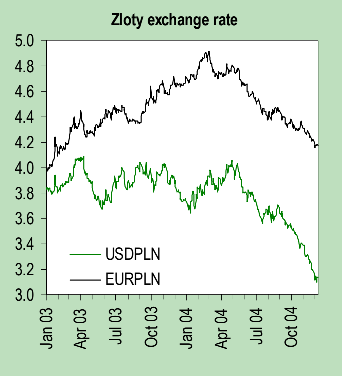
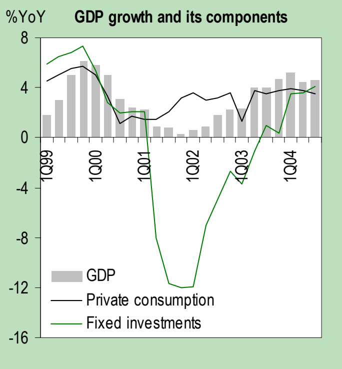
Bank Zachodni WBK

MACROscope

Polish Economy and Financial Markets

December 2004





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PLaN of good value

- **What we have been witnessing over the past period of time is strong zloty appreciation and a drop in yields on the T-bonds market.** The Polish market has been inundated by a wave of foreign investors trying (quite effectively) to do a good business on the Polish zloty denominated assets. The zloty appreciation has indeed been paralleled by the depreciation of the dollar in international markets. Since the foreseeable future is going to be marked by the risk of testing the European Central Bank's intentions (possibility to intervene) and subsequent record EUR/USD (1.37) rates, the zloty is still likely to strengthen a bit. What we expect to see next year, however, is relative stability in the EUR/USD market (or even reduction in this rate) as a result of which the pressure on zloty appreciation can slacken off. What is more, we do not envisage currency intervention in Poland, especially in view of the fact that in our opinion this would not be justified. If the government saw the strong zloty as a risk to export profitability and GDP growth pace next year, the solution would rather be the Finance Ministry's operations on the currency market (just as it was the case this year in order to strengthen the zloty), i.e. purchase of currencies for the buy-out/repayment of the foreign debt (for some time the government representatives have been voicing the possibility to buy out the debt towards the Paris Club). It should also be born in mind that along with the forthcoming parliamentary elections the outcome of which is uncertain (just as well as the economic policy deriving from it), the risk premium when investing in the Polish assets can increase.

- **Exchange rate trends are also of primary importance to the Monetary Policy Council.** It seems that the key reason why the Council decided that the balance of risks for the future inflation is more positive than the one presented in the current NBP inflation projection, is the difference in the anticipated currency rate scenarios. The NBP models assume a certain zloty weakening over the projected time horizon, while the MPC pointed to the vital factors supporting the zloty appreciation over the medium and long term. This makes the zloty rate the top key variable to be considered in the future decisions on the monetary policy (before the wage increase and prospects of investment growth across the economy). We believe that with the zloty rate stabilisation at the current (strong) levels that we assume, further, prudent interest rate increases are possible. The more so when the consumer inflation will go up to around 5% in the first quarter for next year, which can entice a growth in inflation expectations. The inflation rate will stay until April at a much higher level (by at least 2 percentage points) than the NBP inflation target (2.5%), and it must be added that such a difference has been observed already for a few months. We also expect a more distinctive revival in investments and faster than in the last months growth in salaries in the enterprise sector.

Financial market on 30 November 2004:

NBP deposit rate	5.00	WIBOR 3M	6.77	PLN/USD	3.1793
NBP reference rate	6.50	Yield on 52-week T-bills	6.72	PLN/EUR	4.2150
NBP lombard rate	8.00	Yield on 5-year T-bonds	6.72	EUR/USD	1.3258

This report is based on information available until 9.12.2004

Special focus

Treasury papers AD 2005*

According tot the budget draft for 2005 approved by the government, submitted to the Parliament and to which we also refer in this article, the budget deficit in 2005 will amount to PLN35bn. in comparison with the previous year deficit performance at PLN43.7bn. In earnest though, 2005 will face a much lower reduction in the budget deficit due to higher than in 2004 expenditure not classified as the budget expenditure. This does not translate directly into a higher deficit, however that extra spending must be factored in whilst estimating the budget's net appetite for borrowings, which jointly with maturing treasuries create the gross borrowing needs to be financed primarily with new issues of treasury securities. According to our estimates (please see the details below) in 2005 the government will mete out a total of **PLN49.4bn** above the planned revenue, whilst in 2004 the planned surplus of expenditure over revenue will only be slightly higher.

Over the last couple of months there have been changes in the structure of treasury papers (T-bills and T-bonds with the exclusion of savings bonds). Under the leadership of a new minister, the Ministry of Finance began to pursue the assumptions of the public debt management policy whereby an average maturity term of treasury securities is extended. Given favourable market conditions, the Ministry of Finance limits the supply of T-bills and two-year treasury bonds enhancing the offer of long-term bonds instead. This is reflected in the national deficit financing plan for the coming year which assumes a nil balance on the issue of T-bills.

The justification for the 2005 budget draft, as presented by the Ministry of Finance, is that expected revenue from the issue of treasury securities will add up to PLN125.9bn. The same document envisages that the issue of these securities would bring PLN131bn this year whilst the justification for the 2004 budget indicated a figure of PLN139bn. Projections for the performance of treasuries' issues are therefore lower as compared to the initial plan by PLN8bn and the currently available data indicate that in reality the issue will be yet lower by a couple of billions zloty. The main reason for the drop is lower than initially assumed budget deficit. Other major factors are lower than assumed transfers to open pension funds and expenditure on pre-financing EU sponsored projects combined with higher funding based on foreign issues, savings bonds and resources from 2003.

A volume of treasury securities issues planned for 2005 is based on estimates of the budget's gross borrowings needs reduced by the amount of funding from alternative sources. As mentioned above, we estimate that in 2005 the budget's appetite for borrowings will amount to **PLN49.4bn**. This figure covers the budget deficit assumed in the budget draft at PLN35bn and extra expenditure, which were put "below the line". The major items are transfers to open pension funds (planned at PLN11.3bn), prefinancing EU sponsored projects (PLN4.6bn) and loans for reduction of debt of local healthcare funds (PLN2.2bn) as well as to export credit insurance corporation (PLN1bn). Also, on the other hand, revenues from privatisation (PLN4.4bn) and the repayment of PLN0.3bn by the National Healthcare Fund will partially compensate for these extra expenditure.

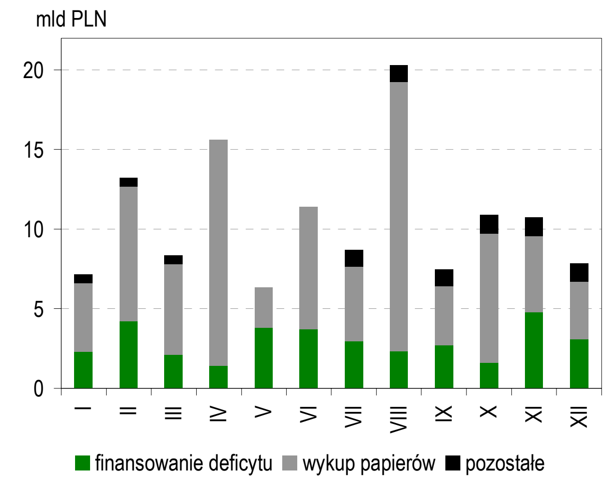
A nominal value of treasury securities to be redeemed in 2005 (issued in the previous years and a small issue of 13-week T-bills which will be sold during the year) is estimated at **PLN84.6bn**, with an assumption of switches of PLN3.0bn worth of bonds by the end of 2004. In total the budget's gross borrowing needs will amount to **PLN134.0bn** in 2005. After reducing this figure by the planned surplus of PLN3.6bn from foreign funding and the sale of PLN2.9bn worth of savings bonds, we received our estimate of revenue for the issue of treasury securities at **PLN127.5bn**. This figure exceeds the above mentioned budget plan at PLN125.9bn drafted by the Ministry of Finance. Most likely when working out a draft, the bond redemption via a switch and the issue of T-bills were assumed in 2004 at a higher than the currently envisaged level.

A chart on the next page illustrates our estimates of the budget's gross borrowing needs in the subsequent months of 2005. The forecast of the deficit performance also factors in the next year as the first full year of Poland's membership in EU, therefore it was not possible to simply extrapolate trends from the past couple of years. The profile of maturity terms of treasury securities was based on information from the Ministry of Finance about the status of issued treasury securities updated as at 19 November 2004 with an assumption that high volume of switches will be maintained by the year end. The breakdown of other amounts over particular months is based on currently available information. For example, transfers to open

* This text was prepared by Aleksander Krzyżaniak

pension funds and prefinancing EU sponsored projects are spread evenly. Revenue from privatisation accumulates in the second and third quarters while foreign funding in the first year half.

Gross borrowing needs in 2005



Source: Finance Ministry, BZWBK

According to our estimates, the most difficult months in terms of financing the budget shortages will be February, April and August in which major bond redemptions occur much in excess of PLN10bn and even PLN20bn in August. February records a high amount as a result of both sizeable budget deficit and obligations under the redemption of treasury securities. Then April and August witness an accumulation of T-bonds scheduled to be redeemed in these months.

However, it is difficult the volume of issues over subsequent months even with recognised treasury borrowing needs, as the Ministry of Finance has also a possibility to regulate the supply of treasury securities availing of funds amassed on the government accounts with the National Bank of Poland. During months demonstrating low demand for external funding, securities are issued in a greater volume so that accumulated reserves can be reached for in more difficult months thereby allowing the State Treasury to avoid an excessive supply of its T-bonds and T-bills. For the reasons outlined above a quarterly forecast for the supply of treasury securities should be closer to reality. Our forecast for the gross and net (i.e. discounted by the redemption of maturing securities) issue of the treasury securities is illustrated in the table below. As we have mentioned above, the budget draft assumes a nil balance on the issue of T-bills. This means that the issue of new securities will equal the amount of maturing securities to be redeemed. The table also illustrates our projected supply profile of the treasury securities with the foregoing assumption that the value of a new issue and a redemption of concurrently maturing T-bills will be equal.

