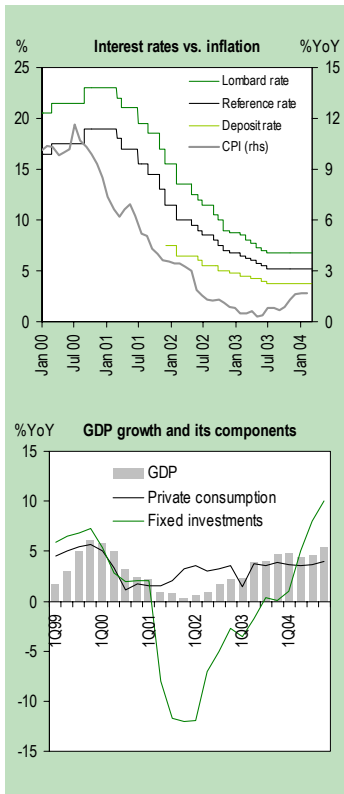




MACROscope

Polish Economy and Financial Markets

April 2004



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Warming up

- **Despite continuously bad situation on the labour market, moderate dynamics of wages and appalling social sentiment, private consumption is equally important vehicle of GDP growth as net exports.** We are trying to analyse this issue in more details in this month's special focus section. Among the most likely sources of strong consumption growth one has to notice two issues: high dynamics of this part of households' disposable income, which is not observed directly; as well as consumption smoothing behaviour under the influence of anticipated growth of future earnings. Even in case there is no rapid improvement of situation on the labour market in the near term, further strong boost of private consumption demand is possible after EU accession amid possible upturn in expectations regarding households' future financial situation (permanent income).
- **Macroeconomic data published during last month confirmed that the Polish economy is on a path of strong recovery.** However, there are still no clear signs of improvement in investment activity, even despite enterprises recorded very good financial results in 2003. Situation on the labour market remains very difficult. Inflation stabilised at low level. There are also no reasons to worry about external balance of the economy due to excellent export performance.
- **The government At the moment, the most serious threat to the economy are recent political jitters,** which increase uncertainty regarding implementation of fiscal reform. The crucial period on the political scene will be the first half of the May, when the confidence vote over new cabinet will take place. Parliament's support for presidential candidate Marek Belka is still uncertain, while this is necessary to stabilise situation on the financial market. Moreover, formation of the new government may last one or two months and ends up with early election, which would probably strengthen pressure on zloty weakening.
- **At the first spring meeting the MPC managed to clear up message for the financial markets.** Comments of MPC members shed much light on current monetary policy and enabled right interpretation of recent decisions, confirming our opinion that one should not expect change in monetary policy bias to tightening in the nearest time. It seems that the MPC opinion on current economic situation is similar to our view – the economic recovery is strong, but is driven mainly by excellent export performance, which constrains its possible impact on the internal and external balance of the economy. Change in the bias may take place, if there is stronger revival of domestic demand.

Financial market on 31 March 2004:

NBP deposit rate	3.75	WIBOR 3M	5.49	PLN/USD	3.8813
NBP reference rate	5.25	Yield on 52-week T-bills	5.90	PLN/EUR	4.7455
NBP lombard rate	6.75	Yield on 5-year T-bonds	6.63	EUR/USD	1.2227

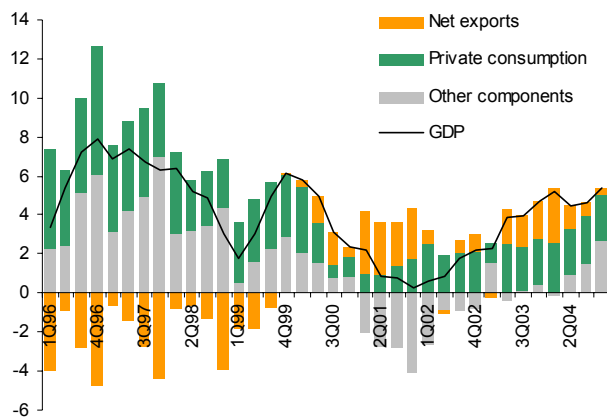
This report is based on information available until 13.04.2004

Blessed consumption

Two engines of growth?

Economic recovery in Poland is a fact. We have been consistently informing about this phenomenon for at least couple of quarters, at the same time pointing to a very important function of external demand (in particular net exports) in the process of business climate improvement. Outstanding export performance, highlighted also for a prolonged time in Polish media, contributed to a growing belief that export is currently not only important, but in fact the only one driving force of the Polish economy. Nevertheless, without discrediting export's significance (which is obviously very high), one should also take note of the fact that private consumption is at least equally important component of aggregate demand growth, strongly contributing to economic revival experienced for some time recently.

GDP growth decomposition, %YoY



Source: CSO, BZ WBK estimates

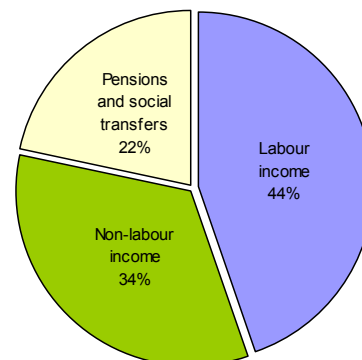
Common opinions about continuing weakness, or even stagnation of domestic demand in Poland are obviously justified to some extent, however currently they refer in fact only to fatal condition of fixed investment outlays in Polish companies. Meanwhile, as regards consumption spending, not only one cannot talk about stagnation, but also a systematic increase of dynamics is being observed. Possibly, such phenomenon might be counterintuitive for many people. Dynamic and accelerating consumption growth might be astonishing, taking into account persistence of awful consumer's confidence, high level of unemployment, collapse in the number of employed lasting for more than five years and modest wage dynamics in corporate sector. Well, what is the reason for strong consumption performance then? Do households behave irrationally?

What lies beneath

At the very beginning, one should take notice on several problems with accessibility of credible statistical data, which might affect the way of perceiving economic developments and the conclusions from their analysis.

Taking into consideration the data available on the regular basis from the CSO, one could hardly draw any conclusions on disposable income in the Polish economy. The information published on regular basis are describing merely a piece of total revenue of households, namely labour income and social benefits (what is more, they are expressed in gross terms). Meanwhile, non-labour income – representing more than one third of total gross income – remains completely unobserved. Additionally, net disposable income (net of taxes and social security contributions), which actually drive households' consumption decisions, are also unobserved. What is more, there is substantial grey economy and unregistered income, which also represents large part of households' earnings in Poland.

Gross income of households in 2000



Source: AMECO Database, European Commission

This suggests that private consumption behaviour that is against expectations and counterintuitive, might be explained by the variability of this part of households' disposable income, which cannot be directly observed, and in particular by non-labour income. Their dynamics might be much higher at present than dynamics of wage bill in corporate sector (which could be deducted from (a) available estimates from the previous years, and (b) very strong upsurge in Polish companies' profits experienced recently – income from running small companies is a part of total non-labour income). Obviously, lack of appropriate statistical data makes verification of this hypothesis impossible.

Similar problem also refers to lack of appropriate time series, that could be used as a proxy for wealth of Polish households, reflecting changes in both financial and non-financial assets held by them. Nevertheless, this factor



seems to be not as much of significance, taking into account generally low level of Polish society's affluence.

Gross income of households, %YoY constant prices



Source: AMECO Database, European Commission

Determinants of consumption

Economic theory does not allow for unambiguous determination of consumption function. Nevertheless, it points to several main determinants of households' consumption decisions. A core factors, affecting (positively) the size of consumption expenditure in the economy are total households' disposable income (after deducting taxes and social security contributions) and total households' wealth. The size of consumption could be also (negatively) affected by inflation rate or unemployment rate – reflecting uncertainty concerning future income – and real interest rate (although the direction of influence of this latter variable is not clear from theoretical considerations).

In analysing developments of private consumption expenditure in course of the last few years, we have employed simple univariate regression model, based on cointegration analysis and error correction mechanism (see page 5). Unfortunately, while interpreting empirical results of this model one has to bear in mind that accessibility and quality of time series, especially in Polish conditions, rise serious limitations for quantitative analyses of private consumption and limits credibility of conclusions from estimated models. In particular, defectiveness of available measures of disposable income (see above) could lead to erroneous estimation of model parameters. Additional problem stems from relatively short sample of observations. In our case, the analysed period included 1995-2003 (quarterly observations), which means that it did not embrace even one complete business cycle. This factor seems to be additional, important source of problems with estimation of stable and consistent with theory relation between consumption and income.

Estimation results seem to roughly confirm regularities described above – households' consumption expenditure are heavily determined by the flow of their revenue, as disposable income is a main determinant of households' consumption in the long term. Additionally, the results also confirmed that worth of private persons' credit in the banking system also proved to be significant in the long-term equilibrium equation (however the long-term elasticity of consumption against credit is much below elasticity against income). Introduction of credit variable was motivated by pure pragmatic approach – shortcomings of income measure and too short estimation sample period resulted in lack of statistically significant long term relation between just consumption and income. When it comes to short-term dynamics of consumption, estimation results confirmed positive (although much weaker than in the long run) dependence on disposable income and available credit, as well as negative (and quite strong) impact of real interest rate and changes in inflation. Interestingly enough, the sum of negative coefficients for inflation differential and real interest rate is (in absolute value) higher than the sum of coefficients for income and credit.

It seems that the results allow for at least partial explanation of phenomenon of high consumption growth in times of business activity deterioration. If simultaneously to income growth there is a reduction of real interest rates and acceleration of disinflation (positive inflation shock) – and we have been experiencing such developments recently in Poland – then we might face an increase in consumption, despite deterioration of current financial stance of households.

Current and permanent income

It is worth noticing that private consumption exhibit relatively high immunity to business climate fluctuations not only in Poland. In most of countries with advanced market economies households' consumption expenditure is traditionally the most significant component of gross domestic product, representing ca. 2/3 of annual GDP. At the same time, it is characterised by a moderate volatility as compared to other components of aggregate demand, being a kind of stabiliser of total GDP growth. This phenomenon results in fact from the procedure of households' economic decision making, which in economic theory is named "consumption smoothing". This kind of behaviour is described by two well known economic models of private consumption – Permanent Income Hypothesis and Life-Cycle Model. According to those theories, households tend to optimise their current level of consumption, taking into account not only current



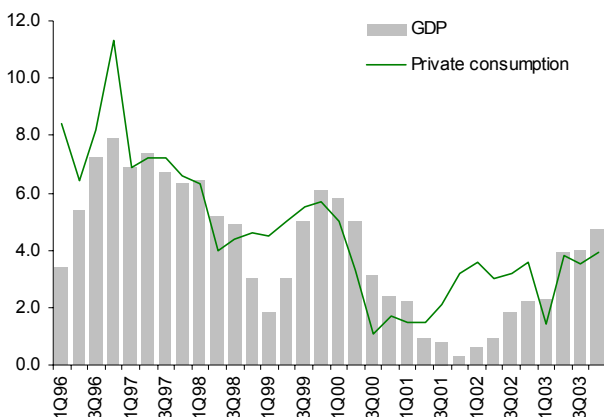
disposable income, but most of all their expected income and wealth in the long run.

Above-mentioned phenomenon has quite distinct implications for development of private consumption in market economy. It results in relatively low responsiveness of consumption to fluctuations of current income, as long as they are perceived as transitory changes. Therefore, if slowdown of income growth taking place in bad economic times is treated as temporary, it should not cause analogous downturn in private consumption. Similarly, a rise in revenues perceived as impermanent, should not result in equivalent increase in consumption spending.

