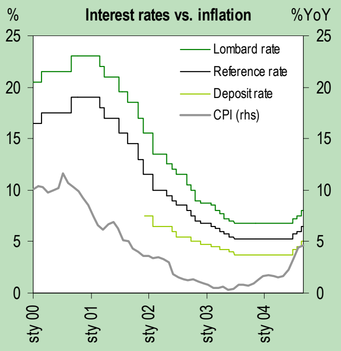
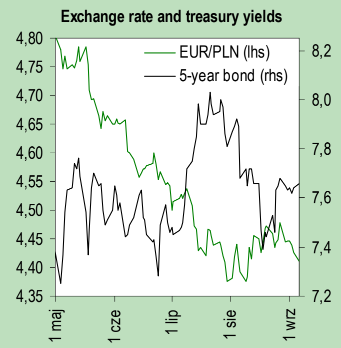
Bank Zachodni WBK

MACROscope

Polish Economy and Financial Markets

September 2004





In this issue:

Maciej Reluga
Chief Economist
(+48 22) 586 8363

Piotr Bielski
(+48 22) 586 8333
Piotr Bujak
(+48 22) 586 8341
Aleksander Krzyżaniak
(+48 22) 586 8342

Email: firstname.secondname@bzwbk.pl

The end of vacation

- **Deputies returned from the vacation, so one can expect that politics will become again a factor influencing the Polish financial market.** The SLD's plans of changing tax system (regressive free tax amount, zero percent rate for the poorest) come to the fore, as they already met the opposition of the finance minister. Possibly, other political parties would also like to "earn" something in exchange for the support in the next vote of confidence, scheduled for 6 October. In the near future, the government will also finally accept macroeconomic assumption for the next year budget. However, financial market participants are aware of lower deficit and lower financing needs for quite a long time and therefore one should not expect a significant market reaction. Also, fiscal policy should be rather neutral from the point of view of conducting monetary policy next year.

- **The Monetary Policy Council surprised financial markets for the third month in a row by raising interest rates by 50 bps.** After the scale of the previous rate hike has been reduced to 25 bps, and some of the recent macroeconomic figures showed weaker-than-expected performance in July, most of the market analysts (including ourselves) anticipated a 25-bps increase. Two most important arguments justifying the decision included the August inflation projection prepared by the NBP staff and the risk of rising wage pressure resulting from growing inflation expectations. As regards possible increase in wages, it seems that the MPC was referring to a possible wage claims that might appear during meetings of the three-party committee that gathers after the summer holidays to negotiate wage increases in the budget sector in 2005. In the statement the MPC said that monetary tightening should be a gradual process, which means that further hikes are very possible. We expect another rates increase in September (we expect inflation to rise again in August), but its scale is a big question mark given the unpredictability of the recent MPC's decisions. We think that the scale of 50 basis points is more likely. We still expect the NBP reference rate to peak at 7.5%

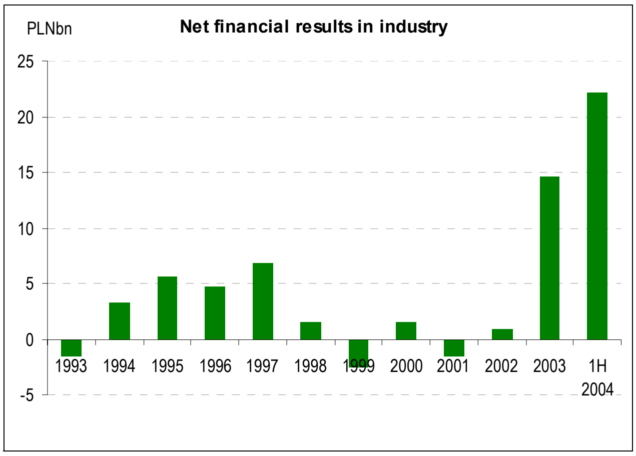
- **The National Bank of Poland published the inflation projection for the first time.** The government representatives disagreed with the NBP projection because of "extremely pessimistic assumptions as regards food prices, oil prices and wage pressure". Well, if finance minister is right, we may see a downward revision of NBP projection already in November. Does it mean the Monetary Policy Council will stop raising rates by then? From the point of view of predicting future monetary policy decisions, It will be extremely important to see how the MPC will justify its decision in the context of the inflation projection. Similarly, the verification of projection will be very important, especially in the case if the pessimistic assumption as regards food prices inflation does not materialise.

Financial market on 31 August 2004:

NBP deposit rate	4.50	WIBOR 3M	7.00	PLN/USD	3.6816
NBP reference rate	6.00	Yield on 52-week T-bills	7.43	PLN/EUR	4.4465
NBP lombard rate	7.50	Yield on 5-year T-bonds	7.63	EUR/USD	1.2078

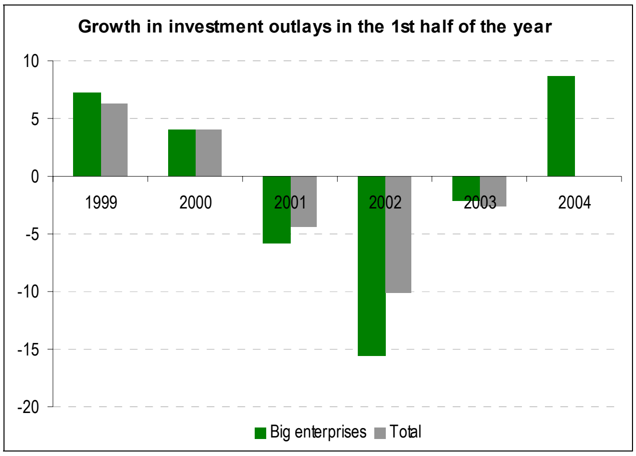
This report is based on information available until 06.09.2004

Economic update



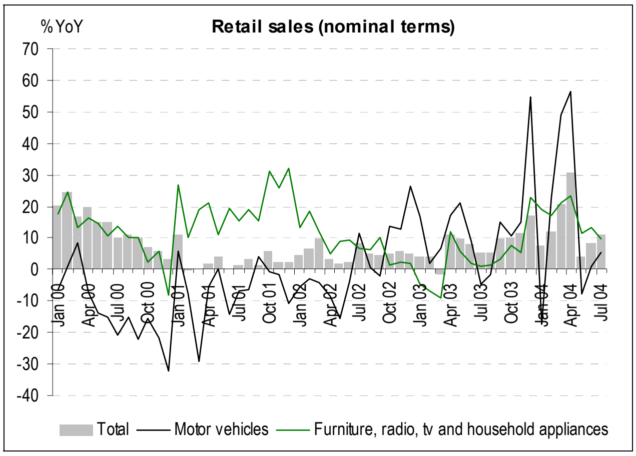
Sharp improvement in firms' financial results in 1H04

- The financial results of companies for 1H04 were optimistic, showing that the excellent performance observed in the first quarter was also sustained in the second quarter of this year.
- Total companies' revenues rose by 18.7%YoY in 2q04 as compared to 19.6%YoY in 1Q04. Total costs decelerated even more (14.5%YoY against 15.8%YoY in the first quarter), which allowed for a substantial improvement in the companies' profits.
- Gross financial result of Polish firms in the second quarter reached ca. PLN21.4bn, against PLN17bn in 1Q04 and PLN8.7bn in the corresponding period of last year (which implies a surge of 145%YoY!). Net financial result was up more than 200%YoY.
- The ratio of total costs decreased to 93.7% in 1H04 from 97% in 1H03. The profitability rate and cost level indicators also improved.



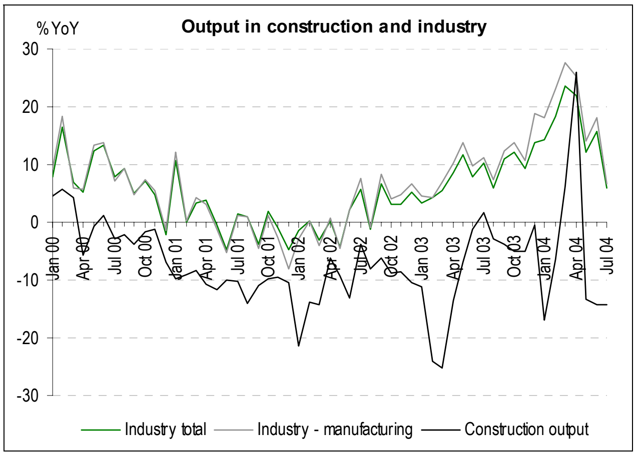
Rebound in investments in 2Q04. Finally!

- In the first half of this year investment outlays in the biggest companies increased by 8.7%YoY in real terms. The number of newly started investments increased by above 50%.
- Assuming that in the first quarter the growth in investment in big companies was similar to total investment growth in the national accounts (a mere 3.5%YoY), the second quarter must have seen a double-digit rise in investment. We expect 9% growth.
- The strongest increase in the manufacturing sector (21.9%YoY), which confirmed that exporting sections have the best financial results in the Polish economy.
- The most significant growth was observed in case of investments in means of transport (32.2%YoY), which was probably affected by the change in VAT regulations for new cars on 1 May. Investments in buildings and structures rose by 12.7%YoY.



Good results in retail sales

- Retail sales statistics showed 10.9%YoY rise in the overall sales in July against 8.6% in June and 4.0% in May. Most of the branches recorded robust, two-digit growth rates.
- Even the worst performing sales of motor vehicles and motorbikes rose by 5.3%YoY, contradicting the signals from the car market analysts, who used to report a dramatic downturn in new car sales after 1 May. Possibly, the CSO figures took into account also sales of used cars (and delivery vans), which rose quite rapidly after the EU accession.
- The growth in sales excluding motor vehicles reached – according to our own estimates – ca. 11.5%YoY, against 9.5%YoY in June and average 13.1%YoY in 1H04.
- Higher growth in nominal sales resulted from price increases, but also from stable growth in private consumption.

