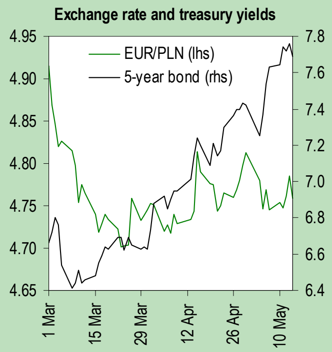
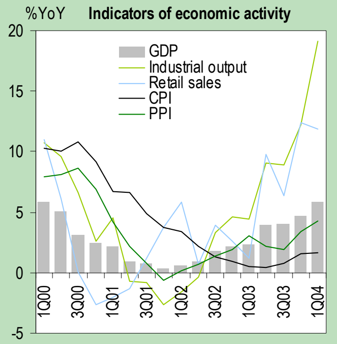
Bank Zachodni WBK

MACROscope

Polish Economy and Financial Markets

May 2004





In this issue:

Three Strikes

- **It appears that the politics will be dominating the Polish financial market for some time.** After the failure of the confidence vote for Marek Belka in the first step, an initiative moved to the parliament, which can choose a Prime Minister within 14 days. However, we believe Sejm's candidates have little chances for election as in the second step an absolute majority of votes is still required, and the SLD will not agree for other candidates than Marek Belka. Therefore, in the third step of the procedure, the President will most likely propose Marek Belka again. Then, probably in the middle of June, passing the confidence vote would be much more likely, as it would require only simple majority (more votes "for" than "against"), especially that the MPs would be facing close perspective of the early elections in August. We maintain our view that even if Marek Belka wins the confidence vote in the third stage, the parliament's support for key fiscal austerity bills from the Hausner plan would be much more doubtful. Thus, further rise in bonds' yields in the third quarter is very likely.
- **The MPC fulfilled its threat and switched from neutral to tightening bias in monetary policy in April.** This seriously increases the chance for the interest rate rise this year. We believe that a cycle of rate hikes could start in 3Q04, which stems from the fact that we will be witnessing the continuing rise in inflation rates and inflation expectations, implying further drop in real interest rates. With the tightening bias in monetary policy, this should prompt the adequate reaction from the MPC. Next cautious rate hikes (one or two, 25bps each) are possible in 4Q04.
- **The economic situation in Poland has become less and less supportive in maintaining low inflation.** Negative trends on food and fuel markets are building up, and their effects might be reinforced by the strengthening economic recovery.
- **The Polish economy is expanding at increasingly fast rate.** For a number of months almost every released data on economic activity surprised us with better than expected results, confirming more and more clear strengthening of the positive trends in the economy. The statistics for the first three months of this year allowed us for the upward revision of the GDP forecast to almost 6% in the first quarter and ca. 5.5% in 2004 as a whole.

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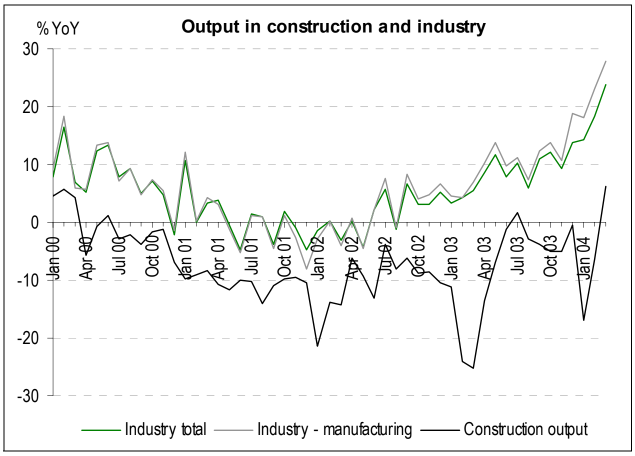
Financial market on 30 April 2004:

NBP deposit rate	3.75	WIBOR 3M	5.85	PLN/USD	4.0254
NBP reference rate	5.25	Yield on 52-week T-bills	6.35	PLN/EUR	4.8122
NBP lombard rate	6.75	Yield on 5-year T-bonds	7.42	EUR/USD	1.1955

This report is based on information available until 14.05.2004

Economic update



Industrial output keeps on surging

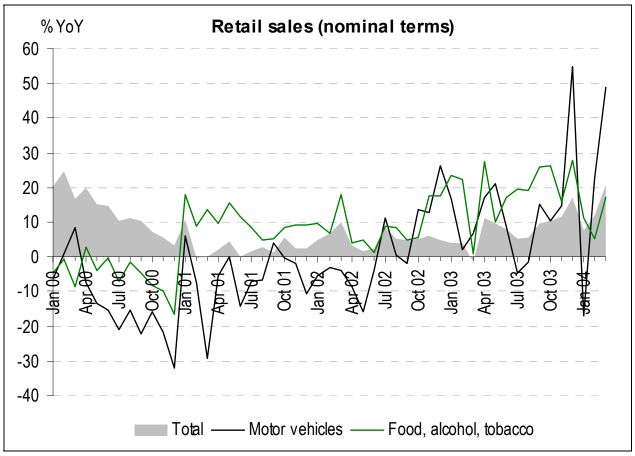
▪ The industrial production increased by almost 24%YoY in March, which was much above market forecasts. The growth in the manufacturing sector reached as much as 28%YoY. These were the best results since the beginning of the last decade.

▪ The industrial output adjusted for seasonal and cyclical fluctuations increased 17.5%YoY against 17.8% in February.

▪ There is a growing number of the industrial branches experiencing recovery – in March 26 out of 29 branches recorded increase in output.

▪ The construction production increased in March 6.3%YoY after the long-lasting depression and 6.4%YoY drop in February.

▪ After eliminating seasonal effects, output in the construction and assembly grew 0.6%YoY against over 2% drop in February.



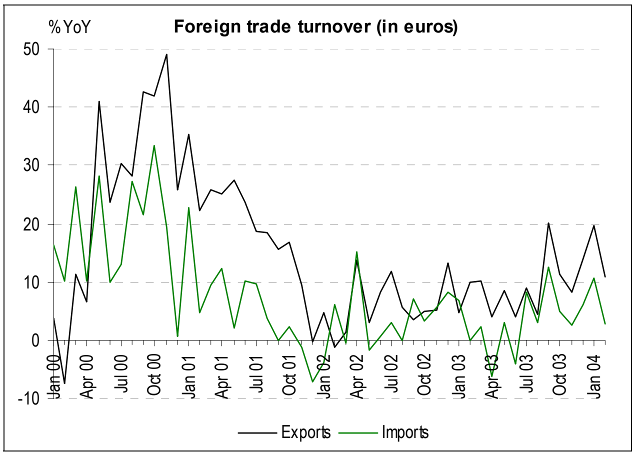
Retail sales not lagging behind

▪ Retail sales increased in March 20.7%YoY in nominal terms, which is the best result in four years.

▪ Again, this strong growth partly resulted from the boom on the car market (before changes in VAT bill related with the EU accession) - car sales upsurged nearly 50%YoY after almost 23%YoY rise in February.

▪ ...however other groups of products also recorded very good sales; most of them saw the two-digit annual rates of growth.

▪ Higher purchases were partly boosted by fears of price hikes after EU accession, therefore some decline in sales dynamics could be expected since May. Nevertheless, the slowdown should not be very deep, because of anticipated strengthening of private consumption demand.



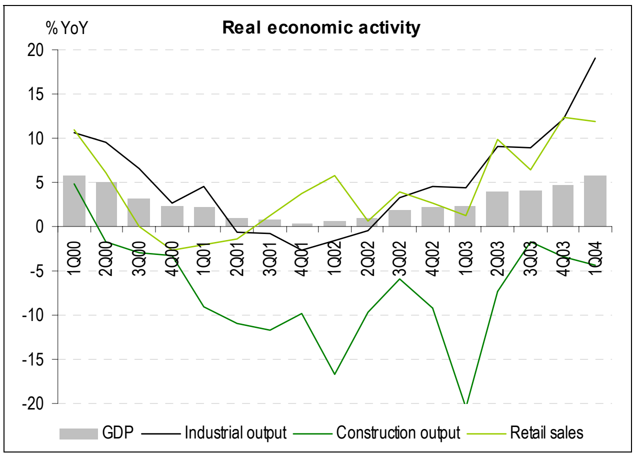
Foreign trade continuously flourishing

▪ The Polish exports has continued fast growth of 19.6%YoY in January after 13.4%YoY in January.

▪ Proceeding recovery in imports, which rose 10.6%YoY in January and 6.5%YoY in February.

▪ However, the import dynamics is still well below the export growth, which allows for fast reduction of trade deficit in relation to corresponding period of last year – in February trade deficit reached €288m against €519m in February 2003.

▪ Revenues from export of services are quickly rising – by 7.2%YoY and 21.1%YoY in January and February, respectively – probably as an effect of intensified cross-border traffic amid weak zloty exchange rate.



Source: CSO, NBP, BZWBK own estimates

Economic growth in 1Q04 close to 6%

▪ The above mentioned statistics led us to revise up GDP growth prospects for 2004. We estimate GDP growth at 5.8% in 1Q04 and 5.5% in the entire year.

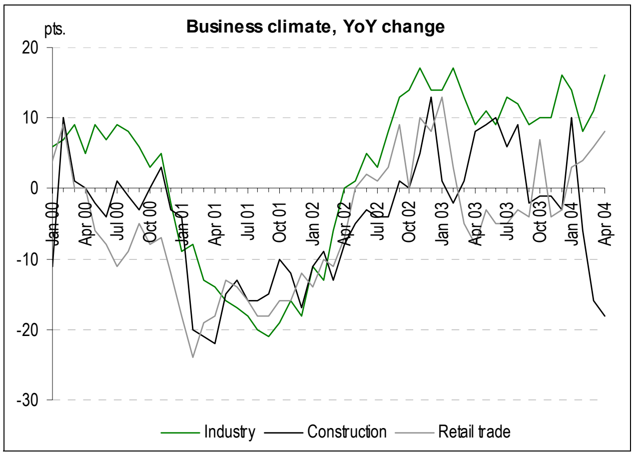
▪ According to the NBP, GDP grew as much as 6.4% in 1Q04.

