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	400	400
May	08.05	OK0404	1 500	1 500	PS0507	2 400	2 400	–	–	–	–
Juni	05.06	OK0404	–	–	PS0507	–	–	–	–	–	–
July	03.07	OK0404	–	–	–	–	–	17.07	DS1110	–	–
August	07.08	OK0804	–	–	PS0507	–	–	–	–	–	–
September	04.09	OK0804	–	–	PS0507	–	–	18.09	DS1110	–	–
October	02.10	OK0804	–	–	PS0507	–	–	–	–	–	–
November	06.11	OK0804	–	–	PS1107	–	–	20.11	DS1112	–	–
December	04.12	OK1204	–	–	–	–	–	–	–	–	–

Source: Finance Ministry

## International review

- Interest rates unchanged: in US 1.75%, in Eurozone 3.25%
- Strong US GDP growth in 1Q2002, mainly due to stocks rebuilding by companies
- In 2H2002 Eurozone inflation may decrease below 2% as planned by the ECB

At the meeting held on 7 May, American Fed remained interest rates unchanged, in line with market expectations. Federal funds rate remained at 1.75% - the lowest level for over 40 years. In the statement Fed pointed out that despite proceeding economic activity in the US, the scale of demand growth in subsequent months is still uncertain. Fed stated that there is a balance between the risk of recession and inflation. Next Fed meeting is scheduled for 25-26 June.

Alan Greenspan in his testimony before US Congress said that US economy still faces uncertain future beyond its rebound from last year recession. Markets understood his speech as signal that US rates may remain on hold in near future.

Also the European Central Bank keeps the interest rates unchanged. Headline refinace rate remains at 3.25%. At the same time ECB stressed that easing cycle in monetary policy is probably over. ECB governor Wim Duisenberg said that Eurozone inflation remains under control and it should fall below target level of 2%, though there is some risk connected with recent oil price surge. In the near term nothing points to risk of interest rate hike in Eurozone.

In the last quarter of 2001 Eurozone GDP declined 0.2% QoQ and increased 0.6% YoY. Figures were consistent with preliminary estimates released earlier. European Commission published its economic growth forecasts for 2Q2002 at 0.4-0.7% QoQ.

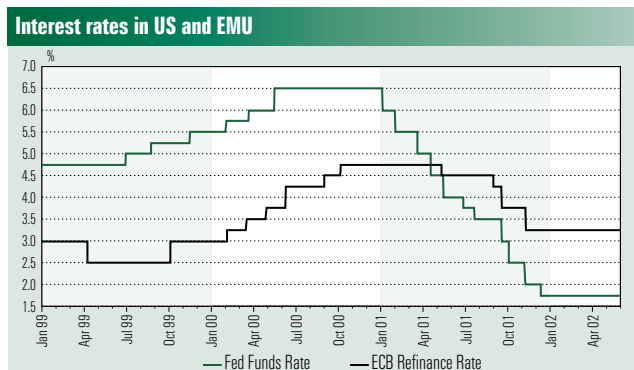
ECB chief economist Otmar Issing said that euro area would be back at its growth potential sooner rather than later. He also said that every rise in oil prices leaves its traces even if it is only temporary ... but so far there is no reason to sound the alarm. Indeed ECB economist was more concerned about high wage claims coming from German trade unions.

The European Commission released its report about economic situation in EU member countries and 13 accession countries. According to Commission's forecasts economic growth in EU could amount 1.5% in 2002 and in EMU it could reach 1.4%. In 2003 it could reach 2.9% in both cases. German GDP growth would be rather limited (0.8%) this year but in 2003 it would accelerate to 2.7%. EC estimates that Eurozone inflation would be higher than ECB's 2%-target and would reach 2.2% this year (2% in 2003).