Forecast of the supply of domestic treasury securities

in PLNbn	Q1	Q2	Q3	Q4	TOTAL
gross issue	28.8	32.8	36.5	29.4	**127.5**
including: bills	14.2	11.2	13.9	11.3	**50.6**
bonds	14.6	21.6	22.6	18.1	**76.9**
net issue	10.3	8.4	11.2	13.0	**42.9**
maturity	18.5	24.4	25.3	16.4	**84.6**

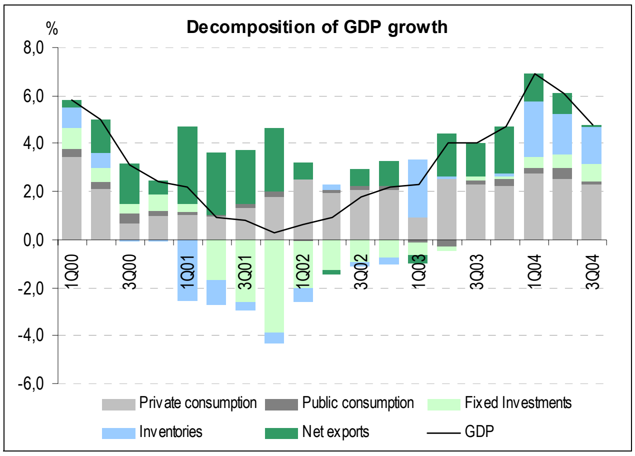
Source: BZ WBK

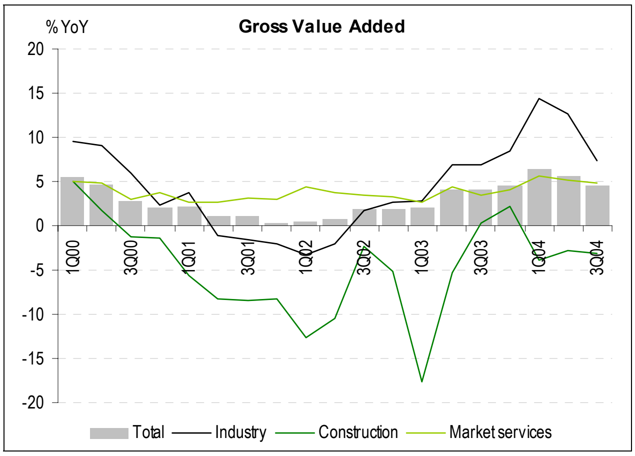
An exceptionally high issue of treasury securities is expected in Q2 and Q3 of 2005. A part of the supply will certainly be transferred over to switching tenders. The results of recent offerings of this type indicate that in favourable circumstances this may yield sizeable amounts consequently limiting supply in the second and the third quarters to a level comparable with the remaining quarters. We need to bear in mind though that the issue of bonds through switching tenders is not neutral to the yields achieved during primary auctions.

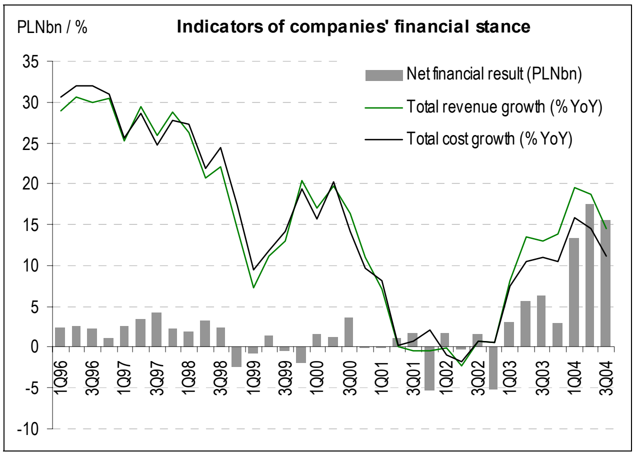
A performance of the privatisation plan and expected revenues from this source creates a lot of uncertainty. The budget drafts assumes revenues at PLN5.7bn of which PLN4.4bn will be allocated to the State Treasury. However, the current political climate does not bode well for privatisation (see the relevant Sejm acts) and it may become even worse next year due to a parliamentary election campaign. On the other hand though, the treasury minister announced that revenue expected in 2005 may in certain areas exceed the assumed level. We have to remember that this year despite the Sejm's biased attitude towards privatisation, plans will be performed in excess of the initial assumption, for the first time after a several-year break. In view of the above we estimate that depending on the outcome of privatisation plans, the supply of treasury bills in Q2 and Q3 is likely to differ by PLN +/- 2bn from the estimates contained in the table above.

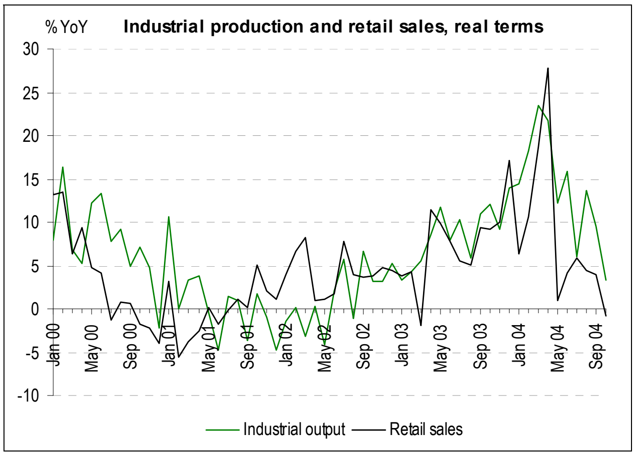
The risk of pursuing the foreign funding plan is also worth mentioning. It can appear difficult to execute if the Polish currency continues to appreciate. The Ministry of Finance announced already the eurobonds issue worth €1.5bn in Q1 2005, but if the zloty appreciation trend continues, further foreign issuances may be questionable, as the finance minister said recently announced that with PLN continuing to strengthen he would not decide to avail of foreign funding. In such case, the supply of bonds on the domestic market would then have to exceed our estimates.

Economic update









Source: CSO, BZWBK own estimates

The Polish economy keeps expanding

- GDP growth in 3Q04 reached 4.8%, showing that the Polish economy is still on a path of robust economic growth. Growth in the second year-half would be lower than in the first one (6.5% and 6.1% in Q1 and Q2, respectively), but the reason is that the results of the first half were boosted temporarily by demand boom, appearing just before the EU accession.
- However, still no strong upturn in investment can be seen. Fixed investments grew 4.1% in Q3 after 3.6% in Q2. However, sluggish recovery refers mainly to small and medium-sized firms, while in companies employing at least 50 people the CSO reported 9% rise in investment outlays after three quarters.
- This could have partly resulted from the fact that SMEs, relying on co-financing from EU support funds, held off launching their investment projects until receiving green light from the EU side. In 3Q04 the progress in approving EU co-financing was still very low.
- Private consumption growth decelerated to 3.5% from 3.8% in Q2, partly as aftermath of EU entry (drop in sales of new cars), and partly due to rising inflation, which lowered the purchasing power of households' income in real terms.
- However, growth rates of consumption and investment could be underestimated by the CSO. According to our calculations, 3Q04 saw (third in a row) dramatic surge in inventories. Stockbuilding was responsible for ca. 1.6 pp of GDP growth, which is difficult to explain on economic grounds.
- Net exports' contribution remained in black, however weakened substantially, reaching 0.1 pp against ca. 1 pp in 1H04.
- In the subsequent quarters, GDP growth should stay at ca. 5% due to investment rebound, improvement in private consumption, and still positive contribution of net exports.

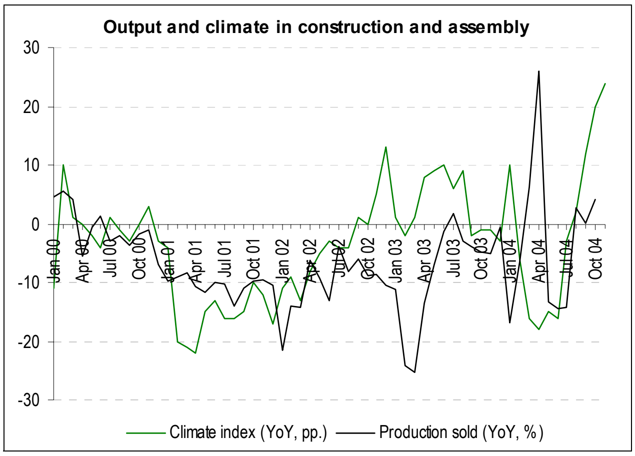
Companies' financial stance still very good

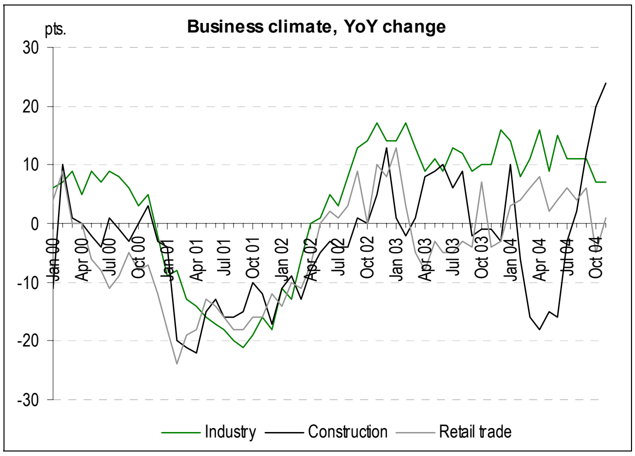
- Financial situation of Polish companies in 3Q04 remained remarkably good. Fast improvement in majority of financial indices was maintained, although at slightly lower pace than in the first half of the year.
- Firms' total revenues soared 14.4%YoY in Q3, while rise in total costs remained well below this level, at 11.2%YoY.
- Consequently, gross financial result was more than twice as big as last year, while net financial result rose 2,5 times. Polish companies have not seen such high profits, growing at such fast rate at least since the middle of nineties.
- Data showed rising share of companies exporting their products abroad. Financial results of exporters were clearly better than average, and improvement in this group in Q3 was not apparently spoiled by appreciating zloty exchange rate (by ca. 6%).

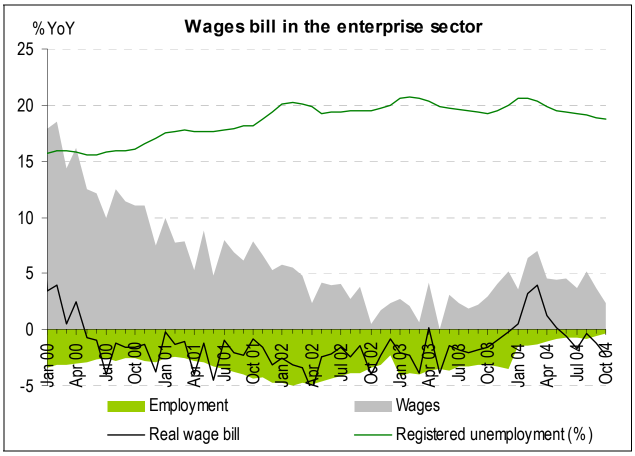
Weaker beginning of third quarter in industry and trade

- Industrial output rose 3.3%YoY in October, much slower than in previous months.
- However, it was a result of lower number of working days than last year. The seasonally adjusted output growth reached 8.6%YoY, which confirmed the continuation of robust expansion in the industrial sector.
- Clear downturn took place in retail sales, which rose merely 4%YoY in October, and it fell 0.8%YoY in real terms. The biggest drop took place in car sales (-14.8%YoY in nominal terms).
- Nevertheless, this does not necessarily imply that households spend less – part of their expenditures could have moved to goods, which are not registered in official sales statistics (e.g. massive import of second-hand cars from EU countries).