▪ Export is still one of the most important drivers of the economic growth, however domestic demand is gradually getting strength.

▪ Strong growth of private consumption should accelerate further amid rising households' income and consumers' optimism.

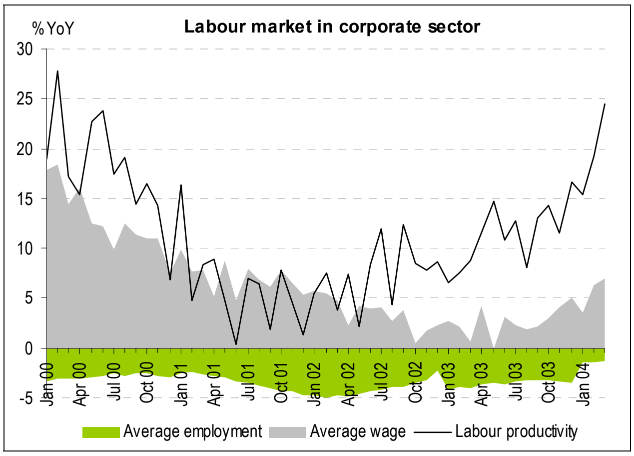
▪ More and more signals confirm that the investment outlays have started to grow at the beginning of 2004, and the second half of this year should bring about stronger recovery in this area. The Ministry of Economy predicts 10% investment growth in 2004.

Economic update



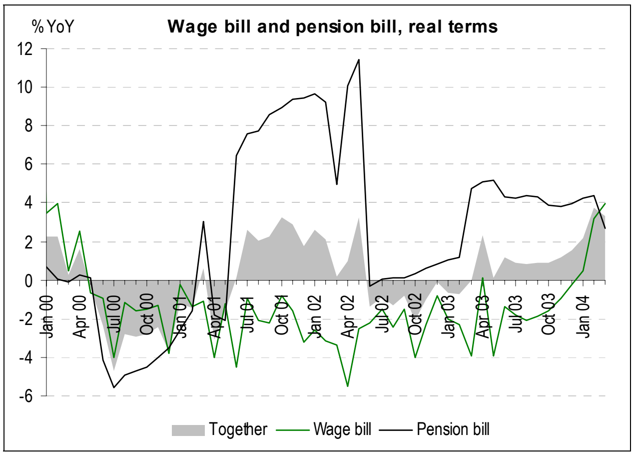
Business climate surveys suggest a continuation of recovery

- The recent results of business climate surveys suggest a continuation of economic recovery in the subsequent months.
- Faster inflow of new orders is being signalled by companies, with increasing role of domestic orders.
- Growing number of signals from entrepreneurs about planned increase in labour demand and higher investment activity
- ... however firms' inflation expectations are also on the rise.
- High capacity utilisation supports expectations for recovery in employment and investments.
- Even in the construction sector, where assessment of current situation is the worst, companies expect significant improvement in business climate in subsequent months.



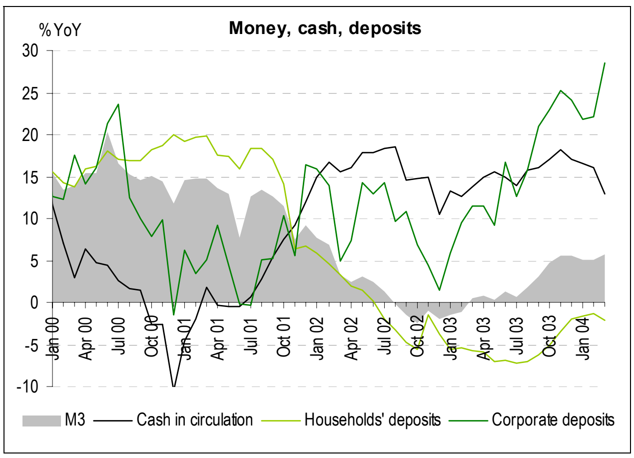
Economic growth still without employment rise

- Average employment in the corporate sector still do not rise, in March it was 1.3% below last year's level (-1.5% in Feb).
- ...although some improvement can be seen in the most competitive economic branches: since the beginning of the year employment is slightly increasing in manufacturing, trade and repairs.
- In effect, amid surging output and sales levels in the Polish companies, the labour productivity is sharply rising.
- According to the NBP, situation on the labour market is actually better than showed by the official employment data, because the importance of more elastic types of employment has increased.
- The registered unemployment rate fell slightly in March to 20.5%. Following months should bring stronger seasonal drop and we forecast ca. 19% unemployment rate at the end of this year.



... but households' revenues are rising

- Average wage in enterprises sector sharply up in March by 7%YoY, while growth in the manufacturing was as high as 9%YoY.
- The rise in salaries was justified by very rapid surge in labour productivity, so it should not boost the upward pressure on prices in companies. Unit labour costs keep on falling.
- Higher wages increase households' disposable income. Total wage bill in corporate sector upsurged to 5.7%YoY in nominal and 3.9% in real terms amid diminishing drop in employment
- Thus, one could anticipate a continuation of robust growth in private consumption, and even its further acceleration in the remainder of the year. We predict that total private consumption would increase by 4.4% in 2004.

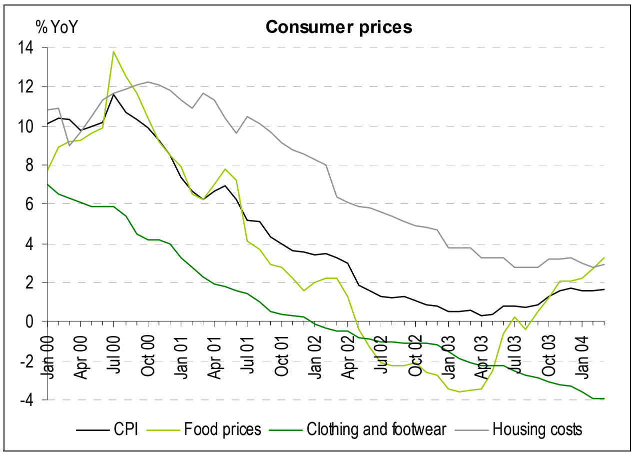


Source: CSO, NBP, BZWBK own estimates

Money growth steadily accelerating

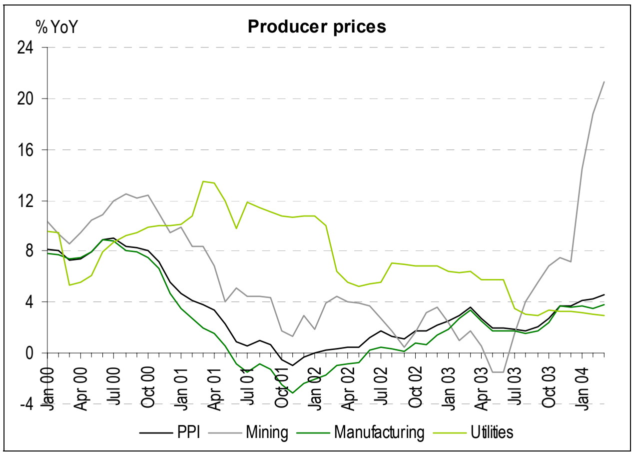
- Money supply increased by 5.8%YoY in March against 5.1%YoY in the previous month. It resulted chiefly from a significant rise in companies' deposits (28.5%YoY and 4.8%MoM).
- Households' deposits dropped 2.1%YoY and 1.1%YoY, which might be surprising given a significant acceleration of wage bill growth in 1Q04.
- Still, there is no recovery in the corporate credit - merely 0.4%YoY rise in March, against 2.6% in February. It is understandable, taking into account huge amounts of money held on companies' banking accounts.
- Households' credit increased 13%YoY, loans to individuals up 17.1%YoY. Almost 90% of this rise resulted from boom on the mortgage market, while there is no sharp recovery in other segments of the market.

Economic update



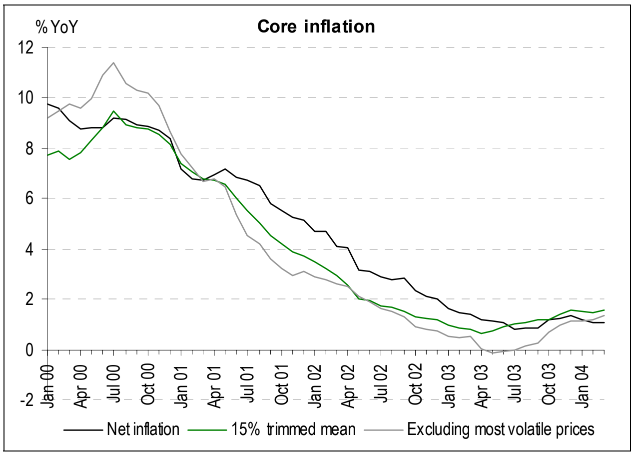
Inflation is growing, moderately as yet

- Consumer prices increased 1.7%YoY in March, only slightly faster than in January-February (1.6%).
- The fastest rise was recorded in case of fuels (1.9%MoM), food (0.8%MoM) and pharmaceuticals (0.5%MoM). Prices of clothing and footwear continued a downward trend, dropping 0.5%MoM. Prices of other groups of goods and services were roughly stable.
- ...which confirms the hypothesis that the inflation increase is still caused almost entirely by supply-side factors, whilst there is hardly any demand-side pressure on prices.
- The economic situation has become less and less supportive for maintaining low inflation. Negative trends on oil and food markets build up, and their effects might be reinforced by the strengthening economic recovery.



