MACROscope
Polish Economy and Financial Markets

August 2002 Nº 37

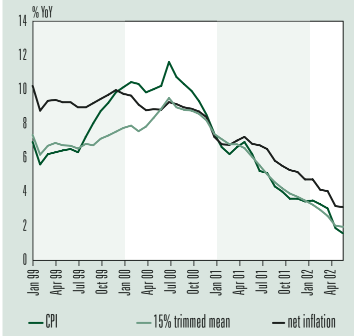
Micropackage

- **After the first month in the Ministry of Finance office the stance of Grzegorz Kołodko in respect of many issues is much more transparent.** Frankly speaking, we are still fed with generalities. However, it is worth noticing the positive signals he has sent in respect of the openness to co-operate with the central bank by way of decreasing the fiscal deficit (potentially, decreasing the expenses). Of course, we should wait for the practical implementation of the announced solutions, as the concern arises that the decrease in the central deficit will not necessarily result in the limited fiscal policy expansiveness. In July, the details of the so-called ‚rescue package' were revealed. The package developed by the new minister is aimed at the recovery of the Polish economy. Despite the fact that the package solutions are quite controversial, their impact on the financial markets is bound to be rather moderate in the near future. Nevertheless, after S&P's decision to abate the rating for the Polish debt denominated in the domestic currency, the financial markets players will analyse every single movement of new minister with increased attention. The Special focus section includes our comments on the detailed solutions of Kołodko's plan covering both the negative factors included in the so-called rescue package and the positive changes in the approach to some aspects of the Polish economy. This analysis is based on the draft acts sent to Parliament, Grzegorz Kołodko's speech in the Lower House of Parliament and numerous interviews he gave over the recent weeks. The better part of the Kołodko's statements can be found in the section Government and politics watch, where he is (and probably will still be) an unquestionable "protagonist".
- **Another month brought the statistics, which do not make the assessment of both the existing and the future business climate in Poland clear.** On the one hand, the activity indicators substantially picked up which is reflected in the improvement of the industrial production dynamics, recovery in retail sales and faster growth in exports. Moreover, the labour market did not witness further decline – employment in the enterprise sector remained flat when compared to last month, which should be treated as good news as for the past 15 months we saw a continued employment reduction. On the other hand, we heard that the domestic demand stays weak and that consumer trends do not improve as they would in the first months of the year.
- **The words of the new Minister of Finance did manage do calm the investors on the Polish market, even though the investors' trust at the beginning of July was somewhat disrupted.** Zloty was being influenced by the euro/dollar exchange rate. Optimism has returned to the fixed income market, as did the expectation of further interest rate cuts. Even the lowering of Polish rating by the S&P agency did not reverse the positive trend for more than a couple hours.

Financial market — **on 31 July 2002 r.**

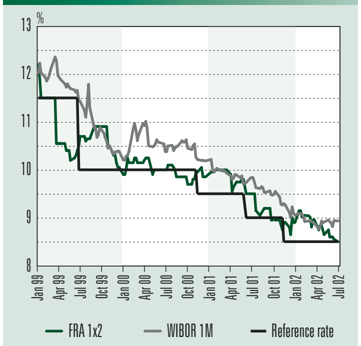
NBP deposit rate	5,50	WIBOR 3M	8,69	PLN/USD	4,1685
NBP intervention rate	8,50	Yield on 52-week T-bills	8,05	PLN/EUR	4,0810
NBP lombard rate	11,50	Yield on 5-year T-bonds	7,85	EUR/USD	0,9777

CPI and core inflation



Source: CSO, NBP

Money market interest rates



Source: BZ WBK

In this issue:

Maciej Reluga
Chief economist
tel. (+48 22) 653 46 63
maciej.reluga@bzwbk.pl
Piotr Bielski
tel. (+48 22) 653 47 33
Piotr Bujak
(+48 22) 586 83 41
Aleksander Krzyżaniak
(+48 22) 586 83 42

The first month of new Finance Minister

In the July issue of MAKROscope we discussed the breakthrough event of the last month which was theappointment of the new Minister of Finance. The first words of the new minister did not dispel all doubts, however, today the stance of Grzegorz Kołodko in respect of many issues is much more transparent. Frankly speaking, we are still fed with generalities. However, it is worth noticing the positive signals he has sent in respect of the openness to co-operate with the central bank by way of decreasing the fiscal deficit (potentially, decreasing the expenses). Of course, we should wait for the practical implementation of the announced solutions, as the concern arises that the decrease in the central deficit will not necessarily result in the limited fiscal policy expansiveness. In July, the details of the so-called ‚rescue package' were revealed. The package developed by the new minister is aimed at the recovery of the Polish economy. Despite the fact that the package solutions are quite controversial, their impact on the financial markets is bound to be rather moderate in the near future. Nevertheless, after S&P's decision to abate the rating for the Polish debt denominated in the domestic currency, the financial markets players will analyse every single movement of the new minister with increased attention. This section includes our comments on the detailed solutions of Kołodko's plan (as much as we know them today) covering both the negative factors included in the ‚rescue package' and the positive changes in the approach to some aspects of the Polish economy. This analysis is based on the draft acts sent to Parliament, Grzegorz Kołodko's speech in the Lower House of Parliament and numerous interviews he gave over the recent weeks. The better part of the Kołodko's statements can be found in the section Government and politics watch, where he is (and probably will still be) an unquestionable "protagonist".

Budget 2003 – do we know anything more?
Unfortunately, in the better part of his speeches Grzegorz Kołodko focused on the microeconomic sphere of the economy recovery without revealing many details of the next year's budget. Let us try, however, to spot those few statements which may throw some light to the possibility of continuing Marek Belka's policy.

In his very long interview for Trybuna, Grzegorz Kołodko stated that expenses will increase in real terms for the budget units remuneration and pensioners, as well as for many segments of public services such as education and culture among others. At the same time, he declared that the "blindfold" expenses cuts (especially of social expenses) would be avoided. In his earlier Parliament speech Kołodko stated that the work had been in progress "on the budget which will represent the public finances reform, the budget that will enable the return to the fast growth path". The only detail related to the next year's budget and revealed in the Sejm's speech was the declaration that the expenses growth would be limited to 3.7% against 4% sanctioned by the government in the budget assumptions developed by the former finance minister. We do not know, however, if Marek Belka's expenses growth principle in the form of "inflation +1%" still prevails. Or maybe it is the case that Grzegorz Kołodko has only changed the projected inflation figure (the changes in the projected inflation path are presented in the Economic Update) or that he supports a more restrictive fiscal policy. The way the MF wants to decrease the expenses' growth, while ensuring the debt repayment and real increase in the above-mentioned sectors, remains his secret as yet. What we do know, however, is the announced change in the disability and old-age pension revaluation regulations – to this end, the Ministry of Finance will be using (as from the beginning of 2003) a past inflation indicator and not the figure projected for the following year. As the 2002 average annual inflation will be lower than the one projected for 2003, the Ministry of Finance can generate expense savings of ca. PLN50m.

Lower deficit? Maybe, but only in the central budget.
Given the above-mentioned facts, can the central budget deficit be lower than PLN43bn accepted by the government, or even under PLN40bn? It seems that in the long run Grzegorz Kołodko proposes to decrease the deficit by way of increasing the GDP growth dynamics, which would ensure additional income. This, however, must not be perceived as the public finances sector's reform. As far as the next year's budget is concerned, there seem to be a few ways to decrease the deficit. For instance, higher income from indirect taxes and lower expenses on the public debt repayment (as a result of PLN appreciation and lower interest rates) may be assumed. It is also possible that the Ministry of Finance will decrease the FUS (Social Security Fund) subsidies - generally, the public expenses would be lower, but part of this money could be spent on other areas. In this case, the economic deficit of the entire public finances sector would not decrease at all, especially that FUS would raise a loan for further payment of premiums to pension funds. Financial markets may respond positively to the information on the lower central budget deficit and lower expenses, despite the fact that this may bring about a higher deficit of the entire public funds sector. The response may be limited by the fact of downgrading the rating for the Polish debt.

Standard & Poor's has downgraded Polish debt

Standard & Poor's – a rating agency – abated the long-term rating for the Polish credit in PLN from "A+" to "A". The Agency stated that the rating decrease reflected "durability of the high budget deficit in the medium term and the projected growth in the public debt to GDP ratio". All other ratings have been left unchanged, including the long-term rating for the FX denominated debt at the level BBB+, which, according to the Agency, was supported mainly by the strong liquidity position of Poland. The stable outlook of the ratings was left unchanged as well, and the S&P's representative said that it reflected "S&P's expectations that the Polish government will make an effort to prevent further fiscal deterioration". As much as the short-term reaction of the financial markets to this decision was univocally negative, after some time the prices of the Polish assets returned to their previously recorded levels (see Market Monitor for details). However, the alert sent by S&P may result in a situation where the market will have an in-depth analysis of not only the state budget, but also of the entire public funds sector, including the public debt of non-budget units guaranteed by the government.

S&P's Sovereign Ratings tab. 1

	Domestic currency		Foreign currency	
	Long-term credit	outlook	Long-term credit	outlook
Czech Republic	AA–	Stable	A–	Stable
Hungary	A+	Stable	A–	Stable
Poland	A	Stable	BBB+	Stable

Source: Standard & Poor's website

Other agencies not likely to follow S&P's

Contrary to some expectations (not ours, however) the downgrading of the rating by S&P's did not turn out to be the first in the reductions series, which adds to the limited abatement negative market impact on the market. Nevertheless, the fact is that S&P's decision is the first warning to the fiscal authorities. The representatives of both Moody's Investors Service and Fitch Ratings stated that they were not going to follow S&P's and were likely to hold their ratings for Poland. Jonathan Schiffer, the Moody's analyst, stated that favourable structure of the Polish debt maturity results in a situation that the insolvency likelihood has not changed despite the increase in the debt/GDP ratio. He said that despite the fact that the fiscal policy is and will be loose next year, the ratios estimated by the agency are favourable and are unlikely to deteriorate. He emphasised that the outlook for Poland is defined as stable, which means a 50% likelihood that the national rating will be left unchanged over the next 18-24 months. According to Schiffer, the rating for Poland is supported by the constitutional requirement for the public debt not to exceed 60% of GDP and the requirement to apply special procedures in case this level is exceeded Such a limitation is not applicable in many countries.

Grzegorz Kołodko calls for optimism

Grzegorz Kołodko calls for optimism that would enable the economy to return on the path of a faster development (5-7% GDP growth). According to Kołodko, already in the 2Q02 GDP growth has reached almost 1% and it will be possible to reach a 2% growth in 4Q02 and over 4% in 2H03, which is very much consistent with our predictions. Kołodko assumes even that there will be a day in the future (sometime in the next term of Parliament) when the GDP growth rate will be higher that the rate of unemployment. And although in this last sentence Kołodko shows far too much optimism, one has to admit that many signals that he sends in his speeches are very positive. Kołodko does not seem to worry too much about the fact that the S&P's has lowered the rating for Poland. In his interview with the Polish public radio he said that the S&P's has obviously failed to include in its works the most recent information from Poland. This is so, because the perspectives of the fiscal policy have improved a lot since he became the Minister of Finance at the beginning of July and there is no basis to be doubtful. Indeed, the Minister of Finance has been repeating recently that he intends to aim for the reduction of a public finance deficit so as to create a scope for manoeuvre for the monetary policy. In the interview for Financial Times, Kołodko announced that he will lower the budget deficit to 4.9% of GDP in 2003 from 5.5% planned by his predecessor. Also, Kołodko would like to see a deficit smaller that 3% of GDP in 2005. This would be a change compared to the government predictions included in its strategy entitled Entrepreneurship, development, work, which assumed a deficit greater than 3% even in 2006.

…wanting to co-operate with the NBP

In his speech in the Lower House of Parliament, the Minister of Finance stressed that the increase in the economic growth, which he is expecting, will be accompanied by the stabilisation of inflation on a low level (with the independent central bank) and a decrease in the budget deficit. This, undoubtedly, could be perceived as a change of government's opinion about a disinflationary politics of the NBP. So far, the members of the governing coalition demanded an increase in the pace of economic activity even at the cost of a much higher inflation. At the same time the new Minister of Finance wants to, in his own words, ‚admire' low inflation, perceiving it as an asset in running the economic policy.

Kołodko has to a large extent decreased the uncertainty concerning the exchange rate policy. He is convinced that the zloty is overvalued, which is harmful for the Polish exporters, as a result of a monetary policy and the inflow of a speculative capital. At the same time, however, he has admitted that the foreign exchange policy is decided by both the government and the NBP. The Minister of Finance said that although he has a different view to that held by the central bank, he does nevertheless respect the NBP's opinion. He also added that NBP ‚is and will be an independent institution'. He also said that whereas the stands of the Ministry of Finance and NBP are different in the exchange rate matters in the short term, they are rather similar in the long term. Kołodko hopes that the NBP and the Ministry of Finance will work out such a mechanism that will support Polish exporters and limit the imports to Poland. Kołodko described the adoption of Euro by Poland as a ‚historical chance' and said that he supports introducing Euro in Poland as soon as this is possible.
Although Grzegorz Kołodko repeated that his preferred exchange rate of zloty against the euro is 4.35, in the interview with ‚Financial Times' he said explicitly that he will not be attempting to change the exchange rate regime- "it is one matter to be an independent researcher and a very different matter to be a Minister of Finance", he said.