Economic update







Source: CSO, BZWBK own estimates

... while construction shows first signs of revival

▪ Meanwhile, construction and assembly shows signs of gradual improvement, which might be an indication of long-awaited stronger rebound in investments.

▪ In October construction output rose 4.1%YoY, which was the highest growth in four years (if we exclude disturbance just before EU entry). Growth adjusted for seasonal factors reached 2.2%.

▪ Change of trend in construction was also signalled by business climate survey. Climate index computed by the CSO upsurged sharply in October and November, rising 24 pts. YoY – it was the strongest improvement at least since the middle 90.

▪ Construction companies recorded significant improvement in their financial situation and expect further rise in new orders. Unfortunately, they also declared to cut employment by a large amount.

Business climate surveys suggest continuation of growth

▪ Except for construction, which saw surprising upturn in moods, other sectors of economy experienced seasonal deterioration. However in relation to corresponding period of last year, positive trends were maintained.

▪ Least optimistic signals came from retail trade, where business climate index did not show upward trend since October. However, we expect this situation will change quite soon.

▪ CSO survey showed strong upturn in consumers' confidence. It could lead to a rise in private consumption, financed partly by direct subsidies for farmers.

▪ Worsening of climate in 4Q04 was shown also by NBP survey. Party, it was a seasonal deterioration. However, one should notice drop in optimism regarding future employment and investment, despite continuing growth in capacity utilisation.

Labour demand growing slowly, yet steadily

▪ Data from the labour market generate mixed signals. Although employment and unemployment figures show timid signs of improvement, wage growth remains surprisingly low.

▪ Employment in corporate sector maintained slight monthly rise (0.3%MoM in October), and it was only 0.4% lower than last year. The result was lowered by construction and mining sectors, while situation was much better in manufacturing and trade, where employment had been rising for more than six months (in October it grew 0.6%YoY and 2.4%YoY, correspondingly).

▪ Unemployment rate fell to 18.7% in October, and drop in number of unemployed accelerated to 4%YoY. It was the fastest improvement in three years, although obviously the situation was still not very rosy.

▪ We expect strengthening of those trends in months to come.

... but does not translate into higher wage pressure

▪ Wages in corporate sector rose merely 2.4%YoY in October; their real worth dropped 2%YoY.

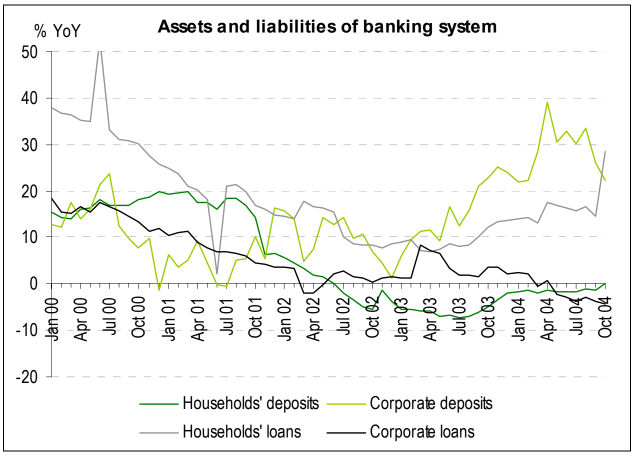
▪ Interestingly, the biggest slowdown took place in manufacturing sector (1.5%YoY), where wage formation is driven by the market.

▪ The data confirm lack of wage pressure in the economy. Taking into account current rate of inflation and economic growth, rise in salaries seems to be really feeble.

▪ Consequently, real purchasing power of households' income keeps deteriorating. In H2 2004 both real wage bill and real pension bill would be probably lower than last year, constraining consumption growth.

▪ It is positive for inflation perspectives, especially that it is accompanied by strong increase in labour productivity, outpacing pay growth in enterprises.

Economic update



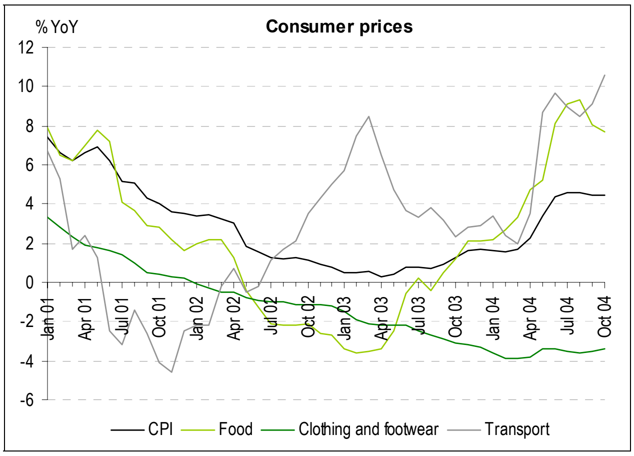
Money temporarily affected by large IPO

▪ October monetary statistics were strongly affected by one-off factor – public offering of state savings bank PKO BP.

▪ Subscription for bank's shares resulted in short-lived, yet very strong rise in money supply and total deposits (by almost PLN20bn). M3 growth jumped from 6.5% to 10.5%YoY, and deposit growth from 6.6% to 11.4%YoY. Total loans rose by nearly PLN18bn, most of which were credits for buying shares.

▪ Because of this temporary bias, the statistics gave very little new information regarding current economic situation.

▪ Least affected by IPO were loans and deposits of non-financial companies. However, little changes were observed in those areas – loans kept falling at nearly 4%YoY, while growth of corporate deposits remained high at 22%YoY.



Inflation slightly up, not down in the autumn

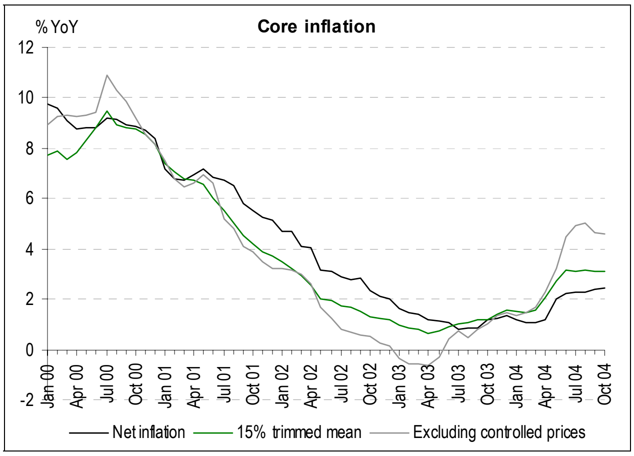
▪ Unexpectedly, inflation rate rose to 4.5%YoY in October from 4.4% in the previous month.

▪ It resulted mostly from rise in domestic fuel prices (2.8%MoM and 19.2%YoY), showing that strong zloty appreciation against USD did not fully offset high oil prices abroad. Prices of other goods also did not reflect strong impact of zloty appreciation.

▪ Higher than expected was also growth in producer prices. PPI increased to 7.7%YoY, also largely due to high prices of commodities.

▪ Until year-end CPI inflation rate will remain at ca. 4.5%, and in 1Q05 it should climb to nearly 5% (amid rises in taxes, prices of gas and energy).

▪ In mid-05 CPI will drop sharply amid high base effect, however until the end of the year it would remain slightly above 3%.



Core inflation and inflation expectations under control

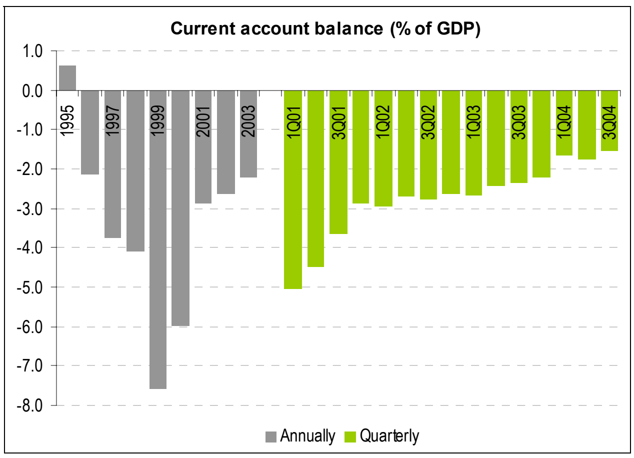
▪ Most of core inflation measures were stable in October. Net inflation remained at 2.4%, i.e. below inflation target, and 15% trimmed mean amounted to 3.1%. It showed that demand-side pressure on prices remains subdued.

▪ On the other hand, three other indices were still closer to 5% than 3%.

▪ Households' inflation expectations maintained downward trend. In November inflation rate anticipated in 12 month horizon dropped to 4% from 4.4% one month earlier.

▪ It resulted partly from reduction in current inflation (which affects index of inflation expectations), but also from improvement in structure of answers in poll.

▪ Rise in CPI inflation in 4Q04 and 1Q05 may increase households' inflation expectations due to their adaptive nature.



Strong zloty does not harm external imbalance, thus far

▪ Both exports and imports recorded rapid growth in September, correspondingly 16.2%YoY and 15.2%YoY.

▪ It confirmed that external demand for Polish goods remained strong (despite zloty appreciation), and gradually reinforcing domestic demand stimulates import needs.

▪ For now, there is no significant threat of rise in external imbalance. To the contrary, after three quarters of this year current account deficit dropped to 1.5% of GDP, the lowest level since the middle of nineties.

▪ One should remember, however, that since May balance of payments statistics should be treated with care and limited trust, as change in data collection system after EU entry reduced quality of the statistics. It was confirmed by substantial backward data revisions.

Source: CSO, NBP, BZWBK own estimates

Central bank watch

Important elements of the MPC statement from 24 November 2004
In the Council's opinion the latest economic data indicate that the balance of risks for future inflation is more favourable than presented in the November inflation projection. This assessment is informed by the sustained strong appreciation of the zloty, however, the Council recognises the uncertainty surrounding the persistence of this trend. The second factor affecting the assessment is the lack of excessive wage growth, which points to limited second-round effects.
The inflation rate, higher than the inflation target, primarily reflects price hikes associated with Poland's EU accession and hikes in commodities prices in world markets.
Significant zloty appreciation is conducive to inflation decrease. If this trend persists, it will negatively affect economic growth over the monetary policy transmission horizon.
The GDP growth rate in the next two years is expected to stand somewhat lower than 4.5-5.5% forecasted in August.
The lack of necessary reforms may lead to consecutive prudential thresholds of public debt to GDP being surpassed and result in considerably higher risk premium for investing in Poland. This may – through the depreciation of the zloty – be a source of additional inflationary pressure.
Because of a high level of production capacity utilisation, there is still a risk of cost effects feeding through into a rise in consumer prices.

