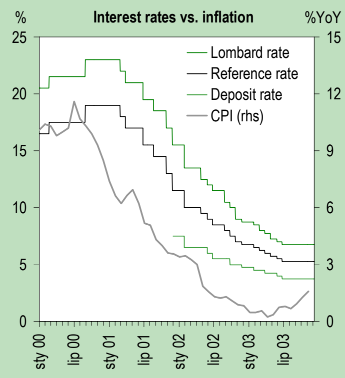
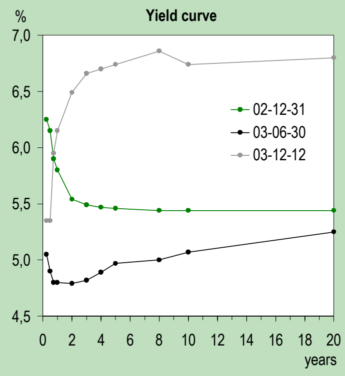
Bank Zachodni WBK

MACROscope

Polish Economy and Financial Markets

December 2003





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The Birds

■ **The term of office of the current members of the Monetary Policy Council is coming to an end** and the time of calling for a new committee to be appointed by the parliament and the President is imminent. Undoubtedly, this event will have a major impact on the Polish economy and the financial market. Therefore each day bringing us closer to the change of MPC composition, the thrill among analysts and investors rises. In view of the above, this issue of MACROscope will provide a more in-depth analysis of the most likely shape of the body which sets interest rates in Poland and a new course that may be set for the monetary policy. From this analysis it seems clear that the term of office of the new MPC would not start like a classic Hitchcock movie: first the earthquake and then emotions rise. Undoubtedly the forces in the new MPC will be more supportive for interest rate reductions than at present, but the rate cuts should be only gradual and follow small steps strategy. What is more, concerns over possible rate hikes in the near term seem to be also unjustified. One should bear those facts in mind, especially that Polish financial market is pricing in interest rate hikes in the coming months at the moment.

■ **Economic recovery in Poland continues.** It is very positive that the acceleration of the economic growth is not accompanied by worsening of the economy's external balance. On the contrary, according to NBP data October was a second month in a row with C/A surplus. It was possible due to excellent performance of Polish export, stagnating import high surplus in unclassified flows. Also, it seems that acceleration of the aggregated demand in the economy does not lead to intensification of inflationary pressure. As a matter of fact CPI gradually increases but the data show it stems mainly from rise in food prices. The MPC pointed out recently that there is some risk for inflation from supply side factors (apart from food prices also high oil prices), but monetary policy does not have to react to temporary, reversible supply shocks. This was stressed, among others, by probable President's candidate for the new MPC Andrzej Wojtyna. Still, fiscal policy is the main problem of the Polish economy.

■ **The end of November and the beginning of December saw swinging moods on the Polish financial market.** First of all, investors were astonished by 300 bps interest rate hike in Hungary. This led to rapid fall of the zloty and rise in bond yields to the highest level in more than one year time. However, weakening on the domestic market turned out to be very short-lived, because investors quickly realised differences in the way of conducting monetary policy in Hungary and Poland. Another nervous move of the National Bank of Hungary confirms that it is not advisable a central bank with direct inflation strategy to impose any constrains on the exchange rate movements. Events in Hungary may also be a foretaste of problems, which the Eurozone aspirants will have to face in the ERM2 system.

Financial market on 28 November 2003					
NBP deposit rate	3.75	WIBOR 3M	5.83	PLN/USD	3.9350
NBP reference rate	5.25	Yield on 52-week T-bills	6.15	PLN/EUR	4.7127
NBP lombard rate	6.75	Yield on 5-year T-bonds	7.72	EUR/USD	1.1976

This report is based on information available until 10.12.2003

Special focus

The dove hearted people

The New Guards march up

The term of office of the current members of the Monetary Policy Council is coming to an end and the time of calling for a new committee to be appointed by the parliament and the President is imminent. Undoubtedly, this event will have a major impact on the Polish economy and the financial market, as we wrote about many months ago predicting economic trends for this year. While for a majority of politicians this is a long awaited moment, stirring up hopes and expectations – as the current members of the Monetary Policy Council are perceived by most of the government and the opposition as 'slipper brakes' on the track of economic growth in our country – for economists and financial market players the oncoming change is a source of concern. Curiously enough, their concern is actually a derivative of the politicians' enthusiasm. This is so because declarations voiced by representatives of the dominant parliamentary factions indicate that the newly appointed MPC members will ensure core reshuffles in the nature and direction of the currently pursued monetary policy, which rises concerns about integrity and reliability of the central bank's policy for the years to come thus posing a question whether future decisions about interest and exchange rates will not jeopardise stability of the Polish financial market.

In view of the above as well as recently released information about a likely composition and character of the new Monetary Policy Council, this issue of MACROscope will provide a more in-depth analysis of the most likely shape of the body which sets interest rates in Poland and a new course that may be set for the monetary policy.

Who steps down and when

Let us remind you that the ten-person Monetary Policy Council comprise the governor of the National Bank of Poland and nine members appointed by the three governing bodies: the Sejm, the Senate and the President on an equal basis. The incumbent members were sworn at the beginning of 1998 between 8 January (first nominations by the Sejm) and 17 February (the President's candidates) and the first MPC session (during which the Council made decisions about the monetary policy whereby the rules of open market operations were changed) was held several days later on 25 February 1998.

According to the Polish laws, the governing bodies which appoint members of the Monetary Policy Council must select their successors at the latest by the day on which mandates of the previously appointed members expire. In addition the internal parliament regulations require that candidates of the Sejm and the Senate be officially proposed at least 30 days prior to the expiry of the previous incumbency so that all MPs have a chance to learn about the proposed candidates. This means that the first two candidates recommended by the Lower House of the parliament had to be revealed by 9 December at the latest and in the coming weeks candidatures for the remaining seats in the Council will be put forth. The table below illustrates when terms of office of the current MPC members expire.

Expiry dates of current MPC terms of office

Member	Designated by	Ends job
Jan Czekaj	Sejm	7 January 2004
Jerzy Pruski	Sejm	7 January 2004
Bogusław Grabowski	Senate	21 January 2004
Cezary Józefiak	Senate	21 January 2004
Paweł Łączkowski	Senate	21 January 2004
Marek Dąbrowski	Sejm	5 February 2004
Dariusz Rosati	President	16 February 2004
Grzegorz Wójtowicz	President	16 February 2004
Wiesława Ziółkowska	President	16 February 2004
Leszek Balcerowicz		9 January 2007

Source: NBP

Obviously, this timescale obligation does not apply to the President of the Republic of Poland who personally selects his candidate and in practice can release their names even on the very day preceding the official swearing ceremony.

List of candidates is almost complete

As it has now become necessary for the parliament to indicate its nominees, there has been a lot of information in circulation about options in the minds of politicians. Although most of the releases are still off-the-record, it is quite likely to create a picture of the future MPC.

At present, the least vague part of that picture is where the Sejm will decide on the Council's composition. On the occasion of nominating monetary policy decision makers, a concord was reached in the Lower House of parliament among the three parties which previously created a governing coalition: SLD, UP, and PSL. Each of the parliamentary clubs of this coalition parties proposed one nominee to a seat in the MPC also declaring support in voting for candidates nominated by the two other allies. Such an arrangement ensures in practice a successful election of all the three candidates advocated by this three partite coalition which has a ruling majority of votes in the Sejm. In consequence, the new, Sejm appointed members of the Council would most likely be Jan Czekaj (candidate of the SLD), Mirosław Pietrewicz (PSL) and Stanisław Nieckarz (UP). According to the Polish Press Agency, Pietrewicz will replace Jerzy Pruski who will leave the Council on 8 Jan. 2003 and Nieckarz will replace Marek Dąbrowski whose term of office expires on 6 February 2003. Czekaj will be re-elected for the second term. The chairman of the SLD parliamentary club, Jerzy Jaskiernia, who confirmed the existence of a relevant arrangement among the parties in respect of the nominees for the Council, expressed hopes of his club that the proposed candidates would not only look after the stability of prices but also for an economic growth and a combat unemployment. These hopes are not groundless by any means considering views of these economists who are to sit in the Council (see below).

The Sejm recommended candidates were also proposed by the opposition parties. Civic Platform (PO) proposed Jan Winiecki – a liberal economist, professor at the European University Viadrina in Frankfurt am Order and an economic adviser to WestLB Polska. League of Polish Families (LPR) proposed Stefan Kurowski and Self-Defence (Samoobrona) came up with Adam Piotrowicz, also declaring support for the candidate advocated by the LPR. The Chairman of the Self-Defence announced that they would not support Mirosław Pietrewicz, candidate of PSL due to his 'overly liberal' opinions. This best proves to what extremes go the views of the candidates advocated by Self-Defence and LPR. However, without any support of the voting majority parties SLD, UP or PSL, the opposition candidates have hardly any chances to be elected.

SLD already has a complete list of the Senate recommended candidates, but names on that list have not yet been unequivocally confirmed. Jaskiernia said that his party was also considering Maria Noga and Elżbieta Chojna-Duch for the Senate backed nominees to the Council, however the latter candidacy seems much less likely. The third name was not mentioned at all. Because SLD enjoys a much stronger position in the Senate than in the Sejm, it is unlikely that there will be representatives of the opposition parties among the Senate backed nominees. Among the most likely candidatures of Mr. Noga and Mrs. Chojna-Duch – the future central bank executives, we also bet on Andrzej Sopoćko, a former deputy finance minister and councillor to the PM Leszek Miller. We would not be much surprised by the candidature of Witold Koziński (former vice-president of NBP, currently CEO of Bank Gospodarstwa Krajowego) and Krzysztof Pietraszkiewicz (head of the Polish Banks' Association). In a circle of potential nominees we still see Stanisław Gomułka – professor at London School of Economics, former adviser to NBP president and almost all ministers of finance since early 90., presently chief economist for PZU S.A. He used to belong to critics of too restrictive monetary policy and supported SLD's proposals of constraining central bank's independence at the end of 2001. However, SLD MPs might not be fully aware that as well as he wanted to cut interest rates in the past, he might want rise them very soon – his last comments suggested there were no grounds for monetary easing in the coming year.

Despite the lack of a formal requirement, there has also been off-the-record information on the president's nominees. According to an anonymous source quoted after the Polish Press Agency, 'it is very likely that president Aleksander Kwaśniewski will designate his three councillors, professors Orłowski, Pietrzak and Wojtyna.' As far as Pietrzak and Wojtyna are concerned, these are very likely nominations, but we are not 100% sure about the candidacy of Witold Orłowski who himself talked some time ago about his candidacy with an air of scepticism. *Gazeta Wyborcza* daily suggested that the third candidate might be, e.g. Maria Wiśniewska, former CEO of Bank Pekao SA. In our opinion another likely option would be someone from the NBP staff, having practical experience and deep knowledge about monetary policy. We would suggest Andrzej Sławiński, professor at Warsaw School of Economy, expert at monetary policy and financial markets. At any rate, it seems that the group designated by president Kwaśniewski would create the most stable and composed part of the Monetary Policy Council being a counterbalance to fairly radical stances of the parliament backed nominees.