Micropackage – how to revive the Polish economy?
Last month the government accepted bills proposals of the so-called ‚rescue package'. The Minister of Finance presented it in the Lower House, but earlier these changes were already pre-announced by Prime Minister Leszek Miller. In one of the interviews he supported the government's support for ailing companies.
Parliamentary Public Finance Committee has already discussed these changes with minor amendments. Therefore, one could expect that Kołodko's package will be approved by the parliament at the beginning of September. It has already been declared that the programme will include additional elements e.g. bankruptcy law.
While it is hard to disagree with the general ideas of Grzegorz Kołodko's concept of reviving the economy (key points of his strategy – lowering budget deficit, maintaining low inflation, accelerating privatisation and structural reforms – seem to match exactly what Leszek Balcerowicz emphasises after the MPC meetings), the details seem much more ambiguous. While the general idea of stimulating the supply side of the economy may be right (contrary to blind demand increase, which destabilise the economy), the proposed measures will not bring the expected result of higher GDP growth in the long run. Talking about meeting entrepreneurs' demands, one should consider taxes decrease rather than helping ailing companies, which can hardly be classified as competitiveness leaders.
Let's look at main points of Kołodko's package:

- debt relief for ailing companies
- tax credits for companies
- tax awards
- tax allowances for banks

Debt write-offs
One of the main landmarks in the ‚rescue package' proposed by the new Minister of Finance is the proposal of writing-off debts of the enterprises at a risk of bankruptcy in order to allow them for recovering good financial standing. The restructuring will cover the liabilities due to the overdue tax (of all kind), customs duties and dividends, as well as the overdue payments to the governmental funds including the Social Security Office, Labour Fund and others, along with the penalty interest on the above-mentioned overdue liabilities. In practice, the programme excludes overdue liabilities to pension funds as well as overdue liabilities aimed at tax avoidance. A prerequisite to get the support is a realistic restructuring programme as well as the payment of a restructuring fee of 15%, which is to be decreased down to 1.5% in the case of strategic companies, and split into instalments (non-interest bearing but after the payment of the so-called ‚extension charge'). At this point two key doubts arise – who will decide on, firstly, the enterprise's business plan credibility, and, secondly, on the selection of companies for which the fee will be decreased. The MPs made an effort to answer at least the second question, while the answer to the first one does not seem to be too complex having read the draft bill . In their initial work on the bill the MPs defined in detail which enterprises will be authorised to pay the restructuring fee of 1.5% instead of 15%. These are going to be the companies at a risk of bankruptcy, which have already been befitting the public support, as they are "strategic for the national economy". Therefore, these will be coal mines and coal companies, steelworks, etc. (and their counter parties), i.e. these companies which can hardly be classified as competitiveness leaders, in particular if we consider their usefulness for the Polish economy after the accession to the EU. What is interesting, according to the bill, is that the restructuring project, subject to the assessment of the restructuring authority (i.e. Revenue Office in the better part of cases), must include a plan of increasing market competitiveness, growth in turnovers and profitability and the decrease in debt. As the better part of the above-mentioned companies, which according to the government are crucial for the Polish economy, were not and most probably will not be competitive, it will be very interesting to follow individual

cases of debt write-offs along with the rationale behind them. In addition, the fiscal authority or customs authority will have only 1.5 month to consider a debt write-off application (similarly, companies must submit their restructuring applications within 45 days following the actual introduction of the bill). We may expect the state offices to be overloaded with work and not to have too much time to consider the applications thoroughly. Due to this reason only, the risk of flexible decision-making process will increase and one can be afraid of the lack of rigid operational frames and rigorous compliance with rules, which will result in the increase of dishonest competitiveness. Moreover, should the debt write-off principles not be exceptionally restrictive and the procedures adequately complied with, this solution may bring about the decrease in the fiscal discipline and mass accumulation of outstanding liabilities – who will pay the debts when they are written-off? Therefore, it is difficult to agree with the regulator that these changes "will create incentives to recover the long-term ability to compete both on the internal and external markets". In the rationale to this act we can also read that "it will add to the development of conditions favourable for the creationof new job positions, which will facilitate the employment growth". We also read that "it will have a positive impact on the regional development, especially in the areas of high unemployment". In our opinion, as far as the employment changes are concerned, one can be sure that it will be artificially maintained in the less effective sectors.

The Ministry of Finance estimates that the inflows from the restructuring fee will total PLN1.9bn while writing-off will total ca. PLN 12.4bn worth of overdue tax liabilities. As it can be easily calculated this is exactly 15%, i.e. the fact of the decreasing the fee for many enterprises (most probably the state owned ones) has not been included. Given that in line with stipulations in the rationale for the act, the overdue liabilities of the coal mining, steelworks, defence and light industry sectors total PLN2.5bn, and given that the fee will be decreased for these companies, then the inflows total will be lower by ca. PLN400mln. We should not forget that the fee might be decreased to 1.5% for the better part of enterprises. As a result, the Ministry of Finance's estimates indicating the neutral nature of the changes included in the state budget package may be overoptimistic.

Total overdue tax liabilities mix **tab. 2**

	2001	1Q 2002
VAT	64,56%	64,37%
PIT	19,01%	17,99%
CIT	7,15%	8,69%
Excise duty	6,21%	6,17%
Other	3,07%	2,78%

Source: A draft restructuring act

The share of individual overdue tax liabilities of the coal mining sector in the total overdue tax liabilities **tab. 3**

	2001	1Q 2002
VAT	28,1%	23,69%
PIT	2,1%	2,03%
CIT	6,6%	2,17%

Source: A draft restructuring act

Gazeta Wyborcza showed (in early August) additional elements of the so-called ,anti-crisis package', according to which the social package for the employees willing to leave the restructured companies, in particular those with the staff number over 1000, would also be extended. They could obtain some specific financial support for the "new life-path" in the form of a special subsidy from the Labour Fund granted for the period of 12 months (paid along with remuneration). The Labour Fund would also finance the advances for the staff willing to start business operations. The Industry Development Agency would be charged with the costs of the above-mentioned operations, and it would be provided with 15% of the privatisation proceeds. The consequence of such actions would be obvious – the growth in the economic deficit of the public finances sector and increased financing of borrowing needs on the fixed income market.

The Ministry of Finance has not responded to this press release yetHowever, it is worth noticing that the responses to many other press articles are published on the Ministry's web-site on a relatively frequent and prompt basis.

Tax credits and awards

The proposed restructuring act also envisages financial benefits for those entrepreneurs who do not have any overdue tax liabilities. Those benefits would take the form of a tax bonus: taking the unrecoverable receivables and the relevant provisions, which are overdue for 6 months to tax deductible position (see the frame below). According to the regulator, an entrepreneur who does not have any public-legal overdue liabilities will be exempted from the implications of the payment bottlenecks.

A tax bonus represents an entrepreneur's right to take, in the fiscal year beginning in 2002, to tax deductibles these receivables written down as unrecoverable or the provisions raised to cover these receivables – posted earlier as the due income, if the receivables are:

- due from entrepreneurs
  and
- have not been rapid by debtors for at least 90 days after the maturity date
  and
- represented an entrepreneur's due income before 1 July 2002
  and
- were reported to a relevant Revenue Office at a date and within the scope defined in the act.

Source: A draft restructuring act

The other concept, which deserves less critical comments than the idea of writing-off debts of enterprises going bankrupt, is represented by tax credits for companies, i.e. the exemption from the corporate income tax in the second year of operations. The credit would be repaid over the next five years, including the new decreased tax rate. The principle is to be applied only to the newly-established companies employing up to 50 people, which make Revenue Office settlements in the form of CIT, PIT and the flat percentage tax on the turnover. As usual, however, the regulator imposes a few conditions, the meeting of which may open the way to the governmental credit – maintenance of at least 90% of staff number, generating average monthly income from operations PLN equivalent of not less than EUR 1000 and the lack of the state budget liabilities in arrears for more than 14 days. Of course, the main and logical condition is the maintenance of business operations. The introduction of the tax credit gives birth to some additional questions. Why should we develop yet another condition-loaded bureaucratic rule, if a similar impact on the entrepreneurship could be achieved by the tax decrease, (especially PIT according to which the better part of companies make their settlements; fortunately enough, the government does not opt out from the planned CIT rate decrease). Moreover, one should pay attention to the fact that many companies go bankrupt in the initial period of their operations (hence, they may not survive to be granted the "healing" tax credit). And even if they will survive on the market, they may be unprofitable for a couple of years generating only the operations launch costs and then they fail to pay taxes anyway. The additional risk related to the implementation of similar changes is the possibility of potential excesses and attempts to evade the credit raised.

The last governmental proposal included in the micro-package and well worth discussing in this section concerns the tax allowances for banks, i.e. generally speaking, the possibility of taking part of the unrecoverable receivables to costs. The government proposes a couple of new stipulations depending on the fact whether a bank is involved in the economy restructuring process or not.

Tax deductible costs (existing status):
- 100% of the provisions raised for the due and unrecoverable credits or receivables from the guarantees and letters of guarantee issued by a bank and classified as "lost", providing that the possibility of recovering was made probable in line with tax regulations.
- 25% of provisions raised for credits and receivables arising from guarantees ("doubtful receivables")

Source: A draft act on the amendment to the CIT Act

The draft act encompasses two systemic solutions. The first one consists in changing the taxation treatment of the specific provisions raised by banks. The other solution allows for treating provisions raised for the part of doubtful receivables as tax deductible, in case they have been downgraded from doubtful to lost. As indicated by the frame above, so far banks have been able to deduct 25% of the provisions raised for doubtful credits, but in case of downgrading to "lost" credits, 100% of provisions could be deducted only if the impossibility to recover the receivables was made probable / legitimised (debtor's death, start of the reconciliatory proceedings, creditors' scheme or execution). Undoubtedly, the changes will be favourable from the point of view of commercial banks, although it should be stated that the procedure of legitimising the unrecoverable debts might be relatively short.

As, according to the government, the process of the credit portfolio deterioration in some banks is related mainly to the restructured industrial sectors, it proposed more favourable solutions for the banks funding the enterprises effecting the restructuring programmes (i.e. the same above-mentioned "key sectors for the Polish economy"). The financial restructuring proposed in the act introduces separate regulations for raising specific provisions recognised as tax deductible in respect of the loans sanctioned to these entities.

Proposed changes:
- Increasing the base amount of "doubtful" credits (advances) from 25% to 50%, on which the provision is raised and treated as tax deductible.
- Treating all specific provisions raised due to the credit exposures graded as "lost" without legitimising the unrecoverable debts as tax deductible.

Source: A draft act on the amendment to the CIT Act

The government hopes that such incentives for commercial banks will make them be more involved in the restructuring process. The banks will also be able to treat writing-off debts of the restructured companies as tax deductible as well as deduct 20% of the written-off debt from the taxation base. According to the estimates of the Ministry of Finance, the state budget cost in the form the income diminution would total PLN300m.

The proposed changes should be perceived as an incentive made by the authors of the act to finance bad debtors. Firstly, there arises a question if banks are willing to be involved in this type of business given the increasing share of non-performing receivables in the total receivables. According to the Banking Supervision Office (GINB), the ratio went up to 20% as at the end of 1Q02. We should not forget that banks are the public trust institutions and have to look after the security of their customers' money in the first place, which does not have to necessarily equal the government's programme. Secondly, assuming the commercial banks would be willing to grant loans to the restructured enterprises, from the macro-economic perspective, the effect may be the decreased effectiveness of economy in the long run, as the capital will be allocated to less effective industrial sectors. This may also bring about the decreased number of unprofitable companies going bankrupt, as there will be less requests to start execution proceedings due to the lack of obligation to legitimise the unrecoverable debts. There would not be the effect of cleaning the market from bad enterprises, which may be considered as one of the basis of a competitive market economy. The development of the situation in this direction will be more likely as the so-called moral hazard phenomenon will result in a situation where the companies will not restructure themselves and will raise additional loans counting on the subsequent debt write-off. Similarly to the restructuring act, in order to assess the proposed changes one should wait for the bankruptcy law, the work on which has been announced to take place in autumn this year.

Lower unemployment is the government's priority

Grzegorz Kołodko has many times reassured that the reduction in unemployment is his priority and biggest aim and that unemployment will start falling from as soon as November this year. The truth, however, is that it is highly unlikely that the tools which the Ministry of Finance has at it's disposal will be very effective in changing the economic situation after only 3 months (time delays in the transmission mechanism do not apply to monetary policy only). Moreover, in the 4Q02 there always occurs a seasonal increase in unemployment, which may mean that Kołodko sees other reasons why unemployment may actually fall in November. There exist a few possibilities. Firstly, Kołodko may be convinced that the Polish economy is on the verge of economic recovery caused by past reductions in interest rates and by fiscal impulses. Secondly, Kołodko plans to employ thousands of people in public administration - those employees will be needed because of the increase in bureaucracy caused in turn by the implementation of Kołodko's interventionist rescue plan. Thirdly, Kołodko's estimations may be based on the assumption that the way the rate of unemployment is counted may be changed (such a change of method is indeed being considered; should it come into being, this would happen next year).

Changes in the labour market regulations

A good information (from the point of view of reducing unemployment) is the fact that towards the end of July and beginning of August, the Parliament has agreed on the modification of the Labour Code. This newly accepted law is a compromise between the employers and OPZZ (Organisation of Workers' Trade Unions). This law consists of a range of solutions that are supposed to reduce the costs for businessmen of running their businesses, reduce the bureaucratic and administrative burdens, increase the elasticity of labour market relations and indirectly also add to the creation of job places and hence decrease unemployment. The modification of the labour code assumes, among others, the following changes: introduction of unlimited number of time limited work-contracts; increase of the limit of overhours; possibility of striking a deal regarding the suspension of a mutual agreement; possibility of reducing the employees' salaries if this is required because of the company's financial situation; lack of leave-packages for the employees who are being fired from the companies employing less that 20 people; a radical decrease in the number of protected trade unionists in the companies; lowering of the BHP standards (Safety and Hygiene in the Workplace) in the companies employing less that 100 people; breaks in the working time; possibility of signing a deal to employ a replacement worker in the case of a long justified absence in the workplace of the permanent worker; suspending the employers of less than 20 people from the requirement of establishing labour and salaries codes of practice; reduction from the current 35 to 33 of the number of days of employee's illness that are financed by the employer. After that time the sickness benefit will be paid by the Social Security Fund

It seems that the introduction of the above-mentioned solutions will be an important step towards increasing elasticity of the Polish labour market. Such an increase in elasticity is not only necessary from the point of view of overcoming the current trend of a quickly rising unemployment, but is also highly desirable in the view of Poland's future membership in the EMU. This is so because if Poland would like to aspire to the Euro-zone membership as a country that is a part of the so-called optimal currency area, it would need a highly flexible labour market. Only such a market would be able to really adjust in the event of an asymmetric shock (of whatever kind).

Although the „Solidarity" trade union claims that this newly modified Labour Code should now be presented before the Constitutional Tribunal, in practice the law is now ready and waiting for the President to sign.

Economic update

- No further improvement in business climate indices
- …but economic activity data slightly better
- Disinflation is not over yet
- Negative trends in monetary aggregates continue

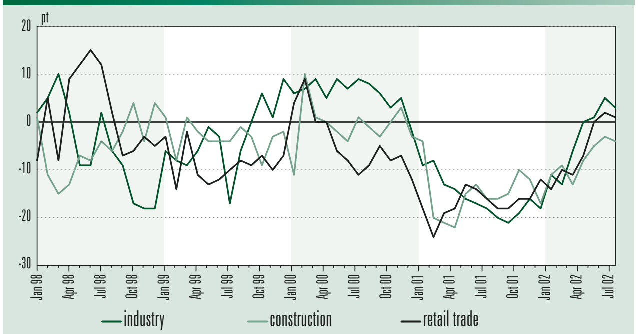
It looks better, but…
Another month brought the statistics which do not make the assessment of both the existing and the future business climate in Poland clear. On the one hand, the activity indicators substantially picked up which is reflected in the improvement of the industrial production dynamics, recovery in retail sales and faster growth in exports. Moreover, the labour market did not witness further decline – employment in the enterprise sector stayed flat when compared to last month, which should be treated as good news as for the past 15 months we saw a continued employment reduction.

On the other hand, we heard that the domestic demand stays weak and that consumer trends do not improve as they would in the first months of the year. Also, tax income for the budget slowed down and there are no clear signs that the situation would improve on a more stable basis.