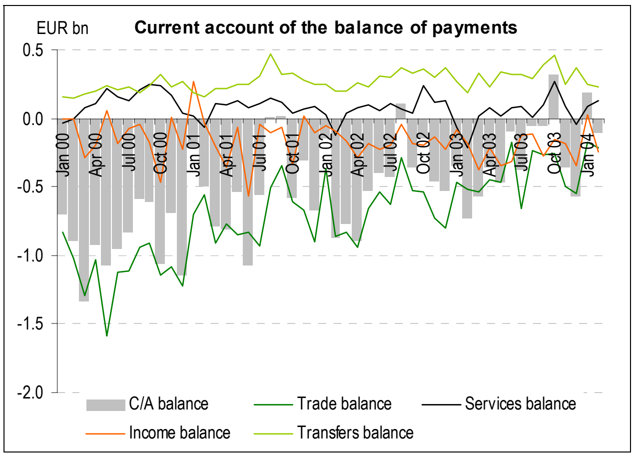
... but supply-side factors increasingly unsupportive

- Producer price growth keeps on accelerating – to 4.6%YoY in March from 4.2% a month ago. The main driver of this growth was fast rise in prices of commodities. PPI growth could exceed 6% in the following months amid persistent supply-side shocks.
- Sharp hike of global crude oil prices was caused by rising political concerns and moderate supply lagging behind quickly growing demand. At the beginning of May oil prices in the US exceeded US$41 per barrel – the highest level in past 23 years.
- Food prices also went up sharply. In the first half of April they increased 2.3%MoM, which should push the CPI up to 2.3%YoY.
- ... however the second half of this year might see a trend reversal on the food market, as very good harvest in agriculture is expected this year.



CPI growth would accelerate in the nearest months

- Core inflation was still relatively low in 1Q04. In March only one index – CPI excluding controlled prices – was equal to CPI (1.7%) while the remaining four were lower, in 1.1-1.5%YoY range. It confirmed lack of demand-side pressure on consumer prices.
- Nevertheless, the subsequent months should be the period of faster CPI rise, mainly as a result of negative trends on food and fuel markets (see above) and price adjustments after the EU entry. Economic recovery might strengthen those effects.
- The NBP is concerned about a possible breaching of the upper end of its inflation target (3.5%) in the course of the next dozen of months. We believe that inflation rate should not exceed 3% at the end of this year, although this would largely depend on further developments on the oil market.

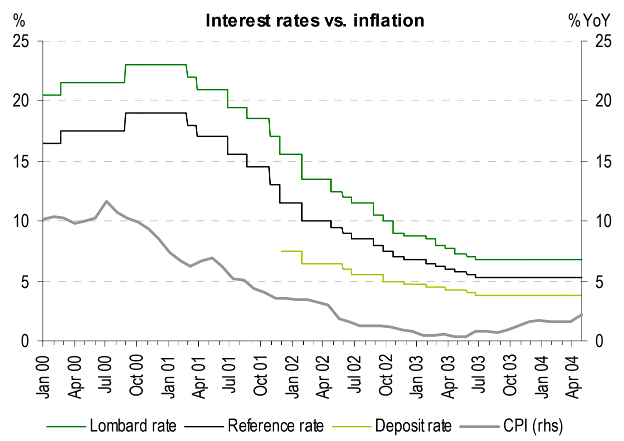


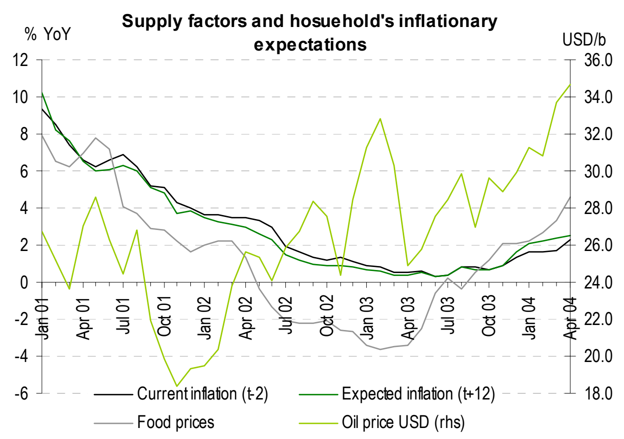
Source: CSO, NBP, BZWBK own estimates

Current account deficit lower than expected

- Balance of payments results for February were very positive, much stronger than market expectations – current account reached deficit of €210m in February after recording €191m surplus in January (previous data showed €83m deficit in January).
- Cumulative 12-month C/A deficit dropped sharply (by more than 0.5% of GDP) in the first two months of 2004. It amounted to 1.4% of GDP after February against 2% at the end of 2003.
- Strong upturn in domestic demand should prevent current account from falling further. Nevertheless, a continuation of good performance of the Polish exports should counteract excessively fast deepening of the deficit in the subsequent months.

Central bank watch





Important elements of the MPC statement from 27 April 2004

Factors favouring low inflation: continued moderate money supply level, continued low growth rate in corporate loans, accelerated growth of labour efficiency in the corporate sector.

Factors giving rise to an increase in inflation risk: consecutive month of an observed growth in inflationary expectations; the Polish economy is currently in a revival phase, stimulated by rapidly increasing export; there are indications of renewed investment activity; the fastest since January 2001 increase in the salaries fund may be larger than that of last year; positive business climate results; amongst the supply shocks influencing an increase in inflation growth the price of foodstuffs in 2004 carries with it the greatest risk; the increase of PPI as a result of an increase in obtained export prices; increase in the forecast oil prices; high budget deficit, increasing governmental loan requirements and political instability are the source of continued uncertainty on financial markets.

Increasing political instability that may reduces the likelihood of passage of laws necessary for the recovery of public finances. According to current NBP estimates, it is very likely that the second prudential threshold, i.e.55% of the GDP, will be exceeded already in 2004.

Important elements of Inflation report 2003

Inflation projection indicates that, assuming certain scenario of internal and external economic developments and stable official NBP interest rates, in 2004 and at the beginning of 2005 inflation will gradually increase. In the middle of 2005 it should stabilise around the upper end of the inflation target with a possibility of a temporary breaking of the target.

The Polish economy is in the economic recovery stage, driven mostly by dynamic export growth. In exporting sector some investment revival is already observed. Assuming that dynamics of individual consumption will maintain at the level observed in 2003, one may expect a continuation of positive tendencies in the economy in the following years.

Improvement in economic climate expected in 2004 may cause an increase in prices sensitivity to changes in zloty exchange rate. On the other hand, it is quite unlikely that in any of the quarters of 2004 changes of nominal effective exchange rate were more significant than in it was observed in 3Q03 and 4Q03. This means that after the whole pass-through effect of FX changes from 2003 will be absorbed in 1H04, in 2H04 we should not see significant inflationary pressure connected with FX changes.

Source: CSO, NBP, Reuters

Restrictive bias adopted! Rate hike already this year!

- The MPC fulfilled the threat it gave at the two previous meetings, and adopted the restrictive bias in monetary policy.
- The adoption of more restrictive approach in monetary policy implies that the probability of interest rate hike increased.
- As we did not expect such fast change in the MPC's approach, we changed our official rates forecasts. The first rate hike of 25bps may take place in 3Q04. Further cautious rate hikes (1-2 by no more than 25bps) could take place in the final quarter of the year.
- Until mid-year we will most likely observe further rise in current inflation indicators and inflation expectations. This means that real interest rates will be falling in the nearest months and, given tightening bias in monetary policy, the MPC will have to react, particularly that the zloty weakness is likely to be continued.

Inflationary expectations the most important argument

- As a main reason for adopting restrictive bias the MPC pointed out "a significant rise in inflationary expectations" that took place recently, which was an effect of supply shocks, increased demand-side pressure and a change in price structure resulting from EU entry.
- The Council agreed that even though some of those factors might be temporary, they might be consolidated by the ongoing economic recovery, which would then create a risk of breaching the upper limit of the inflation target.
- The risk on the supply shocks side sharply increased - significant growth of food prices, new record-high levels of oil prices.
- Households' inflation rate expectations increased to 2.5% in April from 2.4% in March and from 0.4% in April last year.

Fiscal policy no longer the main risk factor

- The list of factors positive for inflation was similar as last month. Although, while previously the MPC wrote about "factors supporting the continuation of a low inflation level", this time they were just called "factors favouring low inflation".
- The NBP noticed that the growth in labour productivity might be in fact weaker than estimated from the official data, because the Labour Force Survey shows the actual dynamics of employment is probably higher than the one reflected by the CSO's registered employment figures.
- The list of factors creating a risk for inflation is much longer than previously. For the first time since several months, the MPC did not write that the most important of these was the state of public finances.

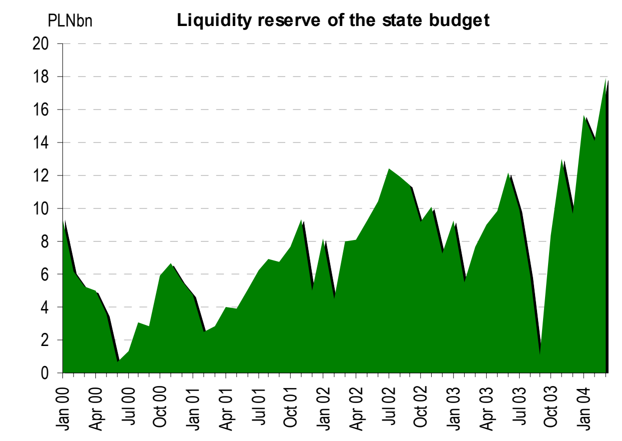
Inflation report NBP – high inflation forecast

- Since the middle of 2003 the central bank has become more and more concerned about inflation perspectives and risks of intensification of inflationary pressure.
- This stem from improving prospects of domestic demand revival, combined with maintaining uncertainty regarding public finance perspectives.
- NBP's inflation forecasts – conditioned on the assumption that interest rates would remain stable – suggest acceleration in CPI growth up to the upper limit of the MPC's inflation target (3.5%) in the course of the next few quarters.
- The resolution to change monetary policy bias from neutral into restrictive has been proposed (and rejected) twice by former MPC – in December 2003 the NBP president's casting vote was decisive.