Larger and smaller doves

Suggested candidates for the Council membership do not come as a surprise (perhaps with the exception of Marian Noga, not a widely known figure). The politicians' nominees confirmed assumptions that following the Council reshuffle, the new members will be of more 'dove-hearted' nature than the current ones. Although it also seems that the Council's new composition will include more 'composed doves' than members with very radical views. Moreover, the first comments by the nominees, similarly to the way that Jan Czekaj acts as a member of the Council, imply that opinions coming from a representative of the Central Bank and an economy decision maker may vary from those provided as a commentator. Perhaps the very fact of being entrusted with a responsible role in the central bank will temper some of the radical attitudes?…

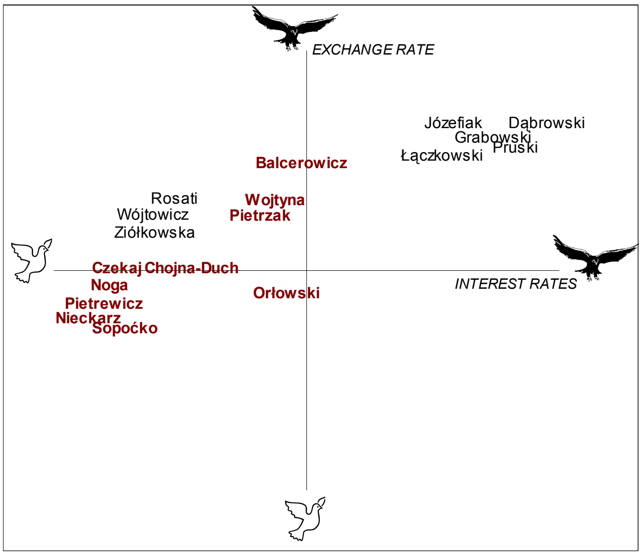
Below (page 6), we outline brief profiles of the most likely – in our opinion – future members of the Monetary Policy Council. These give the reader a preliminary impression of what modes of action the nominees may adopt when dealing with Poland's monetary policy. The candidates' profiles are divided into several topic groups with a special attention paid to views on interest and exchange rate policies.

There is no doubt that on the average, views presented by the new MPC members will be much less 'hawkish' than those favoured at present. Obviously, this is so because the new Council will be devoid of any 'hawks' (at least there will be no hawks according to the present understanding of this word). The listing below clearly indicates that nearly all the future MPC members see possibilities for a continued reduction of the interest rates referring to the absence of inflationary pressure. Of course, each of these candidates would prefer these reductions at different levels and this is the major factor which conditions their 'doviness'. As it has been mentioned above, the most balanced views will probably be represented by President Kwaśniewski's nominees. The other candidates are advocates of stimulating economy through monetary policy (a mild inflation increase will not do any harm) and repeatedly highlight the argument that interest rates must be kept low not to kill investments as these condition a long-term growth in the economy.

Interestingly enough, even more homogenous are the candidates' views on the issues of exchange rate policy. This however should console the market because almost all prospective members of the Monetary Policy Council consider themselves supporters of fully floating exchange rate regime, a quick entry to the euro zone and a possibly short transit through ERM2 exchange rate system (even if in the past they recommended zloty devaluation, fixing rates and currency interventions). We may ponder though to what extent the views on exchange rate policy were conditioned by the political correctness and awareness that reckless statements in this respect may result in nervous reactions on the financial market that might be of deadly consequences to the state, and to what extent these views reflected their authors' true beliefs.

To illustrate opinions of the prospective candidates for MPC membership and to facilitate their comparing with the opinions of the MPC members still in office, we drew up a map of preferences encompassing bankers of the old and the new incumbency. The horizontal line shows their personal preferences regarding interest rates (the more to the right, the more 'hawkish' these views are), while the vertical line reflects their attitudes towards the foreign exchange policy (the higher the position on the chart, the more candidate supports FX rate to be determined by the market, the less willing this person is to foreign exchange interventions).

Ornithological profile – preference map of the MPC



Source: BZ WBK

How will it affect monetary policy?

Views presented by the prospective members of the Monetary Policy Council give us a foretaste of what their monetary policy may look like. Undoubtedly, as we mentioned above – a new configuration of powers that will emerge after nominating the new council members will favour decisions on reducing interest rates. Even a cursory analysis of a likely composition of the Council clearly indicates that concerns about rising interest rate are groundless. We obviously assume that the situation on the financial markets will be relatively stable, and we will not see a crisis combined with an uncontrollable depreciation of Polish zloty.

Among candidates for the MPC membership whose profiles are outlined in the table, at least five people declare their readiness to reduce interest rates by further 100 bp. (Czekaj, Nieckarz, Noga, Pietrewicz, Sopoćko) – and this can be currently considered a benchmark of possible maximal loosening monetary policy in the next year. The remaining persons from the group described seem more cautious about the depth of acceptable interest rate cuts. It is possible that in time, the future Monetary Policy Council will witness an internal split into a radical and a moderate faction. The only difference being that the latter one will advocate deeper interest rate reductions. We can presume that the chairman Leszek Balcerowicz will be seeking a compromise between the factions within the Council. Bearing in mind his personal views on the perspectives of the monetary policy (conclusions here can be drawn on the basis to date statements and votes), we can presume that he is much closer to the moderate faction which will most likely be joined the MPC members nominated by President Kwaśniewski. Under such circumstances, the key factor determining power configuration in the Council and shaping perspectives for the monetary policy may be names of other candidates for the MPC membership whose nominations are not yet certain. Until the Senate's official proposals in this respect are announced, it is difficult to say whether the moderate faction will outnumber the radical faction (to ensure a voting majority, the moderated faction would have to be joined by one of the Parliament backed candidates).

It seems however very likely that one way or another the new Monetary Policy Council will manage to reduce interest rates several times next year. There is no guarantee that such decisions will not be taken at the very onset of 2004 – a public debate on Hausner's plan will continue until mid January, besides some of the candidates stressed a need to confirm credibility of the Council by 'not taking dovish decisions' at the beginning of its incumbency. It seems however that we can expect three or two decisions on cuts by 25 bps in the first half-year. In the second year-half when inflation will reach the targeted level and economic growth will become visible in most of the sectors of the economy, the cycle of interest rate reductions should come to a definite end not to expose economy to inflation pressure.

... and for the financial market?

The change of MPC makeup is surely an important news for the financial market. Considering the fact that fixed income market is currently pricing in interest rate hikes, the appointment of new MPC members willing to cut rates might affect bond prices. On the other hand, the names of potential candidates appearing one by one in the media are being priced in progressively, and the average rating of the new MPC by financial market players is not that bad, hence investors' reaction to the staff replacement in the rate setting panel should not be excessively nervous. According to the recent poll among bank economists (see below) the most likely makeup of the MPC suggested in the table on the next page has been on average rated 5 (within the range from 1 to 10 points). Besides, as we have written before, part of the MPC candidates seem to be very well aware about the importance of proper communication with the financial market and the need for proving credibility of monetary policy for investors. This would surely result in restraining excessively radical decisions of the new central bankers.

How market participants view candidates to the MPC

Candidate	Score	Candidate	Score
Andrzej Sławiński	9.4	Danuta Gotz-Kozierkiewicz	4.8
Andrzej Wojtyna	9.2	Stanisław Owsiak	4.0
Edmund Pietrzak	7.3	Grzegorz Kołodko	3.9
Witold Orłowski	7.2	Elżbieta Chojna-Duch	3.1
Stanisław Gomułka	6.7	Marian Noga	2.8
Wacław Wilczyński	6.3	Andrzej Sopoćko	2.7
Jan Winiecki	5.9	Władysław Jaworski	2.4
Jan Czekaj	5.6	Stanisław Nieckarz	2.0
Maria Wiśniewska	5.4	Mirosław Pietrewicz	1.4
Antoni Kantecki	5.2	Stefan Kurowski	1.4

Note: Average notes based on responses of 9 bank economists. Each candidate scored from 1 to 10 pts.
Source: Rzeczpospolita

Likely makeup of the Monetary Policy Council – members' characteristics

	Candidate	Background	Interest rates policy	Exchange rate policy	Other
SEJM	Jan Czekaj	Lecturer at Kraków University of Economics, specialising in financial markets. Former deputy minister of finance and e.g. supervisory board member of stock exchange. Current MPC member (the only one who has the chance to remain for the second period), who has been appointed in August for the vacant place of Janusz Krzyżewski.	In the past he used to heavily criticise too restrictive monetary policy, calling for sharp interest rate reductions. At present, although he still sees the scope for more monetary easing (real interest rates down to ca. 2%), he does support the policy of "small steps".	He believes that realistic date of euro adoption is 2009 or 2010 – not because Poland's inability to meet convergence criteria, but because the EU does not want us there. He perceives excessive zloty depreciation as a threat for public debt level. Allows for FX interventions only under special circumstances.	He underscored the need for maintaining central bank's credibility. Therefore in his opinion the new MPC would have to "make more hawkish decisions or refrain from making dovish ones" at the beginning.
SEJM	Stanisław Nieckarz	Until recently economic advisor to PM Leszek Miller. Ex long-term FinMin expert, in the 80. minister of finance and deputy president of the central bank. Member of the Labour Union's Programme Council.	Very strong dove. Used to criticise present MPC for overly restrictive monetary policy, which "ripped down" Polish economy. Even today he claims there is still "large" room for rate cuts. He want to stimulate investments with low interest rates.	Former advocate of administrative zloty devaluation aimed at improving country's international competitiveness. He used to propose fixing the zloty at PLN 4.9-5.0 against euro. He believes the MPC floated the zloty too early. However, under current circumstances he thinks free floating exchange rate is the best for Polish economy. He wants to adopt euro as soon as possible, but first the unemployment must be reduced to 10% and trade account must be balanced. The earliest possible date of euro adoption is 2008.	He considers NBP's revaluation provisions to be very high and declares that "there is a need to find out some solution in order to use a part of it".
SEJM	Mirosław Pietrewicz	Professor at Warsaw School of Economics. PSL's expert in economics. Former president of the Government Centre for Strategic Studies and Central Planning Office, ex-deputy PM and minister of treasury.	His views on monetary policy should be described as strongly dovish. He used to criticise the MPC many times in the past for overly restrictive policy, suggesting interest rates should be reduced to 1.5-2% above inflation. Presently he still sees room for rate cuts, although not necessarily in one sharp step. He would like monetary policy to support economic growth "even at the expense of slight inflation increase".	Enthusiast of soonest possible Eurozone entry (although it should not be "artificially hastened"). He is afraid of consequences of fixing the zloty at too strong level. Believes that period within ERM2 system should be as short as possible, and the band of currency fluctuations as wide as possible. In current circumstances he supports free float of the zloty.	In 2001 he was known for advocating introduction of import tax instead of spending cuts in the budget. He wanted to set stabilisation of economic growth as additional objective for monetary policy, and to allow the government to set monetary policy targets. He thinks revaluation provisions are too high and part of it could be used for foreign debt repayment.
SENATE	Elżbieta Chojna-Duch	Professor of law at Warsaw University, specialising in financial law. Ex advisor to minister of finance, former deputy finance minister (responsible for the budget}. Ex head of supervisory board of the National Healthcare Fund.	Seen as advocate of keynesian-type economic policies, i.e. aimed at supporting economic activity with expansive fiscal and monetary policy. Probably shoe would be a moderate dove in the new MPC.	Her opinions about exchange rate policy are not recognised.	