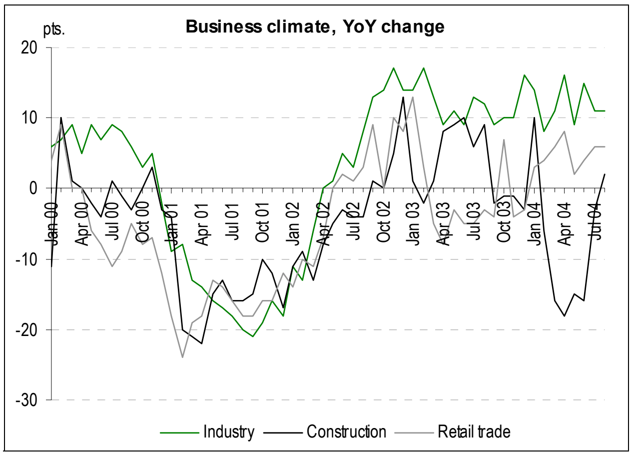


Source: CSO, BZWBK own estimates

... but production lower than expected

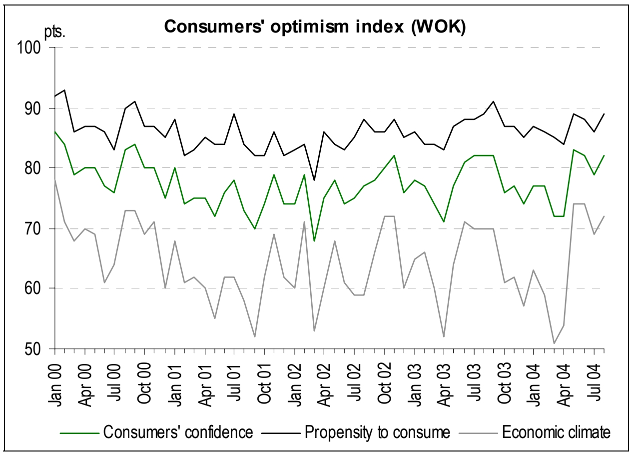
- Industrial output figures for July rose by "only" 6%, which was much below two-digit growth rate since the first half of 2004 and was below majority of forecasts. This deceleration was caused by lower number of working days and high statistical base.
- The growth in industrial production adjusted for seasonal and one-off factors reached 9.2%YoY in July (against 13.6%YoY in June and close to 17% in 1H04). Exporting sectors still perform very well.
- We expect the growth rate of industrial output is very likely to return to the two-digit level already in August, as it will be also affected by higher number of working days.
- Construction output fell again (by 14.3%YoY in July after 14.4%YoY drop in the previous month). It is hard to see a revival in investments in this sector's data.

Economic update



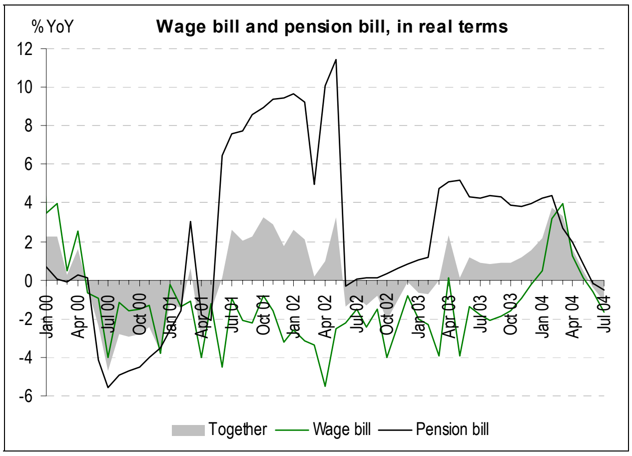
Business climate continues to improve in 3Q04

- In August, all three indices of business climate in Polish companies, computed by the CSO, improved in relation to July, and to the corresponding month of last year.
- Index was the highest in the manufacturing sector and moods in the construction sector were better than last year for the first time since January.
- Industry companies reported a slowdown in new orders, due to a significant slowdown in case of domestic orders. Forecasts of future financial situation, orders and production were optimistic.
- The entrepreneurs are expected to continue staff reduction, and predicted more price hikes.
- Prices increase in retail sector was much slower than in previous months and the forecasted growth in subsequent months was lower than previously.



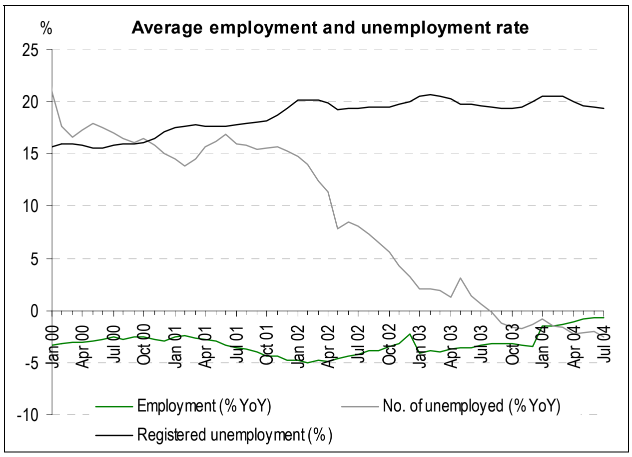
Households' optimism stronger, inflation expectations lower

- Households' optimism improved in August. According to Ipsos institute, the improvement was recorded in case of overall optimism, general economic climate, and propensity to consume.
- All indicators were equal or higher than a year ago.
- Results also showed lower households' fear of unemployment.
- August was another month of weakening in households' inflation expectations. According to Ipsos, inflation expectations are decreasing even stronger than they were rising a few months ago (directly before entry to the EU), and "currently inflation expectations died away".
- … however, despite of this fact, the NBP measure of inflation expectations is rising, as it strongly depends on current consumer price index.



Poor labour market statistics

- Increase in average wage in the enterprises sector amounted to only 3.6%. It was the lowest rate of growth since January 2004, and much below the average increase in the first half of this year, which amounted to 5.1%YoY.
- At the same time the average employment in the enterprises was stable on monthly basis (after three consecutive months of increases), which implied an annual fall of 0.7% (the same as in June).
- While nominal wage bill in the enterprises sector rose by 2.9%YoY (average for 1H2004 was 3.9%), a second consecutive fall in real terms was recorded (of 1.6%YoY against 0.6% in June).
- July data did not indicate any demand-side pressure on prices.

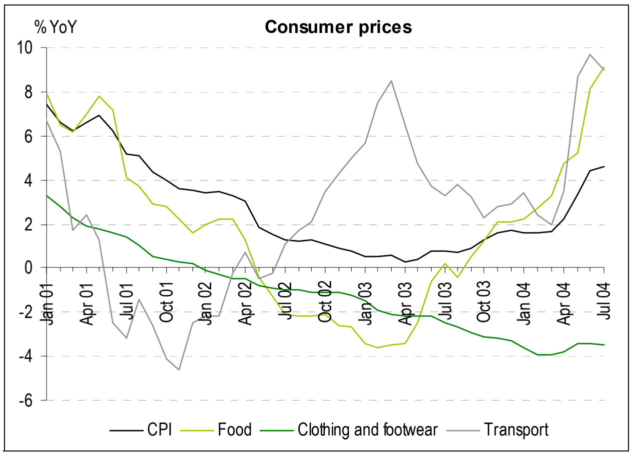


Source: CSO, Ipsos, BZWBK own estimates

Unemployment lower, though still high

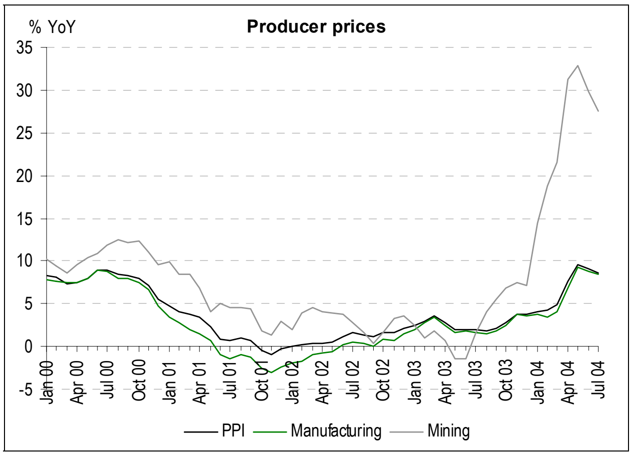
- In line with expectations the registered unemployment rate fell to 19.3% in July from 19.5% in the previous month.
- The drop was stronger than implied by a simple seasonal effect, and resulted from a growing number of people being written off from the unemployment registers. However, the number of new job offers was decreasing.
- Unemployment data may be assessed positively, as they gave some hope that in 2H04 we would see clearer improvement in relation to the corresponding period of last year. In July this year the unemployment rate was 0.3% lower than in July 2003, while in May-June the difference was 0.2%YoY.
- Since mid-2003 the number of unemployed people has been decreasing and it is possible it will be below 3 millions by year-end.

Economic update



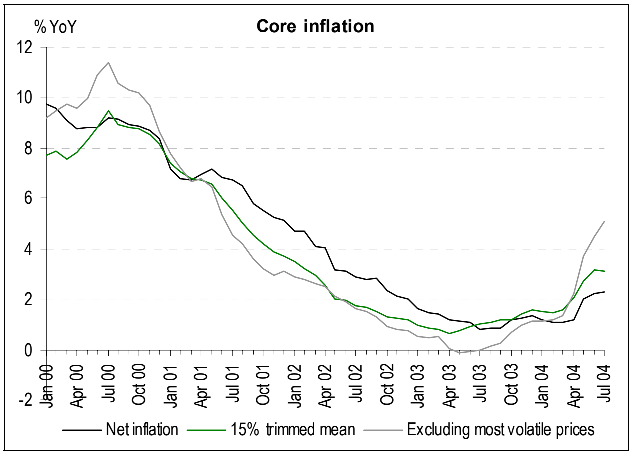
Another inflation increase in July … and in August

- July inflation rate exactly matched our expectations, rising to 4.6%YoY from 4.4% in June.
- The fall on a monthly basis (0,1%) resulted from deflation on the markets of food (-0.8%MoM) and fuels (-0.9%MoM).
- The latter factor was rather temporary, as domestic oil prices rebounded already in August and at the beginning of September.
- In annual terms, foodstuff and fuels remained the main two drivers of the CPI rise, as they increased by 9.1%YoY and 16.1%YoY, respectively. Costs of households maintenance and energy, rising 4.5%YoY, were the third important component, pushing inflation up.
- We maintain our forecast and we still predict another rise in CPI to 4.7% in August and a fall to 4.3% by year-end.