The business climate stopped improving…
The results of the most recent economic research conducted by the Central Statistical Office clearly showed that the fast upturn in business trends, which has been witnessed since the beginning of the year, have been arrested. In some areas, the economic environment seems to be even worse than in the previous months. The market indices both in the industry and retail sales stay negative, however they are up on the corresponding period of last year. In the construction – the index stays positive, however still down on last year levels. Most of the industrial enterprises declare a decline in the current orders and demand; the decline is more dramatic in the case of foreign demand than in the case of a domestic one. Stocks disclose an upturn trend (even though their current level is still perceived as too high). Overall, the assessment of the business climate was much worse in the public sector than in the private one. Good news is that the projections concerning the future demand and production output are optimistic and much better than last month. Nevertheless, according to entrepreneurs, the process of employment reduction will continue at a current pace in the industry, whereas in the case of construction it can even accelerate.

Also, the Polish pre-market index estimated by Maria Drozdowicz from Bureau for Investments and Economic Cycles has stagnated for the fourth month in the run. The enterprises reported a clear reduction in the number of new orders and faint hopes for the improvement in demand going forward. Moreover, their financial standing ceased to improve in June breaking the five-month upturn trend. The real salaries dropped in July and the purchasing power of the consumers remained unchanged. The inventories of ready production output marginally declined as the companies wanted to avoid overproduction, facing unstable demand. On the other hand, the production capacity was up in July, however, the increase was not very sharp.

Business confidence indices YoY



Source: CSO, BZ WBK

The value of market index calculated by Pentor at the request of Puls Biznesu daily substantially fell in July indicating a significant deterioration of the conditions for business operations in Poland. The index was at –10,3 points, which represented a decline of 5.1 pointsMoM. This was the second decline in the run (as of May by the total of 13.1 points), recorded after several months of fast improvements in the market index. The authors of the research suggest that such a dramatic decline represents a reverse trend rather than an interim adjustment and they remain rather sceptical with regard to the prospects of economic recovery. Pentor index has a relatively short track record, therefore, we would not recommend jumping to conclusions at a single sign. Nevertheless, it would be worth checking if such pessimistic results are also confirmed by research conducted by other institutes. In such a case, the prospects for economic growth will have to be revised.

The most recent research into Polish economy indicates that the process of economic recovery might be slower than originally assumed. Good news is that the projections of the entrepreneurs are still optimistic and they even improve. However, the sustained employment reduction can place the consumer demand at risk and the indications of dropping foreign demand make the participated growth in exports look dim (even though so far this has not been confirmed by the NBP data). Nevertheless, we still believe that the growth rate will accelerate during the year leading to the GDP growth of ca. 1.3% in 2002. The Ministry of Finance announced at the end of July that it projected GDP growth of 1% in 2Q and 3Q02, which is not too far from our forecasts (0.7% and 1.1%, respectively). This is also confirmed by the projections presented by Tadeusz Toszczy_ski, CSO President, who, at the last press conference stated that the GDP dynamics should speed up in 2Q from 0.5% YoYrecorded in 1Q and thus "hit the middle of the projections".

...and the consumers stay pessimistic

The Consumer Optimism Index (WOK) calculated by Ipsos-Demoskop increased slightly in July compared to June, similarly to the propensity to consume, but the overall assessment of the business climate deteriorated. The index of YoY changes went down against three other measures back to the negative level. The research indicated that most of the consumers are still pessimistic and that the situation has not changed much even after the reshuffles in Leszek Miller cabinet (the survey was conducted immediately after new ministers took the posts). If this process continues, the growth in individual consumption in 2H02 may not be significant, especially that there is still no improvement on the labour market. It is interesting that in the overall gloomy picture, two groups of respondents are increasingly optimistic: owners of SMEs and owners of private businesses. This might be an indicator of slight improvement of situation in some sectors of the economy. Moreover, the respondents are not that threatened with unemployment. In June, the inflation expectations of households increased for the first time in five months. It is not that strange if we take into account the fact that inflation has recently hit a record low. If the current inflation speeds up, the expectations will probably also go up.

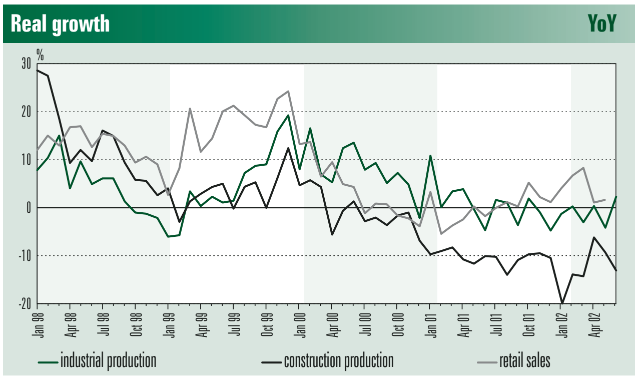
Industrial production and PPI on the rise

In July, industrial production increased by 3.3%MoM and 2.2%YoY. When almost all market players expected the YoY reduction in production output, we projected the dynamics of 0%YoY. The list of most likely factors which have contributed to increasing the production dynamics against the consensus forecast, is presented below:

- better export performance, which in 3Q02 is likely to contribute still positively to GDP growth;
- higher fixed investments – the dynamics here started to recover in 2Q and it is likely to record YoY growth already in 4Q02;
- anticipated higher domestic (and foreign) demand make the businesses increase inventories, which recently were at low levels.

In July, the industrial production can grow even higher than in June as there are more working days. However, the recent economic research does not suggest a substantial recovery in terms of production activity in the nearest future.

GUS also submitted data on production prices which increased in July by 0.1% MoM (May figures were adjusted to 0.1% MoM from 0.0% MoM), which means that in May their YoY dynamics increased from 0.5%YoY to 1.1%YoY in June. This confirms the view that the stagnation in domestic demand does trigger inflation pressure and the gradual growth in PPI dynamics is mainly a result of a very low base.



Source: CSO

Retail sales stay alive

In June, retail sales (nominal) went up to 2.5%YoY and down by 0.6%MoM. The improvement was not as dramatic as the breakdown recorded at the beginning of 2Q (the YoY dynamics dropped from 9.9% in March to 3.1% in April and 1.8% in May). Nevertheless, there are reasons to expect that the consumer demand is still alive despite the employment reduction and slowdown in terms of wages in the sector of enterprises. June saw the largest increase in the sales of furniture, radio and TV equipment and white goods (6%MoM) and vehicles (5%MoM). This is an interesting phenomenon, as households should not be buying luxurious products if their financial standing (both current and anticipated) does not improve. Of course, it is now too early to state that individual consumer demand has revived and that this trend will be maintained in the months to come. However, the anticipated (by some market participants) slowdown in retail sales, which were to come close to nil, did not materialise. This,paralleled by the improved production performance, paints a brighter picture of the current business climate.

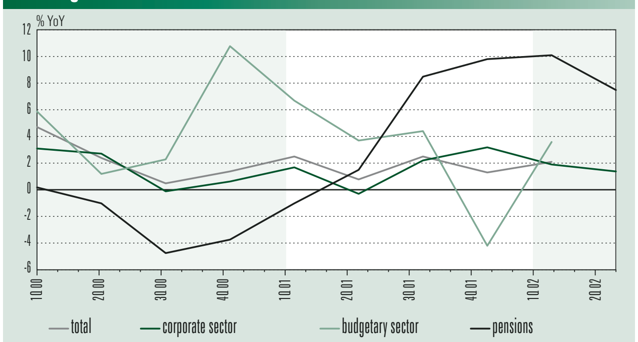
Unemployment does not fall and neither does employment

The registered unemployment rate grew up to 17.3% in June after two downturn months where it dropped from the March record high of 18.1% to 17.8% in April and 17.2% in May. This confirmed the earlier information communicated by Jerzy Hausner, the Minister of Labour. The downturn tendency was arrested, no doubt about it. The upcoming months will see the entrance to the job market of this-year graduates (ca. 900k), which will drive the number of registered unemployed up. This effect will be even more profound as ca. 70k of the employed for the census will be dismissed at the end of July. As a result, the unemployment rate can rise again in July and to around 19% as at the end of the year, even though Mr Kołodko promised the opposite.

The data presented by CSO concerning employment in the sector of enterprises was good news. In June, the figure stayed flat against May which translated into the decrease of 4.4%YoY. At the same time, this month, for the first time in 15 months, the number of work places in Polish enterprises did not decrease against the previous month. If this trend is maintained for the subsequent months, we will be able to talk about improvement of the situation on the labour market.

In June, average monthly wages in the sector of enterprises was at PLN 2232, which represents a decrease by 1.0%MoM and growth by 3.9%YoY. These figures, paralleled by the information on employment, indicate that the wage bill reduced YoY. In June, the dynamics of the nominal wage bill in the sector of enterprises totalled –0.6%YoY, and real wages as much as –2.2%YoY.

Real wages and social allowances



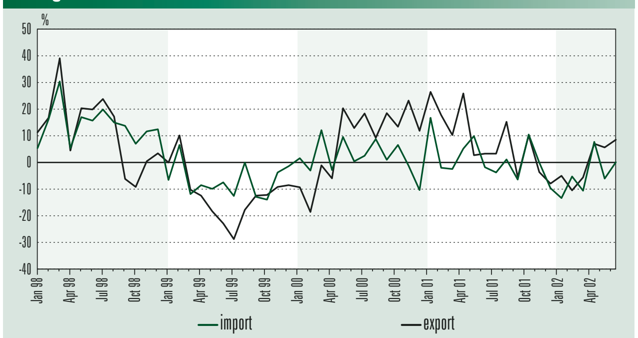
Source: CSO

Exports rise, deficit drops

In June, the data on the balance of payments was much above the most optimistic market projections. Current account deficit totalled US$376m against the market consensus of US$640m. The deficit was much below the amount recorded in June last year (US$948m), which triggered a reduction in the cumulated deficit from the last 12 months down to 3.7% of GDP from 4.0% GDP in May. Growth in exports confirmed our expectations accelerating from 5.6%YoY in May to 8.5%YoY. Strong growth in exports was recorded for the third month in the run, which allows us to hope that this is a reflection of a more permanent trend in the Polish foreign trade. In 2Q02 on the whole, the exports were up 16% against the previous quarter and up 7% against 2Q01. At the same time, the imports dynamics was rather poor as it grew merely by 0.1%YoY in June and 0.3%YoY in the entire 2Q02. This indicates, that the domestic demand remains stable at the low level. Other elements of the current account were consistent with our expectations.

It should be remembered that a substantial appreciation of EUR against USD recorded in June improved the statistics of USD balance of payments. Taking into account the fact that ca. 60% of Polish exports are posted in EURO and that the EUR FX rate against USD appreciated in June (by the average of 4.2%), exports growth (excluding the EUR/USD FX effect) would be lower by ca. 2.5 pp. when compared to the growth reported by the NBP (i.e. was at 6%YoY). Still, this does not change the overall conclusion that the growth in exports stays strong whereas imports do not show any signs of recovery.

Foreign trade turnover YoY



Source: NBP

Optimism with regard to the permanence of the exports growth was broken in mid-July when CSO reported the foreign trade figures for May. These figures, based on the customs statistics, indicate that the dramatic change in exports recorded in April was not sustained in the following month. The exports (expressed in USD) dropped in May by 6.3%YoY after the growth of 12.9%YoY recorded in the previous month. According to the CSO, also May saw a slowdown in imports down to –0,7%YoY from 13.5% in the previous month. We suspect that such poor export performance in May could be caused by some one-off problem. This is so because according to the NBP datain the entire 2Q02the export dynamics stayed high.

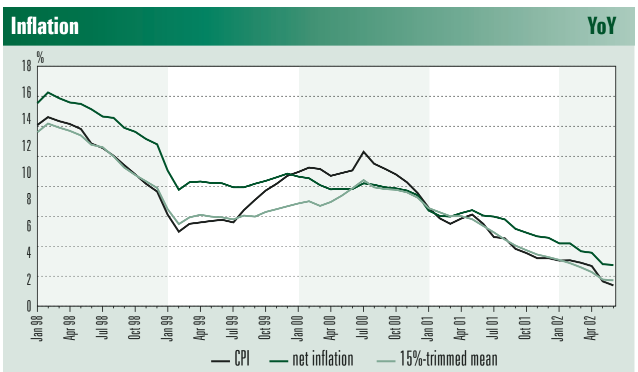
Inflation still down…

The July inflation matched ourpredictions, -_the change amounted to -0.4% MoM and 1.6%YoY. June was a second month in the run which brought seasonal deflation. And most probably that has not been the last deflation this year. The YoY price growth dynamics went down by almost half since April when it was at 3%YoY. The Consumer Price Index was dragged down by food prices which decreased by 1.4% MoM and, to a smaller extent, also by fuel prices which were down by 0.6% MoM. Nevertheless, the elements of practically all other CPI components remained unchanged (growth hovered at 0% MoM); an indicator that poor domestic demand brings no inflationary pressure.

The downturn inflation trend is likely to be arrested soon. Still, before it happens, the prices will go further down in July. The food prices in July went down on average by 2.7%MoM and they are going to trigger an overall price reduction in July by some 0.4%MoM, which will drive the annual inflation rate down to 1.3%-1.4%YoY. We expect some increase of prices dynamics in coming months - in August it will rise (assuming no food prices deflation), but will remain below 2%, in September-November it should amount 1.9-2.1% and at the end of the year CPI is likely to be around 2.5%. We have revised our forecasts downwards for 4Q02, as the Ministry of Finance decided to lower excise tax for alcoholic drinks, which will give additional disinflation impulse of 0.4 pp.

…just like core inflation

The figures concerning core inflation were quoted as one of the 'dove' arguments during the July meeting of the Monetary Policy Council. According to the NBP, in June, all core inflation measures went down hitting record lows. Three indices were below the floor of this-year (adjusted) inflation target (2-4%), including one of the more carefully watched indices by the NBP, i.e. 15%-trimmed mean (1,9%YoY). One index was below the CPI – inflation excluding the controlled prices (1.3%YoY). Net inflation, i.e. CPI, excluding the prices of food and fuel, was at 3.1%YoY, which represented a decrease of 0.1 p.p against the previous month. This year disinflation has been, to a large extent, driven by positive supply shocks on the food and fuel markets. Still, the NBP target would stay safe even without this effect.



Source: CSO, NBP

Low income budget

After six months of 2002, the budget deficit was at 62.5% of the annual plan against 57.4% last year and 69.9% in 2000. Even though the budget income looked surprisingly well, in May it dramatically slowed down and this downturn trend seemed to continue in June. Total income was at 44.8% of the annual plan and only the income of budget units was in excess of 50%. After the 1H02, both income from PIT and CIT was lower than last year in terms of nominal value (35.9% and 44.2% of the annual plan). While in June alone CIT revenues increased by above 50%YoY, it was mainly a result of very low statistical base of June 2001.

Indirect taxes grew by 11.6%YoY and were at 48% of the annual plan; however, this month this figure should be interpreted more cautiously. We should note that June was the first month when new regulations for VAT return payable to exporters applied. As of June, the time for tax return payable to exporters was extended from 30 to 60 days, unless a given company certifies the repayment of all debt to all counterparties - in such cases, the tax return period was reduced to 15 days. This could trigger one-off improvement in VAT recoverability in June, as the returns payable to corporate customers were delayed. Therefore, an upsurge in direct taxes should not be approached so enthusiastically as a sign of recovery.