Of course anticipated "permanent income" is a variable, which cannot be measured nor observed directly, which makes empirical verification of Permanent Income Hypothesis quite problematic. In particular, empirical research made so far proved that tests based on aggregate macroeconomic figures do not yield reliable results, and that appropriate testing procedure should employ individual data from households' expenditure surveys.

Nevertheless, it seems that the results of our estimated equation do not contradict findings of Permanent Income Hypothesis – short-term fluctuations of consumption are more sensitive to variables, determining future (permanent) income and future wealth, i.e. real interest rate and inflation changes, than to current variations in revenue.

Private consumption and GDP, %YoY constant prices



Source: GUS

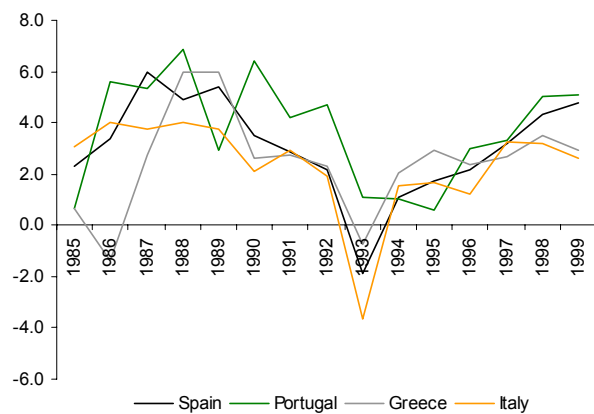
Moreover, brief analysis of private consumption dynamics in Poland in course of last couple of years seems to suggest that process of consumption smoothing might indeed play an important role in determining households' decisions as regards spending. The more distinct examples of such behaviour are years 1998-1999 (aftermath of Russian financial crisis) and 2001-2002 (recent global economic slowdown), when despite clear

deterioration of current economic activity, growth of private consumption expenditure remained at relatively high level, probably anticipating departure of negative effects in not so distant future.

Boom, boom, boom?

Consequences of making economic decisions by households according to permanent income hypothesis might become even more noticeable in Poland in course of the next couple of years, after accession to the European Union. Experiences of the Mediterranean counties, which were joining the EU in the middle of eighties suggest, that their economies went through significant consumption boom and credit boom, originated most likely by utility maximisation of households, anticipating future improvement in level of income and wealth.

Private consumption, %YoY constant prices



Source: AMECO Database, European Commission

Likewise in southern European countries, in Poland we can expect improvement in households' perceived economic situation. It would be fostered by several factors, working at the same time: reduction of intertemporal liquidity constraints for households (increase in availability of credit amid banking sector liberalisation), rise in expected earnings (along with appearing macroeconomic gains from the accession), decline in uncertainty, fall on anticipated real interest rates (low current inflation and current interest rates along with rising inflationary expectations).

In effect, in the nearest years we might face significant acceleration of private consumption growth and private credit growth, even if continuation of very fast labour productivity rise limits the scale of improvement on the labour market and the scale of households' disposable income increase.

Technical appendix

For analysis of private consumption expenditure in Poland, simple univariate regression model was employed. Quarterly statistical data series for the period Q1 1995 – Q3 2003 was used. Analysed variables were defined as follows:

- C private consumption expenditures *per capita*, 1995 prices
- Y households' disposable income (proxied by total wage bill plus total pension bill) *per capita*, 1995 prices
- K loans to households in the banking system *per capita*, 1995 prices
- P inflation rate, i.e. average CPI growth, %YoY
- R real interest rate, i.e. average WIBOR3M (in %), adjusted by current inflation rate *P*

Variables C, Y, and L entered estimated equations in logs (later represented by: lc , ly , lk).

Statistical tests showed that variables lc , ly , lk and P are non-stationary, of the order 1; in turn R could be considered as stationary with 90% probability. Strong seasonality of data series, in particular lc and ly , was probably among the reasons of problems with diagnosing long-term cointegration relationship. Nevertheless, with the help of Johansen's procedure, allowing for appropriate number of lags (4), one stable long-term equation has been established:

$$lc_t = -0.016701 + 0.96907 \cdot ly_t + 0.1038 \cdot lk_t$$

Short-term dynamic equation has been selected by putting set of restrictions on the general autoregressive distributed lags (ADL) model:

$$\Delta_4 lc_t = \alpha + \sum_{i=1}^3 \beta_{1,i} \Delta_4 lc_{t-i} + \sum_{i=0}^3 \beta_{2,i} \Delta_4 ly_{t-i} + \sum_{i=0}^3 \beta_{3,i} \Delta_4 lk_{t-i} + \sum_{i=0}^3 \beta_{4,i} \Delta P_{t-i} + \sum_{i=0}^3 \beta_{5,i} R_{t-i} + \gamma ECM_{t-4} + \varepsilon_t$$

where ECM_{t-4} represents residuals from the long-run equation, lagged by four observations.

Testing procedure allowed for significant simplification of the above-mentioned model and selecting the equation:

$$\Delta_4 lc_t = 0.39226 + 0.55401 \cdot \Delta_4 ly_t + 0.04357 \cdot \Delta_4 lk_t - 0.40882 \cdot \Delta P_{t-1} - 0.27193 \cdot R_t - 0.018728 \cdot ECM_{t-4}$$