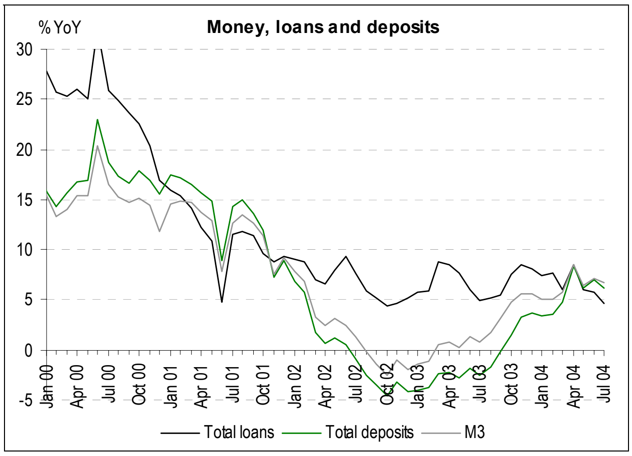
PPI down again, and this will be continued

- Producer prices showed some deceleration in July, posting a 8.6%YoY growth after a revised 9.1%YoY increase in the previous month.
- The drop in the annual growth rate resulted mainly from the strong base effect, as in July 2003 PPI rose sharply by 0.7%MoM (due to large hike in energy costs), while this time the increase amounted to a mere 0.2%MoM.
- The prices in branches producing and processing oil and oil products were rising substantially (2.4%MoM), even though in the CPI data fuel prices recorded a notable drop of 0.9%MoM. This shows that oil and other natural resources still remain among the major inflationary factors.
- Prices in majority of other branches recorded decreases on a monthly basis.



Core inflation not so hawkish as it seems

- At the first sight, majority of core inflation measures accelerated more significantly than CPI. However, on the other side, two indices, perceived as the most important ones, remained relatively low and one of them actually fell.
- 15% trimmed mean amounted to 3.1%YoY in July (3.2%YoY in June). Net inflation remained at June's level of 2.3%YoY.
- The two measures confirmed that current rise in inflation results to a large extent from transitory, exogenous factors and is not assisted with strong domestic demand pressure on prices.
- Three remaining measures that rose significantly can hardly be perceived as perfect indicators of long-term inflation trends, as recent developments showed that they are far more volatile than the CPI - all three indices recorded a deflation in the middle of 2003, and now are above (or equal) the headline inflation rate.

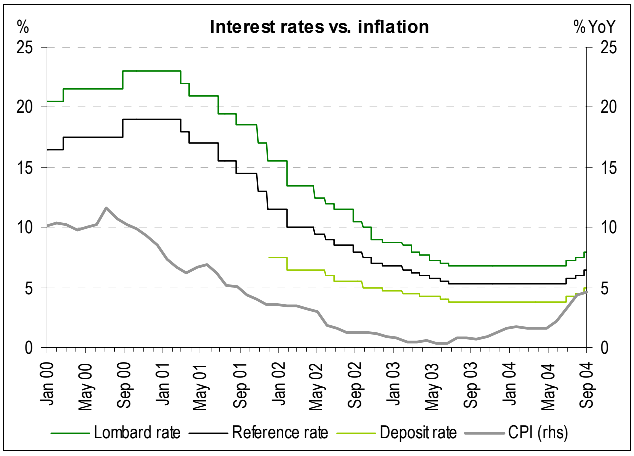


Source: CSO, NBP, BZWBK own estimates

Slowdown in money supply

- The broad money supply measure M3 rose by 6.7%YoY in July (7.2% in June), which was also below expectations.
- The deposits decelerated to 6.2%YoY (from 6.9% in June), which was caused both by annual fall in households' deposits of 1.8% (again) and by a deceleration in businesses' deposits to 29.2%YoY from 32.8% in June.
- In July firms' deposits fell by PLN1.8bn or 2.4%, which was rather non-seasonal phenomenon and may indicate that firms started already to spend more money on investments.
- Enterprises are still very reluctant to take credit in the commercial sector, as businesses' credits decelerated even more to -3.6%YoY from -2.8%YoY in June (falling by 1.7%MoM).
- On the other hand, households' credits continued their robust growth in July - growth of 15.6%YoY.

Central bank watch



Important elements of the MPC statement from 25 August 2004

Factors decisive as to the scale of the increase resulted from the August inflation projection and the risk of appearance of wage pressure stemming from inflation expectations.

The Council acknowledged this decision as indispensable despite the fact that some of the factors, which in the last few months contributed to an increase in inflation, in particular the price effects of Poland's European Union entry, are slowly abating.

Endeavouring that the increased inflation has a transitory effect, the Council does not change its position that the tightening of monetary policy should take place gradually.

The risk related to inflation growth are foremost the growing household inflation expectations, which rose in August 2004 to 4.5%, as against 4.0% in July 2004 and 0.8% in August 2003. One should note, however, that in the last month the growth in inflation expectations was lower than the increase in current inflation.

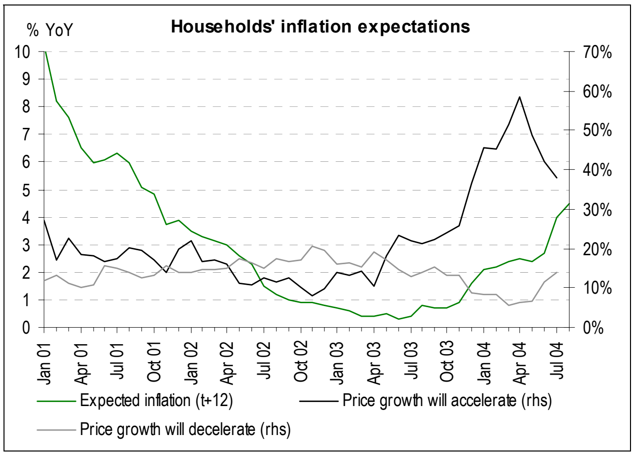
The Council considers that some of the factors which in the last months contributed to an increase in inflation are gradually abating, especially some of the price effects stemming from Poland's entry into the EU. Moreover, the increase in wages remains moderate, while the annual growth of labour productivity in industry continues to exceed the wage growth. As a result the annual growth of unit labour costs remains negative.

Inflation projections of the National Bank of Poland, %YoY

	May projection	August projection
4Q 2005	2.1-5.4%	2.8-5.5%
4Q 2006	1.1-4.4%	1.6-5.1%

NBP inflation projection for 4Q 2006

CPI projection	probability
below 1.5%	23%
1.5-2.5%	13%
2.5-3.5%	15%
above 3.5%	49%



Source: CSO, NBP, BZWBK own estimates

Surprise, surprise, surprise!

- The MPC returned to higher scale of rate hikes – another 50 bps increase brought the reference rate to 6.5%, the lombard rate to 8% and the deposit rate to 5%.
- After the scale of the previous rate hike has been reduced to 25 bps, and some of the recent macroeconomic figures showed weaker-than-expected performance in July, most of the market analysts (including ourselves) anticipated a 25-bps hike.
- Changing of the rate hikes scale does not seem to indicate any consistent strategy of monetary policy, although in our opinion the MPC agreed indirectly that June's 25-bps hike was a slip-up and the Council has underestimated the risks at that time.
- We expect another rate hike already in September (50 bps very likely) and we do not change our forecast that the reference rate will reach the peak in this cycle at 7.5%.

Inflation projection and wage claims were the key factors

- If the inflation projection was one of the most important factor that convinced the MPC members to raise rates by more than previously, the only questions are why the central bank did not publish its projection before the MPC meeting and why the MPC based its rates decision on factors not available for all market participants. Example of the Bank of England is not convincing.
- The Council mentioned the risk of rising wage pressure, while recent data from the labour market showed quite limited rise in wages and rather stagnant employment. However, it seems that the MPC was referring to a possible wage claims that might appear during meetings of the three-party committee.
- The MPC recognised the hike as "necessary", even though some of the factors, that recently contributed to inflation surge, were ceasing (especially the consequences of the EU accession).

Higher inflation projection = higher interest rates

- The increase in projection in the period from May to August (which has taken place despite 75bps hike in June-July) led the MPC to hike rates by as much as 50bps in August.
- According to NBP economists, further increases are necessary to bring inflation down to the target of 2.5%.
- … and even if official rates were raised to an extent priced-in by financial markets, the inflation target of 2.5% would not be met.
- … as according to the central bank, the probability that the inflation will be below 2.5% in 4Q06 amounted to only 36%.
- The NBP expects the currently high growth rate of food prices (around 9%YoY) to be sustained until 1Q05, which, in our opinion, is overly pessimistic assumption. If this scenario does not materialise, NBP may lower its projection as soon as in November.

Inflation expectations – answers' structure is improving

- In August, the NBP measure of inflation expectations increased again, but mainly because it was based on current inflation from t-2 period (in June CPI inflation rose by as much as 1pp to 4.4%).
- The structure of households' answers in opinion poll have been improving for the last three months - the ratio of people expecting prices to rise faster over the next 12 months fell to 38% in Jul from 42.3% in June. The ratio of those who predicted slower growth in prices rose to 14% in July from 11.6% in June.
- In our opinion, one should expect a continuation of this trend in the following months, as CPI inflation is likely to peak in September, and inflation expectations will follow. This would suggest that hawks may have less arguments in favour of higher official interest rates in future.