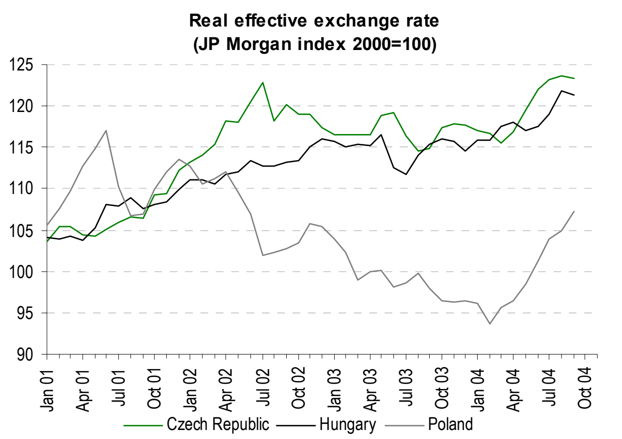
Inflation projection of the National Bank of Poland (YoY)

	May	August	November
4Q05	2.1-5.4%	2.8-5.5%	2.5-5.2%
4Q06	1.1-4.4%	1.6-5.1%	1.3-4.8%

Probability of CPI falling in a given range in 4Q 2006

CPI	August projection	November projection
below 1.5%	23%	27%
1.5-2.5%	13%	14%
2.5-3.5%	15%	16%
above 3.5%	49%	43%

Important fragments of the Inflation report for 3Q04
In the MPC's opinion, the currently available economic data as well as the results of the NBP's survey indicate that the so-far effected tightening of monetary policy, in the situation of a significant rise in the current inflation and also in inflation expectations, has successfully contributed to alleviating wage pressure (second-round effects). Nevertheless, inflation expectations of consumers still persist at a high level and, considering the fact that they are being strongly influenced by the current inflation rate, are likely to remain above the MPC target up until 1Q05 at the least. Thus, any fuller assessment of the second-round effects will only be possible in 2Q05.
Even though economic climate indicators did see some deterioration, they point to the continuation of positive tendencies in the Polish economy. Still, between September and November, there occurred a rise in the uncertainty as to the future economic growth. This hike in the level of uncertainty primarily results from an unclear picture in the area of investment recovery.
According to the November projection, with the assumption of unchanged interest rates, the probability of inflation staying above the inflation target of 2.5% in 2005-2006 is lower than presented in the August Report. It is still higher, however, than the probability of inflation falling below the target in the same period.



Source: NBP, JP Morgan, own estimates

Rates and bias unchanged in November

▪ The MPC did not changed interest rates at its November meeting; rates remained flat for the third month in a row. The decision was in line with market consensus, while we saw possibility of rate hike.

▪ The rationale for the decision was the Council's opinion that balance of risks for future inflation is more favourable than it was presented in the new inflation projection published in November.

▪ This stems from: zloty appreciation (although the MPC realises uncertainty regarding future trends on the FX market), no wage pressure (lower risk of second-round effects) and delay in investment recovery (reflected in slight downward revision of GDP growth

▪ At the same time, the MPC maintained tightening bias in monetary policy, as probability of inflation staying above the inflation target is still substantially higher than its fall below the level of 2.5%.

New Inflation Report, new inflation projection

▪ The Inflation Report for 3Q04 included the MPC's assessment of economic prospects and inflation outlook, the updated inflation projection prepared by NBP analysts, and results of all votes of the MPC in July-September period.

▪ The results of votes showed there was no motion to raise interest rates in September.

▪ In line with earlier hints from the central bankers, the new inflation projection indicated lower inflation path that in August projection, but was still above the inflation target within the whole time horizon of the projection, i.e. until the end of 2006.

▪ The distribution of probabilities attached to projected inflation also changed in favour of lower inflation, but - as the MPC stressed - still the likelihood that CPI would remain above the target level in the prediction period was higher than 50% (in fact, it was close to 60%).

▪ The Inflation report said that since publication of the previous inflation projection in August, there appeared many factors favourable for future inflation perspectives. Among others, the Council recognised that monetary tightening applied in June-August period helped to curb down wage pressure and avoid second-round effects.

▪ However, it seems that the most important reason for the Council's opinion, that the balance of risks for future inflation is more favourable currently than indicated in the November projection, is the difference in expected exchange rate scenarios.

▪ Econometric models of the NBP assume slight depreciation of the zloty within the projection horizon, while the MPC pointed out important factors supporting zloty appreciation in the medium and long run.

▪ This puts the zloty rate at the top of the list of factors crucial for predicting future monetary policy decisions (ahead of wage growth and investment activity prospects).

Strong zloty and concerns over economic growth

▪ The NBP survey showed that the zloty exchange rate, including its fluctuations, became the most important barrier to activity of enterprises.

▪ The profitability threshold of the zloty exchange rate declared by firms decreased to 4.1 against the euro and to 3.52 against the dollar. It means one of these levels has already been exceeded.

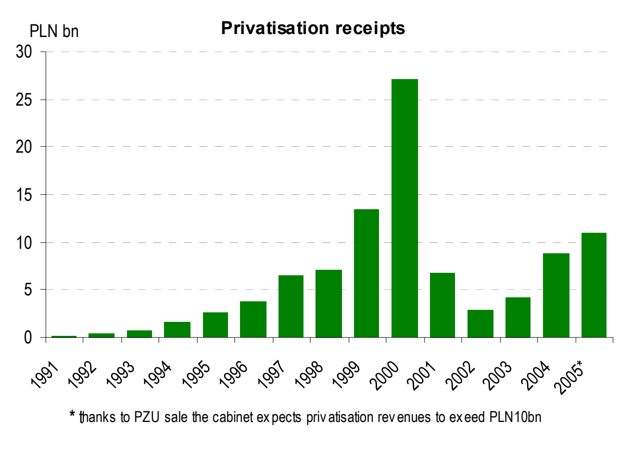
▪ One should remember that zloty appreciation is coupled with strong increase in competitiveness of the Polish economy (reflected in fall of unit labour costs and simultaneous rise in labour productivity). Thus, it seems that enterprises will be able to adjust to tighter conditions, similarly as in the past.

▪ Besides, according to the NBP, imports make up for almost 25% of exporters costs (only 4.8% in case of non-exporters), so the strong zloty contributes to reduction in exporters' costs.

Central bank watch

Comments of the central bank representatives	Remarks
Leszek Balcerowicz, NBP governor; Polish Radio 1, 2 December If we look at the whole economy and compare today's situation with what we saw a year ago or more, then it turns out that even with so strong zloty we are still competitive, what we can see, by the way, in impressive export figures. Current zloty-euro exchange rate is at similar level as in Q1 2003. Earlier zloty was even stronger. Since then labour productivity has increased and wages have risen moderately, and as a result, we may say that even at today's FX rates the competitiveness of Poland's production versus foreign is not lower, it's higher. PAP, 1 December In the opinion of the National Bank of Poland and international financial institutions, with the IMF in front, the strategy of not intervening on FX markets has served, and does serve, Poland well. Since the time that Poland introduced a free float and direct inflation targeting, Poland belongs to leaders amongst countries using this solution. **Krzysztof Rybiński, NBP deputy governor;** PAP, 30 November According to our analyses, if the current appreciation of the zloty maintained or strengthened, it could lead to fall in the inflation rate below the inflation target (…) then the central bank can react to this by changing monetary policy parameters or, like many countries do, intervening on the market. In a situation in which the central bank is pursuing direct inflation targeting, exchange rate is not an indirect goal. If the appreciation maintained, one may expect that effects for the inflation and economic growth will be strong and one cannot exclude that with maintaining appreciation the central projection could be even below the inflation target (of 2.5%). In some part, the zloty strengthening within the last 6 months has stemmed from fundamentals. Besides, it was fuelled by speculation factors. (…) The scale of appreciation and the character of capital inflows indicate that the trend may reverse.	During the presentation of the Inflation report, NBP deputy head Krzysztof Rybiński noticed that if the appreciation trend on FX market continues, it might pull future inflation below 2.5% level, in which case the central bank would have to react adjusting its monetary policy. He added that in such case the central bank has two tools at disposal: interest rates and FX interventions. The unexpected reminder about intervention tool, which did not seem to be accidental (as it was repeated several times in every interview gave by Rybiński that day), raised the question whether the central bank might be indeed considering such an option in the case of further currency appreciation behind some level of tolerance. This statement brought a number of comments from both central bankers as well as government's representatives. On the occasion of Rybiński's comment, another question comes to mind i.e. why considerations regarding possible impact of sustained zloty appreciation on the MPC's policy outlook were raised by the NBP deputy governor at the time of presenting inflation projection, rather than by the MPC itself. What is interesting, in The Monetary Policy Guidelines for 2005 the new MPC did not mentioned a possibility of FX intervention, despite the fact that then zloty strengthening could have been a reason for concern. This can suggest that the MPC does not perceive foreign exchange interventions as an effective instrument in monetary policy. Quite interestingly, the previous Council was keeping the option of intervention open all the time despite their unwillingness to use it. NBP governor Leszek Balcerowicz was trying to dispel uncertainties regarding NBP intervention policy. His view, sounding somewhat differently than that of NBP deputy governor, was very clear and he emphasised advantages of non-intervention policy. He also reminded that one should look not only at the nominal exchange rate, but also at the real (effective) exchange rate, while the latter has been performing much more favourably for exporting companies (due to rapidly improving competitiveness of Polish firms and dropping unit labour costs). In our opinion, those comments show that the financial market should not be excessively concerned about central bank's FX interventions in the near term. We are still awaiting comments of other members of the Monetary Policy Council.
Rzeczpospolita, 27-28 November When we deal with uncertainty, more decisive interest rates changes are necessary as compared to the situation of no uncertainty. (…) Recent economic literature on monetary policy is aimed at building strategies resistant to different kind of uncertainty faced by central banks. The results show that these "resistant" strategies include stronger reaction of interest rates to differences between the inflation target and current or forecasted inflation. This allows to stabilise inflation expectations and limiting variability in both inflation and production. (…) Economic literature suggests stronger reaction to inflation threats also when the central bank has no support in high credibility built in dozens of years.	In the article published in *Rzeczpospolita* daily, NBP deputy governor was trying to prove that in the environment of high uncertainty, the central bank should change interest rates more aggressively when reacting to differences between the inflation target and current or forecasted inflation. Referring to the results of recent empirical literature, the NBP deputy head argued that high uncertainty surrounding future economic situation need not stop the central bank from hiking interest rates, which was a remark apparently addressed to some of the Polish MPC members, who used uncertainty argument as a reason for wait-and-see approach. Even though the article seems to be convincing, one cannot say to what extent it would impact the MPC members' views in the near future.
Jan Czekaj, MPC member; *Gazeta Wyborcza* daily, 1 December Interest rates are under control of the central bank, while the exchange rate is shaped independently on the market (the NBP does not carry out interventions on the FX market aimed at maintaining some level of the exchange rate), but under influence of the interest rate level. Simultaneous increasing of interest rates and counteracting appreciation [through FX interventions] is like adding fuel to the flames - with high octane fuel.	The statement of Jan Czekaj, who is one of MPC members opting for less restrictive monetary policy, shows he is not a supporter of FX intervention. If we take into account that professor Czekaj is one of the MPC members worrying more about GDP growth, his unwillingness to such operation make hard to imagine the Council as a whole could support the idea in the near future. At the same time, Czekaj's statement suggested he was against further interest rates increases.
Andrzej Sławiński, MPC member; Radio PiN, 15 November [Monetary policy approach] will depend on how our experts' inflation projection will look like. If the likelihood of inflation staying above the target in course of the next two years is higher than likelihood of inflation falling below the target, then [...] restrictive approach would be maintained in monetary policy.	Professor Sławiński's comment suggests that a change in monetary policy bias from tightening to neutral would be possible if the NBP inflation projection showed higher probability of CPI inflation falling below the target. It seems that while the inflation projection is only one of the factors taken into account when deciding on interest rates level, it may have very important meaning if a change in bias is considered. This could have suggested that change in bias is the most likely in months when the inflation projection is published.