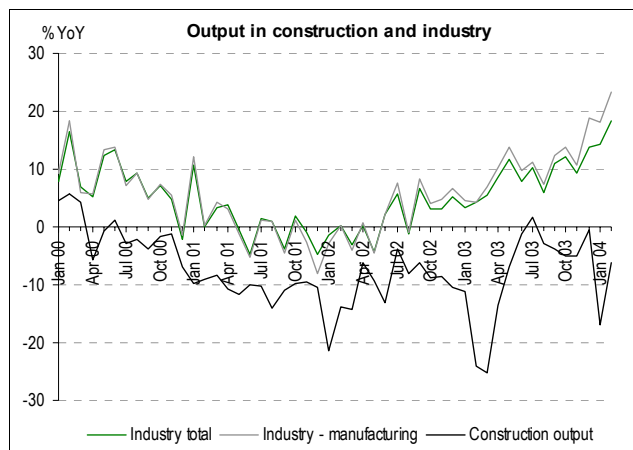
Estimation results of this short-term model are given in the printout below:

```

Ordinary Least Squares Estimation
*****
Dependent variable is D4LC
28 observations used for estimation from 1996Q4 to 2003Q3
*****
Regressor                Coefficient      Standard Error      T-Ratio[Prob]
D4LY                     .55401           .10088              5.4919[.000]
D4LK                     .043570         .018024             2.4174[.024]
DP(-1)                  -.40882         .17386             -2.3515[.028]
R                        -.27193         .095716            -2.8410[.010]
ECM(-4)                 -.018728       .0074149           -2.5257[.019]
CONST                   .039226        .0093847           4.1798[.000]
*****
R-Squared                .73423          R-Bar-Squared      .67383
S.E. of Regression      .010031        F-stat.           F( 5, 22) 12.1558[.000]
Mean of Dependent Variable .028722       S.D. of Dependent Variable .017564
Residual Sum of Squares .0022137      Equation Log-likelihood 92.5038
Akaike Info. Criterion  86.5038      Schwarz Bayesian Criterion 82.5072
DW-statistic            2.0376
*****

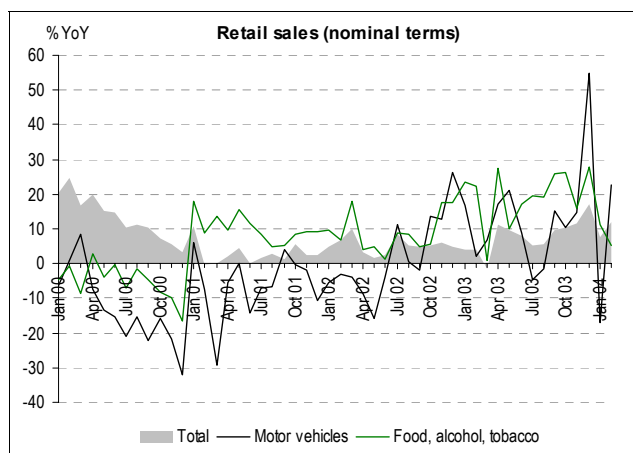
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Economic update



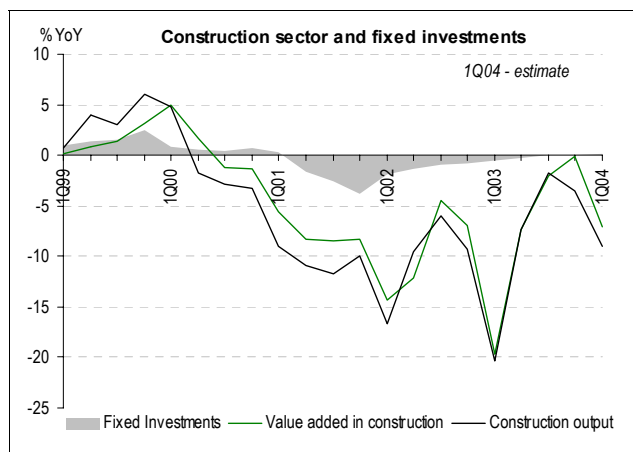
Amazing growth of industrial output

- Seasonally adjusted growth of industrial output in February was 17.8%YoU. Unadjusted figure was 18.4%YoY, the highest since December 1999, when output surged 19.1%YoY.
- In manufacturing output rocketed by 23.3%YoY. The figure was partly boosted by shipyard industry (non-automotive transport equipment increased output by 89.5%YoY), but even taking this into account the growth look very solid.
- Likewise in previous months, the strongest growth was seen in export-oriented branches. However, output growth was recorded in vast majority of manufacturing branches (23 out of 29), which suggests that the economic recovery is not driven solely by export.
- In general, industrial output growth in February indicated that the economy is growing faster and faster.



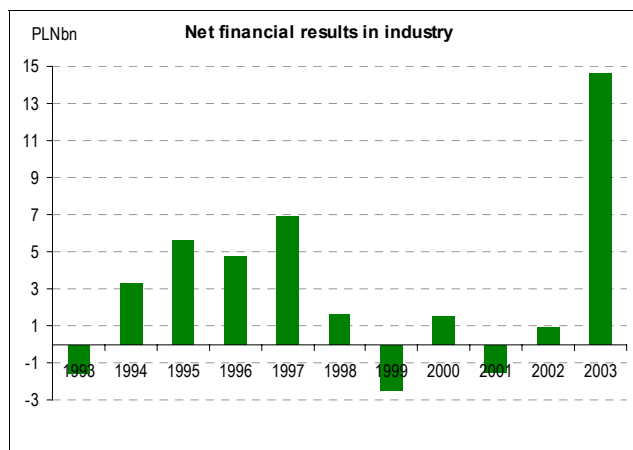
... and surge in retail sales

- Retail sales in February rose stronger than expected, by 0.4%MoM and 12.1%YoY after 7.6%YoY in January, adding to set of economic data indicating that the economy is gaining momentum.
- The growth of retail sales was boosted to a large extent by new car sales, rebounding after January's slump, but strong rise was also observed in other categories of sales, except for cosmetics and pharmaceuticals (down by 0.6%YoY).
- Impressive increase in retail sales added to the set of very strong macroeconomic data, and this led to upward revision of our GDP growth forecasts for 1Q04 and the whole 2004. Now we predict that the pace of economic growth in 1Q04 reached 5.2% and in the whole 2004 will be 4.9%.



... but still poor situation in construction

- While dynamics of industrial output and retail sales in February were a positive surprise again, confirming that the Polish economy is on a path of strong recovery, data on construction output once again were a bitter disappointment.
- Construction output in February increased 13.4 from January, but in annual terms it fell 6.3% after 16.8%YoY slump in January. After adjustment for seasonal factors, construction output in February was 2.8% lower than in the analogous period of last year.
- February's dynamics of construction output confirms that investment activity is improving very slowly, which may constrain increase of domestic demand and GDP growth in future. Thus, inflationary pressure should also remain in check.

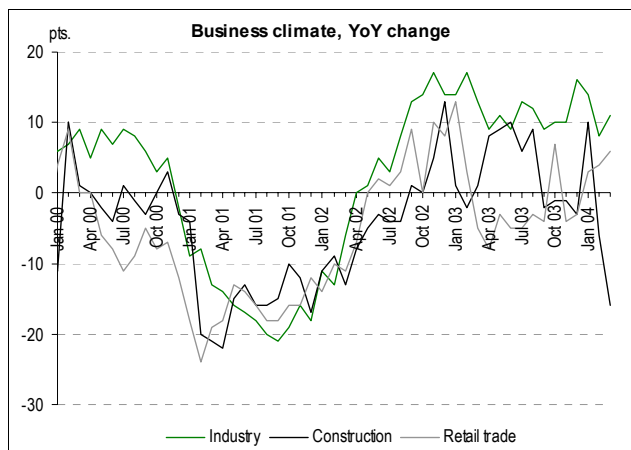


Excellent financial results of Polish firms

- The CSO said that financial results of companies employing over 49 persons recorded very significant improvement in 2003.
- The data showed that Polish firms continued to keep a check on costs, still focusing on improvement of their businesses' effectiveness. Hence, increase in revenues translated into considerable improvement of net financial result. In 2003, it amounted to PLN18bn versus the loss of PLN2bn in 2002.
- The most substantial improvement of financial result was seen among exporters, which confirmed that export has been the main driver of the economic recovery.
- Strong improvement of enterprises' profitability should finally translate into higher investment activity, however, under the condition that uncertainty disappears (e.g. political jitters fades).

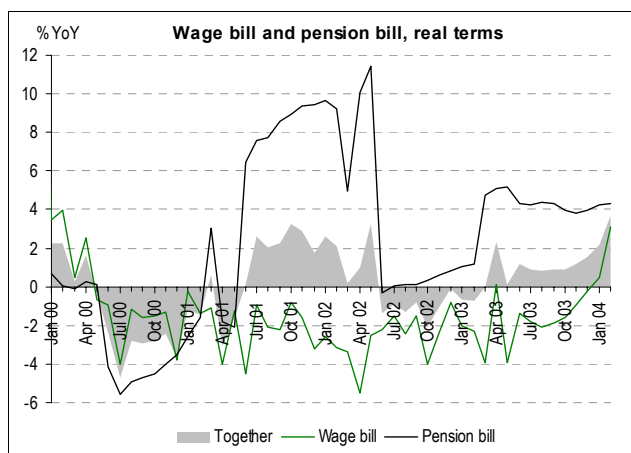
Source: CSO, BZWBK own estimates

Economic update



Mixed indicators of business climate and consumer confidence

- March saw further improvement of business climate in industry (up 11pts in annual terms) and retail trade (up 6pts on the year), but is also confirmed poor situation in construction sector, for which the indicator fell as much as 16pts in annual terms.
- Fall of index for construction was the strongest since December 2001. However, according to the surveyed firms the outlook for construction sector warmed up compared to last month's survey.
- In March, consumers' evaluation of the economic situation significantly worsened, reaching the lowest level since 12 years. At the same time assessment of own situation of households was much more optimistic and expectations for future were bright. There was huge rise in the number of opinion that now it is good time for purchasing durable goods. The number of households planning such purchases considerably increased.



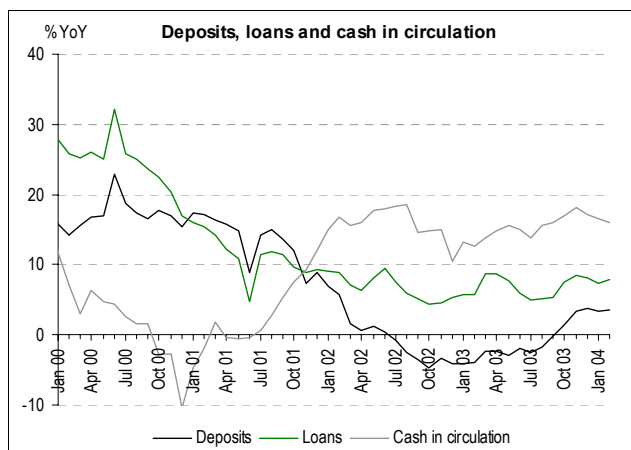
Sluggish labour demand, but wages growth accelerates

- Average employment in the enterprise sector fell 1.5%YoY in February, confirming that the labour demand remains subdued, and the ongoing recovery does not translate fast into improvement of labour market conditions.
- More surprising, and thus more important, were data on high wage growth in February (2.2%MoM and 6.3%YoY), which caused that, despite fall of employment, wage bill in the enterprise sector strongly rebounded, rising by as much as 4.8%YoY in nominal terms and 2.9%YoY in real terms, the fastest since early 2000, i.e. the beginning of the period of economic slowdown.
- Considerable part of wage increase resulted from one-off wage increase in mining (huge hike of 28%YoY). In other sectors wage growth was much more moderate. This supports the view that



The recovery continues, but still with high unemployment

- The unemployment rate in February remained at 20.6%, flat from January and 0.1pp lower in comparison with record high in February 2003. The number of unemployed totalled 3.295m, almost unchanged compared to January, but 50 000 below the level in the analogous period of last year.
- The CSO also revised data from LFS survey for 4Q03. It turned out that the unemployment rate in the final quarter of 2003 fell not to 18.7% (as released earlier), but only to 19.3% against 19.4% in 3Q03.
- The revision is significant and unfortunately the new figures lead to new conclusions. Contrary to earlier released data, they decrease hope for visible fall in unemployment rate in the nearest future.

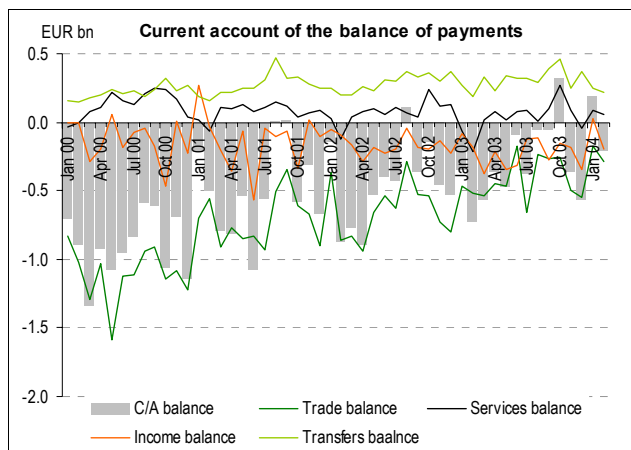


Money and credit growth under control

- February did not bring large changes in monetary developments. Money supply M3 grew 4.9%YoY against 5.1%YoY in January. Cash in circulation rose 16.1%YoY (after 16.6%YoY a month earlier), and deposit growth rate was 3.4%YoY, the same as in January.
- Total claims of the banking sector in February increased by 7.9%YoY against 7.4%YoY in January. Growth of households' borrowing continued gradual acceleration observed in 2003 and amounted to 14.4%YoY. Meanwhile, corporate borrowing is still sluggish as in February they inched up only 2.6%YoY.
- All in all, monetary statistics for February did not bring any new, important information about the economic situation and confirmed that there are not threats to inflation from monetary developments side.

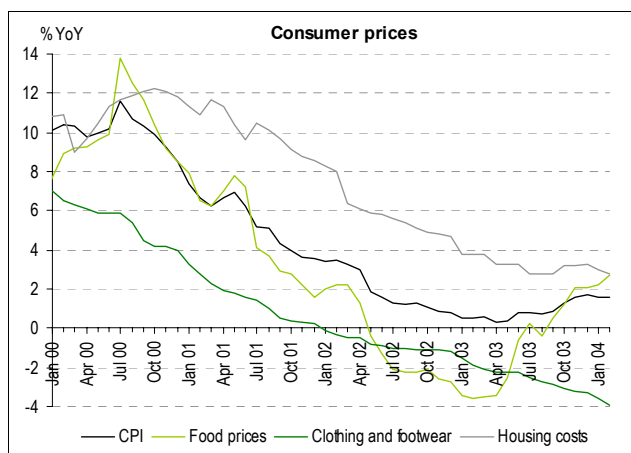
Source: CSO, NBP, BZWBK own estimates

Economic update



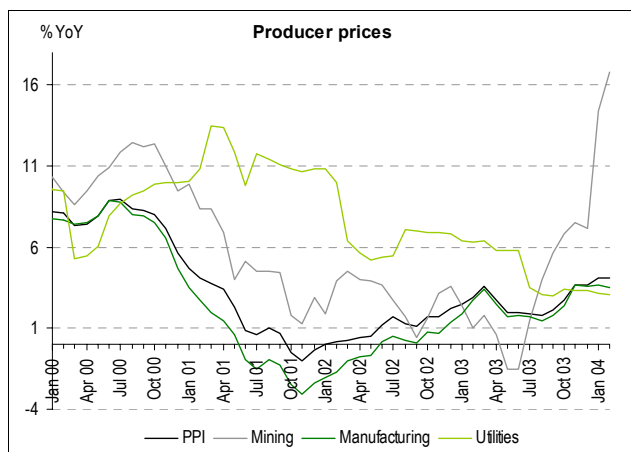
No worries about external balance of the economy

- In the first two months of this year strong acceleration of foreign trade turnover took place, coupled with narrowing of trade gap. Moreover, 12-month cumulative C/A deficit in relation to GDP fell to 1.4% after February against 2% at the end of 2003.