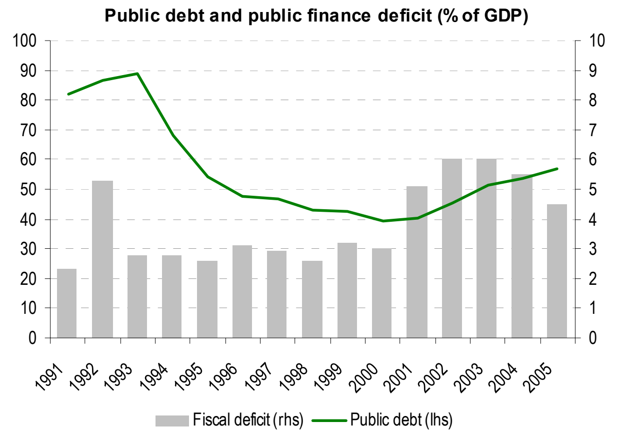
Central bank watch

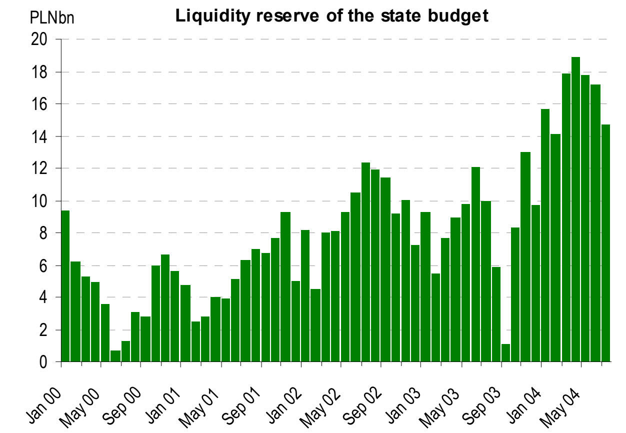
Comments of the central bank representatives	Remarks
Leszek Balcerowicz, NBP governor; press conference after MPC meeting, Reuters 25 August We've got one target that of 2.5%. The MPC approaches it in a very serious way. […]Activity of the Council is guided by the need to reduce inflation to the level of the target after the deviations related to supply shocks die out. One should not assume that interest rate sequence that took place in the past will repeat itself in the future. It cannot be taken as read. […] A concept of gradual moves means both 25bps and 50bps. Today's decision together with the previous ones should be treated as a very important signal, that assumptions regarding next year's inflation discussed by the social partners should be treated as credible. The MPC behaviour aims at authenticating those assumptions.	The governor of the NBP emphasised again that the inflation target is not a band of 1.5-3.5%, but a point of 2.5%. Let's remind that in our July economic report, we pointed out a lack of consequence of the MPC in this regard e.g. in the April MPC statement, one could read that it was feasible that the "upper end of the inflation target would be exceeded". Therefore, we are delighted with the renewed central bank's efforts to concentrate the attention of monetary policy observers on the middle of the inflation target. This gives a clear signal suggesting that one may expect a reaction on the part of the MPC after the 2.5% limit is exceeded (or is expected to be exceeded). Unfortunately, such a hint was not observed as regards the scale of the next interest rates increases. The governor's statement that both 25 bps and 50 bps hikes may be perceived as a gradual tightening was not very helpful.
Krzysztof Rybiński, deputy NBP governor; Radio PiN, 1 September Generally, the MPC can act in three ways. They can say: we have familiarised ourselves with the projection but we do not believe in such a view. It seems to us it will different – we reject the projection. In the second scenario the Council can say: we think the projection points to a likely inflation path with constant rates, however the sources of deviation from the target will fade. So we explain to the financial market and public opinion what the sources are and don't change interest rates. There is a third likely decision: yes, we believe the deviation is too high and inflation will not return to the target with constant rates in medium-term – we raise interest rates. How the Council will refer to it was shown at August meeting when the Council said that the projection had been a very important factor that had influenced the scale of rate hike. We have shown the MPC also results of a simulated course of inflation if market interest rates would realise. The results suggested that inflation by the end of 2006 would not return to the target under the scenario of market interest rates. Such was the result of simulation. However, I cant tell anything about the Council's perception of this scenario.	The inflation projection has been prepared by a team of NBP economists and the Monetary Policy Council is not an "owner" of the inflation projection. The projection is only one of the inputs to the MPC's decision-making process. However, as it was suggested in August MPC statement: "factors decisive as to the scale of the increase resulted from the August inflation projection". Therefore, one can conclude that the majority of the Council take the NBP projection into account quite seriously at the moment. Such explanation was also suggested by the deputy governor, although it is not certain how the MPC will react to projected path of inflation in future. The next inflation projection will be published in November and it will be extremely important to see how the inflation projection will change and how the central bank will analyse the sources of past forecast errors. As the increase in official rates to an extent, which was priced-in by financial markets, is not sufficient to bring inflation down to the target, one should expect a rise in market interest rates in the following months. One should remember that until November, the Monetary Policy Council will base its decision on the August inflation projection, which means that hikes in both September and October are well possible.
Dariusz Filar, MPC member; Radio PiN, 27 August [Q. Is the inflation target at 2.5% too ambitious?] I don't think so, one should remember where the target comes from. […] A country must meet Maastricht criteria to adopt the euro. […] and at present an inflation indicator based on Maastricht criteria exactly amounts to 2.5%. [Q. Would 3.5% inflation be good on the way towards the euro?] I cannot agree with it, since the economy must get used to low inflation and the faster it happens the better. It would be very bad if the MPC will have to muffle inflation rapidly when fiscal criteria allow for adoption of the euro. The process of fiscal tightening in Poland hasn't been concluded. Rzeczpospolita, 16 August I believe that, taking into consideration domestic attempts to estimating natural interest rate and linking it with foreign estimations, the level of real natural interest rate in Poland can be determined at around 4% (that corresponds with a maximum estimation for the American economy) without a risk of significant deviating from the truth. This level must be watched closely, so that at some point we do not face an excessive […] increase in total demand.	Questions about a rationality of the current central bank's inflation target were triggered by the statement of the chief of presidential economic advisors, Witold Orłowski. However, in this issue we completely agree with the central bank's representatives comments and we perceive a change in the medium-term inflation target as unfounded. The MPC accepted the target adopted by the previous Council, but very soon we will know how the new Council perceive the realisation of this strategy, as it will discuss *The Monetary Policy Guidelines for 2005* on the meeting scheduled for 9 September. Dariusz Filar reiterated his view that real neutral interest rate in Poland amounts to 4%, which means that he sees a room for further monetary tightening in the following months. If we add up the level of real interest suggested by Filar and the inflation target of 2.5% we have the level of nominal neutral rate of 6.5%, which is exactly the level of today's reference rate. However, taking into account that both current inflation and inflation expectations are higher than 2.5%, we think that the professor Filar's targeted level of nominal interest rate is some 7-8%. This argumentation may be used again during the next meeting of the Monetary Policy Council, when a necessity of the 50 bps rate hike will be justified.
Marian Noga, MPC member; PAP, 18 August The likelihood of inflation exceeding the upper end of the inflation target by the end of the year is very feasible. The MPC can hardly be expected to not react to it. Inflation expectations are strengthening, which will result in wage pressure. We cannot admit to start the wage-price spiral. The MPC cannot calmly watch winding up this spiral. We realise what is our responsibility, but these are not only interest rates that we can use in repairing economy and steering economic processes. It must be accompanied with public finance reform and specific fiscal policy. Therefore, we are meeting with government members	Marian Noga presented a surprisingly hawkish view, saying that the rate of inflation would stay above the MPC target for a while, which would probably prompt another MPC reaction. In the middle of August he said that the next MPC decision might have different scale, thus not ruling out a return to stronger hikes than 25bps. He added that the sooner the rate hike, the better would be for constraining inflation expectations and price-wage spiral. This means that if the MPC is to continue the process of monetary policy tightening, one should expect it in the following months. That is why we expect next hike already this month.

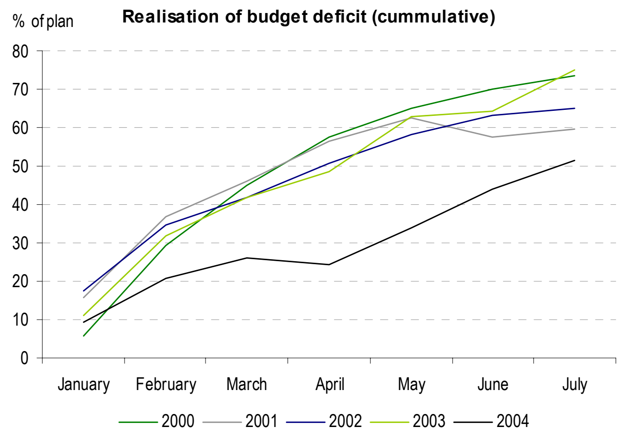
Government and politics

Budget macroeconomic assumptions for 2005

	old assumptions	new assumptions
Revenues (PLNm)	168 400	ca. 173 000
Expenditures (PLNm)	207 200	ca. 208 000
Budget deficit (PLNm)	38 800	35 000
GDP (%YoY)	5.0	5.0
Domestic demand (%YoY)	4.8	5.0
Unemployment rate (%)	17.9	18.2
Inflation (%, annual average)	2.8	3.0
NBP ref. rate (%, annual average)	6.2	7.4
EUR/PLN (annual average)	4.58	4.42
USD/PLN (annual average)	3.81	3.68







Source: Ministry of Finance, BZWBK own estimates

New macroeconomic assumptions for budget 2005

- Finance minister proposed to the government lowering of the budget deficit by close to PLN4bn to PLN35bn. This was already suggested many times in the past and should not be a surprise for financial markets.
- Cabinet will finally accept the assumptions on 10 September.
- This year's deficit is planned to be lower by PLN1-2bn as compared to the plan, but it may be even lower in our opinion.
- Lower deficit as compared to the previous plan was achieved thanks to higher revenues forecasts, which was driven by higher than previously expected inflation prediction, as well as higher forecast of revenues from corporate income tax (improvement in efficiency of tax collection is assumed again).
- Higher inflation forecast creates also a problem, as it was previously assumed that wages in the budgetary sector would rise equally with inflation growth.
- The government did not change GDP growth forecast at 5%, but it expects higher growth in domestic demand. Ministries may still want to increase economic growth figure in order to achieve higher revenues, which might be spent even if the deficit of PLN35bn was to be unchanged.
- Forecast of NBP reference rate was increased by above 1 pp. It is not consistent with our predictions.
- We also agree with the expected by the Ministry of Finance levels of exchange rates (stronger zloty in new assumptions).
- The government plans to cancel the so-called special measures money, which may bring a few hundreds of millions savings.
- Privatisation revenues are planned at the level of PLN5-7bn (treasury minister mentioned recently PLN5.7bn), but it is not known what kind of enterprises will be privatised.

Public debt below 55% of GDP this year

- Against doomed forecasts of unavoidable breaking of the second safety threshold of public debt to GDP ratio (55%), the odds are that this will not happen.
- Finance minister claimed that avoiding this level of public debt was one of his highest priorities and he will do everything to succeed.
- He may, for example, use to a maximum extent the liquidity reserve of the budget, which amounts to a dozen or so of millions.
- For better liquidity management in the budget, finance minister used also money from the EU funds (exchanged €750m in the central bank, if the NBP had not agreed, he would have exchanged money on the foreign exchange market).
- And next year we will already have different definition of public debt.