Fortunately, the expenses were also below 50% of the annual plan, which indicates that the state budget is under control. Nevertheless, the expenditures for the Labour Fund and local governments were close to 60% of the whole-year plan. In 2002, off-the-central-budget expenses can also be expected to rise.

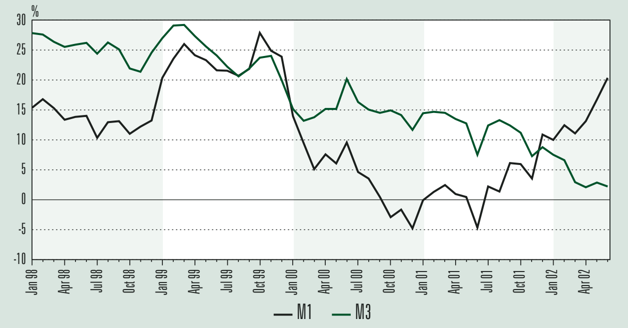
Cash speeds up, deposits shrink

Money supply figures for June did not affect substantially the overall assessment of business climate. The key trends recorded in the previous months were still observed, i.e. slowdown in the growth dynamics of broad money measures paralleled by higher dynamics of money in circulation and narrow money aggregates. Growth in M3 slowed down in June to 2.5%YoY from 3.2% the previous month, whereas M1 speeded up to 20.5%YoY from 16.9%, and cash grew by 17.9%YoY against 17.8% in May.

Deposits of households decreased by 0.3% over a month, and their dynamics dropped down almost to nil. This affected mainly personal term deposits - their balance has been declining since November 2001 (with one break in January). Their annual dynamics dropped down to -3.5%, a record low since the NBP monetary statistics were published. Personal loans increased by 2.7%MoM and by 17.5%YoY (against 15.8%YoY in May).

Business loan growth dynamics increased to 2.6%YoY from 0.2%YoY last month. However, it is difficult to treat it as a sign of economic recovery as – similarly to the figures of budget tax incomes – this effect could be marred by the extension of VAT return period for exporters. In relation to this change, the bulk of exporters could have seek refinancing with banks for the period preceding the tax return, which drove the business loan balances up.

Money measures YoY



Source: NBP

Central bank watch

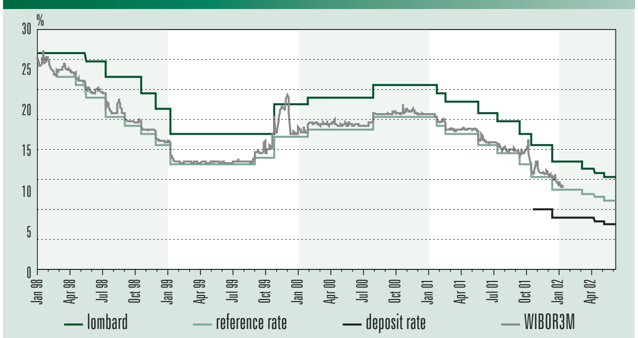
- Rates flat in July ...but likely to fall in August
- MPC doe snot want to change FX regime

As expected, rates did not change last month

The Monetary Policy Council did not surprise the market in July leaving official interest rates unchanged and maintaining neutral bias in monetary policy. The MPC recognised that recent economic data strengthened the signals about upcoming recovery. Among the factors supporting expectations for economic revival MPC mentioned strong industrial production growth, higher than expected budget revenues from indirect taxes and CIT (we do not share CIT argument as revenues rose only because of very low base in June last year), discontinuation of unemployment decline in corporate sector, and robust growth of export volume. Additionally, the MPC mentioned the number of factors requiring caution in monetary policy decisions. As one could expect, the statement underscored that maintaining high public finance deficit amid accelerating GDP growth narrows the manoeuvre for monetary policy. The MPC pointed also to decelerating deposit growth and households' propensity to save, fast growing cash in circulation, significant zloty weakening especially against the euro. Of course, there was also the standard sentence that "the effects of past interest rate cuts made since February 2001 did not show up fully as yet".

One could also notice that the government's behaviour has changed dramatically. There was no single word of criticism after the MPC meeting and the cabinet's spokesman refused to comment on the ‚no rate cut' decision.

Interest rates

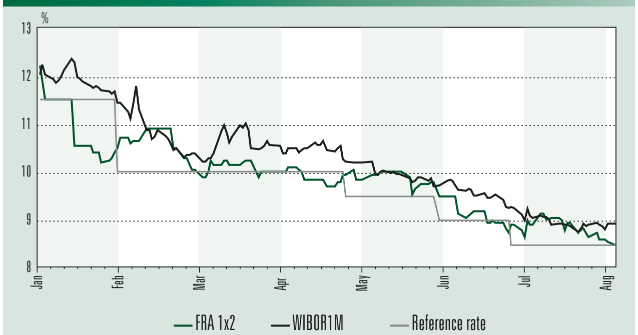


Source: BZ WBK

...but in August rates cut is likely

July's decision fit exactly into our expectations. Therefore, we do not change the forecasted scenario for further interest rate movements. While the economic growth prospects perceived by the MPC have recently somehow improved, the signs of recovery are still rather weak. And while there is no inflationary pressure from the domestic demand, wage growth and credit growth remain under control, and at the same time inflation rate breaks another record lows, we expect that MPC would cut interest rates again by 50bps in August. At the same time, positive supply shock continues and last month we have noticed additional information, which led us to revise inflation forecast. What is more, after the period of uncertainty on the financial markets, during which expectations for further monetary easing have diminished, we observe pricing-in of rates cuts again.

Expectations for the rate cut



Source: BZ WBK

According to the FRA rates (see chart), the markets are expecting another 50bp cut in August. What is more, some 100-150 is seen within the next six months, as FRA 6X9 fell to below 7.5%. Of course the market can be wrong (especially 150bp may be too optimistic), but we should not disregard this factor because in previous months the scenario of not cutting rates by the MPC, when the markets expected it, was very rare.

Low inflation and moderate signals of growth acceleration will favour increasing expectation for rates' reductions, especially if Kołodko will present budget draft with lower budgetary expenditures and budget deficit levels. In our opinion the second rate cut of 50bp may be expected in 4Q02, probably in November, when information about next year's fiscal policy and inflation path would be more complete.

MPC's views on best FX regime unchanged

We have argued in the July's edition of MACROscope that changing the FX regime in Poland, and especially introduction of currency board arrangement, seems rather unlikely in the near future, mostly because it is hard to believe that MPC would change its view in this regard. During July's press conference this was confirmed by the NBP governor Leszek Balcerowicz and MPC member Bogusław Grabowski, who underscored that maintaining free float regime in Poland until the zloty enters ERM2 system seems the most beneficial solution for the economy. Moreover it is the only natural solution under direct inflation targeting strategy. They said that they are always open to discussion over FX regime issue in the light of European integration and path towards euro adoption. But they also added that the FX policy ahead of ERM2 entry is pre-determined by the direct inflation targeting strategy adopted by the MPC (it means: only free float is plausible). Balcerowicz also said, that when minister Kolodko participated in MPC's meeting, they did not discuss the issue of pegging the zloty to euro.

Two outliers against rate cut in May

The July edition of the government's Monitor published the results of MPC members' voting in May The results show that the vast majority of MPC members voted for the interest rate reduction in May. Only Marek Dąbrowski and Wiesława Ziółkowska were against 50bps rate cut in May. This should not be a surprise. Dąbrowski always oppose monetary easing (except one voting during Russian crisis in 1998). On the other hand, Ziółkowska always wants deeper and more aggressive rates reductions and therefore May's voting results show that she wanted to cut more than 50bp. Except these two 'outliers', most MPC members seemed to be convinced in May that "the small steps approach" in the process of further interest rates reduction, announced by Leszek Balcerowicz in April, is a proper one. Results of the MPC's meeting in June will be published in the middle of August.

Comments of the MPC members

After Grzegorz Kołodko, the new Minister of Finance, outlined his strategy, most MPC members welcomed it with moderate scepticism. Cezary Józefiak and Dariusz Rosati pointed out that Kołodko's microeconomic instruments may be inconsistent with the promise to sustain financial discipline and to decrease fiscal deficit assumed for the next year. Apart from this, MPC members presented quite pessimistic forecasts of next year's growth perspectives and optimistic predictions concerning the next year's inflation (which might tell you something about possible rate cuts later this year). MPC members reiterated their view on the FX regime in Poland. Bogusław Grabowski repeated that free float is the only FX regime that is consistent with direct inflation targeting adopted by the MPC. The NBP governor confirmed the bank's stance that fast EMU entry would be beneficial for the Polish economy and that Poland should maintain free floating zloty on the road to euro.

On the turn of July and August the NBP officials' comments were focused on two major issues - the downgrade of Poland's rating by S&P's and the current account figures for June. It seems that Leszek Balcerowicz, Dariusz Rosati and Grzegorz Wójtowicz agreed that rating's cut had been a consequence of loose fiscal policy and lack of reform of public finances. Meanwhile Janusz Krzyżewski seemed to be disgusted about the downgrade and said that it had been unjustified.

WHO? WHERE? WHEN?	QUOTE
Leszek Balcerowicz, NBP governor	
Reuters, 1 Aug	Debt could become more costly to the government. If public finances improve, ratings could go up. But if the opposite scenario happens, then new downgrades may take place. We need to finish reforming the country. If this happens, we will quickly catch up…If the populists win, we will lose. Problems will accumulate if reforms are blocked.
	I am very decidedly a conditional optimist. I share the concerns that…possibly they (Kolodko's plans) reward bad companies at the expense of good ones. But I am not yet saying this is the case.
PAP, 31 Jul	The improvement of the rating might be achieved by fast healing of public finances. Opposite actions might only worsen the rating further. Lowering the rating is a warning for the government, effect of excessively high deficit and growing public debt. Reversing the trend is in our own interest.
	It's worth considering possibly fast entry to the Eurozone, i.e. in 2006-2007, under the assumption that we will become EU member in 2004. Conditions that have to be met to join EMU are supportive for country's economic development. I hope that current government makes such decision (about fast EMU entry).
	On the road to euro it's worth maintaining maximum flexibility of the zloty and this is the opinion of whole MPC.
Reuters, 23 Jul	The ratio [public debt to GDP] will reach 49.5 percent because of the dramatic rise in the state's (spending) needs.
	The economy should not be cured by the elimination of debt, which creates more debt.
	In order to improve the economy, the conditions have to be improved for all companies. One should not allow for the worse part of the economy to function at the expense of the better part.
Reuters, 22 Jul	Moderate interest rate reductions in 2001 strengthened macroeconomic foundations of future growth. Faster process of monetary easing could cause that in 2002 and 2003 the Polish economy would have to stabilise again.
	If thanks to this parliament public finances will be reformed, the room for monetary policy easing will be much bigger.
	We are on the good way to persistently reach inflation rate below 4%.
	In recent years only two FX regimes were successful – either fully free float or credible fixed rate. Only such corner solutions are good.
	Weak dollar and changes of its exchange rate will not cause any risk for inflation. According to the government's forecasts inflation should not change significantly and be about 3% in this and the next year.
	Economic growth forecasts for the near-term are between one and 1.5 percent, but the long-term development trends depend on the course of structural reforms…above all reducing public finance issues.
PAP, Reuters, 19 Jul	In MPC's opinion signals of upcoming recovery has become slightly stronger and I think that this is related to deep interest rates reductions.
	We did not discuss this issue [fixing the exchange rate] during the MPC meeting with minister Kołodko, and the MPC did not change its stance that in current situation the best FX regime is free floating.
	[Currency board system] would require very strong law guaranty, even in the Constitution, very strong fiscal discipline, balancing the budget and making markets more elastic, particularly labour market.
Andrzej Bratkowski, deputy NBP governor;	
PAP, 24 Jul	We have to analyse all the details of the package. All experiences with debt relieves known to me show that they do not make the economy to grow faster. In general it is dangerous.
	Now, we are focused on stabilisation of inflation, not on its reduction. The process of adjusting interest rates to the levels observed in the European Union should be accompanied by the similar adjustment of the fiscal policy.
Reuters, 17 Jul	The bank is ready to talk with theMinistry of Finance. We want to know its proposals regarding FX and economic policy. Currency board is a broad idea. First we need to know what minister Kolodko means by it, and under what conditions it could be introduced. We have to know what is the strategic vision of Kolodko, what is his conception of approaching the ERM2 and after agreeing our positions we will be able to debate on exchange rate mechanism. We will begin discussion when finance ministry proposes all budgetary assumptions.
	First of all, we have to discuss when we want to enter the ERM2, what macroeconomic policy we can expect in this period and then to adjust exchange rate policy.We should not begin discussion by declaring whether the currency board is good or not, but by outlining the overall assumptions of exchange rate policy.
Bogusław Grabowski, MPC member;	
PAP, 24 Jul	Solutions proposed by the Ministery of Finance increase state intervention in the economy. Such solutions cannot be an element reviving economic growth in long-term. It may be treated only as a short-term, one-off package for delaying bankruptcies.
	Thanks to the package, the government gained time to prepare comprehensive plan for a systemic reform of public finances. It is not sure if the government will use the time to conduct deep reform of public finances, fastening of the privatisation process so as to not only stop job destruction at the moment but also to create possibilities for job creating.
	There is correlation between efficiency of one-off measures and their costs. The debt relief itself will not bring fiscal result, because it concerns debts impossible to pay back. A probability that enterprises, which become insolvent, will be solvent again is minimal.
PAP, 22 Jul	In order to do this [to work out strategy for entering ERM2 and euro-zone] we established special committee. Probably until the end of August, we will work out joint stance. The strategy will become a basis for the next medium-term inflation target of the MPC.