	Candidate	Background	Interest rates policy	Exchange rate policy	Other
	Marian Noga	SLD's senator. Rector of Wrocław University of Economics. According to the university's website he deals with economic aspects of environmental protection and social welfare.	His view on economic policy have been unknown until now. Recently, in interview with PAP he presented himself as a moderate dove – advocate of more interest rate cuts, but with small 25bps steps. He described current monetary policy as "little active". We can guess he would like to see more central bank's activity in terms of propelling economic growth rather than fighting inflation.	He declares himself as supporter of fast euro adoption and the shortest possible period within ERM2. Suggests 2008 as the most likely date of euro introduction.	He said we has not an enthusiast of dissolving revaluation provisions, however its level should be examined. Opponent of "squeezing" budget deficit at all expenses.
	Andrzej Sopoćko	Professor of economy at Faculty of Management, Warsaw University. Specialising in finances and capital markets. Major economic advisor to PM Leszek Miller. Ex deputy minister of finance. Presently deputy chief of the stock exchange.	Likewise most of the candidates from the parliament, he used to be very critical about MPC's monetary policy, blamed for excessive restrictiveness hurting investment activity. Recently he admitted that interest rates are not the most important issue for the economy, however he still sees the scope for 100bps rate cut.	Advocates fixing the zloty just before ERM2 entry. FX interventions considers to be justified in caser of speculative attacks (but not in case of political turmoil).	As deputy finance minister he used to convince the NBP to dissolve part of revaluation provisions and passing it to the government.
PRESIDENT	Witold Orłowski	Professor of economy, chief economic advisor to the president. Co-founder of Independent Centre of Economic Research (NOBE), ex economist for the World Bank. Deals with problems of economic transition and European integration, as well as economic forecasting and modelling.	Belonged to group of critics blaming the MPC for overly restrictive monetary policy. At present probably still willing to support some minor interest rate reductions, while he does not see serious inflationary threat.	In the past he recommended to the central bank FX interventions aimed at neutralising zloty appreciation. Several months ago he suggested that the new MPC would try to change exchange rate regime at the beginning of its term of office, introducing currency band and active FX interventions.	
PRESIDENT	Edmund Pietrzak	Professor at Gdańsk University, associate of IBnGR think tank. Expert in exchange rate policy. Economic advisor to the President, former advisor to several prime ministers and finance ministers.	Recently he claimed there was still room for interest rate cuts, but not earlier than in March 04 and they should not exceed 50-75bps. Rate cuts possible if Hausner's plan succeeds, but a need for rate hike might also appear. He believes the policy of new MPC would not differ much from present one, and doesn't have to be more dovish	Opponent of too fast euro adoption. 2009 sees as the earliest possible date. The worst solution in his opinion is "fast entry with strong zloty". In his opinion ERM2 membership should be as short as possible and currency band as wide as possible. Zloty should remain floating as long as possible.	The only way of using revaluation provisions is using part of it for buy back of external debt.
PRESIDENT	Andrzej Wojtyna	Professor at Kraków University of Economics, affiliate of Polish Academy of Sciences and CASE think tank. Economic advisor to the President. In our opinion he is one of the best prepared candidates for the MPC.	In one of interviews he said that in the new MPC he would be neither dove nor hawk, but an owl. And indeed, one could expect him to balanced and pragmatic stance. He said that currently there was no sufficient preconditions for interest rate cut. Besides, the new MPC must send a "clever signal" to the market in order to preserve its credibility. If inflation growth would result from supply shocks, it does not have to lead to interest rate hike.	He sees 2009 as the earliest possible date of euro introduction. Opponent of narrow currency band in the ERM2 system. He is also against fixing the zloty before entering ERM2.	Against reaching for revaluation provisions in time of business climate improvement. But does not rule out such move in case of "crisis situation". Opts for improvement of monetary policy transparency and better communication with the market and other economic policy decisionmakers.

Source: BZWBK, media, comments and publications of persons described above.

Economic update

- **Further improvement of external balance**
- **Faster than expected food prices' growth**
- **… but inflation outlook remains positive**

There have been few data releases since end of work on last month's MACROscope. The NBP revealed balance of payments figures for October and the CSO published data on food prices for November, which are very important hint on inflation dynamics.

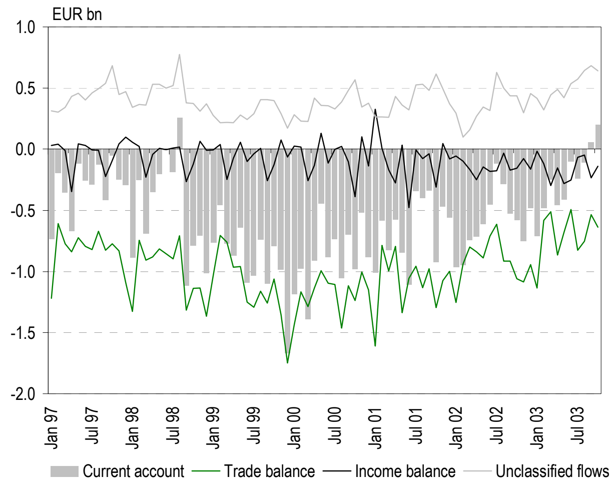
Surprise C/A surplus for a second month in a row

Balance of payments figures for October were a surprise again showing C/A surplus for the second month in a row. It reached €198m after a revised €58m surplus in September. According to our estimates 12-month cumulative current account deficit fell to 2.0% of GDP from 2.4% in September (according to MPC's Grzegorz Wójtowicz it narrowed to 1.9% and should stay around 2% until the end of the year). The figures were much better than market expectations of deficit around €300m. Significant improvement of current account balance resulted mainly from three factors. First, October saw a continuation of trade gap narrowing. Difference between exports and imports totalled -€637m compared to a €1.1bn gap in November 2002. This in turn was a consequence of surge in exports (up 12.1%YoY to new record high of €3.566bn) and slight fall in imports (-0.9%YoY). Second, C/A was positively affected by high surplus in unclassified flows (€641m versus €684m in September). This suggests that despite introduction of visa regime for Eastern neighbours, unofficial trade remained strong – most likely due to increased competitiveness of Polish goods and services for Germans and Czechs after sharp zloty depreciation. The third reason for faster than expected improvement of C/A balance was low negative balance on income account (-€139m). It seems that part of high foreign debt interest payments due in October (around €450m) were only settled in early November.

The most important developments on financial account were slightly higher net inflow of FDI (€351m against €191m in September) and large inflow of portfolio investments in debt instruments (€1.091bn). The former is, however, still much below levels observed before 2002. The latter, given very negative sentiment on the domestic fixed income market, probably stemmed from US$1bn issue of global bonds.

All in all, balance of payments data showed that strengthening economic recovery in Poland did not translate into worsening of the country's external position, at least for the time being. Bearing in mind also low inflationary pressure, this supports expectations for continuation of monetary easing after mitigation of fiscal problems. At the same time, continuously flourishing export bodes well for persistence of the economic recovery.

Balance of payments: selected items



Source: NBP

Food prices push inflation up

According to preliminary CSO data average growth of food prices in November amounted to 0.85%MoM. Price rise came mostly from fruits, vegetables, and dairy products, whereas other groups of food products showed fairly stable prices. Foodstuff prices excluding fruits and vegetables inched up merely 0.1%MoM in November.

All in all, although growth of food prices was higher than expected, it did not signal an intensification of inflationary pressure in the Polish economy. We just observe reversal of positive supply side shock on the food market. Nevertheless, due to very low base effect moderate monthly growth of food prices in November will translate into quite significant acceleration of consumer inflation. Food prices growth led CPI inflation to accelerate to 1.6%YoY in November and we forecast the level of 1.7%YoY in December of this year. One should remember that CPI pickup is still based only on supply-side factors, which does not have to trigger monetary policy counteraction.

Central bank watch

- **For the time being the NBP does not see a threat to inflation from strengthening economic recovery**
- **Decision on change of NBP's accounting rules delayed for the last moment**

NBP expects the economy to accelerate without excessive price pressure

On November 28 the NBP published *Inflation report* for 3Q03. The most general conclusion from the report is that, according to the central bank, Poland's economy is set to accelerate next year, maintaining fast pace of growth in 2005, while inflation will remain within the central bank's target of 1.5-3.5% during the whole period. Nevertheless, the NBP did not exclude occurrence of factors increasing inflationary pressure, i.e. possible shocks on the food and oil markets, but the main risk factor was uncertainty concerning fiscal policy. On the other hand, the MPC does not seem to be afraid much of the zloty depreciation. The central bank said that the long-term pass-through indicator (depicting influence of nominal exchange rate on prices) fell from 0.19 in 2Q03 to 0.15 in 3Q03. According to NBP's estimates it means that weakening of the domestic currency caused 0.17pp (i.e. 22%) of CPI growth in July-September period. As regards growth prospects the NBP said that it would depend on improvement of investment activity, the scale of which would in turn depend on the progress of public finance reform. As regards the reform, the central bank expects it will be implemented only partially by the end of 2005 and public finances will continue to be a factor slowing down the economic growth (through crowding out effect as regards private investment). All in all, the wording of *Inflation report* was similar to statements after the two recent MPC meetings. Central bankers see acceleration of the economy but they believe that it does not lead to an excessive inflationary pressure, which could pose threat to the inflation target in the medium-term.

The report also revealed results of voting on interest rates at August's MPC meeting – the first one with Jan Czekaj as the MPC member. As expected, it showed that vote of NBP governor Leszek Balcerowicz was crucial for the decision to keep rates on hold. The voting concerned motion to reduce rates by 25bps. It was supported by Jan Czekaj, Grzegorz Wójtowicz, Wiesława Ziółkowska and Dariusz Rosati. "Against" were (apart from Leszek Balcerowicz) Bogusław Grabowski, Jerzy Pruski, Cezary Józefiak and Wojciech Łączkowski, while Marek Dąbrowski was absent. The most important for expectations of future monetary policy decisions is the viewpoint of NBP governor, and his vote in August shows that he has became more cautious in evaluation of inflation outlook or… he just wanted to emphasize the need for public finance reform this way.

Still no decision on the NBP's accounting rules

Special meeting of the MPC on December 2 brought no conclusions as regards changes to the NBP's accounting rules. NBP governor Leszek Balcerowicz said the final decision would be made on December 16-17, during the Council's regular monthly meeting. Meanwhile, the MPC member Bogusław Grabowski said that the modifications made to the accounting system, adjusting it towards EU standards, would not increase the government's ability to get the money from NBP's revaluation provision. Grabowski also said that the new MPC would have to obey the new accounting standards of the Polish central bank because they were required by the ECB. However, there is a chance for agreement on lending foreign currencies to the government for premature repayment of Poland's external debt. Head of Sejm's Public Finance Committee Mieczysław Czerniawski (affiliated with SLD) said that the NBP proposed a deal worth US$1bn. MPC member Dariusz Rosati confirmed the central bank was open to talks on the government's borrowing of a small portion of the central bank's FX reserves if they were to be used for an early buy-back of foreign debt. "We have been and still are ready to repeat the Brazilian operation, meaning to lend some of our FX reserves in return for government bonds, if of course such an operation was to make sense economically," Rosati said. In Rosati's opinion that the NBP could lend for repayment of as much as one-third or one-fourth of Paris debt (US$4-5bn).

Comments of the MPC members and central bank representatives

The King has Died, Long live the King! December is the last month in which the Monetary Policy Council will convene in its present composition. Through January and February the current members of the Council will be gradually replaced by the new ones. This means that statements of the central bankers who are about to step down from their offices are becoming insignificant from the perspective of future developments in the monetary policy. It is time though to listen carefully to the new members of the Council. Therefore, the table below contains comments of not only the current MPC members but also their prospective successors. Besides, the process of selecting new MPC members and the profile of prospective candidates are discussed in details in *Special focus* section.

The latest statements by the parliament backed candidates for the new MPC (Nieckarz, Noga, Pietrewicz) are much less controversial than their comments made several years or even several months ago. Firstly, none of them favours changes to the foreign exchange policy. On the contrary, they voice a necessity to maintain free-floating exchange rate until the Polish zloty enters ERM2 system (Nieckarz, Pietrewicz). They are also advocates of a quick entry to the Eurozone, though not at all costs as they point out (Nieckarz, Noga, and Pietrewicz). On the other hand, the prospective candidates of the parliament still see significant for interest rate cuts (Nieckarz sees a “wide” room while Noga mentions 100bps). They also think that the so-called revaluation provision is too large and a solution should be found whereby a part of that might be used. All in all, many factors indicate that the new composition of the Council will present a much more dovish attitude than their predecessors. However, a strong “dove coalition” within the MPC will meet a strong opposition of more cautious economists. It seems that except for the NBP governor Leszek Balcerowicz who says that interest rate cuts are becoming less and less justified, the cautious faction will also attract members of the Council appointed by the President. According to Andrzej Wojtyna, “there are not sufficient grounds for reducing interest rates”. He thinks that the new Council will have to send a wise signal to the market. He also stresses that with uncertainty caused by selecting the new MPC members, it is important to maintain continuity of actions at least during the start up phase of the new Council. A similar opinion was provided by other President backed candidate Edmund Pietrzak.