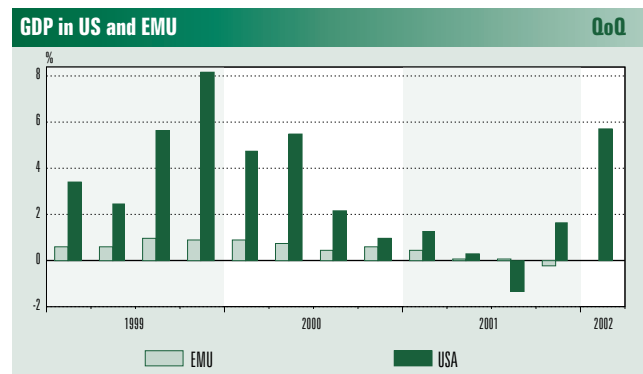
According to preliminary data US GDP recorded an impressive 5.8%QoQ growth rate in 1Q02. It was the highest growth rate since 4Q99 and resulted mostly from corporates rebuilding stocks and from robust consumption demand. Restocking cycle will ease next quarter and expected growth rate should also be lower.

According to leading German economic institutes German economy entered recovery phase at the beginning of 2002. Analysts expect German GDP growth to reach 0.9% this year and 2.4% next year. Faster growth rate is supposed to reduce the unemployment in 2H02. German government forecasts GDP growth at 0.75%. Institutes underscored the necessity to reduce budget expenditures by ca. EUR16bn in 2003-2004 in order to meet budget deficit criteria.

Meanwhile economic recovery starts not only in the West but also in the East. Belarusian president Aleksandr Lukaszienka set rather impressing goal for his country's economy - it is to reach 40% growth during next three



Source: Reuters



Source: Reuters

years, which will allow for nearly 2.5-fold wage increase. Comparing to such target the path set by Polish deputy PM Marek Belka (1-3-5%) seems so pathetic. Obviously the base in Poland is higher and also Polish government does not monitor data released by statistical office.

US inflation in March reached 0.3% MoM and was lower than 0.5% expected by the market. Annual growth rate increased to 1.5% from 1.1% recorded last month. Core inflation excluding prices of food and energy reached 0.1% compared to 0.3% in February.

In line with expectations, Eurozone inflation decreased to 2.2% YoY in April from 2.5% in March. Eurostat informed also that retail sales in Eurozone increased by 0.5% MoM and 1.3% YoY in February. Data were better than forecasted.

In Ernst Welteke's opinion, Bundesbank Governor and member of ECB Council, the Eurozone inflation would fall to desired level below 2%, but probably not earlier than in 2H2002. In March CPI index amounted to 2.5%. Welteke mentioned such threats for recovering European economy as recent oil price increase and results of wage negotiations in Germany. He added that recovery in the Europe would be stimulated by rapid growth acceleration in US.

ECB governor Wim Duisenberg said that ECB will intervene on the market if the euro depreciation will threaten price stability in Eurozone. In his opinion European currency has the potential to appreciate. Duisenberg repeated also after Fed's officials that US current account deficit, reaching 4% of American GDP, is unsustainable in the long term. ECB governor also criticised American customs on steel import.

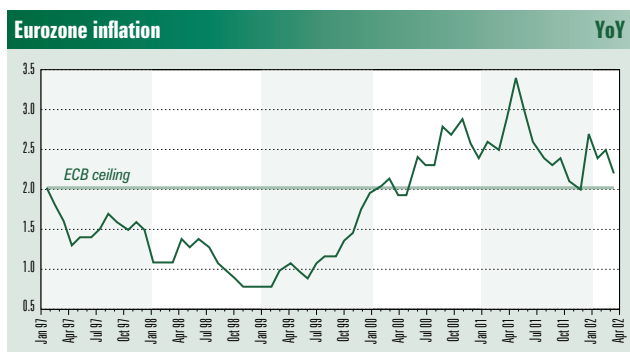
Unemployment rate in the Eurozone remained at the level of 8.4% in March, in line with expectations. In France unemployment rose to 9.1% from 9.0% in February, while analysts predicted no changes. The lowest unemployment among the Eurozone member countries

is in the Netherlands (2.4%) and the highest in Spain (12.9%).