	According to the NBP's estimates, taking into account difficult situation of the Labour Fund and Social Security Fund (FUS), this year's economic deficit will reach 5.2%.
PAP, 19 Jul	The analysis of different FX regimes was done by the MPC and published in "Medium-term strategy of monetary policy", in which we presented arguments for implementing direct inflation strategy in Poland. We think that this is the best strategy in fulfilling the Maastricht criteria. A change of this regime would be change of the monetary policy strategy. The policy is then subordinated to other goals.
PR3, 12 Jul	This [the zloty devaluation and pegging to euro] is not possible without MPC's agreement. MPC has said clearly in the official statement […] that the best FX regime for Polish economy is free floating exchange rate until ERM2 entry. We do not change our stance because there is no single reason for this.
PAP, 5 Jul	Assumption that GDP will rise 3.1% next year seems too optimistic. GDP is likely to grow 2.5% and would be limited by lack of structural reforms and high budget deficit.
Cezary Józefiak, MPC member;	
Reuters, 17 Jul	Decreasing deficits and sustaining low inflation is good. But he did not explain how he plans to conform his (pro-business) microeconomic ideas with a lower budget deficit.
PAP, 2	JulLowering interest rates has been slowed down by loose fiscal policy. Next year's deficit at PLN43bn would lower the pace of rate reduction. […] Interest rates differential between Poland and Europe is significant. So we will proceed with interest rate cuts in subsequent years. But for sure every fiscal policy easing makes monetary policy more restrictive.
Janusz Krzyżewski, MPC member;	
PAP, 31 Jul	I can say with great confidence that this downgrade is not justified, because Polish debt was never doing better than now. The currency remains firm. Zloty's fluctuations were not excessive, government did not try to press on us (…) Although economic deficit remains high, on the other hand we've paid the part of [external] debt [earlier than necessary]. If government had any troubles with debt repayment, it would have kept this money for current expenditures, but it did not have to do it. When it comes to [current account] deficit, June was very good. I can say that we expect figures exactly at the same level in July. No alarmist tone regarding our foreign trade is justified. It remains stable.
PAP, 5 Jul	People do change after several years. It is important that this man used to demand more activity in the area of inflation reduction. I would not exaggerate problems and conflicts, though I remember that he was tough in discussions. The major issue for both sides is maintaining deficit under control. I mean budget deficit most of all.
PAP,2 Jul	In the budget draft there have been dreams about high economic growth. I am pessimist, because such growth cannot appear without visible reasons, and it is hard to find such reasons recently. GDP growth could be triggered by demand or investments growth, but none of it is visible now.
Dariusz Rosati, MPC member,	
Reuters, 31 Jul	The downgrade stems from the lack of a serious approach to improving public finances, since the government plans to run large budget deficits in the coming years. This is coupled by a lack of structural reforms, which have limited our growth potential.
Polish Radio, 17 Jul	Everyone has the impression that microeconomic proposals are to a degree contrary to the plans to keep fiscal discipline. With this regard [the zloty devaluation and pegging it to the euro] Kolodko would have, above all, to convince the government. He would have to convince parliament because this is a matter of change of the act that is in effect presently. Or he would have to convince the NBP to agree with the proposal. This is very unlikely at the moment. Both ways are actually not realistic and I think that professor Kolodko after considering this issue is ready to abandon his idea. Of course, one should wait what he will say about his views on exchange rate policy. This is the issue he hasn't talked about so far. What is positive is that he said that fiscal discipline would be maintained, that he would try to decrease deficit, and that he would try to continue reforms began by Leszek Miller's government.
Reuters, 15 Jul	I believe this is the last month of such a strong fall in inflation. July and August should be at the same level or just higher and we should expect some pick up in this indicator, to around 2.5 percent at the end of 2002.
PAP, 10 Jul	Pass through into domestic prices amounts to one fifth of the zloty depreciation during three months, ca. 0.2-0.3. It depends on how sustainable is the depreciation. […] July inflation might not react significantly, though it depends on whether the zloty would strengthen again. […] But certainly if the zloty depreciation lasts for two more weeks […] it would accelerate price growth in August and September.
TVN, 9 Jul	Pegging the zloty to euro via currency board arrangement is not a suitable system for Poland's economy. Pegging the zloty to euro amid lax fiscal policy and underdevelopment of structural reforms is a straight way towards Argentinean scenario. Central Bank would be happy knowing what the Minister of Finance plans to do. Central Bank wants to talk to everyMinister of Finance, at least I do. We should know what are Kołodko's plans to assess whether there is any more space for interest rate cuts. I hope that this conflict [between the government and MPC], although it will last, will remain within legal framework.
Reuters, 4 Jul	The current foreign exchange regime, which is a free-floating zloty, excludes the possibility of a devaluation.
Grzegorz Wójtowicz, MPC member;	
PAP, 31 Jul	It could have been expected after information, which were recently released. But the fact that rating was downgraded should be considered by all of us. It is not only the matter public finances sector, but also the whole economic policy. Budget deficit and public debt are only its consequences. With regard to budget deficit I understand that the situation concerns both this year, when we experience deficit increase compared to previous years, and uncertainty regarding deficit in 2003. Let's hope that it will be lower, they say that it may be lower than PLN40bn, and this will be a basis for rating upgrade. With regard to public debt, there is substantial uncertainty and signals are repeated that it may exceed 50% of GDP.
TVN, 16 Jul	After Kołodko speech I can say one thing: he is Belka plus 0.05PLN. But he showed that politics is something different that writing articles for the press. We will work together over strategy to join European structures.
Rzeczpospolita, 10 Jul	There is no alternative to a free float regime. The currency board is a proposal for a small economy with a very disciplined fiscal policy. Introducing it in Poland is beyond my imagination.
Wiesława Ziółkowska, MPC member,	
PAP, 16 Jul	Support program for enterprises, announced by finance minister, Grzegorz Kołodko, should be enacted as soon as possible. This is some idea to come out from difficult economic situation. There is necessity to establish sanctions for executive boards, which not fulfil restructuring programs. Fiscal policy will not be more expansive which is positive from the MPC point of view.

Information on the meeting of the Monetary Policy Council on July 18-19, 2002

The Monetary Policy Council held its meeting on July 18-19, 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. 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 and the inflation outlook.

Decision of the Monetary Policy Council

The latest economic data enhance a little the signals of the economic boom:

- Industrial production grew by 2.2%,
- Higher than expected were budget revenues coming from indirect taxes and CIT,
- The drop of employment in the enterprise sector has been halted,
- Higher than a year before were the revenues from export.

The importance of factors indicating the need to be prudent in monetary policy has not been decreased. The most important among them are the following:

- An outlook of a high public finance sector deficit in conditions of the planned economic growth in 2003 constitutes a basic limitation of the playing field for monetary policy; an additional risk factor for the public finance stability are the forecasted write-offs of tax arrears, guarantees and tax allowances;
- A further drop of the annualized deposit dynamics and the saving tendency of households in conditions of the increased individual consumption;
- The maintaining of a high dynamics of cash in circulation;
- A considerable depreciation of the exchange rate of the zloty, especially against the euro, within the recent weeks increases the uncertainty about the exchange rate of the zloty in future;
- Full results of interest rate cuts by 10.5 percentage points in total made since February 2001 have not been revealed yet.

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

The next meeting of the Monetary Policy Council will be held on August 27-28, 2002.

Government and politics watch

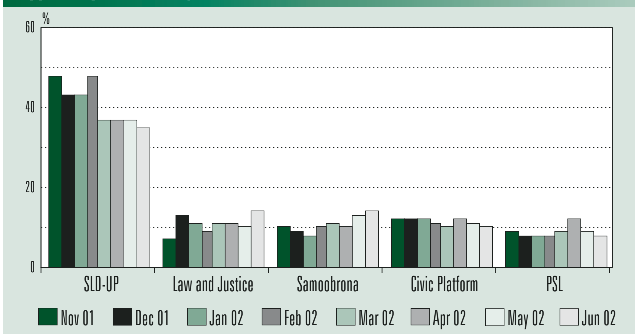
This month most of information and events, from the government's policy point of view, was connected with so-called ‚rescue package' of Grzegorz Kołodko. This aspect was treated in depth in the special focus section at the beginning of this report.

Lower popularity of the government

According to CBOS opinion poll, support for the ruling coalition parties in the local government elections amounts to only 26% comparing to slightly above 50% in September's parliamentary elections. Support for the SLD fell to new record low level of 18%, while for the PSL this amounts to 8%. Still, the SLD is the party with the highest popularity, as Civic Platform-Law and Justice coalition's support reached 16% and Andrzej Lepper's Samoobrona 11%.

Actually, popularity of the SLD-UP-PSL coalition in parliamentary elections is much higher than in the local ones (see chart). The ruling coalition (SLD-UP plus PSL) could count on 43% of votes in parliamentary elections if they were to take place in June comparing with slightly above 50% in September's elections. Nevertheless, the main coalition partner, SLD still looses popularity. Support for SLD (in parliamentary elections) fell to 35% in June.

Support in parliamentary elections



Source: CBOS

Also the OBOP opinion poll published last month confirmed such negative picture, as number of people dissatisfied with the way the government rules is rising and amounted to 69%. The Prime Minister itself is negatively evaluated by 52%. Thus, Leszek Miller's government should seek ways to stop the drop of support ahead of the local elections (which are likely to be scheduled for 27 October).

EU negotiations watch

Another negotiations chapter closed

Last month Poland closed justice and home affairs chapter in its EU accession negotiations. It should be considered as big progress, as the border security, which was an important part of this chapter raised serious concerns among some EU countries. Poland must have undertaken a number of commitments aimed at tightening the security along its eastern borders during subsequent years. Up to this point Poland has managed to close 26 out of 30 negotiation chapters, the same number as Hungary and one more than neighbouring Czech Republic (nine chapters were closed by Leszek Miller's cabinet). The most difficult areas of negotiations connected with money flows still remain open: agriculture, budget, competition, and regional aid. Competition chapter is likely to be closed by October, as significant steps forward were observed recently. Especially, the framework for adjusting the special economic zones to the EU's support standards has been agreed. However, developing of the steelworks reengineering schemes compliant with the EU's competition principles seems to be the biggest problem. All non-financial accession issues are to be solved by the Brussels Summit on 24 and 25 October 2002. As we wrote in the July's edition of MACROscope, in our opinion, financial markets' participants should follow the progress of accession negotiations very closely because it is likely to influence investors' confidence in the medium term.

EU accession referendum in spring

At the beginning of August, Ryszard Straus from the Bureau of European Integration Information confirmed that the government considers rescheduling EU accession referendum from autumn to spring next year (May or June). It seems that the main argument for such a change is that recent public opinion polls indicate a downward tendency in support EU support (although it is still much above 60%). Also, annual Schuman Foundation's meetings take place at the beginning of May – usually seasonal increase of the support for EU integration is observed after this event.

Comments of the government members and politicians

After Marek Belka's dismissal, it was encouraging to hear PM Miller's statement that the budget assumption for 2003 approved by the government and "inflation+1%" rule regarding budget expenditures would hold for sure. Kolodko himself underscored that science and writing books is something completely different than economic policy, suggesting that one should not believe too much that he would force the zloty devaluation. Surprisingly, there was no single word of criticism after the MPC meeting and the cabinet's spokesman refused to comment no rate cut decision. It seems the two institutions have started to co-operate. Especially, that later he clearly declared many times the respect for NBP's independence and suggested that FX regime will not be changed without central bank's acceptance. Another positive information for the market is that next year's budget draft will assume lower spending growth than planned by Marek Belka, and probably also lower deficit. The optimism regarding government's relations with the central bank might be moderated by PM Miller's comment in public radio suggesting that it is too early to claim that it is a new chapter in their co-operation.

Ludwik Kotecki from MinFin Research Department said that the Polish government has to present pre-accession economic programme to the European Commission by August 15, which has to include a description of Polish medium-term exchange rate policy. Kotecki said that most likely it would contain a declaration that the free float regime will be maintained in Poland until the ERM2 entry.

PSL's officials said that their party did not change its stance on import tax introduction in Poland. They claimed that it could improve economic situation in Poland and PSL counts on better climate in the government with this regard. According to Zbigniew Kuźmiuk, PSL is determined to adopt NBP charter amendment.

Foreign Affairs minister Włodzimierz Cimoszewicz underscored that Poland must be net recipient of funds from EU, otherwise we might not enter the Community.

WHO? WHERE? WHEN?	QUOTE
Halina Wasilewska-Trenkner, deputy finance minister;	
PAP, 4 Jul	One of the proposals included in the finance minister's letter to NBP's governor was devaluation of the zloty and stabilisation of its exchange rate. Both NBP staff and the government's staff work on it. This solution is analysed but we don't have final opinion. There are pros and cons. The proposal was not rejected it that sense, that is impossible to realise. We try to answer how much it will cost. We will know it not earlier than in three months.
Jarosław Kalinowski, agriculture minister;	
Reuters, 17 Jul	We cannot agree on unequal rights. Unequal rights after joining EU should mean unequal duties. Poland cannot be net payer. If we were to subsidise this business I will say no to EU.
PAP, 10 Jul	We have not changed our opinion. [Import tax] is an instrument that could be beneficial for our economy. We hope for better climate in this regard.
Reuters, 4 July	One cannot accept situation that agriculture ministry has not control over the way of negotiations with EU in the area of agriculture. If agriculture minister is not responsible for decisions concerning agriculture, I cannot imagine continuing my work.
Leszek Miller, Prime Minister;	
Polish Radio 1, 22 Jul	One could talk about new chapter in government's relations with MPC only when central bank joins the mission to revitalise Polish economy and combat unemployment in a more active way. I'm of course glad with moderately positive welcome of new finance minister by the NBP and MPC, but the action should follow the words. Anyway, one should remember that minister Kolodko is not here to fight the MPC or the NBP but to fight unemployment and other threats that are real for the economy today.
RadioZet, 14 Jul	[Introduction of currency board system] is a very complex operation and we have to see whether such a move would not be too risky, but to do that we need thorough analysis. [...] We have talked to EU commissioner Guenter Verheugen about pegging the zloty to the euro. We have heard that it is an interesting option and that EU would remain neutral in this issue, though it contains significant risks that have to be considered very carefully. I fully agree with Mr. Commissioner's view. From the point of view of the economy, it would better for the government to decide on the foreign exchange regime, but there is of course a question whether such a change would be constitutional.
Polish Radio 1, 8 Jul	The idea to fix zloty exchange rate to euro before joining UE is interesting. However, it requires analyses and answer to the question if it is not a threat and would not worsen the situation. Mr. Kolodko will present proper plan, concerning not only this matter, which will be discussed by the government.
Reuters, 6 Jul	So far the government has not discussed devaluation. The views of the entire government and not of one minister are more significant, although the finance minister's views are important.
Reuters, 5 Jul	The cabinet as a whole approved the 2003 budget assumptions and this will not change after the appointment of the new Minister of Finance.
Grzegorz Kołodko, finance minister;	
PR1, 1 Aug	In July we have even lower inflation than in previous month... In July, I think, inflation is below 1.5%. These figures [used by S&P] were taken from budget proposals on July 2. I began work four days later and have repeatedly said since, that these deficits will be smaller in 2003 and 2004. This decision [rating downgrade] is both good and bad news... We must stay calm. The C/A deficit is at USD376mn, which means that some relations in the Polish economy improves. In June, we have better export performance and there is a chance that this trend will be continued.
Financial Times, 31Jul	I still stick to my point that under the Polish circumstances either a floating or maybe a fixed exchange rate could be considered, especially since we have to fix the exchange rate against the euro in due time. So the question is, which due time? Under Polish law the exchange-rate regime is the joint concern of the central bank and the government, which in turn is independent from the central bank. So what I have said as a researcher - very much independent - was very well argued at the moment. But now I am in real politics, and we are discussing issues with the central bank, and the exchange rate regime will be according to the agreement between the independent central bank and the government. The problem is that the business sector,(including the private one and including foreign companies operating in Poland) is complaining about two things. First one is that money is too expensive and credit is too costly, which is causing them very difficult problems; second one is that the exchange rate is not competitive enough if they are outward-oriented. I think that the market will make its own judgement and there's more good news than bad news as far as the future of Poland's economy is concerned. The central bank is an independent institution and if we change the exchange rate system, it will be done only in agreement between the central bank and the government. I'm against that [increasing the size of the MPC]. I think that the most important is not the date [about joining eurozone], it's not the day, it's not the moment. The most important is that we play the ‚minimax game' - we will maximise our gains, and minimise the costs we have to pay