WHO. WHEN. WHERE	COMMENT
Leszek Balcerowicz, NBP president; PAP, 2 Dec	Today we had a discussion [on changing NBP accounting rules]. Decisions will be taken on 16th December.
PR1, 27 Nov	Every time we analyse the situation to see what it means for future inflation but the course of events in Poland makes it less and less justified to presume that interest rate cuts would be a good move since we are witnessing stronger and stronger signals of economic pick-up in Poland. The problem is that the growth can be short-lived if Poland's finances are not 'repaired' on time. But we have growth in fact and the growth is always followed by inflationary pressure. […] In the light of these facts, opinions on the necessity of further cuts are becoming less and less justified. I am very concerned that the Parliamentary committee passed yesterday the amendment under which the central bank would be forced to issue money as this threatens its very independence. […] Independent central bank's duty is to protect the healthy and stable zloty and not issue it excessively.
Jerzy Stopyra, deputy NBP governor; PAP, 9 Dec	It is a typical operation the ministry carries out if it needs to switch a foreign currency into a local one or vice versa, and is conducting it on the FX market. It is a well-timed operation but I do not treat it as intervention. The ministry, as a market participant, should have been visible on the market for a longer time, and it is good that it is materialising at last. […] I neither treat is as an intervention nor a special event but the fact that it is carried out outside the central bank makes it more transparent. If NBP carried it out on behalf of the ministry, then markets would have doubts whether it is an intervention or just an operation the central bank is conducting on behalf of the government. The MPC has held a few discussions with the hope that the Council will soon adopt new regulations on accounting and on creating revaluation reserve. […] Mr. Balcerowicz said a few months ago that NBP is ready to repeat the so-called Brazil operation, and it will be connected with the volume of the revaluation reserve. At a time when Poland joins the Eurozone, the mandatory reserve rate should be at Eurozone’s levels but as conditions favouring the rate at an earlier date may arise, if excess liquidity further decreased, then reasons may emerge in 2004 what will make the MPC to cut it at an earlier date. […] A new MPC will made the cut decision. We predict that NBP’s profits for 2003 will be PLN4.1bn, of which almost PLN4bn will go to the central budget, that is slightly less than in the draft budget but the difference is insignificant.
Bogusław Grabowski, MPC member; PAP, 2 Dec	According to the results of up-to-date works every FX transaction conducted by the NBP after 1 January 2004 r. will have exactly the same effect for financial results as if no changes are implemented. […] There will be absolutely no change for the government on that matter, no unrealised FX rate differences will be classified as non-material income by printing money. […] The rule not to show unrealised FX rate differences in financial result have been binding in the central bank so far and still will be, however the way of disclosure will be different. […] It is forbidden by ECB’s rules and directives. In connection with this, had it taken place, it would defy the binding principles. A new MPC will be bound to observe these rules.
PAP, 28 XI	The current account deficit will begin to deteriorate in the first half of 2004, from the second quarter. We may expect that the factor of better competitiveness of enterprises and the zloty exchange rate depreciation will continue to positively affect exports, although the latter will be probably weakening. On the other hand economic pick-up will boost imports. Next year the improvement of C/A result will be probably halted and the deficit will begin to grow. This deterioration of the deficit in relation to the GDP will then be taking place in conditions of high exports and imports dynamics. We are entering the period of high growth of imports because of Christmas holiday. Then in the first months of the year the exports-imports activity is usually lower.
Dariusz Rosati, MPC member; Reuters, 9 Dec	Market yields have shot up some 200bps this year. As far as budget is concerned, we have a huge budget deficit, the economy is accelerating and we still do not know what will happen to the Hausner’s spending cuts plan. This is not an environment in which you can be lowering interest rates forever. At our December meeting we will approve changes to ways we book our reserves, but this will not lead to any change of the revaluation reserves use. We have been and still are ready to repeat the Brazilian operation, meaning to lend some of our currency reserves in return for government bonds, if of course such an operation was to make sense economically. […] By the way the government would benefit as a part of provisions would be released. […] It is difficult to say, what amount it would be, the operation cannot be conducted only in order to release the reserves but only if it would bring some benefits – we would have to make an agreement with the government on detailed conditions of the operation.
Parkiet, 3 Dec	Given a situation when there is such a big uncertainty, when the zloty is depreciating and interest rates are by some 250bps higher than in June, the room for interest rates cut has limited very significantly. However if the Parliament passed 2004 budget with the deficit below PLN45,5bn […], and it passed Hausner’s program […], I would not exclude thinking about interest rate cut next year.

	Q: What would have to happen to cause a rate hike? A: At the moment inflationary perspective are positive. We should remember, however, that the economy is accelerating, which may result in higher inflationary pressure. Also, we can see further weakening on the Polish fixed income and FX markets, as a result of higher uncertainty and wrong fiscal policy. In such situation the Polish central bank would have to protect the economy by rising rates. The market used to higher financing needs next year, as well as to breaking 55% threshold of public debt to GDP ratio. Surely this would not be an operation of total [Paris Club] debt repayment. Central bank cannot agree on such significant reduction of FX reserves [US$17bn], as we need the reserves. But it is possible to repay a part for the debt – one-fourth or one-third. This could happen within 6-9 months the earliest.
Reuters, 28 XI	Very good data [October's balance of payments] showing that economic recovery is driven by exports, which is supported by the zloty exchange rate. There is nothing, which could suggest that exports dynamics could be lower in 2004, as this would be supported by improving business climate in Western Europe.
Stanisław Nieckarz, Sejm's candidate for MPC member; PAP, 9 Dec	At present, with low inflation and lower interest rates, we should have a floating exchange rate. It is best for the exchange rate to be set by the market. […] I criticised the present Monetary Policy Council for floating the zloty too early. One does not fully float a currency if one has the biggest real-term interest rates in Europe. One should always speak about a real-term interest rate which is at more than 4% at present. In the European Union countries it is practically at 0%. […] There is a big room for interest rate lowering. For me […] it is important to overcome the situation in investments. Without investments there will be no economic development, and investment processes in companies cannot be activated by tax lowering alone. We have missed a transmission of monetary policy [of present Council] to microeconomic process. I believe that the Council should take real economic process into account despite the independence. […] Obviously, they should be cautious so that no inflationary process was triggered. Inflation can be reduced to zero very fast but destroying the economy by the way. The provision against a risk of exchange rate changes is very high. Some solution should be found to use a part of it. We should join the monetary union as early as possible but first we must lower the unemployment radically, to some 10-11%. It is also important to have balanced foreign trade balance and rising investment before entering the Eurozone. […] I don't think the date should be the aim itself but I believe that joining the Eurozone in 2008 would be possible. One could enter the ERM2 and meet all the criteria but it would not support the whole economy. There is no problem to lower the deficit below 3% of GDP within 3-4 years time. If we maintain growth rate at around 5%, no budget revenues will leak-off and social spending will rise a few percentage points below the real GDP growth rate there will not be any problem with it.
Marian Noga, probable Senate's candidate for MPC member; PAP, 3 Dec	Current reference rate of the central bank is still too high, the MPC still has work to do and there is more room for interest rate cuts. Perhaps not at once, perhaps [in steps] by 25bps, but a 100bps rate cut is still possible. I have always repeated that interest rate setting must be like a plane landing, however it could go down faster sometimes. I review current MPC's behaviour as passive. In crisis time the Council should fight against the crisis while at good business climate they should prevent the crisis. Too low investment rate is our Achilles' heel. We have to encourage for investments in the country and it requires adequate interest rate. Inflation is likely it to be at 1.5% at the end of 2003. Next year it could amount to 2.2-2.5% since entering the Eurozone will be connected with adjustment in prices which will be reflected in inflation. […] I absolutely agree with the MPC's adopted inflation target. I also accept the strategy of direct inflation target. I am not for using revaluation provisions, but we could discuss whether it should be at present level. For sure the Council will work on it. However, calling for transferring the provisions to the budget is not responsible. I am in favour of entering the Eurozone as soon as possible, we should do everything for it. Convergence criteria are quite clear, government's program is prepared in the way that allows joining the zone in 2008 […]. I would even be for joining in 2006, but we would not meet all the convergences criteria till 2006, e.g. deficit criterion. Therefore the most likely date is probably 2008. Such a high FX rate of the euro is not justified and it must combined with turmoil on the bond market. Weaker FX rate favours exporters, but only in short-term. In long-run terms, competitiveness influences the exports to more significant extent than the FX rate itself. Budget deficit is justified only when it supports economic growth. I would not squash budget deficit at all costs, because it would be squeezing domestic demand, which is a rescue for us. The central bank has its objective set by the Constitution, i.e. reinforcement of domestic currency and preventing inflation processes. But at the same time the central bank cannot be deaf to the economic climate. I would asses the policy of present MPC at weak 'four' in five-mark scale.
Mirosław Pietrewicz, Sejm's candidate for MPC member; Reuters, 8 Dec, PAP, 9 Dec	Poland should join the Eurozone as soon as possible but this process should not be artificially accelerated. The euro should be adopted when it is the most beneficial for the economy. Too high zloty level would be unfavourable from price competitiveness point of view. The zloty should remain in free-float FX regime until it joins the ERM2 system, which should not take place before 2007. The zloty should stay in the ERM2 system for as short as possible and Poland should also defend wide +/-15% bands within the system. I would not be a supporter of very quick nor very slow euro adoption process. Current zloty level if good for exporters, too weak for importers. Possible the zloty is too weak from fundamental point of view and therefore it is likely to appreciate. It is too early to talk about a possibility of one sharp reduction of interest rates. But in 2004 there would not be a reason to hike rates for sure. In line with the Constitution, the central bank should focus on price stability, but it is extremely important to cooperate with other institutions to achieve higher economic growth. Monetary policy should also focus on this target, even at the cost of higher inflation. Inflation target adopted by the current MPC seems reasonable. MPC conducted over restrictive monetary policy until spring 2000, and therefore was responsible for GDP growth deceleration. It is possible to use a part of revaluation provision earlier foreign debt repayment. I support lowering budget deficit, but not at any cost. It is necessary to achieve primary balance in the budget Q: Is it necessary to lower the deficit as proposed by Hausner? A: I do not think it is necessary.
Edmund Pietrzak, probable President's candidate for MPC member; PAP, 5 Dec	Assuming that nothing extraordinary happens, there is a chance for rate cuts but at the earliest in March. However, interest rate hike is a little more probable. […] Within 2004 it could amount to no more than 50-75bps. […] It will be realistic if budget deficit for 2004 is not assumed higher than PLN45.5bn and Hausner's plan is accepted. If these to things succeed the room for interest rate cuts will be created. […] However I do not expect that interest rates in the nearest months, in December, January or February. On the other hand there are some factors that will not ease interest rate cut. They are just the opposite and can result in necessity to hike the rates. Economy is accelerating and it will exert pressure on increase in prices. If fiscal policy brings worse performance than assumed it will lead to the sell-off of the bonds and zloty depreciation. […] The depreciation that have not resulted in increase in prices, yet, can result in it finally. If inflation accelerates clearly not only there will not be rate cuts but the new council will have to decide to hike the rates.