- In line with expectations, Polish export kept expanding dynamically, rising 13.4%YoY in February and 19.6% in January. At the same time, we saw some acceleration in import growth rate, which was 6.5%YoY in February and 10.6% in January.
- Rising dynamics of import may be a confirmation that fixed investments began to bottom out. However, it is possible that import growth has been temporary boosted to some extent by the fact that many enterprises accumulate inventories before EU entry.
- Besides narrowing trade gap, improvement on the current



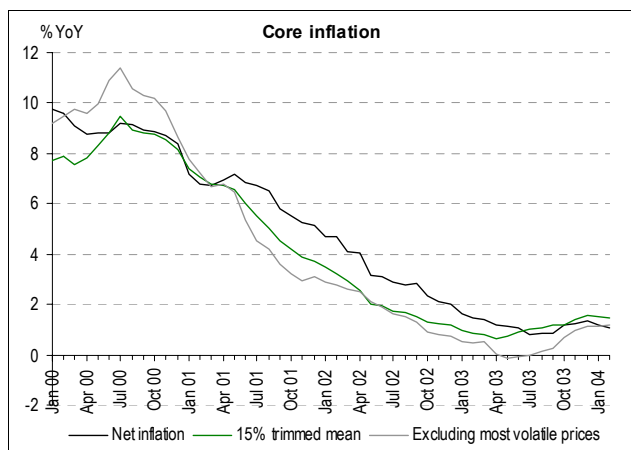
CPI surprised on low side again

- Consumer prices in February rose 0.1%MoM and 1.6%YoY. At the same time the CSO revised CPI for January to 1.6% from 1.7% due to changes in the weighting of goods and services in the consumer basket (decline in foodstuffs share in consumer basket).
- Despite decrease of foodstuffs' share in consumer basket, growth of food prices remained the most important pro-inflationary factor. In January and February food prices rose by 2.2%YoY and 2.7%YoY, respectively.
- Consumer prices was also fuelled by rise in housing costs (2.5%YoY in January and 2.4%YoY in February), and rising transport prices (3.4%YoY in January and 2.4%YoY in February).
- Meanwhile, prices of clothing and footwear recorded deep falls of 3.6%YoY in January and 3.9%YoY in February, showing that



Stable growth of producer prices

- Producer prices in February grew 0.6%MoM and the annual PPI remained at January's level of 4.1%YoY.
- The fastest growth of prices was seen in mining (16.8%YoY), which confirmed that relatively high PPI is largely an effect of surge in raw materials prices (11.8%MoM). This concerns mainly prices of copper and coal, which play an important role in Polish industry.
- The second reason for relatively high level of PPI are prices of oils products (up by 2.1%MoM in February), which contributed to rise in producer prices in manufacturing by 0.6%MoM and 3.5%YoY against 3.7%YoY in January.
- In general, PPI figures showed that, except for mining, growth of producer prices slightly eased, which supports the view there is no significant threat of demand pressure on prices.

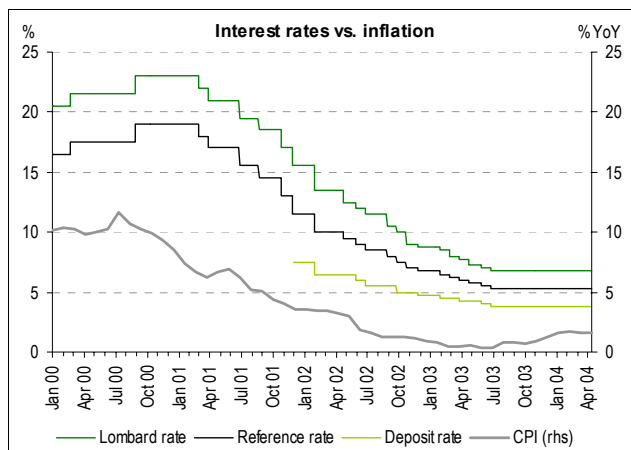


Core inflation stays low

- Data on core inflation released fit well into the positive picture of inflationary tendencies drawn by CPI and PPI figures.
- After two months of this year 3 indices were approximately at the level recorded in December 2003, and 2 measures (most closely watched by the central bank, i.e. 15%-trimmed mean and net inflation), recorded a drop (by 0.1pp and 0.3pp, respectively) and amounted to 1.45%YoY and 1.06%YoY. All measures of core inflation remained below CPI (1.6%YoY) and the lower end of the central bank inflation target (1.5%).
- All in all, inflation figure for January and February confirmed that reasons for inflation acceleration are almost exclusively on the supply-side, while demand pressure is almost completely subdued. Thus, the medium-term inflation outlook for Poland remains quite favourable.

Source: CSO, NBP, BZWBK own estimates

Central bank watch



Rates and bias unchanged, improved communication

- Interest rates kept on hold in March, the reference rate still at 5.25%; neutral bias maintained.
- As we expected, the MPC said again they did not exclude shift in bias to tightening at the next meeting.
- This phrase is an „intermediate signal”, which is supposed to shape market expectations more precisely.
- The MPC may change bias in the remainder of the year, if there are clear signs that domestic demand rebounds strongly.
- However, at least until the end of this year one should not expect interest rate hikes.
- We do not change our expectations, moulded after February’s meeting, that interest rates will remain unchanged for the whole 2004.

Important elements of the MPC statement

Continuing presence of some factors supporting the continuation of a low inflation level: continued moderate money supply level, continued low growth rate in corporate loans, accelerates growth of labour efficiency in the corporate sector.

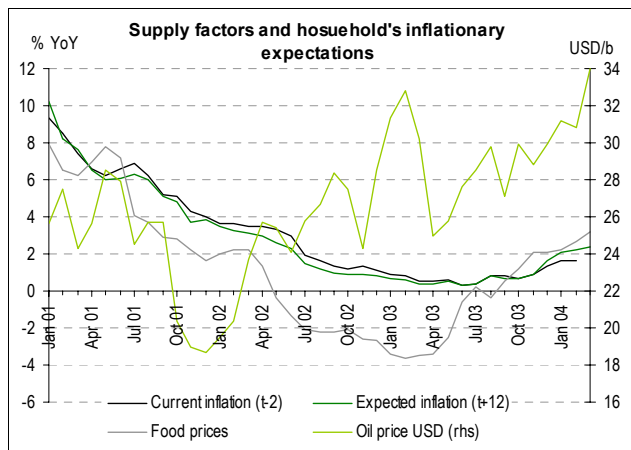
Growth trends in the economy are clearly consolidating. The Polish economy is currently in a revival phase, stimulated by rapidly increasing export. If the consumption trend is maintained at a level close to that of 2003, one can expect a continuance of growth trends in the economy for the next few years. This will gradually increase inflationary pressure.

There has been no change to the importance of factors hampering the stabilisation of inflation at a low level. The Council re-emphasizes that the most important of these is the state of public finances. (...) there decreases the likelihood of undertaking the announced steps that have as their goal decreasing the state budget in 2004 by about PLN 3 billion.

Other possible factors of inflationary pressure: growth in inflationary expectations increase in oil price forecast, growth in price of foodstuffs in 2004 may be greater than that indicated in actually available forecasts, growth in the PPI, high growth rate of cash in circulation, growth in salaries.

Press conference more important than official statement

- It seems that the MPC’s opinion about current economic situation is similar to our view – the recovery is strong, but is driven mostly by export, which constrains possible negative impact of stronger economic growth on internal and external balance of the economy.
- Among factors supporting stabilisation of inflation at low level are: moderate growth of money supply, low dynamics of credit, faster increase of labour productivity.
- Among factors posing threat to stabilisation of inflation at low level the first position on the list was again occupied by the uncertain outlook for Poland’s public finances.
- Comments of MPC members at the press conference (details on the next page) brought much more information the official statement. bank’s opinion on this issue has changed.



Supply-side factors – significant source of risk

- The MPC strongly stressed there was risk following from supply-side factors.
- The Council said that rising expectations of price growth formulated by firms from food processing sector indicated that food prices growth might be higher than predicted currently.
- There was rise in forecasted price of crude oil for 2004: by USD1.3 per barrel during one month and USD5 per barrel during six months.
- There is a question whether the MPC should react to changes in inflation caused by supply-side factors, assuming that this would not translate into higher inflation expectations.
- Inflation expectations have grown in recent months, and it is interesting what will happen after the EU entry on May 1.

Inflation rise due to EU entry, percentage points

	2004	2005	2006	2007	2008
CPI	1.1	1.1	0.7	0.4	0.2
<i>Sources of inflation acceleration:</i>					
Changes in VAT and excise tax	0.7	0.4	0.1	0.1	0.1
Changes in customs duties	-0.2	-0.1	0.0	0.0	0.0
Changes in costs of production	0.3	0.4	0.3	0.2	0.1
Changes in food prices (CAP)	0.3	0.5	0.3	0.1	0.1

Slight impact of EU entry on consumer prices

- The research report published jointly by the NBP and the UOKiK (free competition watchdog) show that one should not expect rapid price adjustments after Poland’s entry to the EU. Possible price changes will be rather moderate and spread in time.
- Only 15% of goods and services will go up in prices after the EU entry while one third of consumer basket should become cheaper. The accession may raise annual inflation rate by ca. 0.9pp in 2004 and 2005.
- This effect may be even weaker, because estimates of the central bank did not take into account the effect of intensified competition after the full integration with the Common Market.
- The estimates were similar as the ones done by NOBE think tank for the request of the Ministry of Finance.

Source: CSO, NBP, BZWBK own estimates



Central bank watch

Comments of the central bank representatives

Remarks

Leszek Balcerowicz, NBP president

PAP, press conference after MPC meeting, 31 March

A reservation added to MPC's decision simply reflects a fact that a sum of factors influencing inflationary outlook moved towards less favourable direction however in future the sum can move towards any direction.

Comments from the member of Monetary Policy Council expressed at March's press conference shed definitely more light on the way the policy is conducted and to large extent strengthened out the interpretation of latest decisions. Warnings on a change in bias should not be treated as a threat against interest rate raise.