Central bank watch

Comments of the central bank representatives	Remarks
Leszek Balcerowicz, NBP president PAP, Reuters, press conference after MPC meeting, 27 April So far, all forecasts point to increase in inflation. Future inflation depends on monetary policy. The MPC is determined to perform its constitutional mission which is care of price stability. Increase in inflationary expectations of households results in a risk of increase in inflation. Secondly, signals of economic recovery are intensifying. It is proved by strong export growth. In the first months of this year a pace of the export growth doubled as compared to relatively good last year's pace of growth. As far as this risk [of exceeding the upper end of inflationary target] is concerned, the Council has signalled its readiness to prevent it to materialise. I would like to draw your attention to the fact that price effects of EU entry are only one of the factors, and not the most important one, that advocated for changing monetary policy bias.	It is clear that according to the MPC the balance of factors affecting future inflation has moved toward less favourable outlook. The NBP president Leszek Balcerowicz said during press conference that in such situation a shift in bias "was an obvious decision" and reflected the MPC's resolve to take care for its main objective. It seems that the central bank's assessment of the strength of recovery is even more optimistic than our view and than the market consensus. The NBP staff estimates that GDP growth reached 6.4% in 1Q04, which beats even the most bullish forecast given by deputy PM Jerzy Hausner. What is interesting, the NBP chief said it was export-driven growth. This calls a question whether such growth structure is dangerous for domestic retail prices. However, the Council recognised that the official CSO's statistics underestimate the actual situation on the labour market, and that in fact the trend in employment could me much more optimistic (MPC believes 2003 could see a rise rather than fall in employment because of growth in areas not covered by the official statistics).
Krzysztof Rybiński, NBP deputy president Radio PiN, 5 May In the Inflation report for 2003 we wrote that according to NBP's predictions the upper threshold of inflation target may be exceeded or that inflation may exceed 3.5% in 2005. [...] Everything indicates at present that factors leading to inflation growth are getting stronger. That is why the MPC has changed bias to restrictive.	The statement of the NBP deputy president suggested that analysis of the central bank's research department showed higher risk of breaking the upper end of the NBP inflation target. It was driven most likely by faster-than-expected GDP growth acceleration, but also by unfavourable supply shocks. Statements of MPC members suggest that the Council may be divided as regards monetary policy reaction to fuel or food prices increase. However, if majority in the Council was found to change the bias, it will be also found to hike rates this year.
Dariusz Filar, MPC member Gazeta Wyborcza, 7 May The expression "restrictive bias" itself means that the likelihood of raising interest rates is higher than any other decision. Rate hike will probably be a next step but it has not been decided when it will take place.	Dariusz Filar presented rather hawkish view on interest rate policy perspectives. Filar declared that the MPC would do anything to keep the rate of price growth within the band set as the official goal. The interview confirmed that the decision to shift bias in monetary policy into tightening meant that interest rate hike this year seems inevitable.
Parkiet, 29 April [Q. Will the MPC begin to announce a possibility of interest rate hike?] I don't think so. The statement that we have shifted to restrictive bias is unambiguous. [Q. Will the interest rate hike weaken the economic growth?] There are enormous financial reserves in the companies that perform well. […] Therefore, one could expect that a large part of investment needs will be financed with their own money. Besides, if the Council decides to raise the rates it won't have to mean that interest rates on credits will rise in proportion and immediately given competition in banking sector.	It seems that Filar is decided to raise rates in a few months time. This was confirmed by the fact that he is convinced that demand pressure, and consequently inflationary pressure, is growing in strength. At the same time, Filar is not afraid of negative impact of higher rates on reviving investment activity. This means that Filar is not likely to hesitate much before raising interest rates. However, one should remember that he is probably one of the most hawkish members of the new rate-setting panel and other members may be more cautious with hiking rates (see examples below).
Stanisław Owsiak, MPC member PAP, 15 April Some signals of inflationary pressure have already shown up. Additional uncertainty concerning the EU entry would cause that interest rate reduction would be premature in the current situation. […] In one or two months time horizon interest rate cut would be very dangerous. In April, one should rather not expect new factors. In case of serious threat to the inflation target, it is possible that monetary policy bias will be changed, as the MPC is obliged to do so by the Constitution. Moreover, it will be necessary, if we want to think seriously about entry to the euro zone. Excessive nervousness in making decisions on rates is not desirable and justified. I mean that if inflation temporarily breaches the upper or the bottom end of inflation target, the MPC should not react immediately. One cannot exclude that such deviation of inflation would be one-off. Therefore, one have to treat such situation carefully, as it is important to meet inflation target in longer horizon.	In the middle of April Stanisław Owsiak suggested that there were no arguments pointing to a possibility of rate cut, but on the other hand economic circumstances would not justify rate hike. His statement that the uncertainty resulting from the effects of price adjustments after EU entry, being important source of MPC's concern, would not disappear until August, suggested that we can expect no changes in monetary policy parameters in the couple of months. What is interesting, Owsiak said also the MPC should not be excessively nervous in reacting to inflation movements, and in particular it should not react in interest rate hike in case the inflation rate exceeds the upper end of inflation target for a short period of time. Especially, as Owsiak said the Polish economy was quite resistant to the political turmoil and the financial markets did not react very nervously on political events, which means that even in case of some difficulties with electing new government, one should not expect a crisis. It seems that economic and political events in the second half of April led the MPC to change its opinion or possibly the opinion presented by Stanisław Owsiak was not shared by the majority of the Council.
Andrzej Wojtyna, MPC member PAP, 12 May It is important how the situation will unfold. The experience of other countries show that economic pick up, which has just begun, can be halted following a premature decision on interest rate increases. I do not regard it [shift in to restrictive] as a clear sign of an interest rate increase. Both the situation and signals are changing. It is nothing wrong if the situation remains unchanged for a couple of months. The decision is like a yellow alert.	According to Andrzej Wojtyna, the shift to the tightening bias in monetary policy was not a clear sign of an interest rate increase. This suggested that so far he had not been convinced about a necessity of rate hike. Given that such decision is not likely to be made without his support, interest rate increase in two or three nearest months (until the MPC knows data economic activity indicators for 2Q03) seems unlikely. However, we still expect that a confirmation of economic recovery will prompt central bankers to raise rate in 3Q04.

Government and politics



Budget puts aside for a rainy day

▪ The state budget performance after March turned out to be even better that optimistic hints given earlier by FinMin's officials. Deficit reached only 26.1% of the full-year plan.

▪ The reason for good budget performance was robust increase in CIT and strongly rising inflows from indirect taxes, which reflected the ongoing recovery of the Polish economy.

▪ Spending remained in check. After March it was lower than in after 1Q03 (except for foreign debt servicing costs, which grew significantly due to the zloty depreciation).

▪ "The liquidity cushion" of the state budget is bigger and bigger (after March it was close to PLN20bn), because FinMin put aside for a rainy day, i.e. the first months after the EU entry, when VAT revenues will be lower due to change in payment rules.

What next after Belka's failure in the first vote?

1. Within 14 days since reject of the confidence vote for government appointed by the president, the Sejm can choose new PM. Candidate for PM can be proposed by a group of at least 46 deputies. Thus, a few candidates may be proposed. There are no obstacles, so that one of them was a person who failed to win the confidence vote in the first step of the procedure. The candidacy has to be approved by an **absolute majority of votes in the presence of at least half of the statutory number of deputies**. PM approved by the Sejm forms the government makeup, present expose, and the Sejm decides whether to give the confidence vtote to the government in the analogous way PM alone was picked. It seems unlikely that the Sejm, approving PM with absolute majority, would not accept the cabinet formed by him.

2. If the council of ministers is not elected by the Sejm, 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**.

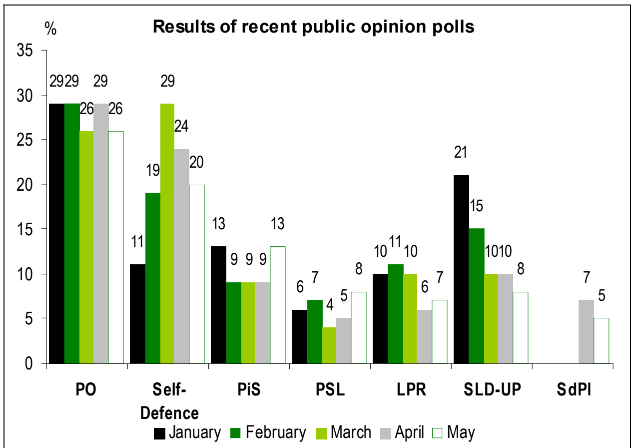
Defeat in the first battle

▪ In line with expectations, Marek Belka and his cabinet did not receive the confidence vote in the first step of government's formation procedure.

▪ The results of the voting was not that bad (Belka fell 38 votes short of the absolute majority). Contrary to fears for the discipline in the SLD and the UP, MPs from these parties loyally supported the presidential candidate. This bodes well for next rounds.

▪ Now the initiative goes to the Sejm, but given that also in this round prime minister has to be picked with the absolute majority and taking into account that the SLD does not want anyone else except Belka, the Sejm is not likely to elect its own candidate.

▪ Belka's chances at the third stage will be much higher, because he would need only simple majority, and many MPs will be afraid of early elections already this summer



Goodbye to the Hausner plan?