	Inflation will keep growing. November's CPI may be 1.5-1.6%, may double throughout the year, will likely amount to 2.5% and even to 3%. […] That does not mean the necessity to revise the inflation target. The MPC was learning from its own mistakes. In course of time they acted better. Interest rate hikes in past are partially responsible for economic slowdown in 2001-2002. […] The policy of the new Council will not differ significantly from the policy of the new Council. It does not have to be more dovish, but certainly it will be better amid experience of the present Council. […] Not only the monetary policy but also joining the Eurozone will be the main occupation of the new Council. The Council's attention will be focused on monetary union matters. […] In the Council there should be not only experts of macroeconomics but also of international finance, financial markets, FX market and monetary union. 2009 is the first possible date of euro adoption, but 2010 seems more realistic if all procedural requirements are taken into account. [...] It is not late. I forecasted this date in 1997 during NBP conference. If medium-term fiscal plan is not accepted, we would not meet Maastricht criteria and euro adoption would be postponed, which would not be positive. It is impossible to adopt euro in 2008 because of technical and procedural reasons - data on budget deficit as % of GDP for 2007 will known only in May 2008. […] What is more, the final decision is take by the Commission, which analyses the situation of candidate countries each two years. The Commission will meet in March 2008 and if a positive decision would be taken, we could join in 2009. Poland should stay as short as possible in the ERM2 system (with +/-15% band) to avoid speculative attacks. We should meet Maastricht criteria during the second year of ERM2 participation. The fixed parity against euro cannot hamper Poland's competitiveness. If we enter ERM2 in 2007 this parity could be at PLN4.4-4.6. I do not think all candidate countries will adopt euro at the same time. This process will take place in 2007-12. If public finance reform is accepted, the zloty would depreciate only slightly until EU accession, although we may see a factor, which was not visible recently - FDI inflow. After the accession the zloty should be roughly stable against the basket of two currencies, or may slightly appreciate. If there is a political turmoil or Hausner's plan is rejected, we could see even a currency crisis, but probability of such event is very low.
PAP, 27 Nov	I am almost certain that no extraordinary events will take place on the market next year, there should be no crisis situation. The only way to use the revaluation provisions is using its part for repayment of foreign debt. This is the only way. Others one are trickery and printing money.
Andrzej Wojtyna, probable President's candidate for MPC member; PAP, 3 Dec	On one hand there are arguments for soonest possible euro adoption, however it might appear that slight delay of this process might be beneficial. [...] Entering the Eurozone before 2009 will not be easy, especially looking at the government's calendar and the path of deficit and debt reduction. But 2009 is realistic. Now we should be concerned about meeting the criteria, it is in our hand. […] It would be dishonest change the rules after the referendum […] and narrow the fluctuation band. If narrow fluctuation band was imposed it would mean that regardless sacrifices we would not meet requirements and would not join the EMU at all in foreseeable prospect. I am against reaching for [revaluation] reserves when there is economic revival. Particularly in the period when decisions on spending rationalisation are to be taken. […] I would rather reach for it if it shows up that e.g. in two years time exchange rate plummets as a result of unfavourable external shocks and public debt surges despite government's effort and society's sacrifice. Then there would be a reason for using [revaluation] provisions. They should be used in case of crisis. However, spending part of the reserve for foreign debt reduction could be a sign of good will and cooperation between FinMin and the MPC. I do not understand such proposal [of early pegging zloty to euro]. […] Change of FX regime is out of the question, it would unnecessarily complicate accession to the EMU I hope that investors' confidence will return. Hungary that have worse economic situation are perceived better than us, as more stable country. Many indicators suggest that the FX rate should appreciate, but finally it is difficult to forecast The economy is expanding, thus we cannot rule out some acceleration of inflation. For now there are no sufficient preconditions for interest rate reduction. Additionally, the new Council would have to send a balanced, smart signal to the market. It is crucial to avoid giving fake signal, especially in the initial period when a character of the new Council will be shaped. […] Amid uncertainty concerning selection of the new MPC, continuity of policy is crucial, at least in the initial period of new MPC's functioning. There is a risk of appearing inflationary pressure, but if it is fuelled by short-lived and self-reversing shocks, it should not be a reason for interest rate hike. It is more and more often underscored that monetary policymaking is like crisis management […]. Thus basing the policy on some fixed rules becomes difficult. Therefore explaining motives of their decisions by the MPC members is even more important. […] For example, missing annual inflation target is not a big problem itself. However, one has to be able to show, which disturbances are dependent on monetary policy and which are not. One has to explain what is influenced by interest rates. There is a problem of democratic supervisory, which does not restrict the central bank independence. For example, central bank's president may be obliged to send a letter to the government and to the parliament in a case of under- or overshooting of the CPI target, to explain such situation. There would not be any sanctions. The present MPC did not make any significant mistakes in making decisions about interest rates. […] The Council was cautious. […] Its weakness was communication with the market, and most of all with the government and the parliament.

Government and politics

- **The Public Finance Committee finished work on 2004 budget draft – little changes proposed**
- **Good budget performance expected in November**
- **The government forecast seasonal hike in unemployment rate**

Sejm's committee recommends slightly lower deficit

The Public Finance Committee of the Lower House concluded works over 2004 budget draft. As a result of the proposed amendments, the deputies managed to find PLN732m of savings in the budget. However, only PLN200m of those extra funds would go for deficit reduction, while the rest, according to the committee, should be spent on various objectives, mainly on social security (PLN225m), subsidies for voivodships (PLN120m) and subsidies for police (PLN100m). What's interesting (yet quite typical for parliament's proposals), most of the "savings" worked out in the budget (PLN426m) came from boosting budget revenues (what's worse, in quite unrealistic manner, e.g. higher tax collection ratio). Meanwhile, proposed spending cuts were slightly above PLN300m. Administration costs were cut by PLN100m, election and referenda costs were reduced by PLN70m, Sejm's expenditure by PLN12.3m, Senate's spending by PLN10m, costs of President's Chancellery by PLN10m and other spending by PLN103m.

In general, adjustments to the budget draft proposed by the public finance committee were minor and did not change its overall structure and assessment. Therefore, they should be insignificant for the market. What is the most important, those changes did not significantly reduce the risk of breaching threshold level 55% of debt against GDP in 2004. In order to do so, the adjustments would have to be much deeper and based on solid rather than vague assumptions (like higher tax collection). After conclusion of work on the budget draft in Public Finance Committee the bill goes for the second reading in the Sejm, which has been scheduled for December 16. Final voting over budget draft is planned for December 19.

Good budget result in November

According to Elżbieta Suchocka-Roguska, head of budget department in the Ministry of Finance, budget deficit should not exceed 92% of the annual plan after eleven months of this year. It implies that in November the gap was really low, reaching maximum PLN800bn (against ca. PLN3bn deficit in November 2001 and 2002 and average gap PLN3.48bn in the first ten moths of 2003). Of course this is positive news for the perspectives of realisation of this year's budget, implying that the risk of breaching this year's ceiling level of the deficit (set at PLN38.7bn) is quite low. But another issue is how this low shortfall has been attained. We guess that, likewise in October, it was expenditure cuts rather than acceleration of revenue growth, that contributed mostly to good budget result. The trouble is that "spending cuts", which concentrate in budget subsidies to various funds (labour fund, social security fund, pension funds) do not imply that the total spending of the public sector will be lower, but force the potential beneficiaries of the subsidies to seek money elsewhere (e.g. in the banking sector). In effect, the deficit leaks outside the central budget to other elements of the public finance. All in all, low budget gap expected in November lessens fears about breaching deficit limit and about budget liquidity problems this year, but does not change an overall picture of the whole public finance sector.

Unemployment to grow until the next spring

Economy and labour minister Jerzy Hausner said he predicted the registered unemployment rate to inch up to 17.5% in November from 17.4% a month before. He added the unemployment would continue to rise in the following months until February 2004, and after that (since March) we should see sharp fall of the unemployment rate. Frankly speaking, Hausner did not reveal any secret, because such path of unemployment rate simply results from its strong seasonality – the number of jobs in the economy drops suddenly in the late autumn every year and keeps decreasing until March-April, pushing unemployment rate higher and higher in this period. The question in not whether the unemployment would actually fall after winter, but how strong this collapse would be. Unfortunately, we do not expect to see any striking progress in this area and the jobless rate would probably remain high enough to prevent any spectacular rebound of private consumption demand.

Comments of the government members and politicians

At the turn of November and December, the mass media most frequently presented comments of the government's officials and politicians on the oncoming EU summit in Brussels, during which the fate of the European Union's new constitution draft was to be decided on. However, economy issues did not fully give way to politics. Week by week, minister Hausner's projections regarding the pace of economic growth are becoming more and more optimistic (it is enough to compare his comments dated 27 October and 2 November). In his view GDP growth may reach 3.7% in the whole of 2003. Convinced about the sound fundamentals of Poland's economy, Hausner stressed in his statements that weakening of the domestic financial market was not rational. Meanwhile, finance minister Andrzej Raczko referred himself to an irrational monetary policy pursued in Hungary. He is of an opinion that developments in Hungary are a warning against attempts to modify the basic objective of the National Bank of Poland as well as against any attempts to change FX regime in Poland.

Head of foreign policy department at the Ministry of Finance Jacek Tomorowicz said that buy and sell transactions on the FX market planned by the ministry would not have a character of market interventions. He repeated that the ministry is going to carry out first transaction of this type (sale of €250m on the interbank market by the end of December in order to feed the government's zloty accounts - the funds would come from the EBI loan of €500m) but added there was no program for undertaking such actions in future. Tomorowicz added that the decision on the transaction was not caused by high euro rate. On the other hand, he said that if the market conditions were unfavourable, such operation would not be carried out. He concluded that the ministry would make transactions on the market, because it was more profitable than at the NBP.

WHO, WHEN, WHERE	COMMENT
Leszek Miller Prime Minister PAP, 28 XI	The zloty exchange rate fluctuates, at times it is weaker, at times stronger. What is important is that it stays at a more or less similar level. I cannot see any special threats. I would rather not talk about details because it may turn out that the markets reacted in a positive way or otherwise. I do not think that these fluctuations may cause any threats. PLN4.5bn [of planned privatisation revenues in 2003] will be realised.
Jerzy Hausner, deputy PM, economy and labour minister; Gazeta Wyborcza, 10 Dec	We have never declared meeting Maastricht criteria to be the main aim. […] I believe we will be ready in 2008-2009. I assume that in course of parliamentary works on the budget the deficit will decline by some PLN600m. This is not much but this is important signal that we give to the markets. We plan legal changes that will allow to shift the expenditures from 2004 to next years or to lower them. […] We will try to make the deficit lower by PLN3bn compared with the budget assumptions. From my point of view, certain zloty appreciation would be beneficiary. It would not cause difficulties for exporters and facilitate public finance situation. PLN4.35 per EUR1 assumed by the government seems to be rational and likely to be reached.
PAP, 2 Dec	If I am not wrong the GDP will rise by 4.5% in 4Q, and then a 3.7% rise is possible for the full year. I expect no disturbances on financial markets because I expect the candidates fielded and approved […] to be professional, competent and guarantee the good performance by the MPC of its constitutional and statutory roles. […] I do not expect at all that any accidental persons without proper merit-based competences related with macroeconomic issues and public finance to join the body. […] I will try to convince the politicians that all the persons, regardless the names, must have excellent expertise, since our common safety is involved. As for the scale of a necessary fiscal consolidation the one proposed by the government is not the scale that can be lowered because no goal will be achieved. But a for the structure of actions and its timetable it is possible to revise and modify the original proposals. […] The government has surely no plans to withdraw from the action it plans.
PAP, 1 Dec	For sure, the unemployment rate will increase [in November], it is inevitable. I hope it will rise by 0.1pp against October, to 17.5%. […] I assume that unemployment will rise in the coming 3-4 months but from March we will see a significant improvement. Unemployment was falling for eight consecutive months this year and I am convinced that we will see the same but a much stronger trend next year. I realise that from the point of view of budget financing first quarter will be the hardest, because of what are financial flows related to central budget. It is the most difficult for the finance minister to solve the problems in 1Q as there are relatively the lowest revenues, and on the other hand the highest spending.
PAP, Reuters, 28 Nov	Growing number of people is outside the labour market a growing number of people is receiving social benefits. Issues which I am interest in are: growth, investments and entering the labour market. As for growth I think that we will have a growth of about 4.5% in 4Q03. Markets are very vulnerable, which has nothing to do with macroeconomic fundamentals. There is a question: whether market reacts on risk factors assessing this risk objectively, or rather market is creating a risk, which is then used against the country. […] In my opinion, this system does not work in objective, rational way.
PAP, Reuters, 27 Nov	My forecast for today is that GDP will grow in the third quarter by 4%, and in the fourth quarter by 4% at the lowest, and by 3.5% over the whole year. I stick on it. […] We are on a course for 5% growth next year. Data for October are the data that make me be even more optimistic as we have already received signals about a growth not only in exports but in investment outlays, as well. If the investment start and this is a first month when the go up though from a lower level, then I will believe that we are 'at home'. […] Certainly, the investment will be rising systematically, as they must be supported by tax cuts. […] Polish economy is on a growth path and we should watch public finance at present and it will be really right. The government wants to agree a way of releasing the revaluation reserve with the central bank, but not by changing the law.
Andrzej Raczko, finance minister; PAP, 28 Nov	I think that the Hungarian example is a warning against attempts to modify the main aim of the National bank of Poland. The realisation of such goals [inflation and exchange rate] sometimes leads to surprising moves on the market. The National Bank of Poland's target is inflation, and the zloty is floating, which means that one should not expect that same central bank's activity, as it was the case in Hungary. Financial market decides about the zloty level, not NBP or MinFin. There is no possibility of "Hungarian scenario" in Poland.
Jacek Tomorowicz, head of MinFin's foreign policy dept.; PAP, 8 Dec	The ministry is prepared to conduct two-way operations: to buy or to sell currencies on the market. We have released information about the first transaction of this type. There is no programme for undertaking such actions in the future. In case of this operation [selling €250m], what was at issue was to acquire zlotys. In this case the market situation was neutral. If the market conditions are unfavourable, such an operation will not be carried out. Instead of acquiring the money from the NBP, for some reasons it could be more profitable to do it on the market. But this will not have a character of market interventions.
Witold Orłowski, President's chief economic advisor; PAP, 27 Nov	A group of economic advisors to President supported the so-called Hausner's plan. This is a minimum plan, which has to be accepted, but is not sufficient to unsure long-term growth. [...] If there is no change of macroeconomic policy (Hausner's plan plus reforms of local governments, of healthcare system, plus pro-investments activity) there is a possibility that public debt would exceed 60% of GDP threshold.