	for such an accomplishment. So take my word that I will do whatever is possible to have Poland there in 2006, but I wouldn't consider it to be a failure if it was 2007.
Reuters, 29 Jul	At the end of this year, the zloty rate will be even more favourable for exporters -- as well as for industry, (state) revenues and employment. Real rates (will be) around two percentage points lower.
	I am optimistic…our country has the ability to grow quickly, we just have to learn how to use our potential.
Trybuna, 29 Jul	Science and writing books is something completely different than economic policy.
	Exchange rate policy [should be used in a way] to slow down import growth and to promote exports. It must grow faster than imports. The best solution would be – as I wrote before – the one-off zloty weakening to ca. 4.35 against euro and then pegging it permanently to euro in order to avoid the devaluation-inflation-devaluation spiral. Some day – joining the monetary union – we would have to peg the zloty anyway, but it would be better to do it right now.
	But we have to remember that FX policy is co-determined by the government and independent central bank. And our central bank has different opinion on this issue. In, although I don't subscribe to such view, I respect it, because I respect central bank's independence. NBP is and will remain independent.
	I will surely pursue […] to the best possible co-ordination between fiscal and monetary policy. From our side it requires successive reduction of budget deficit. Therefore, although not only because of this, it would be smaller and smaller in subsequent years.
	Deficit reduction would not be made by painful spending cuts. […] We will index the benefits for our pensioners by ca. PLN40 next year. It's still not much, but one can say it's ten times higher than this year. On the other hand the real rise would be experienced as the inflation remains very low. And we will keep it under control. It is also very good news for the people with lower revenues, who suffer the most from the price rise. Real wages in budget sector would also increase as well as expenditures on many social services, e.g. science and culture.
PAP, 27 Jul	Today, when euro exists […] the question remains actual, when it is best to join Eurozone considering the maximisation of our benefits. I reiterate what I've said in 1996 that it is 2006.
PAP, Reuters, 26 Jul	Currently we have a budget deficit running at 5.4 percent of GDP and I do hope that by 2005 we will curb that level to below three percent.
	This (5-7 percent GDP growth) is possible during this parliament's term, if we better coordinate industrial and trade policy, monetary and fiscal regimes, structural changes and needs to modernise infrastructure and integrate (with the European Union) on the best terms possible.
	It's possible to return to 5-7% growth path even it his parliamentary term under the condition of good co-ordination of fiscal and monetary policies.
	Nobody has believed that we will be able to curb inflation, and it will decline to 1.5% […] We will have much lower unemployment under low inflation, on the level forecasted jointly by the government and the central bank.
	I want budget deficit to fall below 3% by 2005.
	With NBP we are discussing, working, co-ordinating budgetary and monetary policies in order to successively reduce real interest rates and budget deficit.
	We want to enter EU as a country with the highest GDP growth among all candidate countries.
	We will defeat the unemployment […] It is possible to reduce unemployment without accelerating inflation.
	Realistically we plan that we will come to the Lower House with budget of stabilisation and development, proposing the increase of nominal expenditures at 3.7%.
	I think that GDP growth in 2Q02 was closer to 1% than to 0.5%.
	In the short term we disagree [with NBP on FX policy] but in the long run our views converge. I think we'll work out such exchange rate mechanisms that would promote exports and bound import growh.
Polish Radio 1, 25 Jul	Subsequent bills [accompanying anti-crisis package] e.g. bankruptcy law and other systemic changes […] will be passed by the government on 13 August and will be presented in the parliament in one month time, during first sitting after the summer break.
	When it comes to interest income taxation […] it has been introduced recently and we have to see how this instrument would perform. Surely we would like the propensity to save to grow, but […] we don't plan to suspend this tax in the near term. First it has to be examined whether it fulfils its economic objectives.
TVP1, 16 Jul	In my opinion, the zloty's exchange rate of 4.35 against the euro would be the most advantageous rate for the Polish economy. We will not implement an import tax. It could be implemented a year ago but the situation has changed since then and we now have better instruments to achieve the same result. I believe that in good co-operation with an independent central bank, we can achieve a zloty rate that is favourable for the Polish economy. As long as it is possible to achieve this without radical action, of the kind that I mentioned in that article (calling for a currency board), we will look for that. Some steps have been taken already (to weaken the zloty) and it would be good if the zloty exchange rate was even more favourable. The central bank should conduct independent policy and I do not think that other point of view is better. We respect the central bank's independence and I understand that this is mutual, that the central bank respects the government or finance ministry independence. It would be good to conduct dialogue between the NBP and finance ministry. I, as deputy PM co-ordinating economic policy, will head for gradually decrease of what Polish economy needs to be lower for its development, i.e. simultaneous reduction of fiscal deficit (but rather by boosting the economic growth than by a blind spending cuts, particularly social ones) and real interest rates. I think we will work out some way with colleagues from the NBP. I do not think that there is any sense to increase MPC headcount. Co-ordination of monetary and fiscal policy is necessary but we have to find a way in which it will be the best. We will see if those we want to talk with will want to talk with us. As I understand, Mr Belka wanted to talk, he proposed some ideas, but he heard that there is nothing to talk about because everything is good. They have already substantially decreased and I think that we will find the way (…) I am convinced that the central bank, the government and parliament want Polish economy to grow.
	One day we, when we enter the eurozone we will have to decide on the exchange rate. Perhaps this decision can be taken earlier rather than later and on our conditions. Not several years after EU membership but before that, if the exchange rate policy does not guarantee sufficient progress in increasing competitiveness of Polish companies.
Reuters, 16 Jul	The policy of Prime Minister Miller's government will be maintained. I will sustain fiscal discipline, and will continue working on curbing the next year's deficit level below the ceiling already approved by the government. The work on budget will be carried out on the basis of already approved assumptions.
Reuters, 6 Jul	My last term as finance minister is remembered for growing production and falling inflation.
	This time I want to be remembered for improving the conditions of life, raising competitiveness and the prestige of the state…We have to boost growth…while working to stabilise public finances.
	Now, it's time to debate, not argue,…with other institutions to help the economy.
	Poland has a great potential of growth and reform efforts should be continued in a way so as to boost economic growth, combat social plague, which is unemployment, and at the same time to stabilise public finances.

And now I advise that everyone who can went fast for a warm vacation. I am going straight to work.

Mieczysław Czerniawski, head of Sejm's public finance commission;

PAP, 10 Jul — The zloty against dollar should not be weaker than 4.35. This is risk limit. We cannot afford uncontrolled depreciation of the zloty. Enterprises are indebted in foreign banks in the amount exceeding US$23bn. It is a huge amount and we cannot decide that we will help exporters and at the same time we will ruin firms that have to pay back their foreign debt.

RadioZet, 10 Jul — [Pegging the zloty to euro] This is not such a quick operation. If it were done without deep restructuring of the economy and without other necessary components it would be too risky. (…) Then we would rather look at Argentina not at Brussels or Paris.

PAP, 9 Jul — According to lawyers' opinions we have, adding new goals for NBP would be against Constitution and I will probably not allow it to be voted in the commission. I have asked former Constitutional Tribunal members and they said that President would send it to the Tribunal and the verdict would be certain.

PAP, 8 Jul — We will consider in the commission – I have prepared such NBP charter amendment – different way of shaping wages for NBP executive board and MPC members so as to make their salaries more adequate to their work. (…) I think that we can get desirable result in such way.

Marek Wagner, head of PM's office;

PR3, 8 Jul — [Budget assumptions approved by the government] constitute the starting point. If minister Kolodko manages to improve them, then…these assumptions are not the Koran that is impossible to change. […] But the possible changes include reduction of budget deficit, not an increase.

Zbigniew Kuźmiuk, Head of PSL caucus;

PAP, 18 Jul — We still maintain the idea of this tax [import tax], slightly improving it, and perceiving it as an additional source of revenues next year. Maybe, it will be the only way decrease the deficit. Thus, we should not exclude such possibility. The next meeting with Minister of Finance will take place in September, when budget draft will be known. Then there will be talks on additional sources of revenues and possible spending reductions.

PAP, 16 Jul — I am not disappointed but I have been waiting for at least one sentence concerning exchange rate policy or implementation of import tax. These two things are still up to date and we have some hopes related to them.

PAP, 8 Jul — Kołodko's ideas regarding boosting the growth and lowering unemployment are going in the right direction.

Undoubtedly issues regarding the NBP must be reconciled. If government wants to have influence on the FX policy – no matter what this influence would look like – then I understand that it must be agreed with MPC, which now has exclusive competence in this regard. Either this would be done in agreement with MPC or by means of legal changes.

We will return to the idea [of import tax]. We remember what minister Kolodko has said only six months ago, that import tax idea is good. We haven't changed our opinions in this regard. If nothing can be done about zloty exchange rate and import tax could be introduced without restrictions from EU countries, then we would be enthusiasts of import tax.

Jerzy Hausner, labour minister,

PAP, Reuters, 24 Jul — I'm more cautious when it comes to unemployment than deputy PM Kołodko. I've repeated many times before than unemployment will keep rising this Autumn. I would like to stop unemployment growth on the turn of the year. I think it will take place rather in January than in November.

In July we will have another slight increase of unemployment.

PAP, 15 Jul — One is sure: budgetary assumptions were approved and one cannot expect that they will be substantially changed. They may be modified in one or other point. Particularly because of the fact, that the government undertook steps aimed at decreasing assumed budget deficit of PLN43bn.

Ludwik Kotecki, Research Department, PAP 18 VII

ISB, 18 VII — We estimate that GDP in the second and third quarter of this year will grow by 1%. However, we maintain our forecast and in the whole 2002 GDP will rise by 1-1.1%. Although industrial production data are unexpectedly good they are offset by lower retail sales.

Poland will enter the European exchange rate mechanism (ERMII) and the European Union (EU) at the same time, and it will do so with a free float. Poland's government must present a Pre-accession Economic Program to the European Commission by August 15. The program must include, among others, a description of Poland's medium-term exchange rate policy and any proposed changes to it. The final version of the program will be approved by the Cabinet. The program will in all probability contain a declaration that the free float regime will be maintained in Poland till its ERMII entry. The program will not contain any information about a potential devaluation of the zloty when entering ERMII. Such a decision, if at all, will be made only some time before that date. Lots can still happen on the currency market.

Janusz Wojciechowski, PSL,

PR3 18 VII — In our opinion it is not too late to implement import tax although it is difficult because of negotiations with EU. However, we think that it should be introduced. We lost some time; we could have introduced it earlier if SLD listened to us.

I hope that there will not be any tensions between finance ministry and PSL. Nevertheless, we will insist on finance minister to implement financial solutions, which will be proper for the economy. We have stressed many times that import tax has some alternative and this is exchange rate policy. The zloty weakening is good for Polish economy and for Polish export.

Michał Tober Cabinet's spokesman

PAP, 19 VII — No comments [about no rate cut decision]

Włodzimierz Cimoszewicz, foreign affairs minister,

PAP, 1 Aug — They keep asking me – in Poland and abroad – whether there are such issues, which might cause that Poland will not decide to join EU. I can see only one such reason: lack of unambiguous guarantee that we will not be net contributors. There is actually one significant threat. One cannot rule out that EU – without anyone's bad intentions – might not manage to prepare the stance on financial issues. Poland deserves very serious treatment – as well as other candidates – and we expect that the final stage of the most difficult negotiations will not proceed under the enormous time pressure.

Marcin Kaszuba, MinFin's spokesman,

PAP, 31 Jul — Ministry of Finance will offset the effects of Standard & Poor's decision by decreasing treasuries' supply in 2H02.

The situation of the budget is liquid to the extent, that the negative effect of the rating downgrade might be offset by the decrease of treasuries' supply, which will decrease public debt. An impact of the decision on investors should not be substantial, because the situation on the market is good. The decision should not be important in longer perspective amid positive macroeconomic trends.

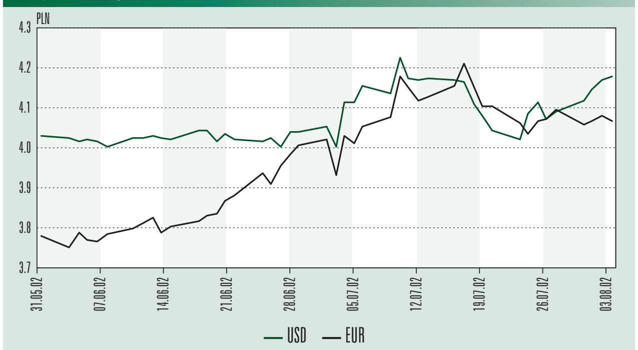
Market monitor

- A bit of uncertainty on the FX market in July
- Euro stringer to the dollar
- Yields increase only temporary

Weaker zloty, weaker dollar

In July the zloty was weaker than a month ago against both the dollar and the euro. At the same time foreign exchange rates were much stable (see chart below). NBP fixing rates shows trading range against the dollar between 4.0025 (2 July) and 4.2258 (9 July), and on average at the level of 4.1180 z_ (against 4.0250 z_ in June). Euro fixing rates were quoted between 3.9314 (2 July) and 4.2116 (16 July), and on average at 4.0855 (in June it was 3.8455).

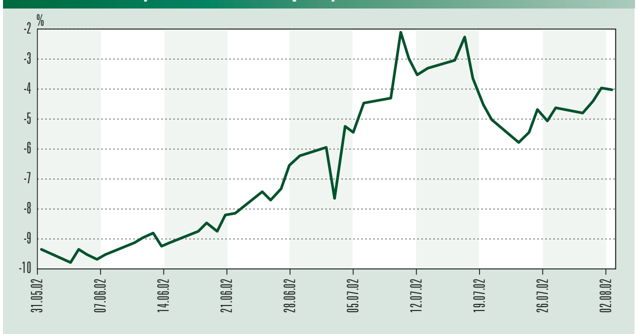
Zloty exchange rate in last two months



Source: BZ WBK

In the first half of July, the zloty weakened significantly after the dismissal of the Minister of Finance Marek Belka amid increased uncertainty over fiscal policy, exchange rate policy and co-operation with the central bank. In markets' view such a scenario became even more likely when Grzegorz Kołodko took over the position.

Deviation of zloty from old central parity

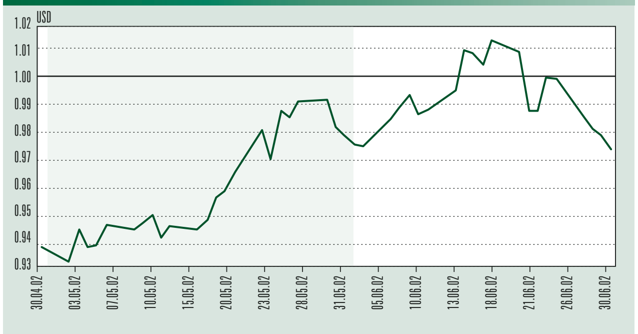


Source: BZ WBK

Uncertainty was additionally maintained by the fact that during the first 10 days new Minister of Finance did not reveal his plans. However, after Kołodko's speech in the parliament on 16 July, when he announced the policy adopted by Marek Belka, the zloty strengthened by 15 groszy within a few days against both euro and dollar.