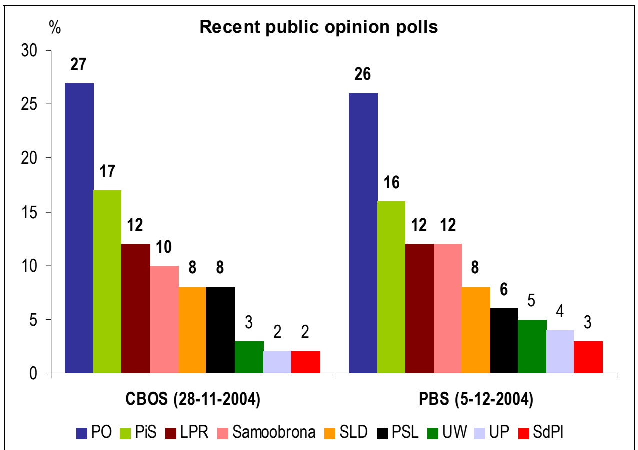
Government and politics

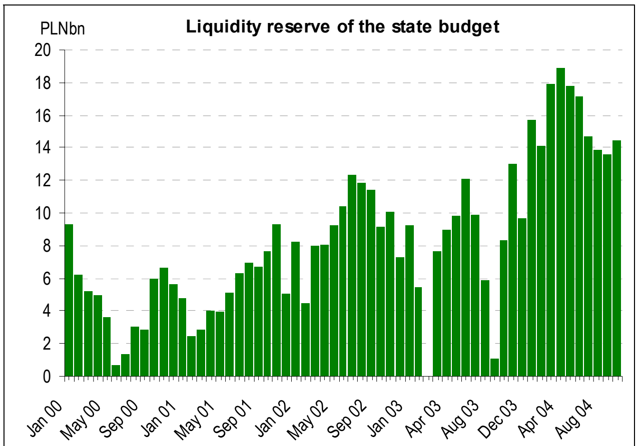


Basic assumptions of the updated version of Poland's Convergence program

	2004	2005	2006	2007
GDP growth	5.7 (5.0)	5.0 (5.0)	4.8 (5.6)	5.6 (5.6)
GDP deflator (%)	2.7 (1.7)	2.7 (2.0)	2.5 (2.1)	2.4 (1.9)
HICP	3.5	3.0	2.7	2.5
EUR/PLN (average)	4.55 (4.79)	4.28 (4.66)	4.28 (46.2)	4.24 (4.55)
General government balance (% GDP)	-5.4 (-5.7)	-3.9 (-4.2)	-3.2 (-3.3)	-2.2 (-1.5)
General government debt (% GDP)	45.9 (49.0)	47.6 (51.9)	48.0 (52.7)	47.2 (52.3)

Note: figures from the previous version of the program in parenthesis





Source: Ministry of Finance, CBOS, PBS

MPs spoiled the 2005 budget draft

- The Sejm approved the 2005 budget (MPs voted 227 to 176) and sent it to the Senate.
- Deputies approved some amendments to the draft proposed by the government, increasing both revenues and spending by PLN815.6bn. The increase is expected to result from higher VAT (PLN600m) and excise tax (PLN120m) revenues. Deputies also made unfavourable change to structure spending (for the amount of PLN1.3bn), lowering debt servicing costs and increasing social spending.
- All this caused that execution of the next year budget may be more difficult than finance minister assumed. The main source of potential problems seems to be overly optimistic target regarding revenues.
- The Senate now has to work on its own amendments until 20 December. The Sejm is then (on 28 December) to clear the final draft for signing by President Aleksander Kwaśniewski (on 30 December).

Very optimistic *Convergence Program*

- The Ministry of Finance published the updated version of the Convergence Program, which outlines prospects of the Polish economy until 2007.
- The document maintained the main assumption, i.e. meeting nominal convergence criteria in 2007.
- What is interesting, the ministry revised down predicted pace of economic growth for 2006 by 0.8pp, but at the same time expects improvement in general government balance by 0.1pp.
- There are more questionable assumptions. Overall revenues are expected to be lower, but tax revenues are not assumed to fall. On the spending side one can see improvement, but it is visible in an item called "others", which seems quite mysterious. Maybe it results from changes in definitions of some spending items.

Higher total support for PO and PiS

- Results of recent public opinion polls showed increase in total support for the PO (Civic Platform) and PiS (Law and Justice).
- The results of PBS poll mean that these two opposition parties could gain a majority in the parliament after next year's elections. The PO-PiS coalition would have 238 seats in the 460-seat lower house of parliament.
- This suggests that there are growing chances for creating stable coalition after elections, as it would make up of only two parties.
- However, one should remember about significant differences in programmes of these two parties (especially as regards economic issues). While the PO is an advocate of more liberal economic policy, several PiS ideas have pro-socially oriented character.
- If PO and PiS win majority in parliament, one may expect some controversies over economic policy between them.

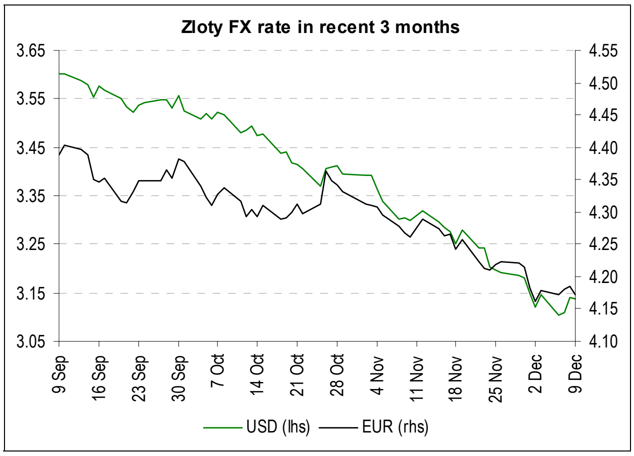
Budget still in excellent shape

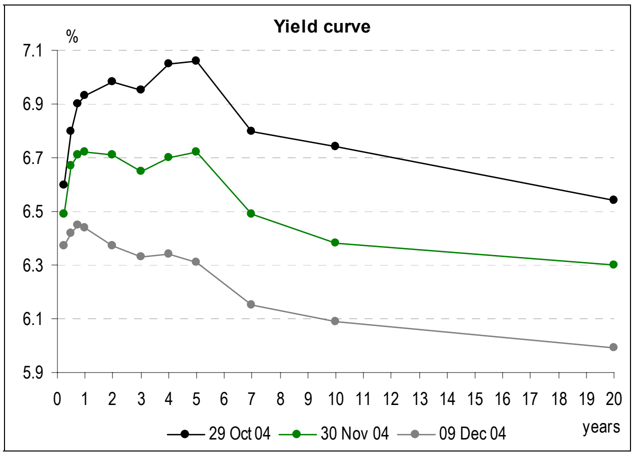
- Budget gap after ten months of the year reached 67.9% of the full-year plan (against 89% on average in the corresponding period in 2000-2003).
- This confirms that actual deficit this year will be lower than targeted PLN45.3bn. This is also confirmed by tentative estimates of budget gap after November (only 75% of the plan against 93% on average in January-November period in 2000-2003).
- Liquidity of the budget remains high. At the end of October, the Ministry of Finance had PLN14.5bn on its accounts and deposits. This was PLN13.6bn higher than a month earlier, even despite the ministry started to pay direct subsidies to farmers. This strengthens position of the ministry on the primary market of treasuries in the nearest months. Especially that the ministry will receive revenues from PKO BP privatisation in November (over PLN7bn).