	We have no doubt Poland enters a period of economic recovery, although years of high growth rate are not likely to be repeated. GDP growth rate cannot be very high without structural reforms. […] Economists expect 4% growth in 2H03 and 3.5% in 2003 as a whole. But the economy should expand by some 5% to reduce unemployment. [...] The government should focus on better communication with financial markets, because higher market rates may force spending cuts in case of no necessary efforts to bring deficit for 2004 down. As official interest rates are quite high, there is no risk of rate hike at the moment. Although it is clear that willingness to cut rates further may be lower, even by the new MPC. [...] There is no reason to hike rates, although we can say that if MPC cut rates more significantly in appropriate time (they could be lower by 200bp), then rates increases today could be more likely. We see a split between macroeconomic indicators and financial markets' reaction. This suggests a worsening assessment of the situation by financial markets. Risk premium increases, but this is process very slow, which may be stopped by appropriate macroeconomic policy - fundamentals of the economy are good and if the government presents a credible, consistent programme. It seems that a part of revaluation provision may be used without creating a risk for monetary policy, but not in a form of increasing budgetary revenues.
Jerzy Jaskiernia, head of SLD caucus; PAP, 9 Dec	There is an agreement that these persons [Czekaj, Nieckarz, Pietrewicz] should be proposed and we will respect the agreement. […] SLD expects that these will be the candidates who will strengthen the MPC but with their decisions they will take care not only of the money but economic growth and low unemployment as well.
Zbigniew Kuźmiuk, deputy head of PSL caucus; PAP, 9 Dec PAP, 2 Dec	If Mr. Nieckarz is proposed we will probably support him. We know his opinions that have always be critical for NBP's board and the MPC. He ensures different attitude towards monetary policy. One could say that for sure professor Mirosław Pietrewicz will be our candidate [to the MPC]. […] We count for a support of opposition caucuses and circles and maybe from SLD, as well. We will see what who be these candidates [proposed by SLD]. The pledge to conduct different than the present monetary policy is our criterion in elections.
Janusz Lisak, head of UP caucus; PAP, 9 Dec	Probably we will propose our candidate for a third seat in the MPC and it will be Stanisław Nieckarz.
Mieczysław Czerniawski, chief of public finance commission PAP, 2 Dec	There was NBP proposal, which was not „digested" yet – to lend US$1bn for foreign debt repayment.
Andrzej Pęczak, SLD deputy; PAP, 9 Dec	Stanisław Nieckarz will probably be a Sejm MPC candidate of SLD and UP. […] The candidature was being discussed during Sunday's meeting of the caucus presidium. We have named Jan Czekaj and PSL Mirosław Pietrewicz. And Stanisław Nieckarz would be a UP candidate.
Anonymous SLD's representative; PAP, 4 Dec	SLD has chosen a list of six candidates for MPC members (from both Lower and Upper Houses), including Jan Czekaj and senator Marian Noga. There was a moment when we saw nine names on the list, but there are six left. SLD caucus' presidium will officially choose candidates on Sunday. It is still possible that other names appear, the list is not closed. SLD is open for a discussion with civic Platform and Peasants' Party. Agreement is possible not only with PSL, and this apply to one member appointed by the Upper House.

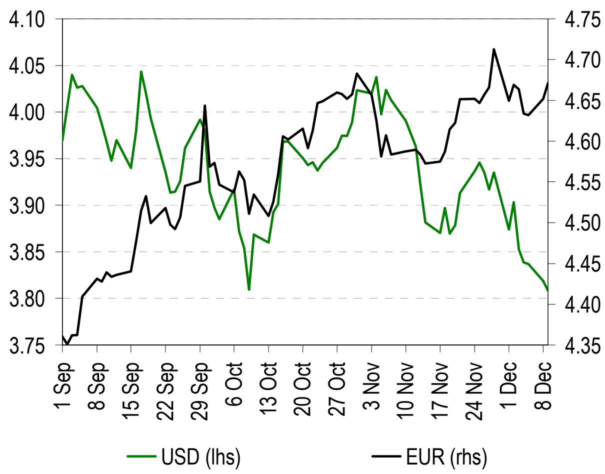
Market monitor

- **Zloty has seen its historical low against euro**
- **Higher risk premium on bond market**

Rate hike in Hungary weakens the zloty

Late November on the Polish financial market was primarily impacted by a turmoil in Hungary. After a few weeks of relatively peaceful trading, Friday, November 28 saw a sudden revival because of unexpected increase in interest rates by the Hungarian central bank. On Friday morning, it raised the reference interest rate by 300bps. The decision was to stop speculations on the Hungarian forint. In our opinion, however, this surprising move can only enhance the investors' doubts with regard to consistency and transparency of the Hungarian monetary policy, which is focused at the same time on exchange rate stabilisation and direct inflation target. This may lead to further speculations against the forint. This also shows what kind of problems the EU new entrants may face if they are made to enter the ERM2 with narrow exchange rate fluctuations' band suggested by some EU decision makers.

Zloty FX rate in recent 3 months



Source: NBP

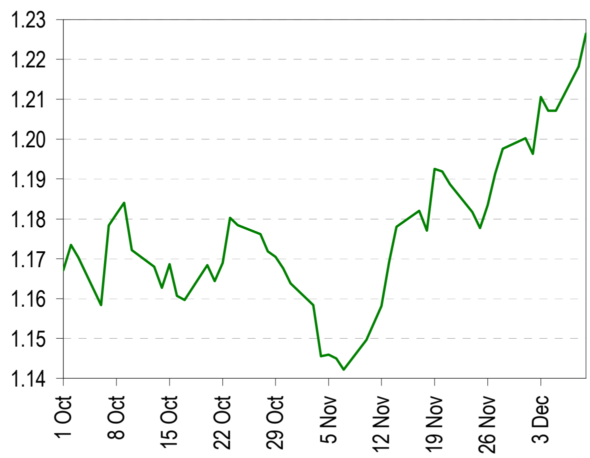
Shortly after announcing the decision of the Hungarian central bank, zloty depreciated. As this was accompanied by a substantial increase in EURUSD exchange rate, the EURPLN rate hit its record high (4.7127 at the NBP fixing on 28 November). As early as on the same day, the domestic currency started to make up for the loss. It was supported by surprisingly favourable data on the October's balance of payments. The zloty continued to strengthen gradually in early December. The information of the Ministry of Finance about the planned sale of foreign currencies on the inter-bank market announced on 5 December had a moderate impact on the improvement in PLN exchange rate. The domestic currency rate was primarily impacted by euro appreciation against dollar. This is why zloty was stronger relative to dollar in the beginning of December.

In November, according to the NBP fixings, the dollar ranged from PLN3.8694 (on 19 Nov) to PLN4.0373 (4 Nov) with the average at PLN3.9443 (against PLN3.9240 in October). The euro ranged from PLN4.5726 (14 Nov) to PLN4.7127 (28 Nov) with the average of PLN4.6194 (PLN4.5918 in October).

Euro hit records against dollar

At the end of November another wave of dollar depreciation versus euro took place. The EURUSD rate breached psychological level of 1.20 and then hit another record highs. Weakening of the dollar is attributed mainly to investors' fears over increasing budget gap and C/A deficit in the United States (so-called twin deficits problem), which offset positive picture of the US economy painted by recent figures indicating higher economic activity and stronger and stronger signs of an improvement on the labour market. Tense situation in Iraq has been also playing its role.

EUR/USD rate



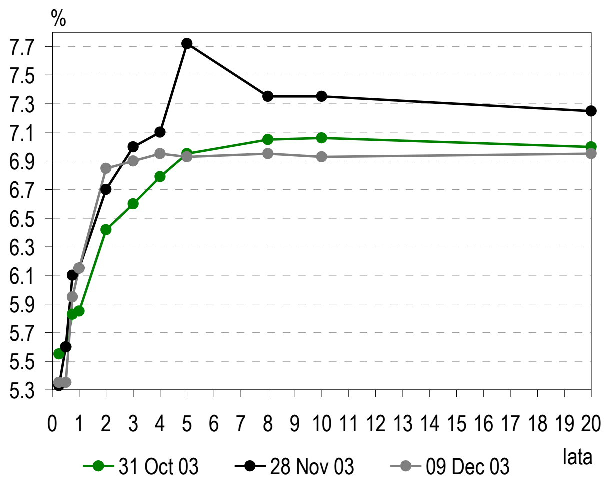
Source: NBP

Rebound on the fixed income market

Similarly to the FX market, the conditions on the domestic fixed income market at the end of November was driven by the Hungarian events. Just like in the case of zloty exchange rate, the rise of Polish bonds' yields after announcing the decision of the National Bank of Hungary, turned out to be very short-term. Early December saw a gradual improvement in sentiment on the debt market. The preliminary information about the plans for financing government's borrowing needs in 1Q04 occurred to be a favourable factor. The strengthening was particularly evident in the segment of 5-year bonds as it turned out that this type of securities would be offered as late as in March. After the communication of the Ministry of Finance, a number of investors who had hoped to buy those securities soon at a lower price decided that they could not wait that long and started buying them straight away.

The following days witnessed further improvement on the long end of the yield curve (5 and 10-year segment), which was not hindered by relatively unsuccessful auction of 5-year bonds (see below). On the other hand, the 2-year sector was under the pressure of the expected high supply in the nearest time. As a result, the yield curve flattened.

Yield curve



Source: BZ WBK

On December 3, the first auction of 2-year benchmark OK0406 was held. The action was rather unsuccessful. A moderate bond offer from the MinFin met with quite low demand. All the bonds were sold, however average yield exceeded the level of 7% being much higher than the yield at the previous auction of 2-year bonds and above current market quotations of previous 2-year benchmark (OK0805). The supplementary auction held one day later was more successful. The ministry offered only a half of possible amount (PLN200m). Very high demand was declared, as the price from the first auction was lower than current market level and all the offered papers were sold.

At T-bond switching auction on December 9, the Ministry of Finance offered three series of bonds (OK1203, OS0204, OK0404) to repurchase and sold two series of papers (OK0406 and DS1013). They sold PLN1.072bn worth of the bonds in exchange for PLN909m, while investors wanted to sell papers worth PLN1.438bn. There were PLN496m worth of OK1203 bonds among the repurchased bonds, which decreased the amount of bonds maturing on 21 December this year by almost 8%.