PAP, 19 March

Krzysztof Rybiński will replace Andrzej Bratkowski and Jerzy Pruski will replace Jerzy Stopyra. Stopyra will remain a central bank board member but will have new responsibilities.

Poland's President appointed new deputy NBP governors. They are allowed to take part in MPC meetings. As both Pruski and Rybiński have rather hawkish view towards monetary policy one could expect that one of their tasks will be supporting NBP president in his efforts aimed at convincing other MPC members to his opinions.

Dariusz Filar, MPC member

PAP, 31 March

When we formulate a signal that it is possible to switch to restrictive bias we give a signal that we are taking into account that some signs of inflationary pressure may appear that will give effect with some delay. We are waiting for more clear confirmation of them. [...] We are still patient.

A statement from Dariusz Filar that the MPC – similarly to the Fed – can take the liberty of being patient as far as a change in policy bias is concerned, confirms that one should not be afraid of switching to more restrictive monetary policy in the nearest months. For sure, the Monetary Policy Council is going to wait for more signals from real sector in order to be able to evaluate more precisely a scale of external demand (investment) revival and its possible influence on future inflation.

Mirosław Pietrewicz, MPC member

PAP, 25 March

It was a warning. One does not result from the other. We said that much depends on what will be going on in public finances, and public finances saw positive changes. The bulk of the Hausner plan is likely to be carried out, it is moving on to further stages, anyway. Thus, I think that the main reason for pursuing a more restrictive monetary policy has ceased to exist.

According to one of the most dovish MPC members, the main reason that could cause a tightening in monetary policy had vanished as a result of starting a work in parliament on the austerity plan. Even if Mr. Pietrewicz expressed only his own opinion and not the whole MPC's point of view it was very important hint suggesting that a hawkish part of the Council will not be willing to drastic changes in the monetary policy.

Halina Wasilewska-Trenkner, MPC member

Gazeta Bankowa, 5 April

Building econometric models is not easy, but I know that our central bank is still improving forecasting techniques. If the MPC were to base its decisions on a forecasting model sometime, it would have to be very reliable. I saw a number of inflation models in many countries and I know that they have the same problem, as inflation is sometimes driven by fast changes, which are very difficult to predict.

Monetary authorities respond to some events in advance on the basis of forecasts. However, one should remember that monetary policy strongly based on forward looking and at the same time transparent requires very good communication with recipients of signals released.

Apart from changes in Monetary Policy Council there have been also rotations in NBP's board of directors, recently. Let's hope it will lead to further improvement in communication of the central bank with financial market and first macroeconomic forecasts from NBP will be released soon.

Andrzej Wojtyna, MPC member

PAP, 31 March

The politics-related situation is a factor we take into account. However, the decision to shift bias would require the emergence of new, mainly economic signals suggesting that economic activity reached such a rate of growth that inflationary pressures may grow enough to justify changes.

We decided to keep this signal [that the MPC does not exclude change in bias]. It is to be an intermediate signal aimed at informing on Council's attitude, as we assume that communication with economic and political environment is extremely relevant. The point is that decisions should not be taken in too radical way.

A statement from professor Wojtyna on sending "intermediate signal" seems to confirm that in fact the MPC introduced an additional third bias in monetary policy. Taking into consideration that the previous Council used only two degrees of monetary policy bias – "restrictive" and "neutral" – and that the latter is strongly devalued, as it was present during the whole period of interest rate cuts the MPC introduced a modifier for intermediate degree. It allows to stress that a previous stage in monetary policy is over. In practice, with this step the MPC managed to influence market expectations. However keeping this (quite complicated) figure of speech for a longer period may seem to be a bit bizarre. Therefore we would expect the MPC to change (redefine) used terminology (as there is no need to use terms "neutral" and "restrictive" all the time).

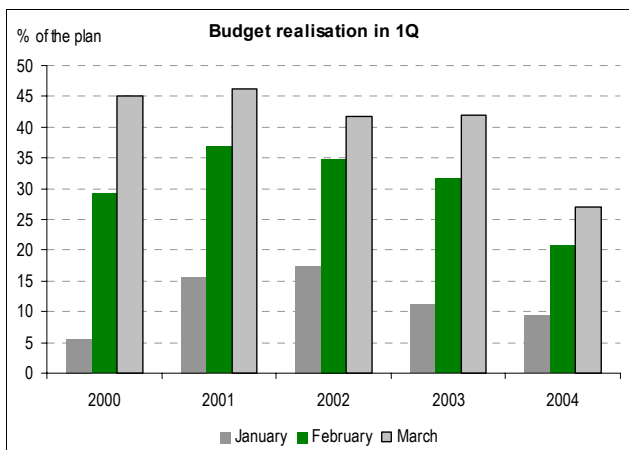
Wojciech Kwaśniak, General Inspector of Banking Supervision

PAP, 11 March

Banking supervision is considering a possibility of introducing limits of a share of mortgage loans in credit portfolios of commercial banks at some 60%. Today we are warning that such a rule can be introduced. We are analysing it. If we recognize that our intervention in a form of some regulation is necessary it will appear.

According to NBP data, in 2003 mortgage loans made some 20% of the whole credit portfolio of Polish banks. In 2002 the share amounted to some 15%. It means that even if new rules were introduced there would still be a large room for a development of mortgage loan market. Nevertheless, given the fact that at present almost the whole increase in credits for households stems from a rise in mortgage credits the level of 60% could be reached very soon.

Government and politics



Three-step procedure after Prime Minister's resignation

The President might not accept the resignation. If he does, the appointment of the new cabinet is made as follows:

1. The President shall appoint a new PM together with other cabinet members within 14 days. The PM shall submit his programme of activity and seek a motion of confidence in the Sejm within 14 days since his nomination. The confidence vote is passed by an **absolute majority of votes** (50%+1) in the presence of at least half of the statutory number of deputies.
2. If the step 1 fails, the Sejm within 14 days shall choose a PM and cabinet members proposed by him, by an **absolute majority of votes** in the presence of at least half of the statutory number of deputies. The President has no choice but to appoint the council of ministers so chosen.
3. If the council of ministers is not elected in step 2, within a period of 14 days the President appoints a Prime Minister and the members of cabinet proposed by him. Then within 14 days following the nomination the Sejm should hold a confidence vote in the presence of at least half of the statutory number of deputies. The vote is passed by **simple majority of votes**.

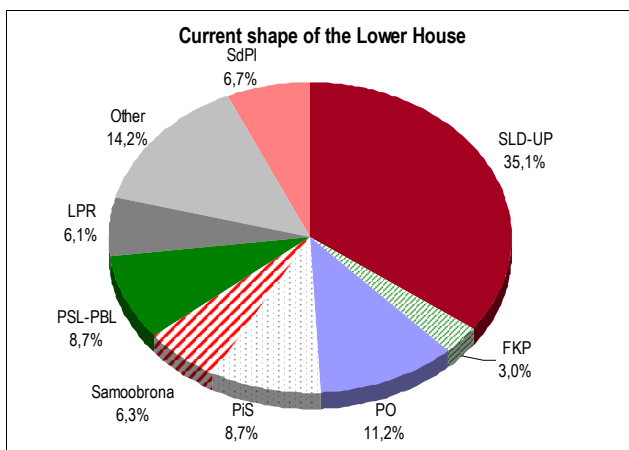
If the election of the new cabinet fails in 3. step, the President should order

Budget deficit under control

- Budget deficit after March reached around 27% of the annual plan, largely due to high revenues from CIT, which resulted from extraordinary good financial results of Polish enterprises in 2003 and final tax payments for 2003.
- The situation of the state budget is much better than in the analogous period of a few previous years, but one has to remember that performance path of revenues and expenditures throughout 2004 is not fully comparable with the previous years.
- The crucial period for the state budget will be the second quarter of the year, when new regulations on VAT will come into effect. This may lead to temporary slump in budget revenues.
- However, from the financial market's point of view, politics will be much more important in the nearest time than the economic figures.

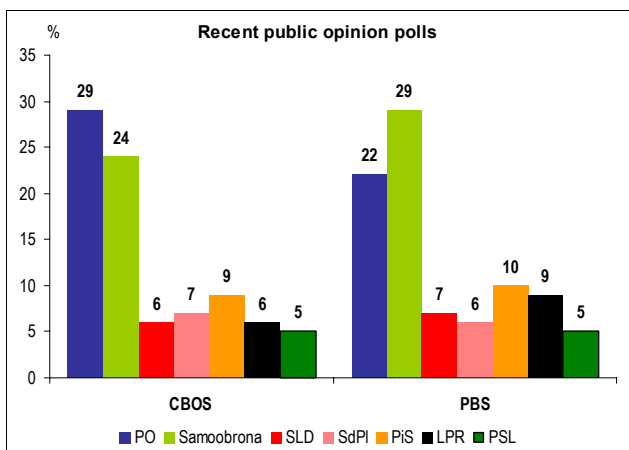
Marek Belka or not Belka?

- Leszek Miller will resign from the post of PM on May 2.
- There is possibility of forming the new government without the absolute majority of seats in the Sejm (over 50% of voters).
- The formation of the new government may last one or two month and it may end up with early elections. However, the latter option seem quite unlikely.
- The confidence voting over the new cabinet in May will be a close call. We believe Belka will manage to win enough support, which would improve sentiment on the financial market.