Euro appreciation to above-parity levels was of key importance for the foreign exchange markets in the middle of July. Poor performance of American stock exchanges brought euro strengthening already in June, but the parity against the dollar was reached only on 15 July. This was the first time since February 2000. However, euro's strength was maintained only for the short period of time amid information about fiscal problems in eurozone countries (Portugal).

Euro against dollar exchange rate



Source: Reuters

The last days of July brought a continuation of zloty weakening amid further EUR/USD rate falling.

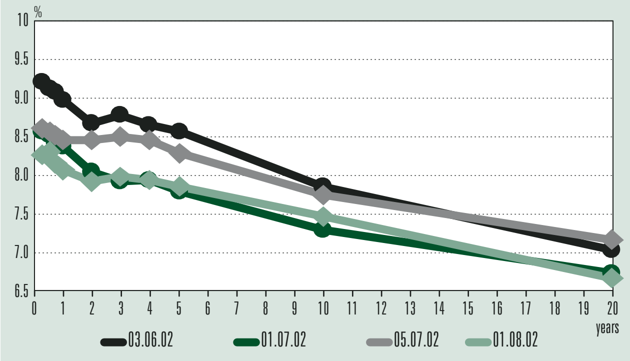
The fact that S&P's have downgraded the Poland's rating was surely not good news for the financial market, as it might affect investors' confidence and their willingness to hold zloty denominated assets. Immediately after the news release the zloty weakened by nearly PLN0.03 against US$. Nevertheless, the negative impact of the event should not be exaggerated and its influence might prove to be not very persistent for a couple of reasons (indeed, by the end of the day the market's prices have almost returned to previous levels). First of all, the sovereign rating for foreign currency debt remained unchanged at BBB+ with stable outlook and there is no reason to lower this rating at the moment. Second, other agencies are not expected to follow the S&P's steps. In the medium term, much will depend on government's fiscal discipline and the evolution of public debt-to-GDP ratio.

Yield curve up and down in July

At the end of July the yield curve was roughly at the same level as month ago, but this does not mean that it was a calm week on the fixed income market. Bonds also reacted very nervously on Marek Belka's dismissal, but candidature and nomination of Grzegorz Kołodko was taken relatively calmly. After the MPC meeting, the market has started to price-in a possibility of rates reduction in

August and these expectations were reinforced by publications of excellent food prices figures. Even S&P's decision did NOT affect fixed income market much, reversing the trend only for a few hours. Paradoxically, the market has strengthen within next days, as the Ministry of Finance reacted with information about buy-back auctions, lower papers' supply in 2H02 and Grzegorz Kołodko reiterated again about a necessity of public finances consolidation.

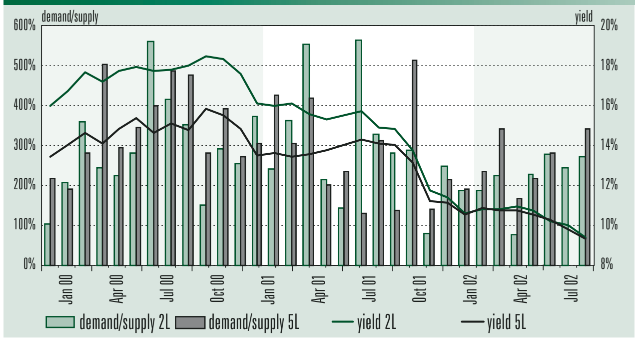
Yield curve



Source: BZ WBK

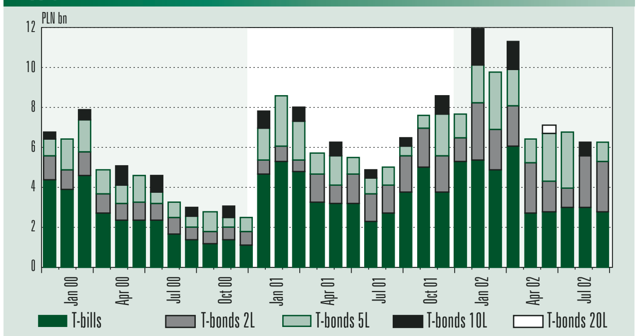
On 7 August treasury bonds auction ministry sold all papers on offer, two- (OK0804) and five-year (PS0507). Total demand was high, three times higher than the supply, and exceeded PLN10bn. Yields declined sharply from the levels recorded on previous auctions (there was no offer of five-year bonds in July), but were roughly equal secondary market levels.

2- and 5-year bond auction results



Source: BZ WBK

Supply of treasuries



Source: Finance ministry

T-bond auctions in 2002

month	1st auction							2nd auction			
	date	T-bonds	offer (PLN m)	sale (PLN m)	T-bonds	offer (PLN m)	sale (PLN m)	date	T-bonds	offer (PLN m)	sale (PLN m)
January	09.01	OK1203	2 800	2 800	PS1106	1 900	1 900	16.01	DS1110	1 800	1 800
February	06.02	OK1203	2 000	2 000	PS1106	2 900	2 900	13.02	DZ0811	500	495,5
March	06.03	OK1203	2 000	2 000	PS1106	1 800	1 800	20.03	DS1110	1 400	1 400
April	03.04	OK0404	2 500	1756,5	PS1106	1 200	1 200	10.04	WS0922	400	400
May	08.05	OK0404	1 500	1 500	PS0507	2 400	2 400	–	–	–	–
June	05.06	OK0404	1 000	1 000	PS0507	2 800	2 800	–		–	–
July	03.07	OK0404	2 600	1922,1		–	–	17.07	DS1110	700	700
August	07.08	OK0804	2 500	2 500	PS0507	1 000	1 000	–	–	–	–
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

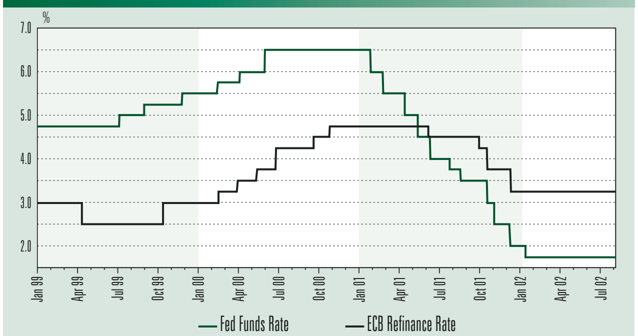
- Rates in US and Eurozone still unchanged
- Inflation in Eurozone below the target
- Poor GDP data in the US
- Stronger production and sales, but business climate indicators weaker

On 1 August the ECB's Council decided to leave the Eurozone's interest rates unchanged. The decision was in line with markets' expectations, and the refinance rate (main interest rate) remained at 3.25%. The Federal Open Market Committee is scheduled for 13 August and no rates change is expected.

The European Central Bank warned Eurozone's member countries that breaching the rules of the Growth and Stability Pact might undermine credibility of the monetary union. The ECB's warning was issued one day after the European Commission initiated proceeding against Portugal. Portugal's budget deficit reached 4.1% of GDP in 2001 while the maximum acceptable level within EMU is 3%.

In the monthly report the European Central Bank has suggested weak growth expectations, which may indicate no rate increase in the following months. What is more, it could mean that there is a possibility of further rates' reduction this year, especially as the markets have been started to price-in such a solution also in the US.

Interest rates in USA and Eurozone



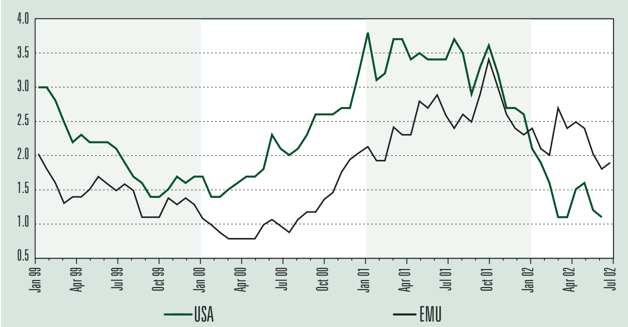
Source: Reuters

In June inflation in the Eurozone amounted to 0.0% MoM, which translated into a fall in annual inflation rate to 1.8% from 2.0% in previous month – it was below 2% ECB's ceiling for the first time for almost two years.

In June inflation in the United States amounted to 0.1% MoM against 0.0% in May and expectations of 0.2%. Annual price growth rate declined to 1.1% from 1.2% in May.

Data on Eurozone's economic growth were revised up. Gross Domestic Product rose by 0.3% MoM and 0.3% YoY in 1Q this year, against first estimations at 0.2% and 0.1% respectively. Moreover, the European Commission's forecast of GDP growth in coming quarters was increased. Now GDP growth of 0.3-0.6% QoQ in 2Q02 and 0.7-1.0% 3Q02 is forecasted.

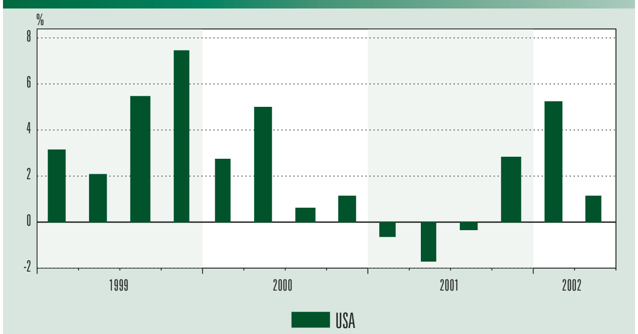
Inflation in USA and Eurozone YoY



Source: Reuters

In the United States very weak data on economic growth were released. According to advanced information, in 2Q02 GDP growth amounted to 1.1% QoQ, while 2.2% was expected. Data for 1Q02 were revised downwards and latest estimations point to GDP growth of 5.0% QoQ in first three months of this year instead of 6.1% released before. The slowdown in 2Q02 mainly resulted from a fall in growth rate of consumers' spending, that account for two third of US GDP, to 1.9% from 3.1% in 1Q02. Moreover, GDP data since the beginning of 1999 were corrected and they suggest that GDP was falling during first three quarters of 2001. It means that recession lasted longer than it was assumed earlier since previous estimations pointed to a fall in 3Q01 only.

US GDP QoQ



Source: Reuters

Producer prices in the Eurozone fell by 0.1% in June against 0.2% fall expected and annual deflation deepened to 1.1% from 1.0% a month earlier.

Industrial production in the eurozone increased by 0.1% MoM in May, which implied the fall of 1.2%. The result was slightly better than expectations of -0.1% and -1.5%, respectively. Retails sales in eurozone increased by 0.4%MoM and 0.7%YoY and was slightly better than consensus forecast.

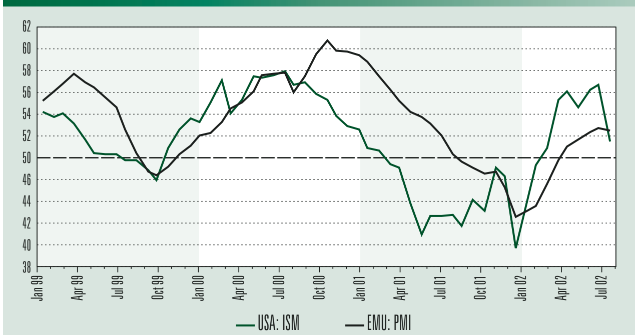
Producer prices in the US increased by 0.1% MoM in June, while stabilisation at May's level was expected. However, very optimistic data on industrial output were released. In June it rose by 0.8% MoM, which was the highest increase for almost three years and May's data was revised upward to 0.4% MoM from 0.2% estimated before. Retail sales in the USA rose by 1.1% MoM in June - stronger than forecasts (0.7%), but at the same time data for May were revised down to -1.1% MoM from -0.9% released before.

In line with forecasts, Eurozone's unemployment rate increased to 8.4% in June, i.e. the highest level for last two years from 8.3% a month earlier. The highest unemployment was recorded in Spain at 11.5% and the lowest in Luxembourg - 2.3%.

US unemployment rate remained at 5.9% in July, which was consistent with forecasts, however the worrying signal was that during the whole month only six thousands new jobs were created, while analysts expected an increase of 69 thousands.

Data on money supply in the Eurozone were slightly more optimistic, but still inconsistent with expectations. In June M3 annual growth rate slowed down to 7.1% from 7.8% while 7.7% was foreseen.

Activity indicators

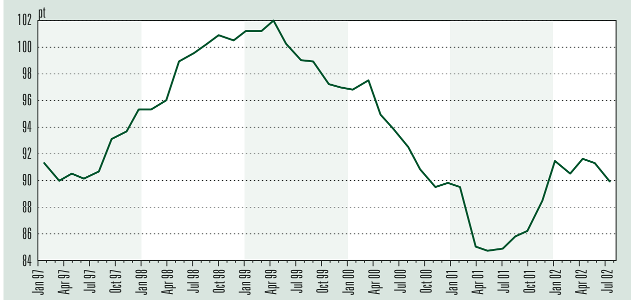


Source: Reuters

In July economic activity in Eurozone's industry deteriorated only slightly, and the fall was less than expected. PMI indicator declined to 51.6 pts against 51.3 pts expected from 51.8 pts in June. PMI indicator for German economy – the largest in the Eurozone – also recorded a fall to 50.1 pts against 49.8 pts expected from 50.2 pts previously. What is important, the index remained above 50 pts level, that is, above the line separating development from recession. Analogous indicator for the United States – ISM (formerly NAPM) recorded a sharp and deeper than expected fall to 50.5 pts in July while 55.1 pts was expected from 56.2 pts in June.

IFO index, major business sentiment indicator for German economy, recorded a second consecutive unexpected fall in July to 89.9 pts from 91.3 pts in June, while markets expected stabilisation at June's level. It is worth noticing that such a strong fall was larger than the most pessimistic forecasts. Moreover, contrary to previous month, not only expectations for future, but also assessment of current situation, have deteriorated.

Germany: IFO index



Source: Reuters

In July, in line with expectations, Eurozone's overall economic sentiment index fell to 99.4 pts from 99.6 pts in June (consensus amounted 99.2 pts). On the contrary, business climate indicator rose to -0.35 pts from -0.45 pts previously, while expectations were at -0.6 pts.

US consumer confidence indicator fell much deeper than expected in July. The index amounted to 97.1 pts from 106.3 pts in June, while analysts expected a fall to 101.9 pts. This is another signal in recent days suggesting that consumers' sentiment is deteriorating in the US.

US consumer sentiment indicator by University of Michigan fell to 88.1 pts in July from 92.4 pts in June, but it was higher than 86.5 pts recorded in preliminary survey which was expected to be confirmed in final release.