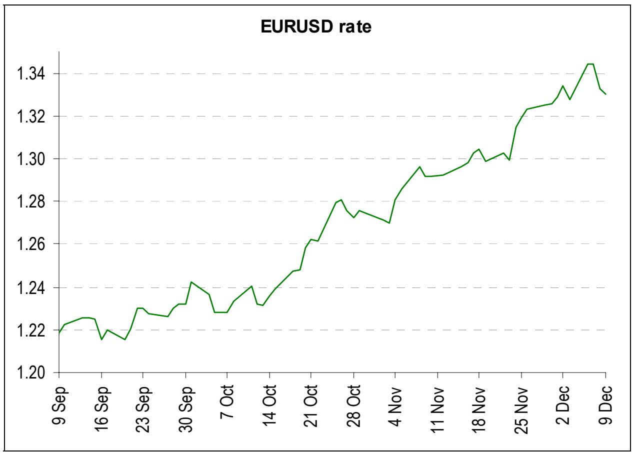
Government and politics

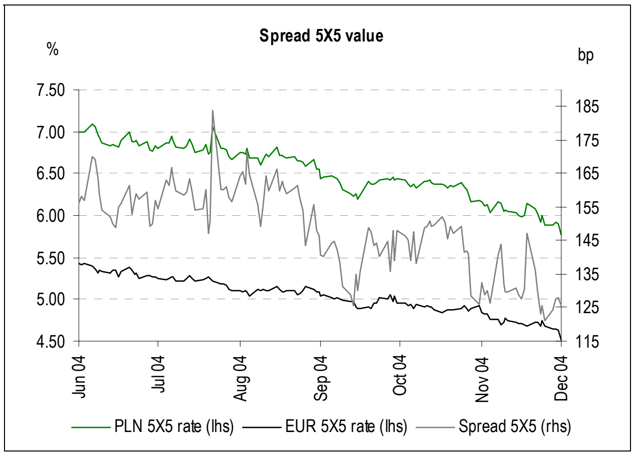
Comments of government representatives and politicians	Remarks
Marek Belka, Prime Minister Reuters, 2 December Yesterday I made a decision on holding the meeting with NBP. Only today I will contact with governor Balcerowicz. We don't have time to wait, because what is happening on the currency market is potentially quite worrisome. I know that there is a will on either sides in order to hold such a meeting, so it will be held soon. I believe that the meeting with NBP will be held even sooner than within two weeks. **Jerzy Hausner, deputy PM, economy and labour minister** PAP, 2 December We have free floating, market-driven exchange rate. [...] I don't think any changes in exchange rate regime are justified, so I don't think the NBP has simple and easy tools at hand that could stop this [appreciation] trend. [...] Therefore, a field for possible actions is limited, and I rather do not foresee NBP interventions. This [meeting with the NBP] will be a good occasion to discuss the merits about if this is a threat to the economy, to what extent, and what can be done. There is a certain set of instruments [...] which can be applied if in fact we actually feared that the strengthening zloty could threaten exports. However, this talk is premature. There is no cause for dramatic worry. **Mirosław Gronicki, finance minister** TVN24, 4 December This meeting that may be held within two weeks, not only with governor, but also with MPC, is to concern above all our road to euro. Government accepted the convergence program and the next step is the beginning of talks on higher level than until now on the topic of euro entry. It is natural, because if we enter ERM2, we will talk on zloty's rate. It is difficult to say if the discussion on the current situation on f/x market wins over discussion on the future. I don't think that this would be at the moment the biggest issue. PAP, 2 December No, I don't think [there is the need of conducting intervention on f/x market] For exchange rate policy Ministry of Finance and NBP are responsible. For the time being there are no decisions to change the exchange rate regime, nobody says also about interventions.	Appreciation of the zloty becomes a critical issue not only in terms of the monetary policy perspectives, but obviously, it is an important point of interest of the government as well, having impact not only on the size of public debt and costs of its servicing, but also - in the longer run - on pace of economic growth and profitability of Polish enterprises. Statements given by government officials were far from unanimous. PM Marek Belka seemed to be the most worried about zloty strength, while comments by finance minister Mirosław Gronicki were much more balanced, as he said the strong zloty would do much harm to the economy. Notwithstanding this, government press office released special communiqué, saying that prime minister Marek Belka was concerned about the zloty strength, and planned to hold a special meeting with the central bank and the MPC to discuss methods, in which they could counteract current appreciation trend. This situation caused increasing financial market's concerns for government's pressure on the central bank to intervene on the market. Concerns were diminished somehow by the finance minister, which hinted there were no reasons for intervention and confirmed full floating FX regime is the best solution for the Polish economy. Deputy PM Jerzy Hausner also did not seem to be especially depressed about current exchange rate developments. The sequence of official statements concerning the zloty that started after NBP deputy governor statement (see Central Bank Watch section above) confused players on the FX market, and resulted in increased volatility in the exchange rate (see Market monitor section below). Definitely, the entire debate about intervention or no-intervention on the zloty seems pointless and will not sway the financial market to weaken the zloty. To the contrary, the more talk about possible intervention and levels at which it might occur, the more investors could be willing to test boundaries of government's and central bank's tolerance. Especially, that the policymakers themselves admit in the background that there are fundamental reasons of zloty appreciation in the medium and long run. If intervention was to be effective, it should have been totally unexpected, while now the chances for a successful intervention seem to be diminishing. What seems possible is that the Ministry of Finance will carry out transactions on the market again (as it did earlier this year to strengthen the zloty) in order to buy currencies for earlier repayment of the part of foreign debt.
PAP, 24 December We do not see major problems with realisation of the next year's budget, although if those motion are accepted, realisation would be smoother. There is no problem, because the Social Security Office (FUS) is outside the budget and the size of subsidy is unchanged.	The Minister of Finance emphasised that the fact that two bills being a part of the Hausner plan were rejected by the parliament will not have an influence on the central budget (assuming no increase in the subsidy to FUS). However, this will have a negative impact on the result of total public finance sector, which reflects the Polish overall fiscal position.
Reuters, 16 November [Reduction in budget deficit below 3% in 2006]. It's possible. If it happened, it will not be a result of the government's policy, but, for instance, a result of rapid growth in export and expansion of the economy. Economic growth should reach at least 6% in 2006.	Quite surprisingly, the finance minister started to spread the opinion about a possibility to reduce budget deficit to below 3% already in 2006, a year ahead of schedule, if positive economic trends were maintained. This is very unlikely (assuming no radical reforms in public finance) and, in our opinion, such comments are aimed at maintaining upbeat moods on the Polish debt market.
Jan Rokita, chief of the Civic Platform (PO) caucus Reuters, 1 December Flat-rate income tax is still possible with current stance of public finance. If elections take place in May, 3X15 [CIT, PIT and VAT at 15%] can be introduced starting from 2006. The other option, which is not my favourable, is 2X15 that is PIT and CIT at 15% and higher VAT with reduction planned for each consecutive year. If elections are held in May, we will have finished a concept of deep changes in public finance by the beginning of 2006. Elections in late autumn completely paralyse this scenario. (…) Then, everything postpones until 1 January 2007. This means loss of the first year for the new cabinet, that is the best year.	One of PO's leaders, and the most likely candidate of this parry for Prime Minister after elections, is speaking more and more often on future economic policy. Possibly, he is to an extent forced to do that by appearing differences in economic programmes between the Civic Platform and Law and Justice (PiS) – the most likely coalition partner of the PO. Rokita maintained the party's declaration to introduce flat tax rate. However, it is worth mentioning, that at the same time he suggested that his party might not be able to introduce the expected changes if parliamentary elections take place in autumn. Does it mean that possible extension of this parliament's tenure may be used as a kind of alibi in the case a part of deep reforms planned by the PO is not realised.
Gazeta Wyborcza, 13 November [Q: Does the NBP president should be subordinate to the Sejm or should he remain independent?] Institution responsible for shaping monetary policy should be independent from the government and the parliament. No departure from this rule is possible.	PO leader stood for NBP independence. This contrast with the recent PiS declaration to liquidate the Monetary Policy Council and to make the Polish central bank responsible not only for inflation but also for economic growth. It is worth to member that only Rokita, but also the EU legislation supports the independence of the central bank.

Market monitor









Source: Reuters, BZ WBK

Huge capital inflow into financial market

- In November the zloty gained to currency basket another 4.5%. The dollar bore the brunt of that surge, which while weakening to the euro, was also losing its value to peripheral currencies.
- At the end of November the debate broke out on potential interventions in f/x market aimed at zloty's weakening. It did not changed fundamentally justified zloty's strength, but led to market volatility increase, which should restrain the zloty from further gains.
- Polish treasury papers yields recorded a significant decline, which for 5y benchmark at the end of November amounted to 34 basis points, while till 10th December as many as 71 bps reaching its new low at 6.29%. It resulted from the market conviction that interest rate hikes cycle was approaching an end and from sizeable gains in the international bond markets that Polish papers are strongly correlated with. As regards the curve above one year, the market even started to price in the change in MPC's bias.
- Government plans to increase next year privatisation revenues, which had a positive impact on bond market, as it means curbing budget borrowing needs.
- As the year end approaches, both f/x and bond market will become more and more illiquid amid closing investors' positions. On the one hand, it supports the market to stabilise on current levels, but on the other hand it render it more vulnerable to short-term movements.
- We expect the change of current upward tendency on the zloty into horizontal in December. However zloty will remain strong, as investors judge highly Polish assets. Bond market will enter consolidation mode before the year beginning, as usual abundant with bond supply.

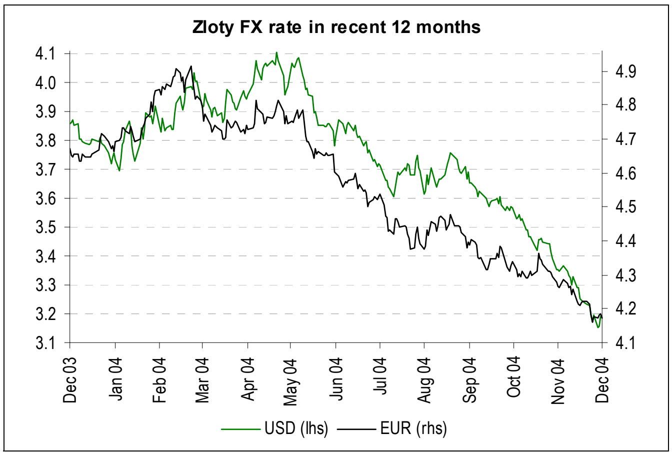
The dollar under pressure

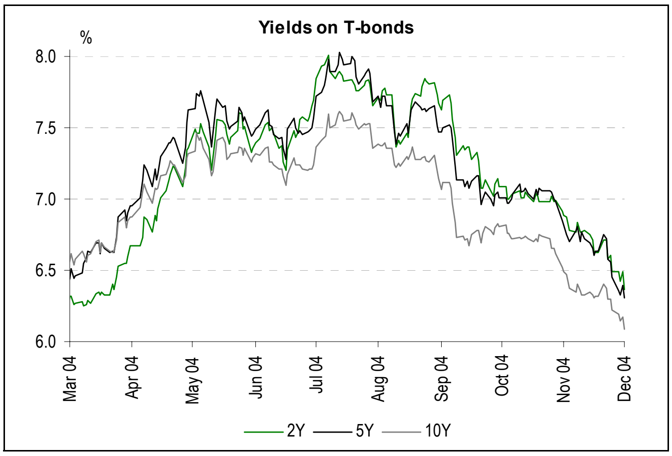
- Key issue for EUR/USD market was the Fed chief Alan Greenspan statement on potential drop in demand for dollar assets, if budget and current account deficit are not eliminated. They exceed the levels in respect to GDP by which they are not deemed as capable of financing without significant dollar decline and increase of Treasuries' yields. Not so long afterwards EUR/USD broke the psychological barrier of 1.30.
- Dollar's difficult stance was worsened by China's central bank representative that announced that his country would lower dollar assets share in reserves. China, pursuing policy of juan pegged to dollar, was forced to incessant interventions in f/x market and bought dollars were usually placed with American Treasury papers. Thanks to that yields were maintained on low levels.