- Otherwise, there are growing chances that the new cabinet will be headed by other candidate, which could mean significant watering down of the Hausner plan and cause increased nervousness on the market.



The New left-wing party emerged on the political scene

- A group of MPs led by Sejm's speaker Marek Borowski and Andrzej Celiński left the SLD and set up a new party – the Social-democracy of Poland (SdPI).
- The new party support Marek Belka's candidacy.
- It is not known how the biggest party in the Sejm will behave – members of the SLD have different opinions. Further transfers of deputies between the SLD, UP and SdPI may change balance of support for Marek Belka's candidacy for the Prime Minister.
- Distraction of the parliament increases political uncertainty and it seem this will not change after the general election.
- First fittings to budget for 2005 will remind investors of unresolved fiscal problems.



...but so far populists are getting stronger and stronger

- The populist Self-Defence takes the lead in public opinion polls more and more frequently.
- Support for other political parties has been declining (the strongest in case of the PO in PBS poll – from 26% to 22%) or has stabilised.
- According to PBS poll the Self-Defence could form the ruling coalition with the PSL and the LPR.
- It is hard to say how many deputies will join the SdPI. Particularly that high support seen in first public opinion polls diminished and is comparable with support for the SLD.
- In April and May we face the hottest period in Polish politics since several months. One should wait for results of next public opinion polls.

Source: Ministry of Finance, Ministry of Economy, Labour and Social Policy, Lower House, BZWBK own estimates,



Government and politics

Comments of government representatives and politicians Remarks

Aleksander Kwaśniewski, President;

PAP, 2 April

If the mission of professor Belka failed, there are next steps, but it is difficult to imagine that suddenly some majority coalition arise. If it were to arise, it has time until May 2, and then talks will look completely different. If Marek Belka said that he cannot take the office, then I would have to take further actions. But I don't think that Marek Belka will resign easily.

Political talks concerning appointment of a new government are held. Unfortunately, President's candidate does not fulfil the conditions of all the political parties. There are voices that Marek Belka could resign before confidence vote for his cabinet. The comments from President and Mr. Belka himself (see below) point unambiguously that such solution is little likely.

Marek Belka, candidate for PM;

PAP, Reuters, 6 April

I am sure to give a parliamentary expose. It may win support or it may not. [...] I will say: either give me a year to carry out essential work or let's end this torment by calling early elections.

The confidence vote for Marek Belka's government will take place in the first half of May. The candidate for PM post can count for a support from (a part of) SLD, newly founded SdPI, Labour Union (conditional), FKP and probably from unaffiliated MPs. Forming Marek Belka's government will depend on intra-party differentiates. For sure, all the opposition parties will not support this cabinet.

Jerzy Hausner, deputy PM, economy and labour minister;

PAP, Reuters, 31 March

I see sense [of being in the new government] in continuation of the mission, which I began. (...) I cannot imagine execution of other economic program. I am not useful for that. This is ambitious task, but I hope that until the end of April the Sejm will pass the bills approved by the government yesterday.

Majority of Marek Belka's comments point that as a head of the new government he would be determined to continue fiscal reforms (he has even mentioned deepening the Hausner plan) and to finish Poland's preparations for favourable EU integration. Also, Jerzy Hausner's ministerial post in Belka's cabinet would not be threatened as together with Włodzimierz Cimoszewicz and Jerzy Szmajdziński he would be one of three ministers who would stay in the government.

Marek Pol, deputy PM, infrastructure minister, UP chairman;

PAP, 30 March

The Labour Union [UP] is ready to support the government but not at any price. If the new Prime Minister does not accept our conditions we will leave the ruling coalition .

Labour Union defined two conditions of its support for the new cabinet – including social affairs in the Hausner plan and fixing the date of withdrawal of Polish army from Iraq. Well we do not think these conditions can be fulfilled but we do not assume that Labour Union would decisively oppose forming the new government, especially given the fact that a support for the party is very low and a few its MPs is likely to leave to SdPI.

Krzysztof Janik, SLD chairman;

PAP, 7 April

There is growing determination within the SLD to build a coalition, which could form the cabinet. After the meeting [of Belka with SLD] the support for Belka's PM candidacy grew. [...] The program presented by Belka in dominant part was fully accepted by the SLD management. I believe we will have majority in the parliament.

Contrary to a statement from a chairman of the largest party in parliament and despite the fact that SLD was one of two parties supporting Marek Belka's candidature from the beginning the support of this party is doubtful. As a matter of fact, President Kwaśniewski warns that early elections are alternative for Belka's cabinet, however e.g. in practice forming SLD-PSL ruling coalition is possible. Probably, such a government could not count on support from SdPI but together with MPs of Labour Union and FKP it could have slight majority in the parliament so that confidence vote could be won.

Marek Dyduch, SLD general secretary ;

PAP, 7 April

Unless Belka convinces the PSL to back his government, I think Józef Oleksy will have a bigger chance to become Prime Minister. The SLD will look for other solutions if presidential candidate did not convince the PSL. As SLD general secretary I will not agree for the cabinet, which will have only temporary, not stable, support in the parliament. As for now, Belka and Oleksy are candidacies treated equally by the SLD. Oleksy has higher support among SLD activists. We would like to see Belka talking to SLD activists.

A statement from general secretary points that SLD is likely to be more and more willing to appoint Józef Oleksy for PM's post. This in not a positive scenario from the point of view of fiscal reform continuing, since it could mean watering down social spending cuts (the more so if a coalition with PSL is established). Divergent comments from Janik and Dyduch suggest that the support for Belka is uncertain even within SLD, which confirms that winning confidence vote for Belka's government will be uncertain till publishing results of the voting.

Janusz Wojciechowski, PSL president;

PAP, 29 March

From my point of view this [Marek Belka] is a candidate which it is hard to accept and in reality for the Peasants Party impossible to support. [...] Poland needs a PM who would be good not just for financial markets but first and foremost for the people.

PSL does not exclude a support for other government formed by SLD but with more „pro-social program”. Wojciechowski suggested even that PSL could take part in forming such a government and is conducting talks on it. If it happens financial markets could respond with significant nervousness and Mr. Wojciechowki could find out that “more social” economic reforms without support of the market is doomed for failure sooner or later.

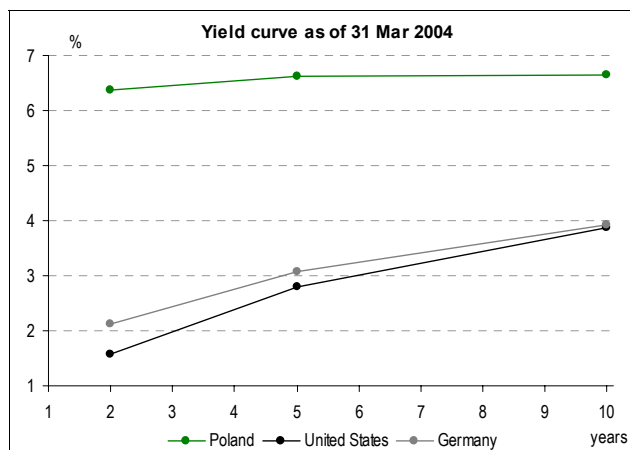
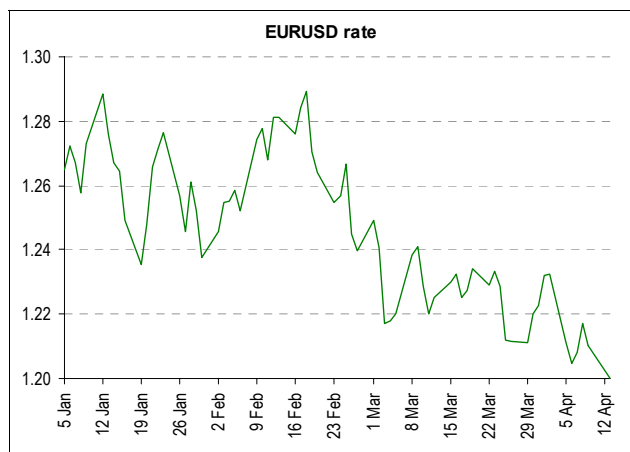
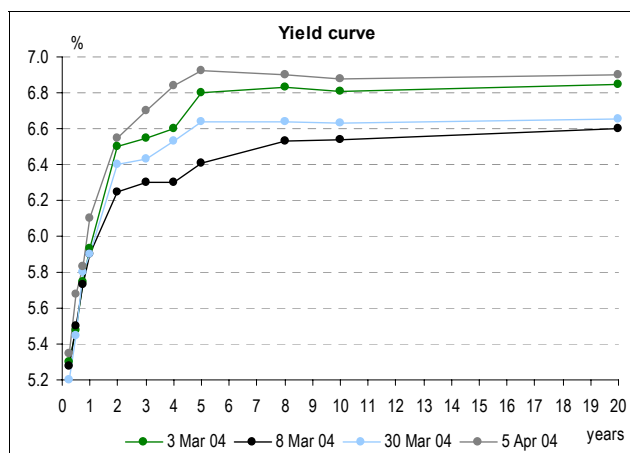
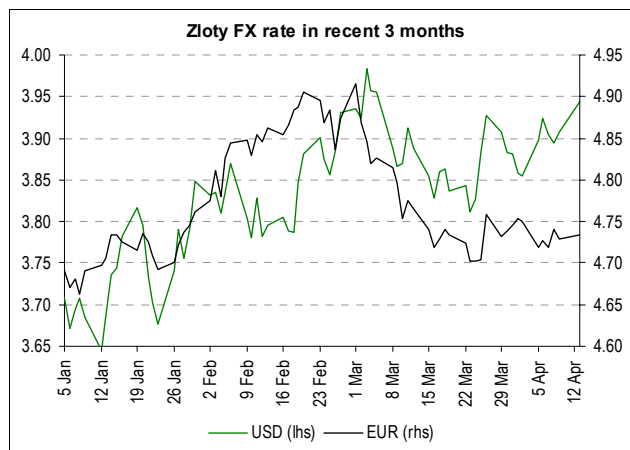
Roman Jagieliński, FKP chairman;

PAP, 29 March

I am sure that if our votes are crucial we will be able to reach an agreement and to support Mr. Belka as the Prime Minister.

It is difficult to imagine that fifteen-person parliamentary caucus that could have problems to get to next Parliament would aim at early parliamentary elections. Therefore Mr. Jagieliński's party is likely to support Marek Belka's cabinet and if it does not win absolute majority, the party will support Józef Oleksy's government.

Market monitor



Source: Reuters, BZ WBK

In March stronger on the market, in April weaker again