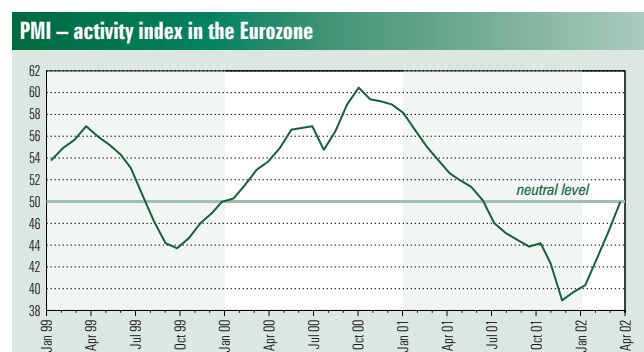
US unemployment rate increased to 5.7% in March from 5.5% in February. Number of jobs excluding agriculture increased by 58,000 while last month it fell by 2,000. Market expected slightly lower unemployment rate: 5.6%.

IFO index reflecting German business sentiment unexpectedly declined in April to 90.5 from 91.5 recorded in March, while markets expected slight increase to 92.1 level. The decline is probably only a correction after five consecutive months of upward trend, which was particularly strong in March. IFO institute's president stressed yesterday that sentiment deteriorated only in trade sector.

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.



Source: Reuters



Source: Reuters

**What's hot this month**

Monday	Tuesday	Wednesday	Thursday	Friday
<b>29 april</b>	<b>30</b> POL: Balance of payment (Mar) EMU: Inflation preliminary (Apr) EMU: Unemployment (Mar) EMU: Retail sales (Feb) USA: Consumer Confidence (Apr)	<b>1 May</b> <b>Labour Day</b> USA: ISM (Apr)	<b>2</b> ITA: Inflation preliminary (Apr) EMU: ECB meeting EMU: PMI (Apr) USA: Factory orders (Mar)	<b>3</b> <b>Constitution Day</b> EMU: Economic sentiment (Apr) EMU: Producer prices (Mar) USA: Unemployment (Apr)
<b>6</b> POL: T-bill auction (PLN 700m) EMU: Business climate (Apr)	<b>7</b> POL: Food prices (2H Apr) GER: Unemployment (Apr) GER: Industrial orders (Mar) EMU: GDP (4Q) USA: Fed meeting	<b>8</b> POL: T-bond auction OK0404 & PS 0507 (PLN 1.5 and 2.4bn) EMU: Industrial output (Mar)	<b>9</b>	<b>10</b> USA: Producer prices (Apr)
<b>13</b> POL: T-bill auction (PLN 600m)	<b>14</b> POL: Money supply (Apr) FRA: Inflation preliminary (Apr)	<b>15</b> POL: Inflation (Apr) POL: Budget deficit (Apr) FRA: Industrial output (Mar) ITA: Industrial output (Mar) ITA: GDP (1Q) USA: Inflation (Apr)	<b>16</b> POL: MPC meeting ITA: Inflation final (Apr) EMU: Inflation final (Apr)	<b>17</b> POL: Wages & employment (Apr) EMU: Industrial output (Mar) USA: Foreign trade (Mar)
<b>20</b> POL: T-bill auction (PLN 700m) POL: Industrial output (Apr) POL: Producer prices (Apr) POL: Unemployment (Apr) EMU: Foreign trade (Mar)	<b>21</b> POL: Business climate (May)	<b>22</b>	<b>23</b> GER: GDP (1Q)	<b>24</b> FRA: GDP (1Q) FRA: Inflation final (Apr) USA: GDP (1Q)
<b>27</b> POL: T-bill auction (PLN 800m) POL: Food prices (1H May)	<b>28</b> POL: MPC meeting EMU: Retail sales (Mar)	<b>29</b> POL: MPC meeting (decision) POL: Balance of payment (Apr) ITA: Inflation preliminary (May)	<b>30</b> <b>Corpus Christi</b> EMU: GDP (1Q)	<b>31</b> EMU: Inflation preliminary (May) EMU: Money supply (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	24-25	28-29	25-26 <sup>a</sup>	30-31 <sup>a</sup>	27-28 <sup>a</sup>	24-25 <sup>a</sup>	29-30 <sup>a</sup>	26-27 <sup>a</sup>	17-18 <sup>a</sup>
CPI	15	15 <sup>b</sup>	15 <sup>c</sup>	15	15	17	15	16 lub 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	30	-	-	-	-
Money supply	14	14	14	12	14	14	12	14	-	-	-	-
NBP balance sheet	7	7	7	5	7	7	5	7	-	-	-	-
Business climate indices	7 <sup>d</sup> & 22 <sup>e</sup>	20	20	18	21	19	18	22	19	18	21	19
Food prices, 1-15	-	8 <sup>e</sup> & 27 <sup>f</sup>	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**