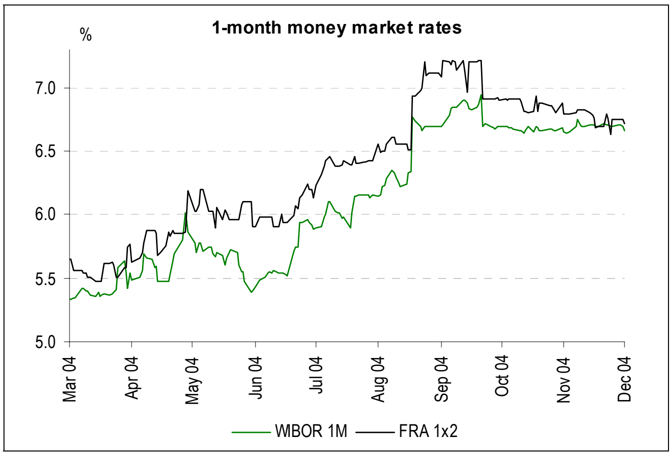
German bonds are of the value

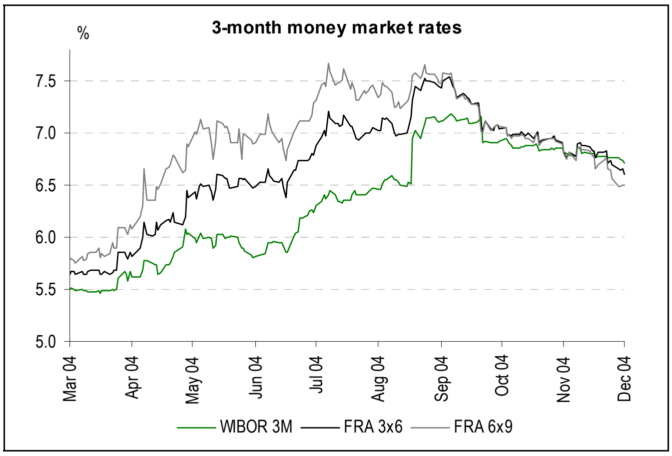
- In November amid significant decline in long-term market rates Polish government assets risk expressed by the difference between five-year interest rate forward after five years against respective rate in euro zone fell to around 125 bps from 145 bps a month ago. It shows that the date of Poland's euro zone entry is coming closer.
- As a result of still dissatisfying data on euro zone economy and negative impact of strong exchange rate of EUR/USD, yields of German 10-year bonds delivered sizeable decline reaching levels of 3.60%
- Last month we saw widening of the spread between 10-year German and American papers from 40 bps to current 65 bps. It is a direct consequence of EUR/USD performance. This tendency may be maintained id the dollar continues its decline.

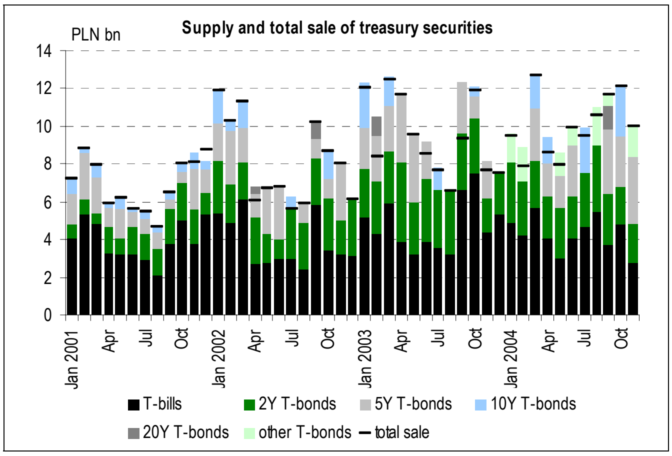
Market monitor











Treasury bill auctions (PLN m)

Date of auction	OFFER / SALE 13-week	52-week	Total
8.11.2004	-	1000 / 1000	1000 / 1000
15.11.2004	-	1000 / 1000	1000 / 1000
22.11.2004	-	400 / 400	400 / 400
29.11.2004	-	400 / 400	400 / 400
November total	**-**	**2 800 / 2 800**	**2 800 / 2 800**
6.12.2004	-	400 / 400	400 / 400
13.12.2004	-	300	300
20.12.2004*	100	300 - 800	400 - 900
December total*	**100**	**1 000 –1 500 / 400**	**1 100 –1 600 / 400**

* estimations based on Ministry of Finance preliminary information

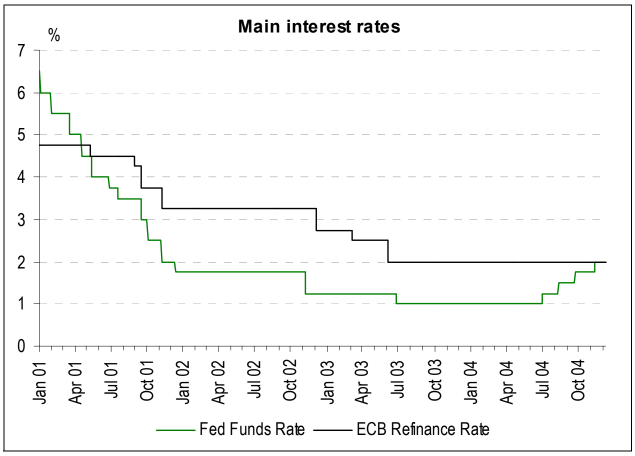
Treasury bond auctions in 2004(PLN m)

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	1,200.0	1,200.0	15.09*	DS0509	3,480.0	3,480.0
October	06.10	OK1206	2,000.0	2,000.0	13.10	DS1015	2,600.0	2,600.0	20.10	DS0509	2,700.0	2,700.0
November	03.11	OK1206	2,000.0	2,000.0	10.11*	WZ0307/0911	1,560.0	1,560.0	17.11*	DS0509	3,600.0	3,600.0
December	01.12	OK1206	1,600.0	1,600.0	08.12*	IZ0816	960.0	960.0	-	-	-	-

* with supplementary auction

Source: Ministry of Finance, Reuters, BZ WBK

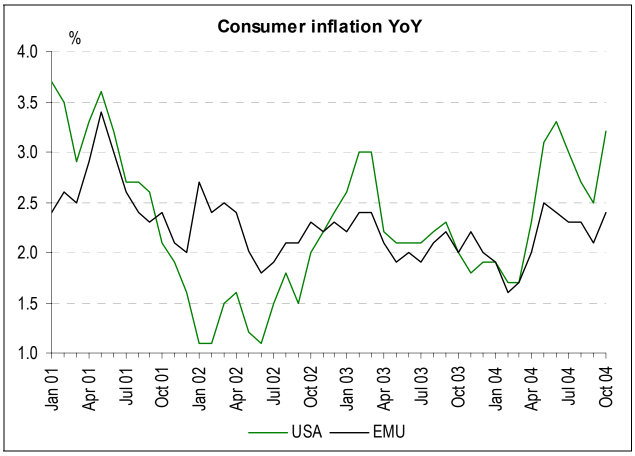
International review



Fed hikes, ECB threatens

▪ In line with expectations Fed hiked interest rates by 25 bp to 2,00% on 10th November. Thus interest rates in the euro zone and in the United States levelled off. The statement, apart from usual rhetoric, stressed that Fed would execute further hikes with measured pace. Owing to that, on the next meeting scheduled for 14th December, The Fed will probably again rise cost of credit by another 25 basis points.

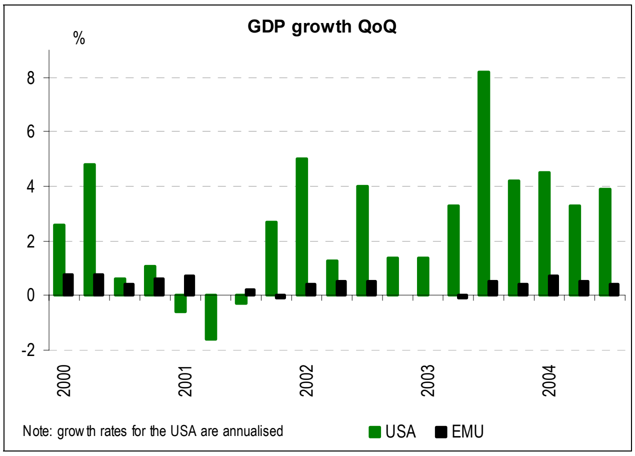
▪ On its meeting on 2nd December ECB left interest rates unchanged at 2,00%. However ECB governor Jean-Claude Trichet due to speculations regarding potential cuts conceded that rate hike was considered. Persistently high inflation in the euro zone was the reason behind that. Taking into consideration European economies performance and high euro rate that solution seems to be unlikely in the near term.



Oil raises the prices

▪ In October consumer price index in USA reached 3.2% due to exceptionally high oil prices. The result exceeded significantly market predictions. Core Inflation excluding food and energy prices remained unchanged at 2,00%. As oil prices declined in London and New York by around 20% from its highs, one should expect that inflation will fall in the coming months.

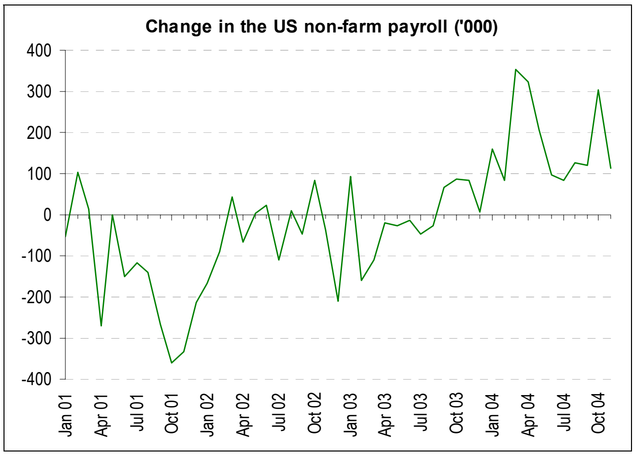
▪ Inflation in euro zone still persists on the level exceeding ECB's inflation target. October data showed jump of an index from 2.1% to 2.4%. Peripheral countries in the euro zone still raise the average inflation, as current interest rate level is too low for those countries, taking into account phase of business cycle.



Growth revisions

▪ According to revised data on gross domestic product, economic growth in USA in 3Q proved to better than presented in preliminary numbers and amounted to 3.9% (3.7% previously). GDP deflator was revised down what forms even better picture of the American economy.

▪ In November, there were the publications of both preliminary and final data on GDP growth in euro zone. The former which showed that annual rate of growth amounted to 1.9% induced the European Commission to revise the predictions for 4Q and for the whole 2005 to 0.2-0.6%. Revised data showed even lower expansion, as it amounted to 1.8%YoY. At the beginning of December promising data on real economy in Germany were released, which had constituted dampening factor for growth in the whole Europe.



Source: Reuters, ECB, Federal Reserve

Labour market again in the public eye

▪ Since at the beginning of the year Alan Greenspan gave the market to understand that the most important from the pace of monetary policy tightening would be data from the labour market, the figure on the change in non-farm payrolls has been the most closely watched indicator in the world. This time it surprised the market to the downside and reached 112k against expectations of 180k. Moreover two previous months data for were revised by totally 54k new payrolls.

▪ IFO index, that is business climate indicator in the biggest economy in euro zone fell in October to 94.1 from 95.5 a month ago. Assessment of both current and future economic performance were reduced. It was affected by strong euro, high oil prices and unsolved structural problems of the German economy.