▪ Contrary to earlier declarations, the Civic Platform withdrew its support for the pension bill, which is one of the most important element of the Hausner plan (changes in pension indexation scheme was expected to bring almost PLN9bn savings until 2007).

▪ Additionally, the SdPL decided they would support the bill proposed by the government only if their amendments are approved, leading to significant lowering of savings' scale.

▪ Because the government is not able to put through the Hausner plan in the Sejm without support of the PO and SdPl, chances for full implementation of the austerity package are low even if the cabinet headed by Belka (and stressing need for public finance reform) finally wins the confidence vote in the parliament.

Sovereign ratings for 10 new member states according to Fitch Ratings

	Local currency	Outlook	Foreign currency	Outlook
Cyprus	AA	stable	A+	positive
Czech	A	stable	A-	stable
Estonia	A+	stable	A-	positive
Lithuania	A+	stable	BBB+	positive
Latvia	A	stable	BBB+	positive
Malta	AA-	stable	A	positive
Poland	A	stable	BBB+	stable
Slovakia	A	stable	BBB+	positive
Slovenia	A	stable	A+	positive
Hungary	AA	negative	A-	negative

Source: Ministry of Finance, CBOS, Fitch Ratings

Fitch Ratings downgrades Poland's local currency rating

▪ On May 6, Fitch Ratings downgraded Poland's rating for long-term local currency debt from "A+" to "A" and reduced outlook for long-term foreign currency debt from positive to stable.

▪ The justification for the decision was poor fiscal stance, persisting political uncertainty and worse outlook for future, including delay in possible euro adoption.

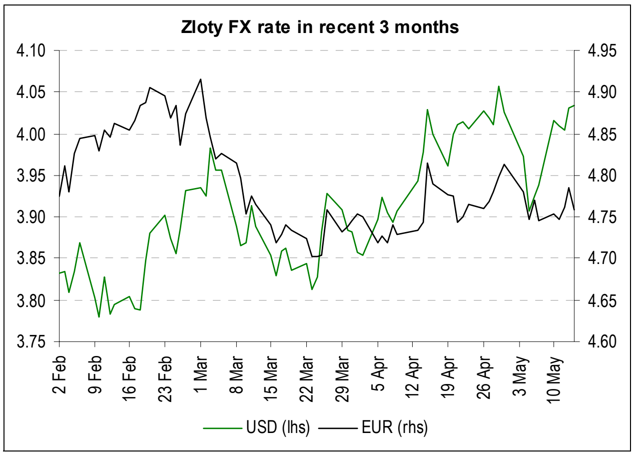
▪ The agency pointed out that the public debt level in Poland is much higher than the average for other countries with the long-term foreign currency debt at "BBB+".

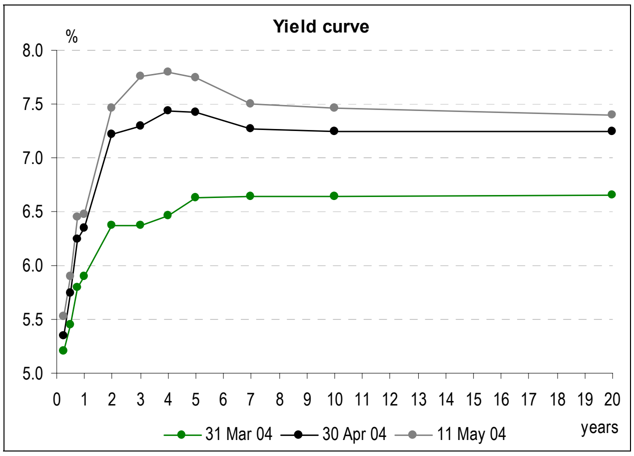
▪ Fitch Ratings is not the first rating agency, which downgraded Poland's ratings recently. As regards local currency debt, the analogous decision was made by Standard and Poor's.

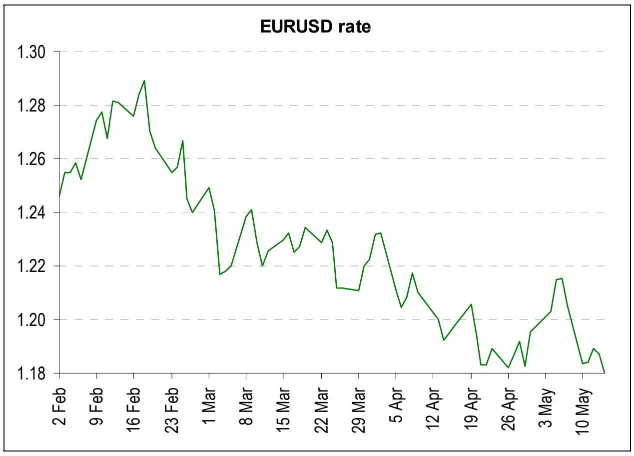
Government and politics

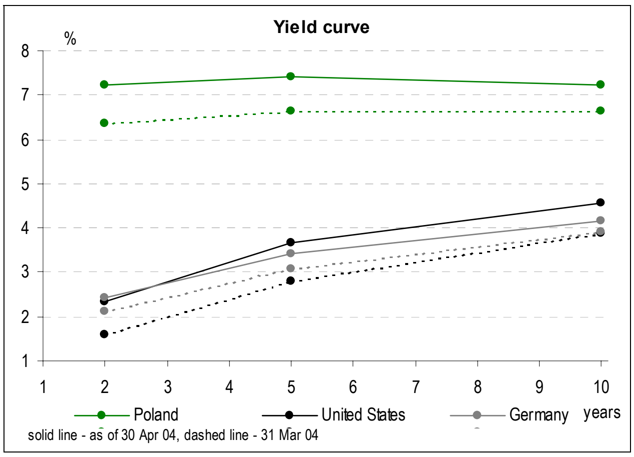
Comments of government representatives and politicians	Remarks
Marek Belka, Prime Minister; PAP, 11 May What has happened on Monday [cancelling T-bill auction] is not a serious warning. […] It turned out that there is no overliquidity in the banking system now and the banks have no money. Investment demand has probably started to grow, investments were launched and problems may appear with the financing of the state loan needs. […] I hope it will never happen. […] Having money on the account, the finance minister could resign from offering T-bills.	Recently, the money market was drained by huge increase in the state's budget liquidity cushion. This means that the government itself contributed to liquidity problems on the market. However, fears of lack of liquidity on the market do not seem to be fully justified. If low liquidity maintains for a longer time, the central bank could supply the market with additional financing in order to balance the market and maintain proper level of short-term interest rates. The main problem with selling treasury papers is not low liquidity in the banking system, but poor fiscal stance and high political uncertainty. If public finances were in relatively good shape, the ministry of finance would not have any problems with selling treasury papers, even with severe lack of liquidity on the market (this is the case in many countries in the world).
Jerzy Hausner, deputy PM, economy and labour minister; PAP, Reuters, 11 May I am affirming assumptions concerning the consolidation level till 2007 to cut spending by some PLN50bn. […] We would also like to carry out plans for 2004 – to reduce public debt increase by an extra PLN5bn. There are chances to do so with a very good situation as regards budget revenues and this tendency should be reinforced.	Deputy PM and economy minister Jerzy Hausner looks ahead with optimism and declares that planned scale of savings until 2007 will be achieved. Unfortunately, the debate over the most important bills from the Hausner plan stuck in the parliament. Head of the government's economic policy announced that reduction of public debt increase in 2004 will be larger than it was assumed. It is a pity that this will be a result of stronger economic activity and higher tax revenues rather than public finance reform, as its implementation is still in doubt.
Ryszard Michalski, finance minister (until May 11); Reuters, 11 May The Ministry of Finance has exchanged on the market majority of the proceeds from the international bonds placements. We have several hundred million (EUR) left. […] I cannot say when the exchange transaction will end, it will depend on market conditions.[…] We are a normal participant in the market. The Ministry of Finance does intervene. We do not lay claims to replacement of the central bank.	The Ministry of Finance still influences the domestic FX market with information about possible transactions on the interbank market. The ministry was criticised for conducting such transactions among other by the World Bank, which regarded them as FX interventions. FinMin is not concerned about that and sell foreign currency directly on the market. Therefore, FX dealers look out for FinMin's presence on the market and react nervously to any rumour about the ministry's transactions. Information that the government has still significant amount on the foreign currency account is the supportive factor for the zloty exchange rate.
Jarosław Neneman, advisor to the finance minister; PAP, 12 May The Ministry of Finance has taken a temporary decision to cut the excise tax on petrol by PLN0.05 a litre. […] until the situation on global markets gets stable. The decision is designed in such a way so that the effects of the decision are fairly neutral to the budget. Given higher fuel prices we have higher VAT and we can afford for excise tax reduction. The revenues will be smaller by some PLN17.5m a month, but will be partially offset by higher VAT revenues. If the situation on global markets does not deteriorate in the nearest time and the zloty does not depreciate against the dollar prices on fuel stations will fall by some PLN0.07 a litre. Retail prices rose recently by PLN0.5 which is the result of higher oil prices on the global market. Additionally, US dollar has strengthen against the euro. This is dangerous situation as regards inflation, especially as additionally we have inflationary impulse connected with the EU accession.	In reaction to record high prices of oil prices, the Ministry of Finance reduced excise tax for fuels by PLN0.05 per litre of gasoline. Additionally, the Ministry of Economy agreed to free up strategic reserves of fuels held by PKN Orlen in the amount representing five-days sale level. However, both decisions are not likely to reverse price trend on the domestic fuel market as their scale is not enough to significantly affect level of fuel prices paid by consumers (it is expected the government's decisions would result in lowering of retail price by 0.06-0.07PLN). The most important for dynamics of fuel prices in Poland will still be developments on the global market of crude oil. Although OPEC supported Saudi Arabia's proposition to increase oil production limits by at least 1.5m barrels per day, oil prices are likely to remain at relatively high level due to prolonged tensions in the Middle East, low stocks of crude oil in developed economies and increased demand for fuels in recovering global economy.
Elżbieta Suchocka-Roguska, deputy finance minister; PAP, 6 May The gap after the first four months of the year will not be higher than after the first three months. I cannot give an exact figure, but it surely will not be more than 26.1% of the annual plan. It can be even less. That is a very good result. It is the result of a very good execution of the incomes' plan.	If hints given by the deputy finance minister are confirmed by the official data, it would mean that in April alone the state budget recorded a surplus. Such situation have not happened for at least ten years (in 2000-2003 budget deficit after April was PLN2.8bn on average. However, one should remember that situation of this year's budget will worsen in May and June due to temporary lower VAT revenues after change of some regulations related to the EU entry. On the other hand, one may expect budget revenues will be boosted later on by the strengthening economic recovery.
Jacek Socha, treasury minister; PAP, 29 March [Increasing the number of privatisations via the bourse] This is one of key elements of the development of the capital market. In my view, the situation after the financial market is streamlined, low CPI expectations, shifting term deposit funds and their inflow to pension funds, cause that the minister is obliged to increase supply to meet the demand.	New treasury minister Jacek Socha is a specialist from the capital market. Before nomination for treasury minister, he had been head of Polish Stock Exchange Commission for several years. Hence, one can assume that apart from delivering financing for the state budget, an additional motivation for him to accelerate privatisation will be a concern with the development of the Polish capital market. This implies that he will probably try to sell state-owned enterprises via IPOs, which has an advantage over other ways of privatisation, because it is relatively little controversial politically.