- In March, sentiment on the financial market was still under influence of events on the political scene, but this time around calming situation down translated into zloty appreciation and moderate fall in yields on Treasury bonds.
- Beginning of March saw record weak zloty but in next few days it strengthened clearly and the yield curve moved downward as a result of accepting bills from the Hausner plan, government coalition enlargement and changing SLD leader. Afterwards, zloty appreciation trend was maintained but it was disturbed temporarily given rising political uncertainty. Selling foreign currency by the Ministry of Finance was conducive to strengthening, but a fall in rates was limited by demand from importers and unclear comments from deputy finance minister upset the zloty. At the same time bond market was weakening slightly as political uncertainty was accompanied by relatively high supply on the primary market. At the end of March the market was relatively calm and stable despite announcement of PM's dismissal.
- At March-end the zloty was stronger than in February by some 2.2% against dollar-euro basket while it gained even 2.7% at the strongest point. The yield curve was by some 10bps lower than in February though it fell even by 20-30bps in first decade.
- In early April, uncertainty in politics resulted in deterioration in sentiment on the Polish market, however. Moreover, fluctuations on the world's markets weakened bond quotations. In pre-Easter period market activity was moderate and fluctuations in prices somehow accidental.
- To significant extent, an outlook for Polish market is connected with a change of the PM and government. A new cabinet will be assessed through its ability to conduct public finance reform and confidence vote for Belka's cabinet would be perceived positively.

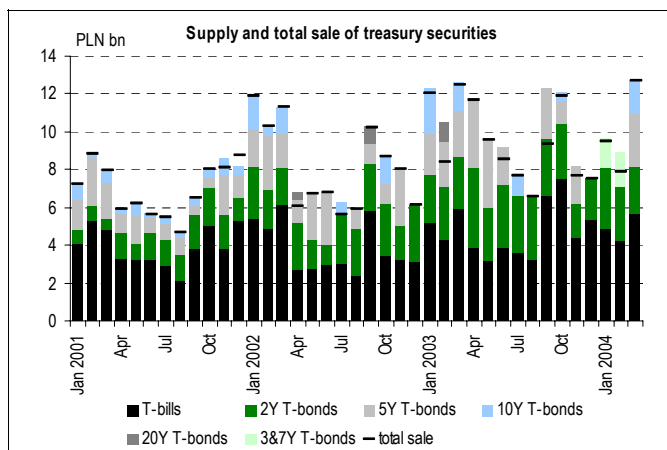
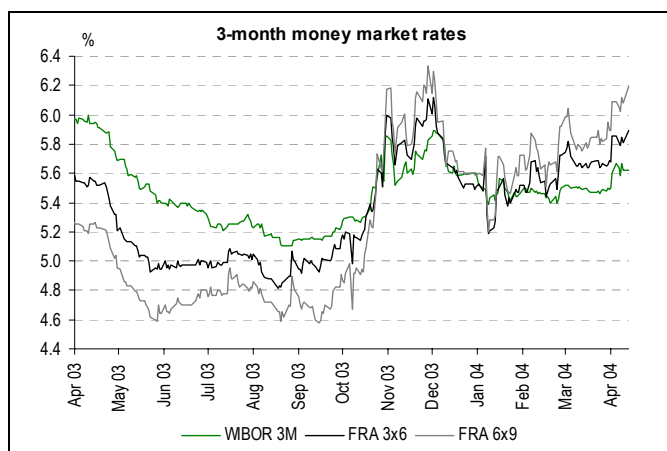
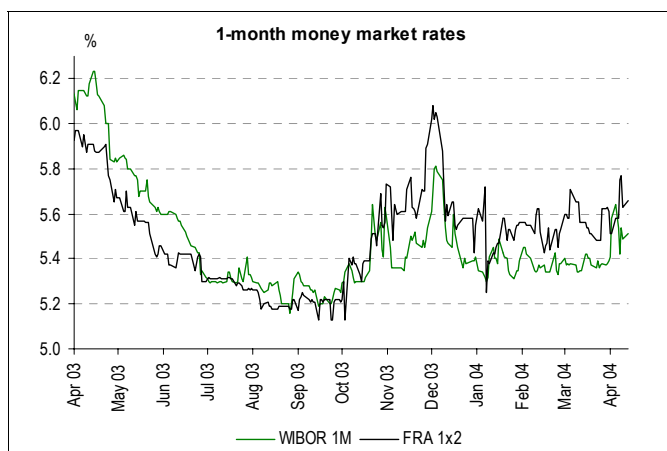
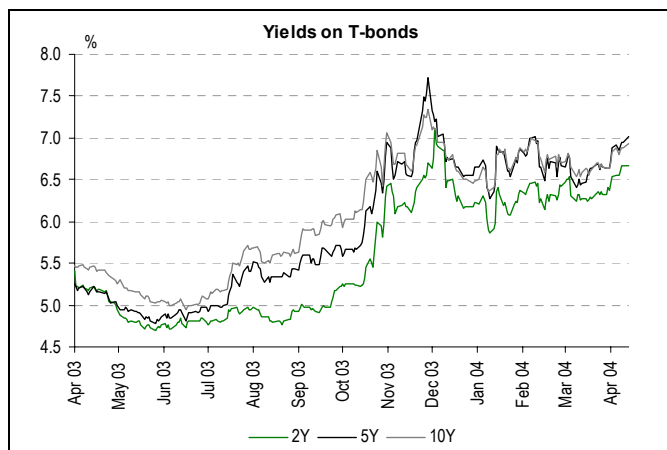
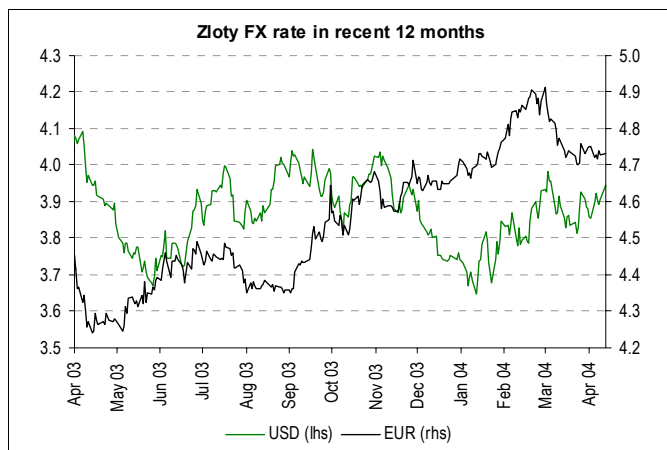
Clear stabilisation on the FX markets in March

- Main FX rates are still remaining volatile but in March a scale of fluctuations was limited. After significant changes at the beginning of the month related to a release of February's data on US employment the EURUSD rate stabilised at around 1.23 despite some anxiety following terrorist attack in Madrid.
- On turn of the months the EURUSD was strongly unstable again after the comments from central bankers on interest rate changes in the US and EMU and again before and after employment data. Very strong figures strengthened the dollar to below 1.20, the strongest level for four months.
- In our opinion, FX quotations will remain unstable and in the nearest months, till a first decision on interest rate raise in the USA, fluctuations in the EURUSD rate in a broad range are likely without any clear trend.

Forecasts of lower interest rate will weaken bond markets

- In March risk premium for Polish bonds measured with the difference between expected 5Y interest rate in Poland and in the Eurozone in 5 years time was fluctuating from 140bps (8 Mar – political calming down) to 171 bps (23 Mar – high supply of 5Y bonds). At month-end it was close to February's level (153bps).
- On the main fixed income markets downward trend in yields was still continued but at the beginning of April it was disrupted after a release of very strong March's employment data in the US, which supported expectations of interest rate raise in the United States in the second half of this year.
- We expect increase in yields till year-end as a result of further improvement on the American labour market that will maintain expectations of interest rate hikes. High budget deficit in the United States results in a risk of pressure for yield increase.

Market monitor



Date of auction	OFFER / SALE		
	13-week	52-week	Total
01.03.2004	-	1,000 / 1,000	1,000 / 1,000
08.03.2004	-	1,000 / 1,000	1,000 / 1,000
15.03.2004	-	1,200 / 1,200	1,200 / 1,200
22.03.2004	-	1,200 / 1,200	1,200 / 1,200
29.03.2004	100 / 100	1,200 / 1,200	1,200 / 1,300
March total	100 / 100	5,600 / 5,600	5,700 / 5,700
05.04.2004	100	1,000	1,100
08.04.2004	100	1,000	1,100
19.04.2004	100	1,000	1,100
26.04.2004	-	800	800
29.04.2004	-	500	500
April total	300	4,300	4,600
May and June*	100	8,000 - 8,600	

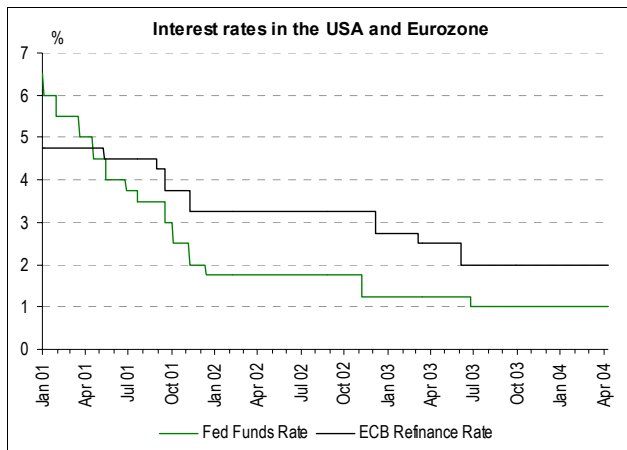
* own estimations based on preliminary information for 2Q04

month	First auction			Second auction			Third auction					
	date	T-bonds	offer	sale	date	T-bonds	offer	sale	date	T-bonds	offer	sale
January	07.01*	OK0406	3,200	3,200	14.01	WZ0307/0911	1,500	1,407	-	-	-	-
February	04.02*	OK0406	2,900	2,600	11.02	WZ0307/0911	1,800	1,110.8	-	-	-	-
March	03.03	OK0406	2,500	2,500	10.03	DS1013	1,700	1,700	17.03*	DS0509	2,760	2,760
April	07.04	OK0406	2,200	2,200	14.04	DS1013	1,400	-	21.04	DS0509	1,700-2,700	-
May	05.05	OK0806	2,200-2,800	-	12.05	WZ0307/0911	1,000-1,500	-	19.05	5L	1,700-2,700	-
June	02.06	OK0806	2,200-2,800	-	9.06	WZ0307/0911	1,000-1,500	-	16.06	5L	1,700-2,700	-
July	07.07	OK0806	-	-	14.07	DS1013	-	-	-	-	-	-
August	04.08	OK0806	-	-	11.08	WZ0307/0911	-	-	-	-	-	-
September	01.09	OK0806	-	-	8.09	WS0922	-	-	15.09	5L	-	-
October	06.10	OK1206	-	-	13.10	10L	-	-	20.10	5L	-	-
November	03.11	OK1206	-	-	10.11	WZ0307/0911	-	-	17.11	5L	-	-
December	01.12	OK1206	-	-	-	-	-	-	-	-	-	-

* with supplementary auction

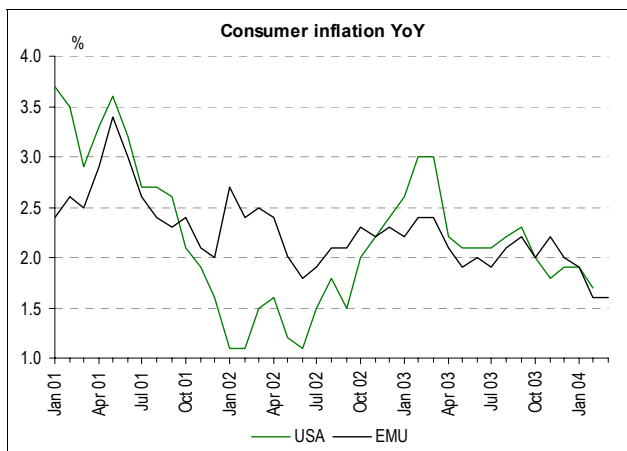
Source: Ministry of Finance, Reuters, BZ WBK

International review



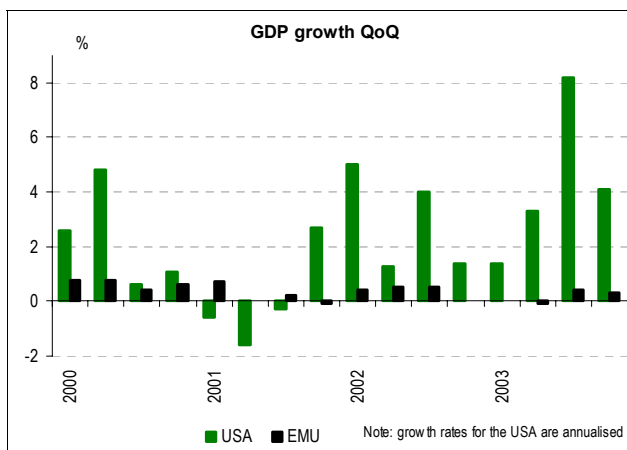
Expectations for lower rates in EMU and higher ones in US

- On 1 April, in line with expectations, the Council of the ECB kept refinance rate at 2.0% for a tenth month in a row. The ECB president assessed that Eurozone's inflation could rise in the nearest months and present level of the rates ensured price stability. He confirmed forecasts of gradual economic recovery. Analysts had hoped that Mr. Trichet would signal early interest rate cut, but this time around he weakened these expectations.
- As forecasted, on 16 March the Fed did not change interest rates. Federal fund rate remained at 1.0%, the lowest level since 1958. In a statement the Fed suggested that it would not raise rates soon, as employment does not increase quickly enough and inflation remains low. However the latest, very good data from labour market reinforced hopes for rate hike. Next Fed meeting will be held on 4 May.



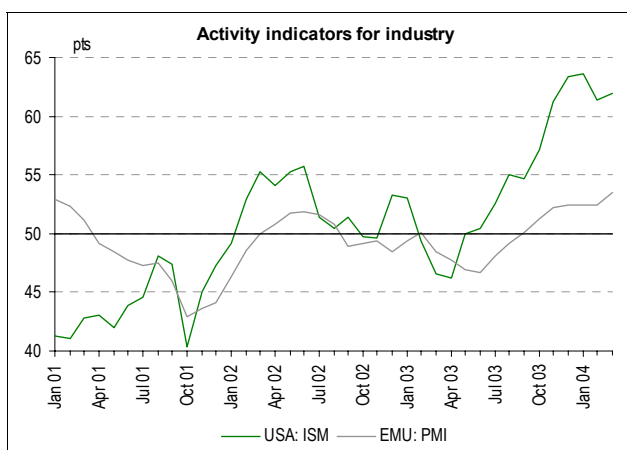
Inflation in the Eurozone clearly below ECB's target

- In the Eurozone preliminary estimations of inflation in February were confirmed in final release, which matched market forecast. Consumer prices increased by 0.2%MoM and annual inflation rate declined to 1.6% from 1.9% in January. According to preliminary estimations for March, inflation remained at 1.6%YoY – the lowest since November 1999. The figure was in line with market forecast and Eurozone's inflation fell below ECB's ceiling target at 2.0%.
- In the United States data on inflation matched market consensus forecast. In February consumer prices increased by 0.3% MoM, exactly at the level of analysts' forecasts. This figure resulted in a fall in annual inflation rate to 1.7% from 1.9% in January. Core inflation rate increased to 1.2%YoY from 1.1% that was the lowest level since January 1966.



Weak growth in the Eurozone, strong in the United States

- The European Commission lowered forecast of Eurozone's economic growth for 2004 to 1.7% from 1.8% estimated previously. They foresee 2.3% growth in 2005. They said that further rapid euro appreciation would be harmful to economic recovery. In mid-April, second release of Eurozone's GDP data for 4Q03 is planned (previous estimate is at 0.3%QoQ and 0.6% YoY) and EC will publish the latest forecast for 1Q04 and 2Q04.
- According to final data, US GDP increased by 4.1% QoQ in 4Q2003, down from 8.2% in 3Q. The figure was in line with economists' estimates and preliminary report though some growth components were revised. Consumer spending was revised up to a 3.2% from 2.7% as well as business investment to 10.9% from 9.6%. Government spending, however, was revised downward to -0.1% from +0.8% in the preliminary report.



IFO falls even deeper