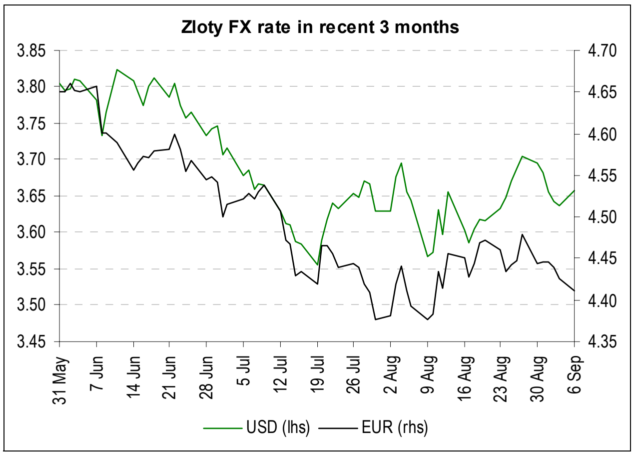
Budget "not that rosy", yet still under control

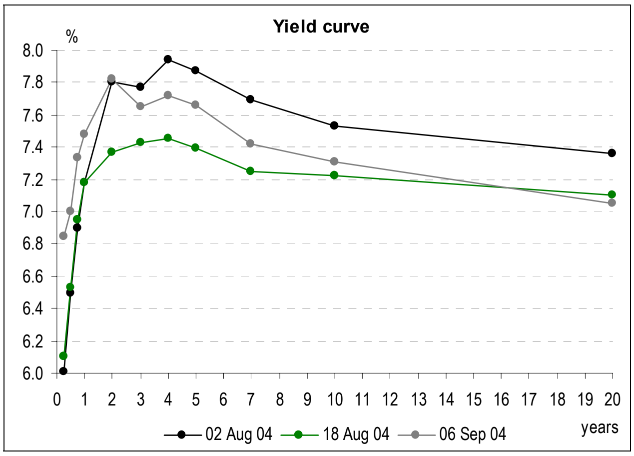
- After seven months of this year, the state budget deficit reached PLN23.2bn, i.e. 51.3% of the plan for the entire year.
- The growth in revenues is gradually loosing its pace, and after seven months the proceeds were higher only 2.3%YoY The reason for that was mainly a deteriorating performance of indirect taxes and corporate income taxes after May, confirming the new finance minister's words that second half of the year "is not that rosy" as regards budget revenues.
- The expenditure side of the budget seems to be under control and budget realisation in 2004 is much better as compared to previous years.
- We continue to believe that until the end of this year the situation is not likely deteriorate and that the deficit at the end of December will fall slightly below the planned PLN45.3bn.

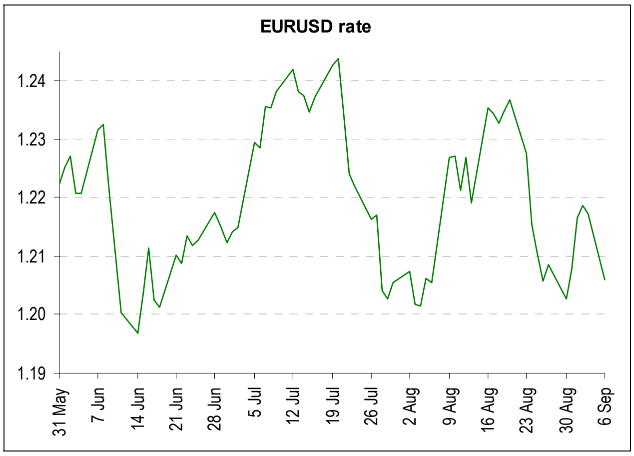
Government and politics

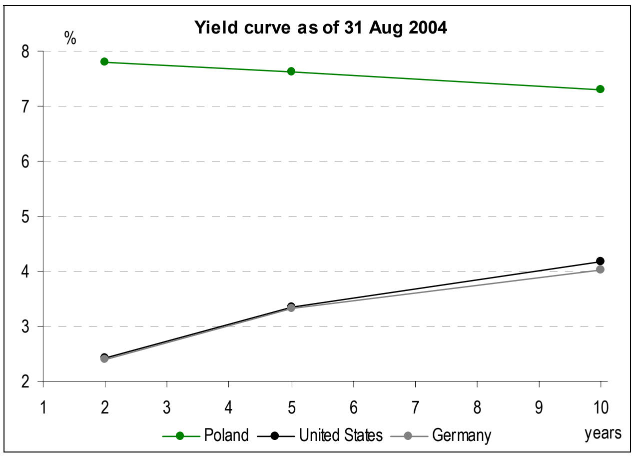
Comments of government representatives and politicians	Remarks
Aleksander Kwaśniewski, the President TVN24, 18 August; www.gazeta.pl, 19 August If the Prime Minister Marek Belka loses the vote of confidence in October, parliamentary elections would take place at the beginning of the next year. [If the vote of confidence is successful] we will stick to the decision of self-dissolution of the parliament, which was declared also by the SLD, and elections will take place in the spring. I will try to convince politicians from left-wing parties (SLD, SdPl, UP) to find a common formula for participation in the parliamentary elections. (…) This is the only reasonable solution.	Politicians have already started to talk about a strategy for parliamentary elections. President Aleksander Kwaśniewski, as well as SLD politicians mentioned a possibility of a joint electoral committee of left-wing parties (SLD, SdPl, UP). However, before the parties will decide this issue, we will see the second vote of confidence for the cabinet, and the result of this vote is not necessarily determined (see politicians' comments below). It is important that we see politicians (at least some of them) sticking to their view of organising parliamentary elections in spring 2005, as this would help to prepare the budget (quite difficult) for 2006.
Jerzy Hausner, deputy PM, economy and labour minister PAP, 27 August In 2005 economic growth will for sure be above 5%. We will decide about it in next days but let us assume that it will be a 5.5%. [The annual average inflation in 2005] It may be 2.9%, or 3% or even up to 3.1%.	Deputy Prime Minister responsible for economic affairs was quite certain that GDP growth next year would amount to above 5%. However, as the accepted budgetary macroeconomic assumptions suggest, finance minister was able to protect his forecast of 5%. In our opinion, the forecast of GDP growth of some 5.5% would not be excessively optimistic, although of course it will be easier to execute the Budget Act based on conservative assumptions. It is still possible that other ministries will decide to raise GDP growth forecast in order to achieve higher revenues (which may be spent).
Mirosław Gronicki, finance minister Gazeta Wyborcza, 1 September The SLD chief Krzysztof Janik is not a member of the government. The initiative as regards taxes is on the Ministry of Finance's side, or alternatively on the cabinet's side. This clearly shows my stance. PAP, 31 August I do not agree with this document [NBP's inflation projection]. It is based on extremely pessimistic assumptions concerning the increase in oil and food prices as well as wage inflation. This is a very pessimistic warning projection, not an operational forecast that could be used for a budget projection. We deal with a glaring example of something stirring sensation rather than helping pursue a sound economic policy. […] We are interested in a prediction, not a projection. I think that the central bank should provide not only projections, but inflation forecasts as well. This would give us another tool for comparison. Average reference rate in 2005 would be above 7.1%. I do not want to forecast exactly the level, but being realistic I assume that interest rates will be higher at the end of the next year as compared to today's level. Gazeta Bankowa, 16 August [Q: When Maastricht criteria will be met in case of negative Eurostat's decision as regards Polish pension funds?] Joining the euro zone will postpone ad calendas Graecas. However, I assume different scenario. As far as I know we can count on support from Germany and France. (...) We have already talked to Mr Brown from UK, who was not committed, but he stated it is possible he will support the idea. So, I assume there will be an agreement to treat Polish pension funds as a part of public sector.	It is not surprising that the finance minister opposes the SLD ideas of changing the tax system, which is based on political rather than economic justification. However, it will be interesting to see consequences of this difference of opinions. The Prime Minister 's view will be of particular importance. Finance minister disagreed with the NBP inflation projection because of extremely pessimistic assumptions as regards some of macroeconomic indicators. In our opinion, the scenario for food prices for the following months is overly pessimistic, as the central bank expects the currently high growth rate of food prices (around 9%YoY) to be sustained until 1Q05. This implies some 1% average monthly inflation of food prices in September-December period. For comparison, in our base case scenario we assume the annual inflation of food prices to decelerate by year-end to around 7%YoY from above 9% in August and this implies 4.3%YoY CPI inflation in December. Finance minister expects even lower inflation by year-end (some 4%), which is much lower than the mid-point of the NBP inflation projection (of above 5%). Well, if finance minister is right, we may see a downward revision of NBP projection already in November. Finance minister expects interest rate hikes in a similar scale as in our forecast. We have been repeating for several months that an issue, of whether the Polish open pension funds (OFE) can be regarded as a part of public finance sector, is not lost yet. However, it may remain unsolved until next year. On 1 September the CSO sent the fiscal notification to the Eurostat and the European Commission, including data on public debt and deficit, which assume that, according to the ESA95, OFEs are a part of public finance sector. Eurostat will take a position on this issue until 15 September and it is likely to accept the figures, as there is no final decision how to treat OFEs. Next fiscal notification will take place in March 2005.
Krzysztof Janik, SLD chief; Rzeczpospolita, 17 August If we do not support the cabinet in the vote of confidence in October, this will not be driven by personal decisions of Prime Minister. (...) however, if it turn out that the government is not able to rule, it would make no sense to extend its functioning. If in certain cases [elimination of tax free amount, zero percent tax for the poorest] we will face the government's opposition, we will rethink our support for the cabinet.	Deputies returned from the vacation, so one can expect that politics will become again a factor influencing the Polish financial market in the following weeks. SLD's plans of changing tax system (regressive free tax amount, zero percent rate for the poorest) come to the fore, as they already met the opposition of the finance minister (details above). Possibly, other political parties would also like to "earn" something in exchange for the support in the next vote of confidence, scheduled for 6 October. This would increase a political risk.
Marek Borowski, SdPl chief Polish Radio 1, 19 August Because the vote of confidence was over three months ago, we have introduced the rule that every month we make an evaluation [of the Belka's government]. (…) We made such an evaluation after the first month. I can say straight away that it was negative, because little happened in the first month. We will make the second assessment soon, in one week time, because the second month of the government's existence will pass. There were some actions taken during that time, but they are not sufficient. And if you ask me, what would be our decision tomorrow, how would we vote tomorrow – tomorrow our opinion [about the government] would be negative.	According to Marek Borowski from the SdPl if the vote of confidence was tomorrow, his party's opinion would be negative. However, not all politicians share this view, as chief of SdPl parliamentary caucus, Jolanta Banach, said "there is more arguments for supporting this government". And the vote of confidence is not the only difference in the opinions of left-wing politicians. While, as we have mentioned above, it seems that the President and SLD politicians stick to the scenario of early elections in the spring, Banach said parliamentary elections should take place only in the autumn next year.