Treasury bill auctions (PLN m)

	OFFER / SALE		
Date of auction	*13-week*	*52-week*	*Total*
03.11.2003	-	1,400 / 1,400	1,400 / 1,400
07.11.2003	-	1,000 / 1,000	1,000 / 1,000
17.11.2003	-	1,000 / 1,000	1,000 / 1,000
24.11.2003	-	1,000 / 1,000	1,000 / 1,000
November total	**-**	**4,400 / 4,400**	**4,400 / 4,400**
01.12.2003	-	1,100 / 1,100	1,100 / 1,100
08.12.2003	-	1,100 / 1,100	1,100 / 1,100
15.12.2003	100	1,500	1,500
22.12.2003	-	1,500	1,500
December total	**100**	**5,200**	**5,300**

Source: Ministry of Finance

The size of supply in the first quarter of 2004 will be of high importance for investors, particularly that this period is bound to see continued high uncertainty related of the Hausner's plan implementation. We will write about government's plans on the 2004 issue of treasury papers in the next month's *Special focus* section.

Treasury bond auctions in 2003 (PLN m)

Month	*First auction*				*Second auction*				*Third auction*			
	date	*T-bonds*	*offer*	*sale*	*date*	*T-bonds*	*offer*	*sale*	*date*	*T-bonds*	*offer*	*sale*
January	08.01	OK1204	2,500	2,500	15.01*	DS1013	2,400	2,400	22.01	PS0608	2,200	1,959.1
February	05.02	OK1204	2,800	2,114.3	12.02	WS0922	1,000	0	19.02*	PS0608	2,400	2,000
March	05.03*	OK1204	2,750	2,750	12.03	DS1013	1,600	1,600	19.03	PS0608	2,400	2,236.8
April	02.04*	OK0405	4,200	4,200	16.04*	PS0608	3,600	3,600	-	-	-	-
May	07.05	OK0405	2,800	2,800	21.05*	PS0608	3,600	3,555	-	-	-	-
June	04.06*	OK0405	3,300	2,852,2	18.06	PS0608	2,000	2,000	-	-	-	-
July	02.07*	OK0405	3,000	2,836.0	9.07*	DS1013	1,200	1,200	-	-	-	-
August	06.08*	OK0805	3,360	3,360	-	-	-	-	-	-	-	-
September	03.09*	OK0805	3,000	2,501	10.09	WS0922	cancelled		17.09	PS0608	2,700	0
October	01.10	OK0805	2,900	2,900	08.10	DS1013	500	500	15.10*	PS0608	1,200	1,000
November	05.11*	OK0805	1,800	1,800	19.11	DS0509	2 000	1 485,5	-	-	-	-
December	03.12*	OK0406	2,200	2,200	-	-	-	-	-	-	-	-

Source: Ministry of Finance * with supplementary auction

International review

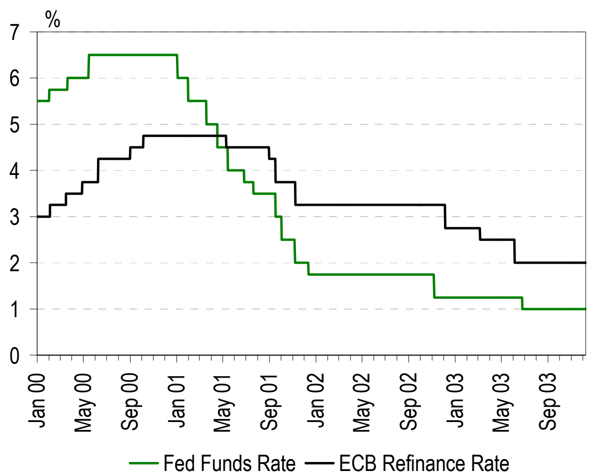
- **Interest rates still unchanged**
- **Rising Eurozone's inflation and money supply**
- **… but still without strong economic revival**
- **Better and better business climate**

Interest rates unchanged – in line with expectations

In line with expectations, the Governing Council of the European Central Bank did not change interest rates at the meeting on 4 December. The main Eurozone's rate – refinance rate – stands at 2.0%, i.e. it still remains at the lowest level in the history of ECB's monetary policy. According to market expectations, interest rate will be raised only in 2H 2004.

A few days after ECB Council's decision, at the meeting on 9 December, also the Federal Open Market Committee left interest rates in the United States unchanged. The decision matched market expectations. Federal fund rate remained at 1.0%, i.e. the lowest level since 1958. In the statement from the meeting the Fed said that the rates could remain unchanged for a longer period amid quite low inflation and low capacity utilisation. On the other hand, they stressed that the risk of unwelcome decrease in inflation had declined significantly in recent months, which was perceived as a hint on earlier than expected interest rate hike by some analysts.

Interest rates in the USA and Eurozone

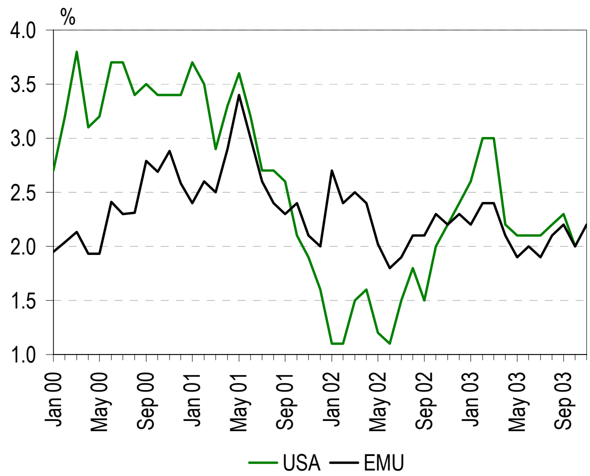


Source: Reuters

Acceleration in inflation and money supply

According to preliminary estimations, Eurozone's annual inflation rate picked up to 2.2% in November from 2.0% recorded in October exceeding the ECB's inflation target at 2.0%. Meanwhile analysts forecasted acceleration in the price growth rate to 2.1%. Moreover, data on producer prices in the Eurozone, that roughly matched market consensus, were released. In October the prices increased by 0.1%MoM and annual growth rate amounted to 0.9%, down from 1.1% in September. Analysts' forecast amounted to 0.0% and 1.0%, respectively.

Consumer inflation YoY



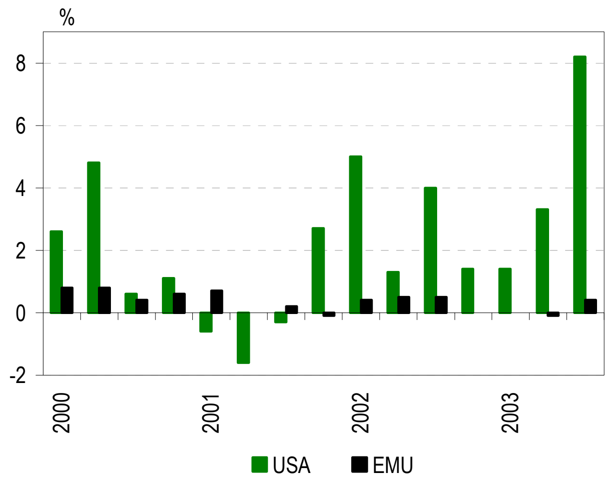
Source: Reuters

According to the ECB, Eurozone's M3 money supply growth rate amounted to 8.0%YoY in October, which means clear and unexpected acceleration from 7.6% recorded in September and revised from 7.4%. Meanwhile analysts expected a slowdown in a rate of growth to 7.2%.

… but economic revival has still not come

At the beginning of November, revised and more detailed GDP figures were released in the Eurozone. Preliminary estimations were confirmed, which also matched market expectations. In 3Q03 Eurozone's GDP increased by 0.4%QoQ after it had shrunk by 0.1% in 2Q03. In annual terms the Eurozone's economy grew by 0.3% in 3Q03. At the same time, the European Commission confirmed growth forecasts for 4Q03 and 1Q04 at the level of 0.2%-0.6%QoQ and 0.3-0.7%QoQ, respectively.

GDP growth QoQ



Note: growth rates for the USA are annualised
Source: Reuters

In September Eurozone's retail sales remained unchanged in monthly terms and declined by 0.6%YoY, compared to forecasts at 0.5% and 0.5%, respectively. August figures were revised downward to -0.4% and -1.1% from -0.1% and -0.9% released previously.

The unemployment rate in the Eurozone amounted to 8.8% in October, unchanged from September's level, which means a fifth consecutive month of stable unemployment rate. The figure matched analysts' expectations. The highest unemployment was recorded in Spain, France and Germany.

Better performance of the US economy

In the United States data on durable good orders were quite strong and better than expected by economists amid high demand for communication and transport equipment. The orders increased by as much as 3.3%MoM in October while market forecast was at 0.8%. Moreover, September's figure was revised upwards to 2.1% from 1.1%. Also, data on factory orders were stronger than expected. They recorded a significant rise of 2.2%MoM in October following a rise of 1.4% in September. Market consensus stood at 2.0%.

The unemployment rate in the United States decreased to 5.9% in November from 6.0% recorded in October, while no change was expected. What's more, the number of jobs in the economy increased for a forth time in a row, this time by 57,000, however clearly below market expectations at 150,000.

According to final data, American consumer sentiment indicator by the University of Michigan recorded a rise to 93.7pts in November from 89.6pts in October. The figure was a bit lower than analysts' expectations of 94.0pts but higher than 93.5pts recorded in preliminary survey.

Improved business climate indices

The index of Eurozone's economic sentiment calculated by the European Commission increased to 95.9pts in November from 95.5pts (revised from 95.8pts) in October. The index was exactly at the level of market consensus and the increase resulted from improvement in both consumer and business sentiment. In separate report the Commission said that business climate indicator for industry increased to 0.02pts in November from -0.21pts (revised from -0.18pts) in October. The index reached a positive value for the first time since May 2001.

In November economic activity in the Eurozone's industry was rising for the third month in a row and it was accelerating at faster pace than in October but slower than expected by analysts. Reuters PMI index increased to 52.2pts, which was the highest level since February 2001, from 51.3pts in previous month, while 52.5pts was forecasted for November. For a third consecutive month it has remained above the level of 50 pts, i.e. a limit between improvement and deterioration in activity. Meanwhile, in the United States the ISM index moved far away from this level, as economic activity in the industry was rising quickly and the acceleration exceeded expectations. The ISM index reached 62.8 pts in November against 57.0 pts in October and 58.0 pts forecasted.

As far as economic activity in the service sector in November is concerned, in the Eurozone it was rising at faster pace than in October and than expected by analysts. Reuters Services index increased to 57.5 pts from 56.0 pts in October, while an increase to 56.5 pts was forecasted. On the contrary, in the United States economic activity in the service sector recorded significant deceleration in growth instead of only slight slowdown forecasted by analysts. ISM Non-manufacturing index declined to 60.1 pts in November against 64.7 pts in October and 64.3 pts expected. The indices remain clearly above 50-pt level or a limit between deterioration and improvement in activity.