What's hot this month

Monday	Tuesday	Wednesday	Thursday	Friday
29 July POL: T-bill auction (600 mln PLN)	**30**	**31** POL: Balance of payments(Jun) *ITA: Preliminary inflation (Jul)* *EMU: Preliminary inflation (Jul)* *USA: GDP (2Q02)*	**1 August** *EMU: ECB meeting* *EMU: PMI (Jul)* *EMU: Retail sales (May)* *USA: ISM (Jul)*	**2** *EMU: PPI (Jun)* *EMU: Business climate (Jul)* *EMU: Business sentiment (Jul)* *USA: Unamployment (Jul)* *USA: Industrial orders (Jun)*
5 POL: T-bill auction (600 mln PLN)	**6** *EMU: Unemployment (Jun)*	**7** POL: T-bonds auction OK0804 and PS 0507 (2,5 i 1,0 mld PLN) POL: Food prices (2H Jul) *GER: Industrial orders (Jun)* *GER: Unamployment (Jul)*	**8** *GER: Industrial production (Jun)* *EUR: GDP (1Q02)* *USA: PPI (Jul)*	**9** *ITA: Industrial production (Jun)* *ITA: GDP (2Q02)*
12 POL: T-bill auction (400 mln PLN) *ITA: Inflation (Jul)*	**13** *FRA: Preliminary inflation (Jul)* *USA: Fed meeting*	**14** POL: Money supply (Jul) POL: Wages and employment (Jul) *FRA: Industrial production (Jun)*	**15** **Public holiday**	**16** *USA: Inflation (Jul)*
19 POL: Inflation (Jul) POL: T-bill auction (800 mln PLN) *EMU: Inflation (Jul)*	**20** POL: Industrial production (Jul) POL: PPI (Jul) *EMU: Industrial production (Jun)* *EMU: Foreign trade (Jun)* *USA: Foreign trade (Jun)*	**21**	**22** POL: Business climate (Aug) *ITA: GDP (2Q02)* *GER: GDP (2Q02)*	**23** *FRA: Inflation (Jul)*
26 POL: Core inflation (Jul) POL: T-bill auction (900 mln PLN)	**27** POL: Food prices (1H Aug)	**28** POL: MPC meeting *ITA: Preliminary inflation (Aug)* *EMU: Money supply (Jul)*	**29** POL: MPC meeting (decision) *EMU: ECB meeting* *USA: GDP (2Q02)*	**30** POL: Balance of payments (Jul) *EMU: Preliminary inflation(Jul)*

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	18-19	27-28	24-25[a]	29-30[a]	26-27[a]	17-18[a]
CPI	15	15[b]	15[c]	15	15	17	15	19	16	15	15	16
Core Inflation	21	-	21	18	20	21	22	26	23	22	25	23
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	30	31	29	-
Money supply	14	14	14	12	14	14	12	14	13	14	14	-
NBP balance sheet	7	7	7	5	7	7	5	7	6	7	7	-
Business climate indices	7[d] i 21[e]	20	20	18	21	19	18	22	19	18	21	19
Food prices, 1-15	-	8[e] i 27[f]	27	26	27	27	26	27	27	25	27	30
Food prices, 16-30	3	8	8	5	7	6	5	6	6	7	6	6

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

Source: CSO, NBP

Monthly indicators

		Jun 01	Jul 01	Aug 01	Sep 01	Oct 01	Nov 01	Dec 01	Jan 02	Feb 02	Mar 02	Apr 02	May 02	Jun 02	Jul 02	sie 02
															forecast	
GDP	% YoY	0.9	x	x	0.8	x	x	0.2	x	x	0.5	x	x	0.7	x	x
Industrial output	% YoY	-4.7	1.5	0.9	-3.7	1.8	-1.0	-4.8	-1.4	0.2	-3.1	0.3	-4.2	2.2	5.1	-0.4
Retail sales***	% YoY	0.2	1.5	3.0	1.3	5.8	2.4	2.4	4.7	6.7	9.9	3.1	1.8	2.5	-	-
Unemployment rate	%	15.9	16.0	16.2	16.3	16.4	16.8	17.4	18.0	18.1	18.1	17.8	17.2	17.3	17.6	17.8
Gross wages**	% YoY	4.9	8.0	6.9	6.2	7.8	6.6	5.3	5.7	5.5	4.8	2.3	4.2	3.9	3.9	4.1
Exports (acc. to NBP)	USDm	2 477	2 556	2 616	2 287	2 778	2 555	2 540	2 308	2141	2 467	2 739	2 610	2 688	2 715	2 579
Imports (acc. to NBP)	USDm	3 379	3 382	3 635	3 176	3 953	3 509	3 430	3 418	2 952	3 148	3 521	3 416	3 381	3 449	3 587
Trade balance (acc. to NBP)	USDm	-902	-826	-1 019	-889	-1 175	-954	-890	-1 110	-811	-681	-782	-806	-693	-734	-1007
Current account	USDm	-948	-287	-354	-304	-838	-417	-500	-847	-820	-612	-643	-549	--376	-359	-612
Budget deficit	PLN bn	-18.7	-19.4	-21.0	-21.8	-24.6	-27.7	-32.6	-6.9	-13.7	-16.4	-20.0	-23.0	-25.0	-25.4	-26.8
Inflation (CPI)	% YoY	6.2	5.2	5.1	4.3	4.0	3.6	3.6	3.4	3.5	3.3	3.0	1.9	1.6	1.4	1.7
Producer prices (PPI)	% YoY	0.9	0.6	1.0	0.7	-0.5	-1.0	-0.3	0.0	0.2	0.3	0.4	0.5	1.1	0.8	0.5
Money supply	% YoY	7.5	12.4	13.4	12.3	11.0	7.2	8.7	7.3	6.7	3.5	2.9	3.6	3.0	-	-
Deposits	% YoY	8.6	14.0	14.9	13.3	11.5	7.0	8.3	6.4	5.5	2.0	1.2	1.7	1.1	-	-
Credits	% YoY	4.8	11.5	11.8	11.5	9.7	8.9	9.3	9.0	8.8	7.1	6.6	7.9	9.2	-	-
USD/PLN	PLN	3.97	4.19	4.25	4.22	4.13	4.09	4.01	4.06	4.19	4.14	4.06	4.05	4.03	4.12	4.15
EUR/PLN	PLN	3.39	3.60	3.82	3.85	3.74	3.64	3.58	3.59	3.64	3.63	3.59	3.71	3.85	4.08	4.07
Intervention rate*	%	15.50	15.50	14.50	14.50	13.00	11.50	11.50	10.00	10.00	10.00	9.50	9.00	8.50	8.50	8.00
WIBOR 3M	%	16.88	16.01	15.35	14.73	14.01	13.91	12.29	11.04	10.60	10.32	10.20	9.88	9.30	8.89	8.70
Lombard rate*	%	19.50	19.50	18.50	18.50	17.00	15.50	15.50	13.50	13.50	13.50	12.50	12.00	11.50	11.50	11.00
Yield on 52-week T-bills	%	15.61	15.38	14.61	14.01	12.64	11.80	10.66	9.62	9.68	9.62	9.56	9.22	8.52	8.26	7.85
Yield on 2-year T-bonds	%	15.22	15.13	14.40	13.57	11.36	11.00	10.70	9.11	9.37	9.32	9.22	9.03	8.36	8.08	7.70
Yield on 5-year T-bonds	%	13.29	13.85	13.50	12.92	11.32	10.13	9.91	8.91	9.26	9.11	9.02	8.90	8.26	8.15	7.65
Yield on 10-year T-bonds	%	11.74	11.87	11.97	11.57	10.31	9.19	8.92	8.25	8.34	8.25	8.19	8.02	7.55	7.63	7.35

** at the end of period   ** in corporate sector   *** nominal*   *Source: CSO, NBP, BZ WBK*

Quarterly and yearly

		1998	1999	2000	2001	2002 forecast	2003 forecast	1Q 01	2Q 01	3Q 01	4Q 01	1Q 02	2Q 02	3Q 02 forecast	4Q 02 forecast
GDP	PLN bn	553.6	615.1	685.0	721.6	754.2	810.0	165.4	176.5	179.6	200.0	171.4	184.3	194.1	218.4
GDP	% YoY	4.8	4.1	4.0	1.0	1.3	3.2	2.3	0.9	0.8	0.2	0.5	0.7	1.1	2.6
Industrial output	% YoY	3.5	3.6	6.8	-0.2	1.7	3.4	4.5	-0.7	-0.8	-2.6	-1.6	-0.3	4.3	7.5
Real retail sales	% YoY	2.6	4.0	1.0	0.4	x	x	-3.1	-0.2	1.2	3.7	5.8	x	x	x
Unemployment rate*	%	10.4	13.1	15.1	17.4	19.3	19.0	16.1	15.9	16.3	17.4	18.1	17.3	18.0	19.3
Real gross wage	% YoY	3.3	4.7	1.0	3.3	0.7	1.5	2.5	.0.8	2.5	1.3	2.1	1.0	-0.5	0.0
Exports (acc. to NBP)	USDm	30 122	26 347	28 256	30 276	32 050	35 000	7 436	7 508	7 459	7 873	6 916	7 347	7 847	9 249
Imports (acc. to NBP)	USDm	43 842	40 727	41 424	41 955	42 389	48 000	10 584	10 286	10 193	10 892	9 518	9 621	10 693	11 859
Trade balance (acc. to NBP)	USDm	-13 720	-14 380	-13 168	-11 679	-10 339	-13 000	-3 148	-2 778	-2 734	-3 019	-2 602	-2 274	-2 846	-2 610
Current account	USD	-6 862	-11 558	-9 946	-7 075	-7 363	-9 913	-2 170	-2 205	-945	-1 755	-2 279	-2 075	-2 001	-1 515
Current account	% PKB	-4.3	-7.4	-6.3	-4.0	-4.0	-4.8	-4.9	-5.2	-4.2	-4.0	-4.1	-3.8	-4.4	-4.2
Budget deficit*	PLN bn	-13.2	-12.5	-15.4	-32.6	-40.0	-40.0	-15.0	-18.8	-21.9	-32.6	-16.4	-25.0	-28.8	-40.0
Budget deficit*	% PKB	-2.4	-2.0	-2.2	-4.5	-5.3	-4.9	-9.1	-2.2	-1.7	-5.3	-9.6	-4.6	-2.0	-5.1
Inflation	% YoY	11.8	7.3	10.1	5.5	2.3	4.0	6.7	6.6	4.9	3.8	3.4	2.1	1.7	2.1
Inflation*	% YoY	8.6	9.8	8.5	3.6	2.4	4.0	6.2	6.2	4.3	3.7	3.3	1.6	2.0	2.4
Producer prices	% YoY	7.3	5.7	7.8	1.6	0.9	2.5	4.2	2.2	0.8	-0.6	0.2	0.7	0.6	2.0
Money supply	% YoY	25.3	24.6	15.2	11.9	5.0	11.0	14.7	11.8	14.1	12.9	5.8	3.2	-	-
Deposits	% YoY	28.4	26.4	17.2	13.2	1.9	10.5	17.1	13.6	15.7	13.3	4.6	1.3	0.6	1.1
Credits	% YoY	30.0	28.6	24.7	11.3	9.5	15.0	15.4	9.7	11.3	8.1	8.3	7.9	9.8	12.0
USD/PLN	PLN	3.4937	3.9675	4.3465	4.0939	4.08	3.91	4.0876	3.9895	4.2168	4.0805	4.1303	4.05	4.12	4.02
EUR/PLN	PLN	3.9231	4.2270	4.0110	3.6685	3.86	3.93	3.7765	3.4884	3.7551	3.6549	3.6199	3.72	4.07	4.02
Intervention rate*	%	15.50	16.50	19.00	11.50	7.50	7.50	18.00	15.50	14.50	11.50	10.00	8.50	8.00	7.5
WIBOR 3M	%	21.34	14.73	18.78	16.08	9.28	7.80	18.53	17.09	15.37	13.45	10.65	9.79	8.63	8.07
Lombard rate*	%	20.00	20.50	23.00	15.50	10.50	10.50	22.00	19.50	18.50	15.50	13.50	11.50	11.00	10.50
Yield on 52-week T-bills	%	18.59	12.95	17.77	14.77	8.58	8.20	17.02	15.70	14.67	11.72	9.64	9.10	8.02	7.57
Yield on 2-year T-bonds	%	18.08	12.41	17.37	13.91	8.38	-	15.59	14.91	14.37	10.83	9.27	8.87	7.86	7.53
Yield on 5-year T-bonds	%	15.83	10.87	14.00	12.59	8.28	-	13.12	13.38	13.43	10.45	9.09	8.73	7.85	7.47
Yield on 10-year T-bonds	%	x	9.60	11.79	10.74	7.63	-	10.46	11.22	11.81	9.48	8.28	7.92	7.48	6.83

** stan na koniec okresu*

Źródło: GUS. NBP. BZ WBK

Bank Zachodni WBK S.A.

TRESURY DIVISION

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

This analysis based on information until 9.8.2002 has been prepared by::

ECONOMIC ANALYSIS UNIT

ul. Marszałkowska 142, 00-061 Warszawa, fax 0 22 653 4679

Maciej Reluga – Chief Economist
tel. 0 22 653 46 63
e-mail: maciej.reluga@bzwbk.pl

Piotr Bielski, tel. 0 22 653 47 33
Piotr Bujak, tel. 0 22 586 83 41
Aleksander Krzyżaniak, tel. 0 22 586 83 42
e-mail: ekonomia@bzwbk.pl

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

TRESURY SERVICES DEPARTMENT

Paul Polaczek – tel. 0 61 856 55 73

Poznań

pl. Gen. W. Andersa 5, 61-894 Poznań
fax 0 61 856 55 65

Piotr Kinastowski

tel. 0 61 856 58 22, fax 0 61 856 55 65

Juliusz Szymański	0 61 856 58 25
Katarzyna Kamińska	0 61 856 58 25
Robert Król	0 61 856 58 25
Adam Wandzilak	0 61 856 58 25
Waldemar Polowczyk	0 61 856 58 14
Zbigniew Mańke	0 61 856 58 14
Hanna Nowak	0 61 856 58 14
Żaneta Czerniak	0-61 856 58 14
Wojciech Kusik	0 61 856 58 14

Warszawa

ul. Marszałkowska 142, 00-061 Warszawa
fax 0 22 653 46 79

Tomasz Dziedzic	0 22 653 46 67
Maciej Jędrzejak	0 22 653 46 70
Piotr Żagan	0 22 653 46 66

Wrocław

ul. Rynek 9/11, 50-950 Wrocław
fax 0 71 370 26 22

Krzysztof Pietrkiewicz

tel. 0 71 370 25 87, fax 0 71 370 26 22

Maciej Błęcki	0 71 370 26 63
Jerzy Rybczak	0 71 370 24 26
Aleksandra Skiba	0 71 370 24 86
Anna Tarnacka	0 71 370 26 24
Damian Syzdek	0 71 370 25 25
Maciej Makarewicz	0 71 370 24 86
Marcin Mostowy	0 71 370 26 25