Market monitor









Source: Reuters, BZ WBK

Will political uncertainty weaken the zloty again?

▪ August was another month when hopes for interest rate hikes and MPC's decision were crucial for the situation on the Polish market. However, changes in prices more often resulted from various factors of short-term impact since the expectations were rather stable. Nevertheless, the biggest moves were occurring in connection with the central bank's rates.

▪ At the beginning of the month, no clear trends were followed and domestic market was influenced rather by foreign markets. Only after a release of weak data on employment in the US an appreciation ensued following the move on American markets.

▪ In mid-August the scale of daily fluctuations decreased and the zloty was depreciating slowly. On the contrary, the yield curve recorded strong downward move after lower-than-expected inflation and production growth that weakened slightly the expectations of rate hike.

▪ A great deal of chaos on the market resulted from MPC's decision that exceeded expectations. A short end of the yield curve weakened considerably and after rapid but short-lasting appreciation the zloty weakened as well, probably due to profit taking.

▪ At August-end the zloty was weaker than on the last day of July by nearly 1.5% against a dollar-euro basket. The yield curve moved downwards by 10-20bps last month, except for 2Y sector that remained at the same level.

▪ In early September situation was relatively calm. This time around, there were no major changes on the Polish financial market after the release of the report from US labour market.

▪ Given expectations of another NBP's rate hikes we expect further rise in yields on bonds. We foresee a temporary weakening of the zloty in October as result of uncertainty concerning result of government's confidence vote.

Rapid changes on the FX market

▪ FX markets still remain volatile. In August a scale of fluctuations was only slightly lower than in July. Similarly like a month earlier, in first half of August the dollar was depreciating following a series of data on weak condition of the US economy, but this time around the EURUSD rate did not exceed the level of 1.24.

▪ Depreciation trend reversed mainly due to a fall in crude oil prices. As a result the EURUSD returned to ca. 1.20. Afterwards the dollar weakened for a while after poor data on consumer sentiment, but good August figures from the labour market firmed expectations for rate hike by Fed and thus the dollar.

▪ For a few months we have been writing that prospects for the dollar remain uncertain. Given uncertainty concerning economic growth and changing oil prices as well as geopolitical tensions we believe that there will still be no clear trend.

Fixed income market driven by labour market

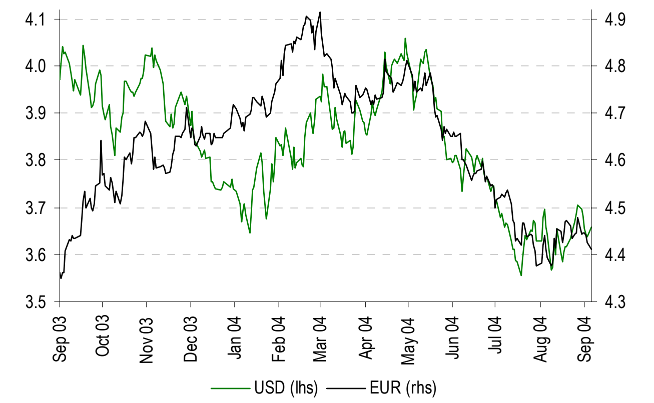
▪ At a small fall in average yields, in August the risk premium for Polish bonds measured with a difference between expected 5-year interest rate in Poland and in the Eurozone in five years time remained relatively stable and its average level was close to July's average. Since June the medium-term perception of Poland's outlook has remained unchanged.

▪ In August, yields on the American fixed income market were lower than in July due to a fall at the beginning of the month after weak data from labour market. Much better report for August resulted in rapid upward move of the yield curve at the beginning of September.

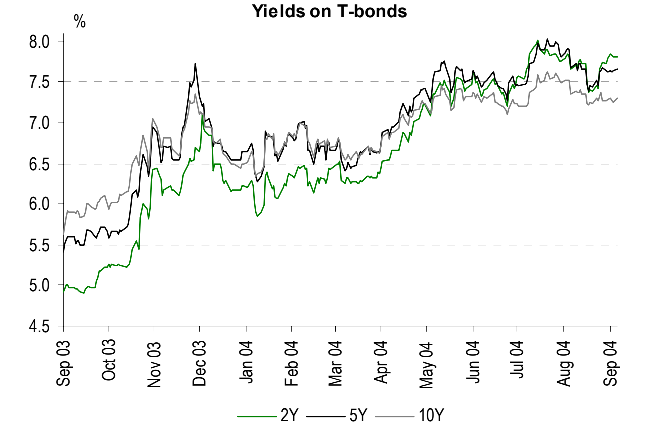
▪ Given expectations of further interest rate hikes by the Fed a return to upward trend in yields after two-month correction is highly probable.

Market monitor

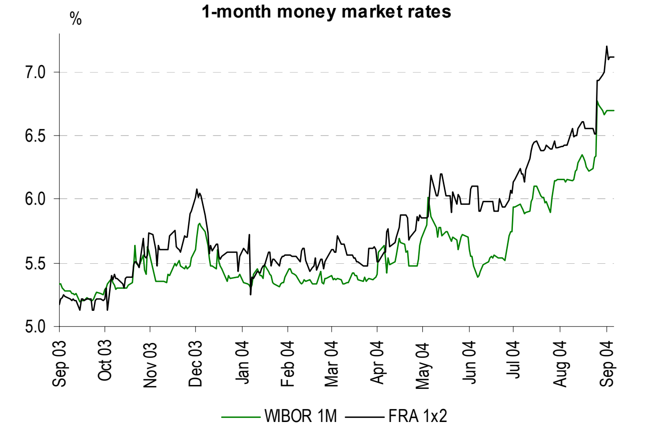
Zloty FX rate in recent 12 months



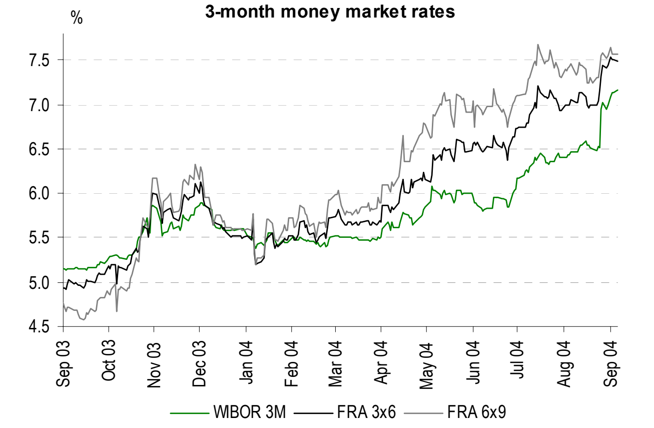
Yields on T-bonds



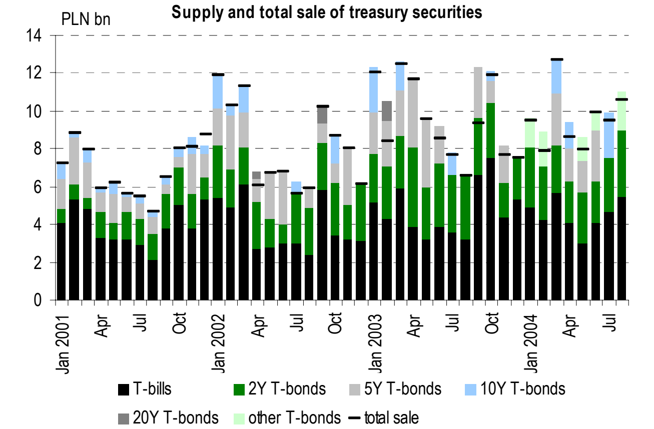
1-month money market rates



3-month money market rates



Supply and total sale of treasury securities



Treasury bill auctions (PLN m)

Date of auction	OFFER / SALE 13-week	52-week	Total
2.08.2004	-	1,000 / 1,000	1,000 / 1,000
9.08.2004	-	900 / 900	900 / 900
16.08.2004	-	1,100 / 1,100	1,100 / 1,100
23.08.2004	-	1,400 / 1,400	1,400 / 1,400
30.08.2004	-	1,100 / 1,100	1,100 / 1,100
August total	**-**	**5,500 / 5,500**	**5,500 / 5,500**
6.09.2004	-	1,000	1,000
13.09.2004	-	1,000	1,000
20.09.2004	-	1,000	1,000
27.09.2004	100	1,300	1,400
September total	**100**	**4,300**	**4,400**

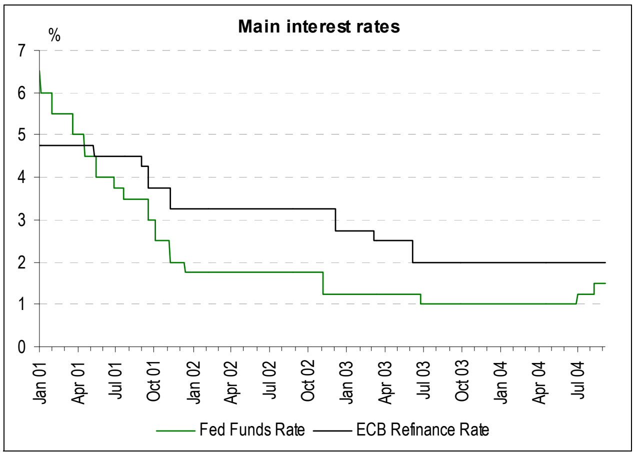
Treasury bond auctions in 2004(PLN m)