- In March economic activity in the Eurozone's industry was accelerating significantly faster than in February, while a slight slowdown in growth rate was expected. Reuters PMI index increased to 53.5pts in March from 52.5pts in previous month though 52.3pts was expected. Similarly, in March activity in the US industry recorded an increase that was faster than a month earlier and contrary to expectations. It still remains considerably faster than in the Eurozone. The ISM index rose to 62.5pts against 61.4pts in February and 60.0pts forecasted.
- Index IFO – major business climate indicator for Germany – recorded a second consecutive fall in March to 95.4 pts versus 96.4pts in February, while forecasts pointed to 95.7pts. Both, assessment of present situation and expectations for future deteriorated. Head of the institute called the ECB to cut interest rates.

Source: Reuters, ECB, Federal Reserve



What's hot this month

Monday	Tuesday	Wednesday	Thursday	Friday
5 April POL: T-bill auction EMU: Retail sales (Feb)	6 GER: Unemployment (Mar)	7 POL: T-bond auction OK0406	8 POL: T-bill auction	9 FRA: Industrial output (Feb)
12 Easter Monday	13 POL: Balance of payments (Feb) ITA: Industrial output (Feb) USA: Retail sales (Mar)	14 POL: Inflation (Mar) POL: Money supply (Mar) POL: T-bond auction DS1013 FRA: Inflation preliminary (Mar) ITA: Inflation final (Mar) USA: Inflation (Mar) USA: Foreign trade (Feb)	15 POL: Wages & employment (Mar)	16 EMU: Inflation final (Mar) EMU: GDP (4Q) USA: Industrial output (Mar)
19 POL: T-bill auction EMU: Industrial output (Feb)	20 POL: Industrial output (Mar) POL: Producer prices (Mar) POL: Business climate (Apr) EMU: Foreign trade (Feb)	21 POL: T-bond auction DS0509	22 POL: Retail sales (Mar) POL: Unemployment (Mar)	23 POL: Core inflation (Mar) POL: Food prices (1H Apr) FRA: Inflation final (Mar)
26 POL: T-bill auction POL: MPC meeting (1 st day) GER: IFO (Apr)	27 POL: MPC meeting (decision) EMU: Balance of payments (Feb)	28	29 POL: T-bill auction EMU: Money supply (Mar) USA: GDP (1Q)	30 EMU: Inflation preliminary (Apr) EMU: Economic sentiment; Business climate (Apr)
3 May Constitution Day EMU: PMI (Apr) USA: ISM (Apr)	4 EMU: Producer prices (Mar) EMU: Unemployment (Mar) USA: Fed meeting USA: Factory orders (Mar)	5 POL: T-bond auction OK0806 EMU: Retail sales (Mar)	6 GER: Unemployment (Apr) EMU: ECB meeting	7 USA: Unemployment (Apr)
10 POL: T-bill auction	11	12 POL: T-bond auction WZ0307 & WZ0911 USA: Foreign trade (Mar)	13 GER: GDP (1Q) USA: Retail sales (Apr)	14 POL: Inflation (Apr) POL: Money supply (Apr) POL: Balance of payments (Mar) EMU: GDP (1Q) USA: Inflation (Apr) USA: Industrial output (Apr)

Source: CSO, NBP, Finance Ministry, Reuters

Data release calendar for 2004

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
MPC meeting	20-21	24-25	30-31	26-27	-	-	-	-	-	-	-	-
GDP*	-	20	-	-	-	-	-	-	-	-	-	-
CPI	15	16 ^a	15 ^b	14	14	14	14	16	14	14	15	14
Core inflation	23	-	23 ^b	23	24	22	23	24	22	22	23	22
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	23	20	19	22	24	23	21	20	21	21	24	21
Gross wages, employment	16	13	12	15	17	16	14	13	14	14	17	14
Unemployment	23	20	19	22	24	23	21	20	21	21	24	21
Foreign trade	about 50 working days after reported period											
Balance of payments*	2	-	31	-	-	30	-	-	-	-	-	-
Balance of payments	30	-	12 ^c	13	14	16	13	-	-	-	-	-
Money supply	14	13	12	14	14	14	14	-	-	-	-	-
NBP balance sheet	7	6	5	7	7	7	7	-	-	-	-	-
Business climate indices	22	20	19	22	21	22	21	20	21	21	22	21
Food prices, 1-15	-	9 ^c , 25 ^d	25	23	25	25	23	25	24	25	25	23

* quarterly data,

^a preliminary data, January, ^b January and February, ^c January, ^d February

Source: CSO, NBP



Economic data and forecasts

Monthly economic indicators

		Mar 03	Apr 03	May 03	Jun 03	Jul 03	Aug 03	Sep 03	Oct 03	Nov 03	Dec 03	Jan 04	Feb 04	Mar 04	Apr 04
Industrial production	%YoY	5.5	8.5	11.7	7.9	10.3	5.9	10.9	12.1	9.2	13.9	14.4	18.4	19.3	13.1
Retail sales ^c	%YoY	-1.7	11.0	9.7	8.1	5.4	5.5	9.7	10.3	11.4	17.3	7.6	12.1	13.5	15.8
Unemployment rate	%	20.6	20.3	19.8	19.7	19.6	19.5	19.4	19.3	19.5	20.0	20.6	20.6	20.4	20.0
Gross wages ^{b,c}	%YoY	0.7	4.2	0.0	3.1	2.4	1.9	2.2	3.0	4.1	5.1	3.5	6.3	5.9	4.5
Employment ^b	%YoY	-4.0	-3.7	-3.5	-3.6	-3.2	-3.2	-3.1	-3.2	-3.3	-3.5	-1.4	-1.5	-1.4	-1.4
Export ^d	%YoY	10.1	4.1	8.4	4.0	8.9	4.4	20.1	11.4	8.2	14.0	19.6	13.4	11.0	9.6
Import ^d	%YoY	2.4	-6.1	3.1	-4.0	8.3	3.0	12.5	4.9	2.5	6.2	10.6	6.5	7.0	7.9
Trade balance ^d	EURm	-541	-443	-472	-179	-657	-232	-266	-254	-503	-545	-173	-288	-400	-400
Current account balance ^d	EURm	-566	-353	-470	-97	-375	-55	-57	314	-356	-566	191	-210	-400	-250
Current account balance ^d	% GDP	-2.7	-2.4	-2.4	-2.3	-2.3	-2.4	-2.2	-2.0	-1.9	-2.0	-1.7	-1.4	-1.3	-1.3
Budget deficit (cumulative)	PLNbn	-15.5	-18.0	-23.2	-23.8	-27.7	-29.6	-33.1	-34.8	-35.5	-37.0	-4.2	-9.4	-12.2	-15.9
Budget deficit (cumulative)	% realisation	34.6	42.2	50.6	58.5	66.3	74.3	82.2	90.3	98.2	100.0	9.3	20.7	27.0	35.0
CPI	%YoY	0.6	0.3	0.4	0.8	0.8	0.7	0.9	1.3	1.6	1.7	1.6	1.6	1.7	1.8
PPI	%YoY	3.6	2.7	2.0	2.0	1.9	1.8	2.1	2.7	3.7	3.7	4.1	4.1	3.6	4.4
Broad money (M3)	%YoY	0.5	0.8	0.3	1.3	0.7	1.7	3.1	4.7	5.6	5.6	5.1	4.9	5.3	6.2
Deposits	%YoY	-2.3	-2.3	-2.9	-1.9	-2.5	-1.7	-0.2	1.5	3.3	3.8	3.4	3.4	4.7	6.4
Credits	%YoY	8.7	8.7	7.6	5.9	5.0	5.2	5.4	7.5	8.5	8.1	7.4	7.9	8.7	10.2
USD/PLN	PLN	4.01	3.96	3.74	3.80	3.90	3.92	3.98	3.92	3.94	3.79	3.74	3.84	3.89	3.89
EUR/PLN	PLN	4.33	4.30	4.33	4.44	4.44	4.37	4.46	4.59	4.62	4.66	4.71	4.85	4.77	4.75
Reference rate ^a	%	6.00	5.75	5.50	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25
WIBOR 3M	%	6.17	5.90	5.53	5.38	5.26	5.16	5.17	5.42	5.68	5.69	5.46	5.46	5.49	5.50
Lombard rate ^a	%	7.75	7.25	7.00	6.75	6.75	6.75	6.75	6.75	6.75	6.75	6.75	6.75	6.75	6.75
Yield on 52-week T-bills	%	5.67	5.43	4.75	4.66	4.85	4.82	4.91	5.30	5.95	6.02	5.59	5.78	5.87	6.00
Yield on 2-year T-bonds	%	5.52	5.16	4.78	4.79	4.89	4.86	5.02	5.53	6.31	6.49	6.17	6.34	6.34	6.50
Yield on 5-year T-bonds	%	5.36	5.15	4.88	4.90	5.17	5.38	5.60	6.04	6.86	6.82	6.65	6.76	6.60	6.85
Yield on 10-year T-bonds	%	5.52	5.41	5.13	5.03	5.37	5.60	5.93	6.36	6.92	6.75	6.65	6.81	6.65	6.85

Source: CSO, NBP, FinMin, BZ WBK

^a at the end of period ^b in corporate sector ^c in nominal terms ^d balance of payments data on transaction basis


Quarterly and annual economic indicators

		2002	2003	2004	1Q03	2Q03	3Q03	4Q03	1Q04	2Q04	3Q04	4Q04
GDP	PLNbn	780.4	815.0	872.8	187.1	200.2	201.3	226.4	199.2	213.2	215.9	244.5
GDP	%YoY	1.4	3.7	4.9	2.3	3.9	4.0	4.7	5.2	4.4	4.6	5.4
Total consumption	%YoY	2.8	2.5	3.0	1.1	2.8	2.9	3.3	3.0	2.8	3.0	3.2
- Private consumption	%YoY	3.3	3.1	3.7	1.4	3.8	3.5	3.9	3.7	3.5	3.7	4.0
Fixed investments	%YoY	-5.8	-0.9	7.0	-3.6	-1.7	0.4	0.1	1.0	5.0	8.0	10.0
Industrial production	%YoY	1.1	8.7	11.1	4.4	9.1	8.9	12.2	17.3	10.8	7.9	8.2
Retail sales (real terms)	%YoY	1.9	7.9	6.5	1.2	9.8	6.4	12.4	10.0	6.0	5.0	5.0
Unemployment rate ^a	%	20.0	20.0	19.2	20.6	19.7	19.4	20.0	20.4	19.4	19.0	19.2
Gross wages (real terms)	%YoY	1.5	2.0	1.9	1.4	1.7	1.7	3.2	3.6	1.4	1.0	1.6
Export ^b	%YoY	6.0	7.6	0.0	7.7	5.1	9.0	7.9	15.1	9.0	7.0	5.0
Import ^b	%YoY	3.5	2.4	0.0	3.0	-2.5	7.2	2.5	7.9	8.0	7.0	6.0
Trade balance ^b	EURm	-7 701	-5 345	0	-1 600	-1 118	-1 325	-1 302	-861	-1 077	-1 418	-1 526
Current account balance ^b	EURm	-5 404	-3 550	-2 839	-1 584	-895	-463	-608	-419	-754	-567	-610
Current account balance ^b	% GDP	-2.7	-1.9	-1.5	-2.6	-2.2	-2.1	-1.9	-1.3	-1.2	-1.3	-1.3
Budget deficit (cumulative) ^a	PLNbn	-39.4	-37.0	-45.3	-15.5	-23.8	-33.1	-37.0	-12.2	-28.7	-36.3	-45.3
Budget deficit (cumulative) ^a	% GDP	-5.0	-4.5	-5.2	-8.3	-4.2	-4.6	-1.7	-6.1	-7.7	-3.5	-3.7
CPI	%YoY	1.9	0.8	2.1	0.5	0.5	0.8	1.5	1.6	2.1	2.5	2.3
CPI ^a	%YoY	0.8	1.7	2.4	0.6	0.8	0.9	1.7	1.7	2.3	2.5	2.4
PPI	%YoY	1.0	2.6	4.2	3.0	2.2	1.9	3.4	3.9	4.9	4.5	3.6
Broad money (M3) ^a	%YoY	-2.0	5.6	9.1	0.5	1.3	3.1	5.6	5.3	6.2	7.0	5.8
Deposits ^a	%YoY	-4.2	3.8	8.1	-2.3	-1.9	-0.2	3.8	4.7	6.7	7.9	5.9
Credits ^a	%YoY	5.3	8.1	11.9	8.7	5.9	5.4	8.1	8.7	11.1	11.6	12.6
USD/PLN	PLN	4.08	3.89	3.77	3.90	3.83	3.93	3.89	3.82	3.80	3.76	3.69
EUR/PLN	PLN	3.85	4.40	4.70	4.19	4.36	4.42	4.62	4.78	4.71	4.70	4.62
Reference rate ^a	%	6.75	5.25	5.25	6.00	5.25	5.25	5.25	5.25	5.25	5.25	5.25
WIBOR 3M	%	9.09	5.69	5.51	6.37	5.60	5.20	5.60	5.47	5.45	5.45	5.65
Lombard rate ^a	%	8.75	6.75	6.75	7.75	6.75	6.75	6.75	6.75	6.75	6.75	6.75
Yield on 52-week T-bills	%	8.18	5.33	5.84	5.75	4.94	4.86	5.76	5.75	5.80	6.00	5.80
Yield on 2-year T-bonds	%	7.94	5.38	6.37	5.58	4.91	4.92	6.11	6.28	6.50	6.50	6.20
Yield on 5-year T-bonds	%	7.86	5.61	6.79	5.50	4.98	5.38	6.57	6.67	6.70	7.00	6.80
Yield on 10-year T-bonds	%	7.34	5.77	6.83	5.60	5.19	5.63	6.68	6.70	6.80	7.00	6.80

Source: GUS, NBP, BZ WBK

^a at the end of period ^b balance of payments data on transaction basis



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