What's hot this month

Monday	Tuesday	Wednesday	Thursday	Friday
1 December POL: T-bill auction *EMU: PMI (Nov)* *USA: ISM (Nov)*	**2** POL: MPC meeting *EMU: Producer prices (Oct)* *EMU: Unemployment (Oct)*	**3** POL: T-bond auction OK0406 *EMU: GDP (3Q)*	**4** *GER: Unemployment (Nov)* *EMU: ECB meeting* *EMU: Retail sales (Sep)*	**5** POL: Food prices (2H Nov) *USA: Unemployment (Nov)* *USA: Factory orders (Oct)*
8 POL: T-bill auction	**9** *USA: Fed meeting*	**10** *ITA: GDP (3Q)*	**11** *FRA: Inflation preliminary (Nov)* *USA: Retail sales (Nov)*	**12** POL: Money supply (Nov) POL: Wages & employment (Nov) *FRA: Industrial output (Oct)* *ITA: Industrial output (Oct)* *USA: Producer prices (Nov)* *USA: Foreign trade (Oct)*
15 POL: T-bill auction POL: Inflation (Nov) *ITA: Inflation final (Nov)*	**16** POL: MPC meeting (1st day) *USA: Inflation (Nov)* *USA: Industrial output (Nov)*	**17** POL: MPC meeting (decision) POL: Industrial output (Nov) POL: Producer prices (Nov) *EMU: Inflation final (Nov)* *EMU: Industrial output (Nov)*	**18** *GER: IFO (Dec)*	**19** POL: GDP (3Q) POL: Retail sales (Nov) POL: Unemployment (Nov) *FRA: Inflation final (Nov)* *EMU: Foreign trade (Oct)*
22 POL: T-bill auction POL: Business climate (Dec)	**23** POL: Core inflation (Nov) *EMU: Balance of payment (Oct)*	**24**	**25** **Christmas**	**26** **Christmas**
29 POL: Food prices (1H Dec)	**30** POL: Balance of payment (Nov) *EMU: Money supply (Nov)*	**31**	**1 January** **New Year's Day**	**2** POL: Balance of payment (3Q) *EMU: PMI (Dec)* *USA: ISM (Dec)*
5 POL: T-bill auction *EMU: Inflation preliminary (Dec)*	**6** *USA: Factory orders (Nov)*	**7** POL: T-bond auction OK0406 POL: Food prices (2H Dec) *EMU: Producer prices (Nov)* *EMU: Economic sentiment; Business climate (Dec)*	**8** *EMU: Unemployment (Nov)* *EMU: Retail sales (Oct)*	**9** *USA: Unemployment (Dec)*

Source: CSO, NBP, Finance Ministry, Reuters

Data release calendar for 2004

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
GDP*	-	-	19	-	-	22	-	-	21	-	-	21
CPI	15	16[a]	15[b]	14	14	14	14	16	14	14	15	14
Core inflation	23	-	-	-	-	-	-	-	-	-	-	-
PPI	20	18	17	20	20	18	19	18	17	19	19	17
Industrial output	20	18	17	20	20	18	19	18	17	19	19	17
Retail sales	22	20	19	22	24	22	21	20	21	21	23	21
Gross wages, employment	16	13	12	15	17	16	14	13	14	14	17	14
Unemployment	22	20	19	22	24	22	21	20	21	21	23	21
Foreign trade	about 50 working days after reported period											
Balance of payments	30	-	12[c]	-	-	-	-	-	-	-	-	-
Balance of payments*	2	-	31	-	-	-	-	-	-	-	-	-
Money supply	14	13	12	-	-	-	-	-	-	-	-	-
NBP balance sheet	7	6	5	-	-	-	-	-	-	-	-	-
Business climate indices	22	20	22	22	21	22	22	20	22	21	22	22
Food prices, 1-15	-	9[c], 25[d]	25	23	25	25	23	25	24	25	25	23
Food prices, 16-31 Dec	7	-	-	-	-	-	-	-	-	-	-	-

* quarterly data,
[a] preliminary data, January, [b] January and February, [c] January, [d] February

Source: CSO, NBP

Economic data and forecasts

Monthly economic indicators

		Nov 02	Dec 02	Jan 03	Feb 03	Mar 03	Apr 03	May 03	Jun 03	Jul 03	Aug 03	Sep 03	Oct 03	Nov 03	Dec 03
Industrial production	%YoY	3.1	5.2	3.3	4.3	5.5	8.5	11.7	7.9	10.3	5.9	10.9	12.1	12.0	18.1
Retail sales ***	%YoY	5.9	4.9	4.1	4.2	-1.7	11.0	9.7	8.1	5.4	5.5	9.7	10.3	10.6	11.8
Unemployment rate	%	17.8	18.0	18.6	18.7	18.6	18.3	17.9	17.7	17.7	17.6	17.5	17.4	17.6	17.8
Gross wages ** ***	%YoY	1.8	2.4	2.7	2.1	0.7	4.2	0.0	3.1	2.4	1.9	2.2	3.0	4.1	4.0
Export (acc. to NBP)	EURm	-3.2	-2.3	-4.1	-3.9	-4.0	-3.7	-3.5	-3.6	-3.2	-3.2	-3.1	-3.2	-3.3	-3.4
Import (acc. to NBP)	EURm	3.004	3.223	2.761	2.635	2.957	2.969	3.015	3.018	3.282	2.862	3.302	3.566	3.423	3.680
Trade balance (acc.to NBP)	EURm	4.090	4.166	3.895	3.219	3.467	3.833	3.696	3.512	4.107	3.615	3.838	4.203	4.098	4.241
Current account balance	EURm	-1.086	-943	-1.134	-584	-510	-864	-681	-494	-825	-753	-536	-637	-675	-561
Budget deficit (cumulative)	PLNbn	-753	-484	-711	-483	-248	-460	-411	-100	-239	-111	58	198	-125	-151
Budget deficit (cumulative)	% annual plan	-37.1	-39.4	-4.1	-11.7	-15.5	-18.0	-23.2	-23.8	-27.7	-29.6	-33.1	-34.8	-35.6	-38.7
CPI	%YoY	94.0	100.0	10.6	30.2	40.0	46.6	60.0	61.5	71.5	76.4	85.4	89.9	92.0	100.0
PPI	%YoY	0.9	0.8	0.5	0.5	0.6	0.3	0.4	0.8	0.8	0.7	0.9	1.3	1.6	1.7
Broad money (M3)	%YoY	1.7	2.2	2.5	2.9	3.6	2.9	2.0	2.0	1.9	1.8	2.1	2.7	3.3	3.3
Deposits	%YoY	-1.0	-2.0	-1.4	-1.2	0.5	0.8	0.3	1.3	0.7	1.7	3.1	4.7	5.7	5.0
Credits	%YoY	-3.2	-4.2	-4.1	-3.8	-2.3	-2.3	-2.9	-1.9	-2.5	-1.7	-0.2	1.5	3.4	2.4
USD/PLN	PLN	4.6	5.3	5.5	5.7	8.7	8.5	7.6	5.9	5.0	5.2	5.7	7.2	8.5	8.7
EUR/PLN	PLN	3.95	3.91	3.84	3.87	4.01	3.96	3.74	3.80	3.90	3.92	3.98	3.92	3.94	3.84
Reference rate *	%	3.96	3.99	4.08	4.17	4.33	4.30	4.33	4.44	4.44	4.37	4.46	4.59	4.62	4.65
WIBOR 3M	%	6.75	6.75	6.50	6.25	6.00	5.75	5.50	5.25	5.25	5.25	5.25	5.25	5.25	5.25
Lombard rate *	%	6.81	6.82	6.56	6.37	6.17	5.90	5.53	5.38	5.26	5.16	5.17	5.42	5.68	5.60
Yield on 52-week T-bills	%	8.75	8.75	8.50	8.00	7.75	7.25	7.00	6.75	6.75	6.75	6.75	6.75	6.75	6.75
Yield on 2-year T-bonds	%	5.88	5.78	5.74	5.83	5.67	5.43	4.75	4.66	4.85	4.82	4.91	5.30	5.95	6.15
Yield on 5-year T-bonds	%	5.78	5.75	5.55	5.66	5.52	5.16	4.78	4.79	4.89	4.86	5.02	5.53	6.31	6.50
Yield on 10-year T-bonds	%	5.91	5.67	5.57	5.58	5.36	5.15	4.88	4.90	5.17	5.38	5.60	6.04	6.86	7.00

Source: CSO, NBP, BZ WBK

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

Quarterly and annual economic indicators

		2001	2002	2003	1Q02	2Q02	3Q02	4Q02	1Q03	2Q03	3Q03	4Q03
GDP	PLNbn	750.8	772.2	808.6	178.6	189.5	191.2	213.0	184.5	198.2	200.6	225.3
GDP	%YoY	1.0	1.4	3.5	0.5	0.9	1.8	2.2	2.2	3.8	3.7	4.2
Total consumption	%YoY	1.8	2.9	2.3	2.8	2.6	2.8	3.2	1.0	2.9	2.6	2.7
- Private consumption	%YoY	2.1	3.3	2.8	3.5	2.9	3.1	3.5	1.4	3.9	3.0	3.0
Fixed investments	%YoY	-10.2	-6.7	1.4	-12.8	-7.9	-5.9	-3.6	-3.6	-1.7	2.0	5.0
Industrial production	%YoY	0.6	1.5	9.1	-1.6	-0.4	3.3	4.6	4.4	9.1	8.9	14.0
Retail sales (real terms)	%YoY	0.2	3.3	6.7	5.8	0.7	3.9	2.6	1.2	9.8	6.4	9.4
Unemployment rate *	%	17.5	18.0	17.8	18.2	17.4	17.6	18.0	18.6	17.7	17.5	17.8
Gross wages (real terms)	%YoY	1.6	1.5	1.7	1.9	1.4	2.3	0.3	1.4	1.7	1.7	2.2
Export (acc. to NBP)	EURm	33.823	34.746	37.470	7.853	8.668	8.816	9.409	8.353	9.002	9.446	10.669
Import (acc. to NBP)	EURm	46.848	45.712	45.724	10.847	11.109	11.259	12.497	10.581	11.041	11.560	12.542
Trade balance (acc.to NBP)	EURm	-13.025	-10.966	-8.254	-2.994	-2.441	-2.443	-3.088	-2.228	-2.039	-2.114	-1.873
Current account balance	EURm	-7.992	-7.188	-2.783	-2.659	-1.780	-932	-1.817	-1.442	-971	-292	-78
Current account balance	% GDP	-3.9	-3.6	-1.5	-3.9	-3.6	-3.6	-3.6	-3.1	-2.7	-2.4	-1.5
Budget deficit (cumulative)*	PLNbn	-32.6	-39.4	-38.7	-16.4	-25.0	-29.8	-39.4	-15.5	-23.8	-33.1	-38.7
Budget deficit (cumulative)*	% GDP	-4.3	-5.1	-4.8	-9.2	-4.5	-2.5	-4.5	-8.4	-4.2	-4.6	-2.5
CPI	%YoY	5.5	1.9	0.8	3.4	2.1	1.3	0.9	0.5	0.5	0.8	1.5
CPI*	%YoY	3.6	0.8	1.7	3.3	1.6	1.3	0.8	0.6	0.8	0.9	1.7
PPI	%YoY	1.6	1.0	2.6	0.2	0.7	1.4	1.9	3.0	2.3	1.9	3.1
Broad money (M3)	%YoY	9.2	-2.1	5.0	3.2	2.5	-1.5	-2.1	0.5	1.3	3.1	5.0
Deposits	%YoY	8.9	-4.3	2.4	1.7	0.5	-3.5	-4.3	-2.3	-1.9	-0.2	2.4
Credits	%YoY	9.3	5.3	8.7	7.1	9.4	4.9	5.3	8.7	5.9	5.7	8.7
USD/PLN	PLN	4.09	4.08	3.89	4.13	4.04	4.15	3.99	3.90	3.83	3.93	3.90
EUR/PLN	PLN	3.67	3.85	4.40	3.62	3.72	4.08	4.00	4.19	4.36	4.42	4.62
Reference rate *	%	11.50	6.75	5.25	10.00	8.50	7.50	6.75	6.00	5.25	5.25	5.25
WIBOR 3M	%	16.10	9.09	5.68	11.02	9.80	8.50	7.03	6.37	5.60	5.20	5.57
Lombard rate *	%	15.50	8.75	6.75	13.50	11.50	10.00	8.75	7.75	6.75	6.75	6.75
Yield on 52-week T-bills	%	14.77	8.18	5.34	9.64	9.11	7.82	6.14	5.75	4.94	4.86	5.80
Yield on 2-year T-bonds	%	13.97	7.94	5.38	9.27	8.84	7.63	6.05	5.58	4.91	4.92	6.11
Yield on 5-year T-bonds	%	12.59	7.86	5.62	9.09	8.69	7.60	6.05	5.50	4.98	5.38	6.64
Yield on 10-year T-bonds	%	10.74	7.34	5.80	8.28	7.92	7.24	5.93	5.60	5.19	5.63	6.76

Source: GUS, NBP, BZ WBK

* at the end of period

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