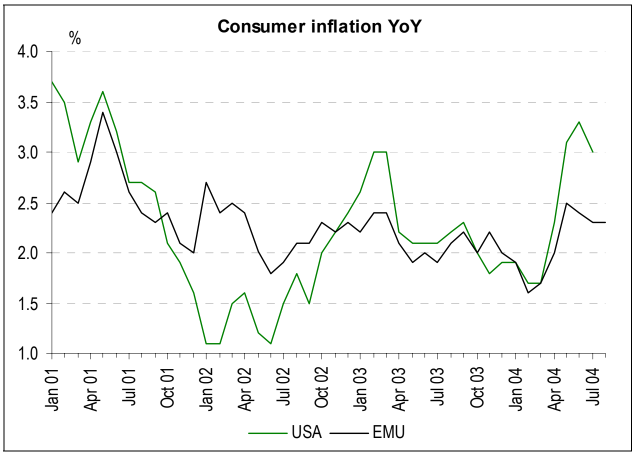
month	First auction date	T-bonds	offer	sale	Second auction date	T-bonds	offer	sale	Third auction date	T-bonds	offer	sale
January	07.01*	OK0406	3,200.0	3,200.0	14.01	WZ0307/0911	1,500.0	1,407.0	-	-	-	-
February	04.02*	OK0406	2,900.0	2,600.0	11.02	WZ0307/0911	1,800.0	1,110.8	-	-	-	-
March	03.03	OK0406	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	1,700.0	1,695.0
June	02.06	OK0806	2,200.0	2,200.0	9.06	WZ0307/0911	1,000.0	1,000.0	16.06*	DS0509	2,640.0	2,640.0
July	07.07*	OK0806	2,800.0	2,800.0	14.07*	DS1013	2,400.0	2,001.0	-	-	-	-
August	04.08*	OK0806	3,480.0	3,086.0	11.08*	WZ0307/0911	1,550.0	1,470.0	-	-	-	-
September	01.09	OK1206	2,700.0	2,700.0	8.09	WS0922	1,000.0	-	15.09	DS0509	2,000-3,000	-
October	06.10	OK1206	-	-	13.10	DS1015	-	-	20.10	DS0509	-	-
November	03.11	OK1206	-	-	10.11	WZ0307/0911	-	-	17.11	DS0509	-	-
December	01.12	OK1206	-	-	-	-	-	-	-	-	-	-

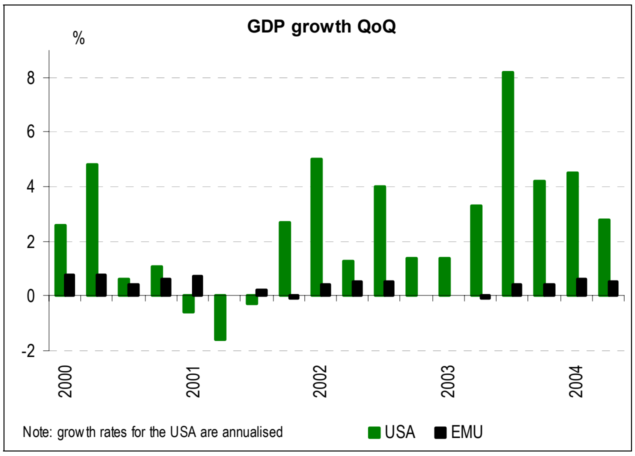
* with supplementary auction

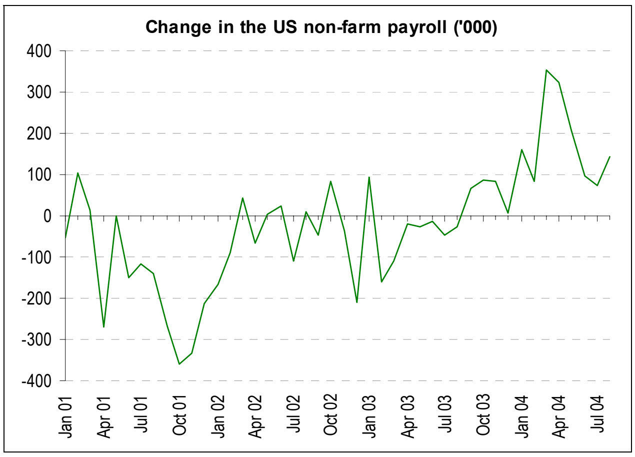
Source: Ministry of Finance, Reuters, BZ WBK

International review









Source: Reuters, ECB, Federal Reserve

ECB's rates unchanged yet, Fed continues hikes

- In line with analysts' expectations, the Governing Council of the European Central Bank did not change interest rates at the meeting on 2 September. For a fifteenth month in a row the main Eurozone's rate – refinance rate – was maintained at 2.0%. At the press conference the ECB president Jean-Claude Trichet assessed that economic recovery in the Eurozone had maintained its momentum and economic climate would continue improvement in coming months. First interest rate hike by the ECB is expected only next year.
- In the United States next meeting of the Federal Open Market Committee is planned for 21 September. Market expectations point that third interest rate hike of 25pbs in the row is almost certain. In our opinion, interest rates will be raised by 75bps by the end of the year.

Inflation pressure weakens

- In the Eurozone, preliminary estimations of inflation in July were revised downwards in a final release. Consumer prices decreased by 0.2%MoM and as a result annual inflation rate decelerated to 2.3% from 2.4% in June. Market forecasts pointed to confirmation of preliminary data at 2.4%YoY. According to preliminary estimations for August, inflation remained at 2.3%YoY, while expectations again pointed to 2.4%. Since May price growth has been above the upper end of the ECB's inflation ceiling target of 2.0%.
- In the United States, inflation data were clearly better than market consensus forecast. In July, the prices fell by 0.1%MoM, while a rise of 0.2% was forecasted by analysts. This figure resulted in a decrease in annual inflation rate to 3.0% from 3.3% recorded in June. At the same time, annual core inflation rate declined to 1.8% from 1.9% in June.

Slowdown in the growth in the US

- In mid-August, flash estimates pointed that in the 2Q2004 economic growth in the Eurozone was slightly weaker than forecasted. The GDP growth of 0.5%QoQ was recorded and in annual terms, Eurozone's economy grew by 2.0%, accelerating from 1.3% in 1Q04. The European Commission confirmed growth forecast for 3Q04 in a range of 0.3-0.7%QoQ and released the forecast for 4Q04, also at 0.3-0.7%QoQ. All the data and forecast were confirmed in early September.
- According to preliminary information on economic growth in the United States, the American GDP increased by 2.8%QoQ in 2Q2004, which was slower than the figure released a month ago in advanced information, when the growth rate was estimated at 3.0%. The revised data were much worse than the figure from 1Q04, i.e. 4.5%, but they matched economists' expectations.

Good figures from the American labour market

- This time around data from the US labour market turned out to be in line with expectations. In August non-farm payroll employment increased by 144,000, which roughly matched market consensus forecast at 150,000. What is more, disappointing figures for July and June were clearly revised upwards by net 59,000 to 73.000 and 96.000, respectively. The unemployment rate recorded second fall in a row to 5.4% in August from 5.5% in July, while market forecast pointed to the unchanged rate.
- Index of entrepreneurs' sentiment in the German economy, IFO, recorded a slight decline to 95.3pts in August from 95.6pts in July, while market consensus forecast for August pointed to even deeper fall to 95.1pts. IFO institute said that the assessment of present economic situation had improved and expectations for future were worse than a month ago.

What's hot this month

Monday	Tuesday	Wednesday	Thursday	Friday
6 September POL: T-bill auction	**7** *GER: Industrial output (Jul)* *EMU: GDP (2Q)*	**8** POL: GDP (2Q) POL: T-bond auction WS0922	**9**	**10** POL: Balance of payments (Jul) *USA: Producer prices (Aug)* *USA: Foreign trade (Jul)*
13 POL: T-bill auction *FRA: Industrial output (Jul)*	**14** POL: Inflation (Aug) POL: Money supply (Aug) POL: Wages & employment (Aug) *FRA: Inflation preliminary (Aug)* *ITA: Inflation final (Aug)* *USA: Retail sales (Aug)*	**15** POL: T-bond auction DS0509 *ITA: Industrial output (Jul)* *USA: Industrial output (Aug)*	**16** *EMU: Inflation final (Aug)* *USA: Inflation (Aug)*	**17** POL: Industrial output (Aug) POL: Producer prices (Aug) *EMU: Industrial output (Jul)*
20 POL: T-bill auction	**21** POL: Business climate (Sep) *EMU: Balance of payments (Jul)* *USA: Fed meeting*	**22** POL: Core inflation (Aug) POL: T-bond auction IZ0816 *FRA: Inflation final (Aug)* *EMU: Foreign trade (Jul)*	**23** POL: Retail sales (Aug) POL: Unemployment (Aug)	**24** POL: Food prices (1H Sep)
27 POL: T-bill auction *GER: IFO (Sep)* *EMU: Money supply (Aug)*	**28** POL: MPC meeting (1st day)	**29** POL: MPC meeting (decision) *USA: GDP (2Q)*	**30** POL: Balance of payments (2Q) *ITA: Inflation preliminary (Sep)* *EMU: Economic sentiment; Business climate (Sep)* *EMU: Inflation preliminary (Sep)*	**1 October** *EMU: PMI (Sep)* *USA: ISM (Sep)*
4 POL: T-bill auction *EMU: Producer prices (Aug)* *EMU: Retail sales (Aug)* *USA: Factory orders (Aug)*	**5** *GER: Unemployment (Sep)* *EMU: Unemployment (Aug)*	**6** POL: T-bond auction OK1206	**7** *EMU: ECB meeting*	**8** *GER: Industrial output (Aug)* *USA: Employment (Sep)*

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	29-30	27-28	24-25	28-29	-	-	-
GDP*	-	20	-	-	-	9	-	-	8	-	-	-
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	21	23	23	23	23	21	24	21
Gross wages, employment	16	13	12	15	17	16	14	13	14	14	17	14
Unemployment	23	20	19	22	21	23	23	23	23	21	24	21
Foreign trade	about 50 working days after reported period											
Balance of payments*	2	-	31	-	-	30	-	-	30	-	-	-
Balance of payments	30	-	12[c]	13	14	16	13	11	10	12	10	13
Money supply	14	13	12	14	14	14	14	13	14	14	10	14
NBP balance sheet	7	6	5	7	7	7	7	6	7	7	5	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