		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	Apr 02	May 02
															<i>forecast</i>	
GDP	% YoY	2,3	x	x	0,9	x	x	0,8	x	x	0,3	x	x	1,5	x	x
Industrial output	% YoY	3,3	3,8	-0,4	-4,7	1,5	0,9	-3,7	1,8	-1,0	-4,8	-1,4	0,2	-3,2	5,1	-3,8
Retail sales***	% YoY	0,1	1,9	4,3	0,2	1,5	3,0	1,3	5,8	2,4	2,4	4,7	6,7	9,9	x	x
Unemployment rate	%	16,1	16,0	15,9	15,9	16,0	16,2	16,3	16,4	16,8	17,4	18,0	18,1	18,1	17,9	17,7
Gross wages**	% YoY	7,9	5,2	8,8	4,9	8,0	6,9	6,2	7,8	6,6	5,3	5,7	5,5	4,8	4,6	4,6
Exports (acc. to NBP)	USDm	2 614	2 559	2 472	2 477	2 556	2 616	2 287	2 778	2 555	2 540	2 308	2 141	2 480	2 356	2 332
Imports (acc. to NBP)	USDm	3 522	3 269	3 638	3 379	3 382	3 635	3 176	3 953	3 509	3 430	3 418	2 952	3 150	3 119	3 181
Trade balance (acc. to NBP)	USDm	-908	-710	-1 166	-902	-826	-1 019	-889	-1 175	-954	-890	-1 110	-811	-670	-763	-848
Current account	USDm	-751	-520	-737	-948	-287	-354	-304	-838	-417	-500	-847	-820	-637	-562	-403
Budget deficit	PLN bn	-15,1	-18,4	-20,4	-18,7	-19,4	-21,0	-21,8	-24,6	-27,7	-32,6	-6,9	-14,0	-16,4	-19,2	-22,0
Inflation (CPI)	% YoY	6,2	6,6	6,9	6,2	5,2	5,1	4,3	4,0	3,6	3,6	3,4	3,5	3,3	3,1	2,6
Producer prices (PPI)	% YoY	3,8	3,4	2,3	0,9	0,6	1,0	0,7	-0,5	-1,0	-0,3	0,0	0,2	0,4	0,4	0,5
Money supply	% YoY	14,9	13,7	13,2	7,8	12,8	13,8	12,7	11,5	7,7	9,1	7,8	7,2	3,1	4,0	4,0
Deposits	% YoY	16,7	15,6	15,1	8,8	14,4	15,3	13,7	12,0	7,6	8,8	7,0	6,1	1,6	x	x
Credits	% YoY	14,1	12,2	10,9	4,8	11,5	11,8	11,5	9,7	8,9	9,3	9,0	8,8	7,3	x	x
USD/PLN	PLN	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	4,06	4,06
EUR/PLN	PLN	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	3,59	3,70
Intervention rate*	%	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	9,50	9,50
WIBOR 3M	%	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	10,20	9,90
Lombard rate*	%	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	12,50	12,50
Yield on 52-week T-bills	%	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	9,56	9,40
Yield on 2-year T-bonds	%	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	9,22	9,00
Yield on 5-year T-bonds	%	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	9,02	8,85
Yield on 10-year T-bonds	%	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	8,19	8,00