Market monitor









Source: Reuters, BZ WBK

Zloty eyes politics, fixed income market performs much worse

- April was another month in a row, when sentiment on the Polish market was mainly under the influence of developments on the political scene, as it moulds chances for implementing the plan of public finance reform. First of all, it was uncertainty related to a process of forming a new government that resulted in zloty depreciation and increase in yields on bonds.
- Market activity was rather moderate in a period before and after Easter. Afterwards, in mid-April the sentiment deteriorated rapidly when the Civic Platform (PO) announced unexpectedly that they would not support crucial bills from the Hausner plan. Increase in yields on the foreign markets (see below) was conductive to a weakness on the fixed income market as well. Moreover, in the last week MPC's decision on changing the policy bias influenced the fixed income market negatively.
- At April-end the zloty was weaker than on the last day of March by some 2.3% against dollar-euro basket. Last month the yield curve moved upwards by 80-100bps in 2-5Y segment and by some 60bps in longer tenors. As a result, inversion of the yield curve in segment above 4Y took place.
- In early May, the markets saw a clear but one-day lasting strengthening due to formal EU accession and positive assess-ment of the newly appointed government. Afterwards the sentiment was worse. The lowering of the Polish debt rating and the withdrawing FKP's support for the government brought further fall in prices of bonds.
- The outlook for the Polish market is connected with the political situation. Even if Marek Belka wins the confidence vote in the third approach he will probably not find support for the most important bills related to public finance reform. Therefore, zloty depreciation and further rise in yields are possible in third quarter.

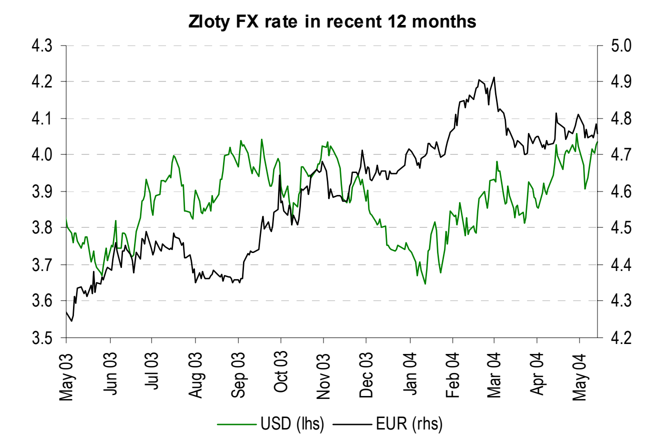
Dollar stronger against euro, zloty weaker against the basket

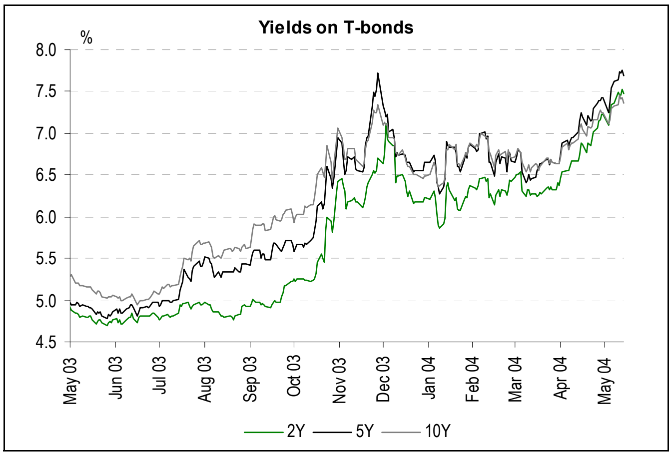
- Main FX rates are still remaining volatile, however in two recent months fluctuations were smaller than at the beginning of the year. In April the dollar was strengthening following a release of very strong data from American labour market. The US currency was the strongest since November 2003, approaching 1.18.
- On April/May turn EURUSD rate was extremely volatile. At first GDP data weakened expectations of rate hike by Fed and the rate approached the level of 1.22. Afterwards, other employment data shifted the expectations from August to June and the dollar returned to earlier strong level around 1.18.
- We expect a stabilisation in EURUSD rate in the nearest period at around 1.20. At the end of the year a moderate rebound to 1.21-1.22 is possible.

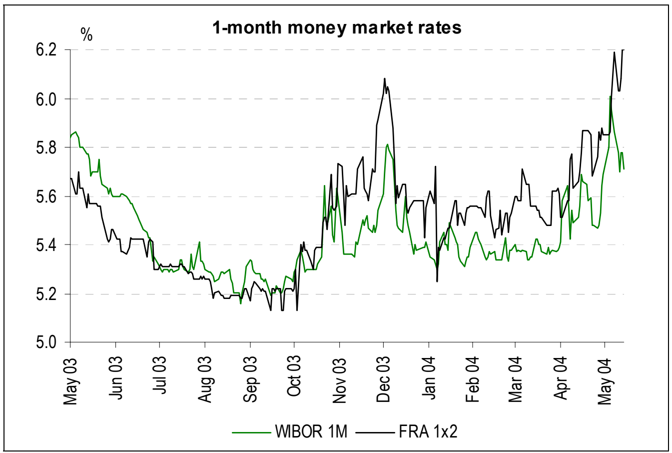
Yield curves moving upwards

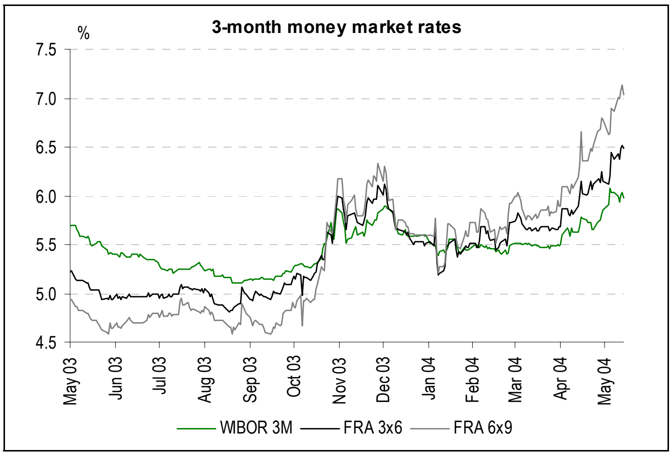
- Given political uncertainty in April the risk premium for Polish bonds, measured with the difference between expected 5-year interest rate in Poland and in the eurozone in five years, increased to some 180bps from 150bps at the end of March.
- A significant increase in yields took place on the American fixed income market in April and at the beginning of May. Other main markets followed it, though at slower pace. Very strong data on employment in the US for March and April and signs of increasing inflationary pressure in 1Q are fuelling expectations for rate hike.
- Raising main interest rates in the US is almost certain – we expect 25bps hike in June and 125bp in total till the end of this year. Eurozone's interest rates should remain unchanged this year.