		Aug 03	Sep 03	Oct 03	Nov 03	Dec 03	Jan 04	Feb 04	Mar 04	Apr 04	May 04	Jun 04	Jul 04	Aug 04	Sep 04
Industrial production	%YoY	5.9	10.9	12.1	9.2	13.9	14.4	18.3	23.5	21.8	12.2	15.8	6.0	16.0	12.8
Retail sales [c]	%YoY	5.5	9.7	10.3	11.4	17.3	7.6	12.1	20.7	30.6	4.0	8.6	10.9	10.5	8.9
Unemployment rate	%	19.5	19.4	19.3	19.5	20.0	20.6	20.6	20.5	20.0	19.6	19.5	19.3	19.1	19.0
Gross wages [b c]	%YoY	1.9	2.2	3.0	4.1	5.1	3.5	6.3	7.0	4.6	4.4	4.5	3.6	4.5	4.1
Employment [b]	%YoY	-3.2	-3.1	-3.2	-3.3	-3.5	-1.4	-1.5	-1.3	-1.1	-0.9	-0.7	-0.7	-0.6	-0.5
Export [d]	%YoY	4.4	20.1	11.4	8.2	14.0	19.6	10.9	29.9	25.0	23.6	30.5	23.3	22.1	11.5
Import [d]	%YoY	3.0	12.5	4.9	2.5	6.2	10.6	2.7	25.0	36.3	19.3	20.8	9.9	21.4	9.7
Trade balance [d]	EURm	-232	-266	-254	-503	-545	-173	-218	-461	-1 106	-379	203	-100	-250	-200
Current account balance [d]	EURm	-55	-57	314	-356	-566	191	-101	-428	-748	-568	83	-100	-200	-50
Current account balance [d]	% GDP	-2.4	-2.2	-2.0	-1.9	-2.0	-1.7	-1.4	-1.3	-1.5	-1.6	-1.4	-1.3	-1.4	-1.3
Budget deficit (cumulative)	PLNbn	-29.6	-33.1	-34.8	-35.5	-37.0	-4.2	-9.4	-11.8	-11.0	-15.3	-19.9	-23.2	-27.2	-30.7
Budget deficit (cumulative)	% realisation	70.6	84.4	93.3	98.9	100.0	9.3	20.7	26.1	24.3	33.8	43.9	51.3	60.0	67.7
CPI	%YoY	0.7	0.9	1.3	1.6	1.7	1.6	1.6	1.7	2.2	3.4	4.4	4.6	4.7	4.5
PPI	%YoY	1.8	2.1	2.7	3.7	3.7	4.1	4.2	4.9	7.6	9.6	9.1	8.6	8.6	8.3
Broad money (M3)	%YoY	1.7	3.1	4.7	5.6	5.6	5.1	5.1	5.7	8.5	6.4	7.2	6.7	6.9	7.0
Deposits	%YoY	-1.7	-0.2	1.5	3.3	3.7	3.4	3.5	4.8	8.4	6.2	6.9	6.2	6.9	7.0
Credits	%YoY	5.2	5.4	7.5	8.5	8.1	7.4	7.7	6.1	8.5	6.1	5.7	4.7	6.2	7.8
USD/PLN	PLN	3.92	3.98	3.92	3.94	3.79	3.74	3.84	3.89	3.97	3.93	3.78	3.64	3.64	3.73
EUR/PLN	PLN	4.37	4.46	4.59	4.62	4.66	4.71	4.85	4.77	4.76	4.72	4.59	4.47	4.43	4.48
Reference rate [a]	%	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25	6.00	6.50	7.00
WIBOR 3M	%	5.16	5.17	5.42	5.68	5.69	5.46	5.46	5.49	5.69	5.99	5.91	6.34	6.58	7.35
Lombard rate [a]	%	6.75	6.75	6.75	6.75	6.75	6.75	6.75	6.75	6.75	6.75	6.75	7.50	8.00	8.50
Yield on 52-week T-bills	%	4.82	4.91	5.30	5.95	6.02	5.59	5.78	5.87	6.20	6.65	6.79	7.15	7.24	7.50
Yield on 2-year T-bonds	%	4.86	5.02	5.53	6.31	6.49	6.17	6.34	6.34	6.83	7.41	7.44	7.80	7.66	7.90
Yield on 5-year T-bonds	%	5.38	5.60	6.04	6.86	6.82	6.65	6.76	6.60	7.13	7.57	7.50	7.79	7.65	7.80
Yield on 10-year T-bonds	%	5.60	5.93	6.36	6.92	6.75	6.65	6.81	6.65	7.02	7.32	7.27	7.44	7.36	7.50

Source: CSO, NBP, Finance Ministry, BZ WBK own estimates

[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	893.6	187.1	200.2	201.3	226.0	203.7	219.6	221.3	249.0
GDP	%YoY	1.4	3.8	5.9	2.3	3.9	4.0	4.7	6.9	6.1	5.1	5.7
Total consumption	%YoY	2.8	2.5	3.3	1.1	2.8	2.9	3.3	3.3	3.2	3.4	3.5
- Private consumption	%YoY	3.3	3.1	4.1	1.4	3.8	3.5	3.9	4.0	4.0	4.2	4.3
Fixed investments	%YoY	-5.8	-0.9	8.5	-3.6	-1.7	0.4	0.1	3.5	9.0	9.0	10.0
Industrial production	%YoY	1.1	8.7	14.6	4.4	9.1	8.9	12.2	19.0	16.5	11.5	11.3
Retail sales (real terms)	%YoY	1.9	7.9	9.5	1.2	9.8	6.4	12.4	13.6	10.3	6.1	8.0
Unemployment rate [a]	%	20.0	20.0	19.2	20.6	19.7	19.4	20.0	20.5	19.5	19.0	19.2
Gross wages (real terms)	%YoY	1.5	2.0	1.1	1.4	1.7	1.7	3.2	3.8	1.1	-0.5	0.0
Export [b]	%YoY	6.0	9.1	19.1	8.4	5.4	11.4	11.1	19.3	26.4	18.5	13.0
Import [b]	%YoY	3.5	3.3	16.5	3.1	-2.5	8.2	4.5	12.6	25.7	13.1	15.0
Trade balance [b]	EURm	-7 701	-5 345	-4 532	-1 600	-1 118	-1 325	-1 302	-909	-1 282	-550	-1 791
Current account balance [b]	EURm	-5 404	-3 550	-2 865	-1 584	-895	-463	-608	-696	-1 233	-220	-716
Current account balance [b]	% GDP	-2.7	-1.9	-1.5	-2.6	-2.2	-2.1	-1.9	-1.5	-1.6	-1.5	-1.5
Budget deficit (cumulative) [a]	PLNbn	-39.4	-37.0	-40.7	-15.5	-23.8	-33.1	-37.0	-11.8	-19.9	-30.7	-40.7
Budget deficit (cumulative) [a]	% GDP	-5.0	-4.5	-4.6	-8.3	-4.2	-4.6	-1.7	-5.8	-3.7	-4.9	-4.0
CPI	%YoY	1.9	0.8	3.5	0.5	0.5	0.8	1.5	1.6	3.3	4.6	4.3
CPI [a]	%YoY	0.8	1.7	4.3	0.6	0.8	0.9	1.7	1.7	4.4	4.5	4.3
PPI	%YoY	1.0	2.6	7.3	3.0	2.2	1.9	3.4	4.4	8.8	8.5	7.7
Broad money (M3) [a]	%YoY	-2.0	5.6	6.4	0.5	1.3	3.1	5.6	5.7	7.2	7.0	6.4
Deposits [a]	%YoY	-4.1	3.7	5.8	-2.3	-1.9	-0.2	3.7	4.8	6.9	7.0	5.8
Credits [a]	%YoY	5.2	8.1	11.8	8.7	6.1	5.4	8.1	6.1	5.7	7.8	11.8
USD/PLN	PLN	4.08	3.89	3.78	3.90	3.83	3.93	3.89	3.82	3.89	3.67	3.73
EUR/PLN	PLN	3.85	4.40	4.60	4.19	4.36	4.42	4.62	4.78	4.69	4.46	4.47
Reference rate [a]	%	6.75	5.25	7.25	6.00	5.25	5.25	5.25	5.25	5.25	7.00	7.25
WIBOR 3M	%	9.09	5.69	6.41	6.37	5.60	5.20	5.60	5.47	5.87	6.76	7.55
Lombard rate [a]	%	8.75	6.75	8.75	7.75	6.75	6.75	6.75	6.75	6.75	8.50	8.75
Yield on 52-week T-bills	%	8.18	5.33	6.76	5.75	4.94	4.86	5.76	5.75	6.24	7.30	7.77
Yield on 2-year T-bonds	%	7.94	5.38	7.27	5.58	4.91	4.92	6.11	6.28	6.86	7.79	8.17
Yield on 5-year T-bonds	%	7.86	5.61	7.41	5.50	4.98	5.38	6.57	6.67	7.10	7.75	8.13
Yield on 10-year T-bonds	%	7.34	5.77	7.18	5.60	5.19	5.63	6.68	6.70	7.00	7.43	7.60

Source: CSO, NBP, Finance Ministry, BZ WBK own estimates

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

TREASURY DIVISION

plac Gen. Władysława Andersa 5, 61-894 Poznań
secretary tel. (+48 61) 856 58 35, fax (+48 61) 856 55 65

This analysis is based on information available until 06.09.2004 has been prepared by:

ECONOMIC ANALYSIS UNIT

ul. Marszałkowska 142, 00-061 Warszawa, fax (+48 22) 586 83 40

Email: ekonomia@bzwbk.pl Web site (incl. Economic Service page): http://www.bzwbk.pl

Maciej Reluga – Chief Economist
Phone (+48 22) 586 83 63, Email: maciej.reluga@bzwbk.pl

Piotr Bielski (+48 22) 586 83 33

Piotr Bujak (+48 22) 586 83 41

Aleksander Krzyżaniak (+48 22) 586 83 42

TREASURY SERVICES DEPARTMENT

Kraków
Rynek Główny 30/8
31-010 Kraków
tel. (+48 12) 424 95 01, 424 95 02
fax (+48 12) 424 21 41

Poznań
pl. Gen. W. Andersa 5
61-894 Poznań
tel. (+48 61) 856 58 14, 856 58 25
fax (+48 61) 856 55 65

Warszawa
ul. Marszałkowska 142
00-061 Warszawa
tel. (+48 22) 586 83 20
fax (+48 22) 586 83 40

Wrocław
ul. Rynek 9/11
50-950 Wrocław
tel. (+48 71) 370 25 87
fax (+48 71) 370 26 22

Bank Zachodni WBK is a member of Allied Irish Banks Group