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

Source: CSO, NBP, BZ WBK

**Quarterly and yearly**

		1997	1998	1999	2000	2001	2002	2003	1001	2001	3001	4001	1002	2002
							<i>forecast</i>						<i>forecast</i>	
GDP	PLN bn	472,4	553,6	615,1	685,6	721,6	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	-1,6	0,8
Real retail sales	% YoY	6,8	2,6	4,0	1,0	0,4	x	x	-3,1	-0,2	1,2	3,7	6,7	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	18,1	17,7
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	29 300	34 000	7 436	7 508	7 459	7 873	6 929	7 091
Imports (acc. to NBP)	USDm	38 549	43 842	40 727	41 424	41 955	40 950	47 000	10 584	10 286	10 193	10 892	9 520	9 576
Trade balance (acc. to NBP)	USDm	-11 320	-13 720	-14 380	-13 168	-11 679	-11 650	-13 000	-3 148	-2 778	-2 734	-3 019	-2 591	-2 485
Current account	USD	-4 309	-6 862	-11 558	-9 946	-7 075	-9 028	-9 150	-2 170	-2 205	-945	-1 755	-2 304	-1 705
Current account	% PKB	-3,0	-4,3	-7,4	-6,3	-4,0	-4,9	-5,0	-4,9	-5,2	-4,2	-4,0	-4,1	-3,8
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	-16,4	-25,0
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	-16,4	-4,7
Inflation	% YoY	14,9	11,8	7,3	10,1	5,5	3,5	4,5	6,7	6,6	4,9	3,8	3,4	2,8
Inflation*	% YoY	13,2	8,6	9,8	8,5	3,6	4,8	4,0	6,2	6,2	4,3	3,7	3,3	2,9
Producer prices	% YoY	12,2	7,3	5,7	7,8	1,6	1,0	2,5	4,2	2,2	0,8	-0,6	0,3	0,7
Money supply	% YoY	30,3	25,3	24,6	15,2	12,3	x	x	14,7	11,8	14,1	12,9	6,0	x
Deposits	% YoY	33,0	28,4	26,4	17,2	13,6	x	x	17,1	13,6	15,7	13,3	4,9	x
Credits	% YoY	44,6	30,0	28,6	24,7	11,3	x	x	15,4	9,7	11,3	8,1	8,4	x
USD/PLN	PLN	3,28	3,49	3,97	4,35	4,09	4,18	4,50	4,09	3,99	4,22	4,08	4,13	4,09
EUR/PLN	PLN	3,71	3,92	4,23	4,01	3,67	3,75	4,00	3,78	3,49	3,76	3,66	3,62	3,68
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	10,00
Lombard rate*	%	27,00	20,00	20,50	23,00	15,50	12,00	12,00	22,00	19,50	18,50	15,50	13,50	12,00
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	9,40
Yield on 2-year T-bonds	%	23,47	18,08	12,41	17,37	13,91	8,95	8,60	15,59	14,91	14,37	10,83	9,27	9,40
Yield on 5-year T-bonds	%	21,03	15,83	10,87	14,00	12,59	8,80	8,50	13,12	13,38	13,43	10,45	9,09	8,90
Yield on 10-year T-bonds	%	x	x	9,60	11,79	10,74	8,00	7,80	10,46	11,22	11,81	9,48	8,28	8,05

\* at the end of period

Source: CSO, NBP, BZ WBK



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