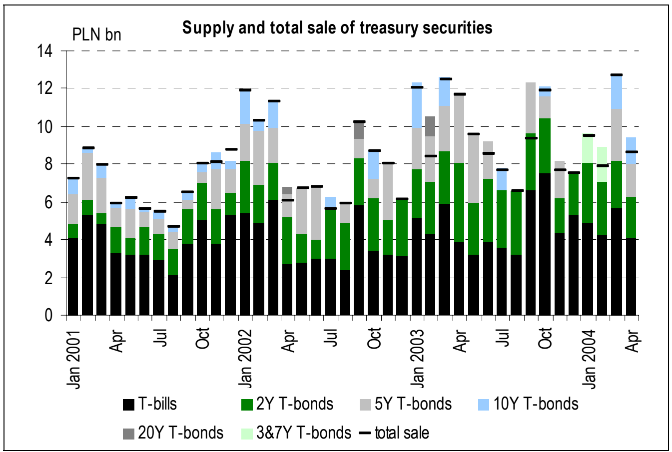
Market monitor











Treasury bill auctions (PLN m)

Date of auction	OFFER / SALE 13-week	52-week	Total
05.04.2004	100 / 100	1,000 / 1,000	1,100 / 1,100
08.04.2004	100 / 100	1,000 / 1,000	1,100 / 1,100
19.04.2004	100 / 100	1,000 / 1,000	1,100 / 1,100
26.04.2004	-	800 / 800	800 / 800
April total	**300 / 300**	**3,800 / 3,800**	**4,100 / 4,100**
10.05.2004	-	1,000	cancelled
17.05.2004	-	1,000	1,000
24.05.2004	-	1,000	1,000
31.05.2004	-	1,000	1,000
May total	**-**	**4,000**	**3,000**
June*	**-**	**4,000 - 4,800**	

* own estimations based on preliminary information for 2Q04

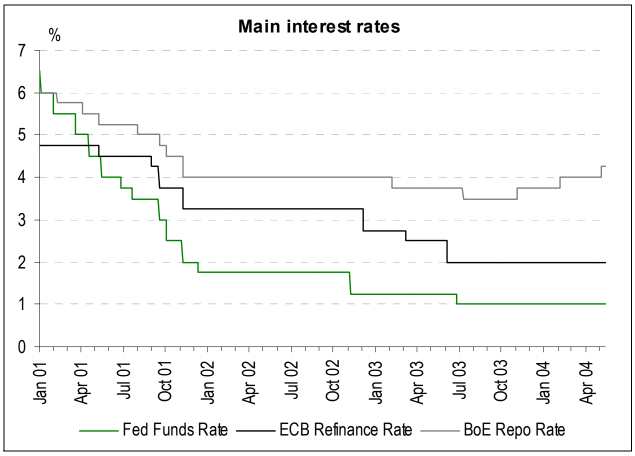
Treasury bond auctions in 2004(PLN m)

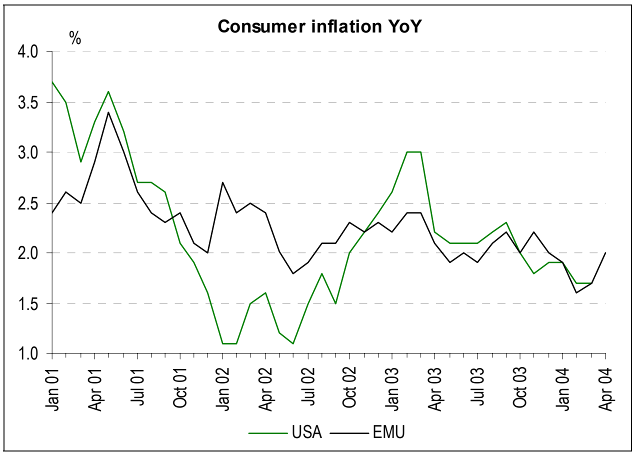
month	First auction date	T-bonds	offer	sale	Second auction date	T-bonds	offer	sale	Third auction date	T-bonds	offer	sale
January	07.01*	OK0406	3,200.0	3,200.0	14.01	WZ0307/0911	1,500.0	1,407.0	-	-	-	-
February	04.02*	OK0406	2,900.0	2,600.0	11.02	WZ0307/0911	1,800.0	1,110.8	-	-	-	-
March	03.03	OK0406	2,500.0	2,500.0	10.03	DS1013	1,700.0	1,700.0	17.03*	DS0509	2,760.0	2,760.0
April	07.04	OK0406	2,200.0	2,200.0	14.04	DS1013	1,400.0	577.0	21.04	DS0509	1,700.0	1,700.0
May	05.05	OK0806	2,700.0	2,039.5	12.05*	WZ0307/0911	1,200.0	1,181.0	19.05	DS0509	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	-	-	-	-	-	-	-	-	-	-

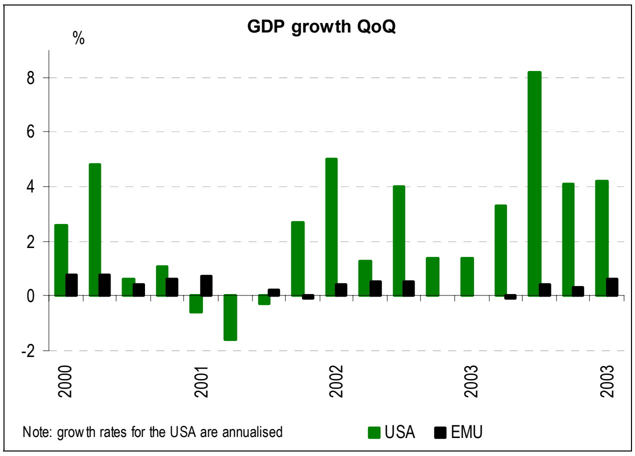
* with supplementary auction

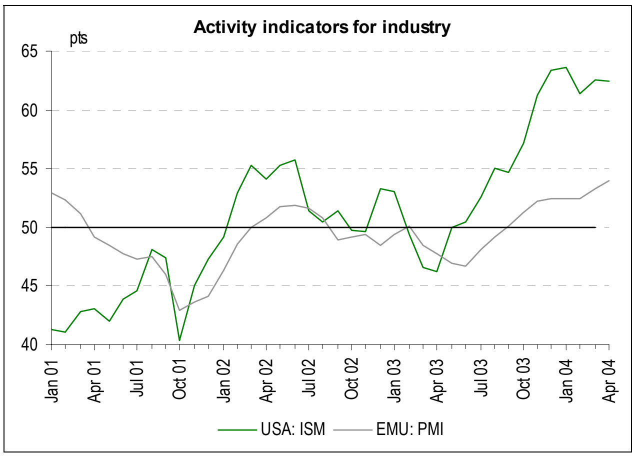
Source: Ministry of Finance, Reuters, BZ WBK

International review









Source: Reuters, ECB, Federal Reserve

Bank of England raised the rates, the Fed will follow soon

- On 6 May, in line with expectations, the ECB's Council kept refinance rate at 2%. The ECB president assessed that low interest rates would support the economic growth. He expects economic recovery to strengthen though recent macroeconomic indicators had pointed to mixed assessment of economic growth.
- On the same day in the United Kingdom the MPC decided to raise rates by 25bps. It was a third rate hike since November last year. The main interest rate stands at 4.25%.
- As forecasted, on 4 May the Fed did not change interest rates. The Fed suggested that interest rate hikes would begin soon as it dropped a reference to being "patient" on rate policy. Changes are to come at a "measured" pace. After the decision, markets expected first move in August but recent data on employment resulted in advancing these expectations to June.

Higher inflation in the eurozone and the United States

- In the Eurozone preliminary estimations of inflation in March were revised upward in final release. Consumer prices increased by 0.7%MoM and annual inflation rate accelerated to 1.7% from 1.6% in February. Market forecast and preliminary data were at 0.6%MoM and 1.6%YoY. According to preliminary estimations for April, inflation increased to 2.0%YoY. Again, the figure exceeded market forecast at 1.9% and Eurozone's inflation reached the ECB's ceiling target at 2.0%.
- In the United States data on inflation were clearly higher than market consensus forecast. In March consumer prices increased by 0.5% MoM, while 0.3% rise was forecasted by analysts. This figure resulted in an unchanged level of annual inflation rate as compared to February at 1.7%. Annual core inflation rate went up significantly to 1.6% from 1.2% in February.

Faster economic growth in the Eurozone

- Flash estimates pointed that in 1Q04 economic growth in the Eurozone had been stronger than forecasted and the fastest in last three years. In 1Q04 the GDP rose by 0.6%QoQ, while 0.5% was forecasted, in comparison to 0.3% in 4Q03. In annual terms the economy grew by 1.3%, accelerating from 0.6%YoY in 4Q03. The European Commission confirmed growth forecast for 2Q04 in the range of 0.3-0.7%QoQ and released the forecast for 3Q04 at 0.4-0.8%QoQ.
- According to advanced information, GDP growth in the United States amounted to 4.2%QoQ in 1Q04, slightly more than 4.1% in 4Q03, but much less than 8.2% in 3Q03. The data were clearly weaker than market consensus forecast at 5.0%. Besides, data on personal spending pointed that at the beginning of this year significant increase in inflationary pressure was recorded.

IFO rises again

- In April economic activity in the Eurozone's industry was accelerating clearly faster than in March and faster than pointed by analysts' forecasts. Reuters PMI index rose to 54.0pts in April from 53.3pts in March, while 53.6pts was expected. On the contrary, in the US the growth in activity in industry recorded an unexpected slowdown in April, while forecasts pointed to further acceleration. However, it still remains considerably faster than in the Eurozone. The ISM index declined to 62.4pts in April against 62.5pts in March and 63.0pts forecasted.
- Contrary to expectations, German index IFO recorded a first rise since January, reaching 96.3pts in April versus 95.4pts in March, while forecasts pointed to a further fall to 95.0pts. The assessment of present economic situation is better than a month ago but expectations for future have deteriorated.

What's hot this month

Monday	Tuesday	Wednesday	Thursday	Friday
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 *GER: Unemployment (Apr)* *EMU: Retail sales (Mar)*	**6** *EMU: ECB meeting*	**7** *USA: Unemployment (Apr)*
10 POL: T-bill auction	**11** *FRA: Industrial output (Mar)*	**12** POL: T-bond auction WZ0307 & WZ0911 *USA: Foreign trade (Mar)*	**13** *ITA: Industrial output (Mar)* *ITA: GDP (1Q)* *GER: GDP (1Q)* *USA: Producer prices (Apr)* *USA: Retail sales (Apr)*	**14** POL: Inflation (Apr) POL: Money supply (Apr) POL: Balance of payments (Mar) *ITA: Inflation final (Apr)* *EMU: GDP (1Q)* *USA: Inflation (Apr)* *USA: Industrial output (Apr)*
17 POL: Wages & employment (Apr) POL: T-bill auction	**18** POL: MPC meeting *EMU: Inflation final (Apr)* *EMU: Industrial output (Mar)*	**19** POL: T-bond auction DS0509 *FRA: GDP (1Q)* *EMU: Foreign trade (Mar)*	**20** POL: Industrial output (Apr) POL: Producer prices (Apr)	**21** POL: Business climate (May)
24 POL: Core inflation (Apr) POL: Retail sales (Apr) POL: Unemployment (Apr) POL: T-bill auction	**25** POL: Food prices (1H May) POL: MPC meeting (1st day) *FRA: Inflation final (Apr)* *GER: GDP (1Q)* *GER: IFO (May)*	**26** POL: MPC meeting (decision) *EMU: Balance of payments (Mar)*	**27** *USA: GDP (1Q)*	**28** *ITA: Inflation preliminary (May)* *EMU: Inflation preliminary (May)* *EMU: Money supply (Apr)* *EMU: Economic sentiment; Business climate (May)*
31 POL: T-bill auction	**1 June** *EMU: PMI (May)* *USA: ISM (May)*	**2** POL: T-bond auction OK0806 *EMU: Producer prices (Apr)* *EMU: Unemployment (Apr)*	**3** *EMU: ECB meeting* *USA: Factory orders (Apr)*	**4** *EMU: Retail sales (Apr)* *USA: Unemployment (May)*
7 POL: T-bill auction	**8** *GER: Unemployment (May)*	**9** POL: T-bond auction WZ0307 & WZ0911	**10** **Public holiday**	**11** *USA: Producer prices (May)* *USA: Foreign trade (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	25-26	-	-	-	-	-	-	-
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	11	-	-	-	-
Money supply	14	13	12	14	14	14	14	13	-	-	-	-
NBP balance sheet	7	6	5	7	7	7	7	6	-	-	-	-
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

		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	May 04
Industrial production	%YoY	8.5	11.7	7.9	10.3	5.9	10.9	12.1	9.2	13.9	14.4	18.3	23.8	19.4	10.4
Retail sales [c]	%YoY	11.0	9.7	8.1	5.4	5.5	9.7	10.3	11.4	17.3	7.6	12.1	20.7	25.3	19.4
Unemployment rate	%	20.3	19.8	19.7	19.6	19.5	19.4	19.3	19.5	20.0	20.6	20.6	20.5	20.0	19.5
Gross wages [b c]	%YoY	4.2	0.0	3.1	2.4	1.9	2.2	3.0	4.1	5.1	3.5	6.3	7.0	6.5	7.7
Employment [b]	%YoY	-3.7	-3.5	-3.6	-3.2	-3.2	-3.1	-3.2	-3.3	-3.5	-1.4	-1.5	-1.3	-1.2	-1.2
Export [d]	%YoY	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	8.8
Import [d]	%YoY	-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	4.4
Trade balance [d]	EURm	-443	-472	-179	-657	-232	-266	-254	-503	-545	-173	-288	-400	-400	-300
Current account balance [d]	EURm	-353	-470	-97	-375	-55	-57	314	-356	-566	191	-210	-400	-250	-250
Current account balance [d]	% GDP	-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	-1.2
Budget deficit (cumulative)	PLNbn	-18.0	-23.2	-23.8	-27.7	-29.6	-33.1	-34.8	-35.5	-37.0	-4.2	-9.4	-11.8	-11.3	-17.3
Budget deficit (cumulative)	% realisation	42.2	50.6	58.5	66.3	74.3	82.2	90.3	98.2	100.0	9.3	20.7	26.1	24.9	38.2
CPI	%YoY	0.3	0.4	0.8	0.8	0.7	0.9	1.3	1.6	1.7	1.6	1.6	1.7	2.3	2.7
PPI	%YoY	2.7	2.0	2.0	1.9	1.8	2.1	2.7	3.7	3.7	4.1	4.2	4.6	5.8	6.6
Broad money (M3)	%YoY	0.8	0.3	1.3	0.7	1.7	3.1	4.7	5.6	5.6	5.1	5.1	5.7	6.2	6.4
Deposits	%YoY	-2.3	-2.9	-1.9	-2.5	-1.7	-0.2	1.5	3.3	3.8	3.4	3.5	4.9	6.4	6.5
Credits	%YoY	8.7	7.6	5.9	5.0	5.2	5.4	7.5	8.5	8.1	7.4	7.9	6.1	10.2	10.7
USD/PLN	PLN	3.96	3.74	3.80	3.90	3.92	3.98	3.92	3.94	3.79	3.74	3.84	3.89	3.97	3.96
EUR/PLN	PLN	4.30	4.33	4.44	4.44	4.37	4.46	4.59	4.62	4.66	4.71	4.85	4.77	4.76	4.75
Reference rate [a]	%	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	5.25
WIBOR 3M	%	5.90	5.53	5.38	5.26	5.16	5.17	5.42	5.68	5.69	5.46	5.46	5.49	5.69	6.00
Lombard rate [a]	%	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	6.75
Yield on 52-week T-bills	%	5.43	4.75	4.66	4.85	4.82	4.91	5.30	5.95	6.02	5.59	5.78	5.87	6.20	6.50
Yield on 2-year T-bonds	%	5.16	4.78	4.79	4.89	4.86	5.02	5.53	6.31	6.49	6.17	6.34	6.34	6.83	7.40
Yield on 5-year T-bonds	%	5.15	4.88	4.90	5.17	5.38	5.60	6.04	6.86	6.82	6.65	6.76	6.60	7.13	7.70
Yield on 10-year T-bonds	%	5.41	5.13	5.03	5.37	5.60	5.93	6.36	6.92	6.75	6.65	6.81	6.65	7.02	7.30

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	781.1	814.7	877.7	187.1	200.2	201.3	226.4	200.4	214.5	217.0	245.9
GDP	%YoY	1.4	3.8	5.5	2.3	3.9	4.0	4.7	5.8	5.1	5.1	6.0
Total consumption	%YoY	2.8	2.5	3.6	1.1	2.8	2.9	3.3	3.2	3.4	3.6	4.0
- Private consumption	%YoY	3.3	3.1	4.4	1.4	3.8	3.5	3.9	4.0	4.2	4.5	5.0
Fixed investments	%YoY	-5.8	-0.9	7.7	-3.6	-1.7	0.4	0.1	4.0	6.0	8.0	10.0
Industrial production	%YoY	1.1	8.7	15.7	4.4	9.1	8.9	12.2	19.1	16.0	13.7	13.9
Retail sales (real terms)	%YoY	1.9	7.9	12.9	1.2	9.8	6.4	12.4	11.9	19.5	10.0	10.0
Unemployment rate [a]	%	20.0	20.0	19.2	20.6	19.7	19.4	20.0	20.5	19.4	19.0	19.2
Gross wages (real terms)	%YoY	1.5	2.0	4.4	1.4	1.7	1.7	3.2	4.0	4.5	4.3	4.8
Export [b]	%YoY	6,0	9,1	8,2	8,4	5,4	11,4	11,1	12,6	9,0	7,0	5,0
Import [b]	%YoY	3,5	3,3	7,3	3,1	-2,5	8,2	4,5	8,3	8,0	7,0	6,0
Trade balance [b]	EURm	-7 701	-5 345	-4 944	-1 600	-1 118	-1 325	-1 302	-1 135	-1 045	-1 236	-1 528
Current account balance [b]	EURm	-5 404	-3 550	-2 266	-1 584	-895	-463	-608	-429	-731	-494	-611
Current account balance [b]	% GDP	-2.7	-1.9	-1.3	-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	-42.8	-15.5	-23.8	-33.1	-37.0	-11.8	-22.3	-32.8	-42.8
Budget deficit (cumulative) [a]	% GDP	-5.0	-4.5	-4.9	-8.3	-4.2	-4.6	-1.7	-5.9	-4.9	-4.8	-4.1
CPI	%YoY	1.9	0.8	2.6	0.5	0.5	0.8	1.5	1.6	2.7	3.1	2.8
CPI [a]	%YoY	0.8	1.7	2.8	0.6	0.8	0.9	1.7	1.7	3.0	3.1	2.8
PPI	%YoY	1.0	2.6	5.3	3.0	2.2	1.9	3.4	4.3	6.3	5.8	4.9
Broad money (M3) [a]	%YoY	-2.0	5.6	9.7	0.5	1.3	3.1	5.6	5.7	6.2	7.0	5.8
Deposits [a]	%YoY	-4.2	3.8	8.7	-2.3	-1.9	-0.2	3.8	4.9	6.7	7.9	5.9
Credits [a]	%YoY	5.3	8.1	11.9	8.7	5.9	5.4	8.1	6.1	11.1	11.6	12.6
USD/PLN	PLN	4.08	3.89	3.91	3.90	3.83	3.93	3.89	3.82	3.95	3.96	3.90
EUR/PLN	PLN	3.85	4.40	4.74	4.19	4.36	4.42	4.62	4.78	4.74	4.75	4.68
Reference rate [a]	%	6.75	5.25	6.00	6.00	5.25	5.25	5.25	5.25	5.25	5.50	6.00
WIBOR 3M	%	9.09	5.69	5.85	6.37	5.60	5.20	5.60	5.47	5.80	5.87	6.27
Lombard rate [a]	%	8.75	6.75	6.75	7.75	6.75	6.75	6.75	6.75	6.75	7.00	7.50
Yield on 52-week T-bills	%	8.18	5.33	6.31	5.75	4.94	4.86	5.76	5.75	6.19	6.50	6.80
Yield on 2-year T-bonds	%	7.94	5.38	7.04	5.58	4.91	4.92	6.11	6.28	6.86	7.50	7.50
Yield on 5-year T-bonds	%	7.86	5.61	7.45	5.50	4.98	5.38	6.57	6.67	7.14	8.00	8.00
Yield on 10-year T-bonds	%	7.34	5.77	7.27	5.60	5.19	5.63	6.68	6.70	6.99	7.70	7.70

Source: GUS, NBP, BZ WBK

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

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