What's hot this month

Monday	Tuesday	Wednesday	Thursday	Friday
29 November ***POL: Treasury Bills Auction*** *EMU: Money supply (X)*	**30** ***POL: C/A Balance (IX)*** *ITA: Preliminary inflation (XI)* *EMU: Preliminary inflation (XI)* *EMU :Business sentiment, business climate (XI)* *USA: GDP (3Q)*	**1 December** ***POL: Treasury bonds auction OK1206*** *EMU: GDP (3Q)* *EMU: Unemployment (X)* *EMU: PMI (XI)* *USA: ISM (XI)*	**2** *GER: Unemployment (XI)* *EMU: ECB meeting* *EMU: PPI (X)* *USA: Factory Orders (X)*	**3** *EMU: Retail Sales (X)* *USA: Employment report (XI)*
6 ***POL: Treasury Bills Auction*** GER: Industrial Orders (X)	**7** ***POL: Reserve assets (XI)*** GER: ZEW Index USA: Productivity(Revised 3Q04) USA: Labour Costs (Revised 3Q04)	**8** ***POL: Treasury bonds auction IZ0816***	**9** ***POL: GDP (3Q04)*** *GER:* Industrial Production *(X)* GER: Trade Balance (X) USA: Import Prices XI) USA: Wholesale Inventories (X)	**10** *ITA: GDP (3Q04) (Revised)* *GER: Final HICP (XI)* *FRA: Preliminary HICP (XI)* *FRA: Trade Balance (X)* *USA: PPI (XI)* *USA: Preliminary Michigan Confidence (XII)*
13 ***POL: Treasury Bills Auction*** ITA: Industrial Production (X) USA: *Retail Sales* (XI) USA: Business Inventories (X)	**14** ***POL: Employment, Wages (XI)*** ***POL: CPI (XI)*** ***POL: Money Supply (XI)*** ITA: Final HICP (XI) USA: International trade(X) USA: Industrial Production (XI) USA: FOMC Meeting	**15** **POL: MPC Meeting (decision)** USA: New York Fed (XII) USA: Net Capital flows (X) USA: Foreign Treasury Buying (X)	**16** **POL: Switching auction** EMU: Final HICP (XI) USA: Building Permits (XI) USA: C/A Balance (3Q04) USA: Philadelphia Fed	**17** ***POL: Sold output (XI)*** ***POL: PPI (XI)*** ITA: Industrial Orders (X) GER: Ifo Index (XII) EMU: Industrial Production (X) USA: CPI (XI)
20 ***POL: Treasury Bills Auction***	**21** ***POL: Business climate (XI)*** FRA: Consumer Spending (XI)	**22** ***POL: Core Inflation (XI)*** ***POL: Retail Sales (XI)*** ***POL: Unemployment (XI)*** FRA: PPI (XI) FRA: Final HICP (XI) EMU: C/A Balance (X)	**23** ***POL: Food prices (1H XII)*** ITA: *Retail Sales* (X)	**24**
27	**28** ITA: Business Confidence (XII)	**29** ITA: PPI (XI)	**30** ***POL: C/A balance (X)*** EMU: Money supply (XI)	**31**
3 January 2005 ***POL: Treasury Bills Auction***	**4** ITA: *Preliminary* HICP (XII)	**5** ***POL: 2y Treasury bonds auction*** EMU: PPI (XI) EMU: Unemployment (XI)	**6** FRA: Consumer Confidence (XII)	**7** ***POL: Reserve Assets (XII)*** EMU: *Retail Sales* (XI)

Source: CSO, NBP, Finance Ministry, Reuters

Data release calendar for 2005

	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
MPC meeting	-	-	-	-	-	-	-	-	-	-	-	-
GDP*	-	-	-	-	-	-	-	-	-	-	-	-
CPI	17	15[a]	14[b]	14	16	14	14	16	14	14	14	14
Core inflation	-	-	-	-	-	-	-	-	-	-	-	-
PPI	20	17	17	19	20	17	19	18	19	19	18	19
Industrial output	20	17	17	19	20	17	19	18	19	19	18	19
Retail sales	21	21	21	21	23	21	21	22	21	21	23	21
Gross wages, employment	17	15	15	15	18	15	15	16	15	17	17	15
Unemployment	21	21	21	21	23	21	21	22	21	21	23	21
Foreign trade				about 50 working days after reported period								
Balance of payments*	-	-	31	-	-	-	-	-	-	-	-	-
Balance of payments	31[c]	28	31	-	-	-	-	-	-	-	-	-
Money supply	14	14	14	-	-	-	-	-	-	-	-	-
NBP balance sheet	7	7	7	-	-	-	-	-	-	-	-	-
Business climate indices	21	21	22	22	20	22	22	19	22	21	22	22
Food prices, 1-15	-	9[d] i 25[e]	25	25	25	24	25	25	23	25	25	23

* quarterly data, [a] preliminary data, January, [b] January and February, [c] November 2004, [d] January [e] February , *Source: CSO, NBP*

Economic data and forecasts

Monthly economic indicators

		Nov 03	Dec 03	Jan 04	Feb 04	Mar 04	Apr 04	May 04	Jun 04	Jul 04	Aug 04	Sep 04	Oct 04	Nov 04	Dec 04
Industrial production	%YoY	9.2	13.9	14.4	18.3	23.5	21.8	12.2	15.8	6.0	13.7	9.5	3.3	9.9	8.9
Retail sales [c]	%YoY	11.4	17.3	7.6	12.1	20.7	30.6	4.0	8.6	10.9	9.6	8.8	4.0	6.7	8.5
Unemployment rate	%	19.5	20.0	20.6	20.6	20.4	19.9	19.5	19.4	19.3	19.1	18.9	18.7	18.8	19.2
Gross wages [b c]	%YoY	4.1	5.1	3.5	6.3	7.0	4.6	4.4	4.5	3.6	5.1	3.7	2.4	3.2	4.0
Employment [b]	%YoY	-3.3	-3.5	-1.4	-1.5	-1.3	-1.1	-0.9	-0.7	-0.7	-0.8	-0.6	-0.4	-0.2	0.0
Export [d]	%YoY	8.7	16.4	10.6	18.3	28.2	27.6	20.5	39.4	16.5	25.9	16.2	20.8	22.1	18.0
Import [d]	%YoY	1.4	9.6	6.1	4.6	25.8	36.4	16.2	35.2	9.0	18.3	15.2	18.6	21.2	13.6
Trade balance [d]	EURm	-420	-658	-369	-9	-535	-986	-349	-89	-340	-43	-202	-151	-464.2	-550.0
Current account balance [d]	EURm	-295	-770	-130	-14	-447	-487	-543	-269	-318	324	-224	-51	-284.2	-370.0
Current account balance [d]	% GDP	-2.1	-2.2	-2.1	-1.7	-1.7	-1.7	-1.7	-1.7	-1.7	-1.4	-1.5	-1.7	-1.7	-1.4
Budget deficit (cumulative)	PLNbn	-35.5	-37.0	-4.2	-9.4	-11.8	-11.0	-15.3	-19.9	-23.2	-25.9	-29.0	-30.8	-34.0	-37.5
Budget deficit (cumulative)	% realisation	96.1	100.0	9.3	20.7	26.1	24.3	33.8	43.9	51.3	57.1	63.9	67.9	74.9	82.7
CPI	%YoY	1.6	1.7	1.6	1.6	1.7	2.2	3.4	4.4	4.6	4.6	4.4	4.5	4.5	4.6
PPI	%YoY	3.7	3.7	4.1	4.2	4.9	7.6	9.6	9.1	8.6	8.5	7.9	7.7	7.6	7.7
Broad money (M3)	%YoY	5.6	5.6	5.1	5.1	5.7	8.5	6.4	7.2	6.8	7.4	6.5	10.5	6.5	6.9
Deposits	%YoY	3.3	3.7	3.4	3.5	4.8	8.4	6.2	6.9	6.4	7.6	6.6	11.4	6.4	6.5
Credits	%YoY	8.5	8.1	7.4	7.7	6.1	8.5	6.1	5.7	4.6	5.2	4.2	9.4	4.9	5.6
USD/PLN	PLN	3.94	3.79	3.74	3.84	3.89	3.97	3.93	3.78	3.64	3.64	3.58	3.46	3.28	3.18
EUR/PLN	PLN	4.62	4.66	4.71	4.85	4.77	4.76	4.72	4.59	4.47	4.43	4.37	4.32	4.26	4.20
Reference rate [a]	%	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25	6.00	6.50	6.50	6.50	6.50	6.50
WIBOR 3M	%	5.68	5.69	5.46	5.46	5.49	5.69	5.99	5.91	6.34	6.58	7.12	6.89	6.81	6.75
Lombard rate [a]	%	6.75	6.75	6.75	6.75	6.75	6.75	6.75	6.75	7.50	8.00	8.00	8.00	8.00	8.00
Yield on 52-week T-bills	%	5.95	6.02	5.59	5.78	5.87	6.20	6.65	6.79	7.15	7.24	7.38	7.00	6.81	6.60
Yield on 2-year T-bonds	%	6.31	6.49	6.17	6.34	6.34	6.83	7.41	7.44	7.80	7.66	7.51	7.04	6.81	6.50
Yield on 5-year T-bonds	%	6.86	6.82	6.65	6.76	6.60	7.13	7.57	7.50	7.79	7.65	7.33	7.03	6.78	6.50
Yield on 10-year T-bonds	%	6.92	6.75	6.65	6.81	6.65	7.02	7.32	7.27	7.44	7.36	6.96	6.75	6.43	6.20

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	887.1	187.1	200.3	201.4	226.1	203.8	216.1	218.8	248.4
GDP	%YoY	1.4	3.8	5.7	2.3	4.0	4.0	4.7	6.9	6.1	4.8	5.1
Total consumption	%YoY	2.8	2.5	3.2	0.9	2.6	2.9	3.3	3.3	3.5	2.9	3.1
- Private consumption	%YoY	3.3	3.1	3.8	1.3	3.8	3.5	3.8	3.9	3.8	3.5	3.8
Fixed investments	%YoY	-5.8	-0.9	6.2	-3.7	-1.1	1.0	0.4	3.5	3.6	4.1	10.0
Industrial production	%YoY	1.1	8.7	13.1	4.4	9.1	8.9	12.2	19.0	16.4	9.7	7.3
Retail sales (real terms)	%YoY	1.9	7.9	7.8	1.2	9.8	6.4	12.4	13.6	11.3	4.7	1.5
Unemployment rate [a]	%	20.0	20.0	19.2	20.6	19.7	19.4	20.0	20.4	19.4	18.9	19.2
Gross wages (real terms)	%YoY	1.5	2.0	0.9	1.4	1.7	1.7	3.2	3.8	1.6	-0.4	-1.2
Export [b]	%YoY	6.0	9.1	21.9	8.4	5.4	11.4	11.1	19.3	29.1	19.1	20.4
Import [b]	%YoY	3.5	3.3	18.4	3.1	-2.5	8.2	4.5	12.6	29.3	13.9	17.8
Trade balance [b]	EURm	-7 701	-5 077	-4 098	-1 529	-1 089	-1 155	-1 304	-909	-1 438	-585	-1 166
Current account balance [b]	EURm	-5 404	-4 109	-2 818	-1 641	-1 176	-568	-724	-592	-1 302	-218	-706
Current account balance [b]	% GDP	-2.7	-2.2	-1.4	-2.7	-2.4	-2.4	-2.2	-1.7	-1.7	-1.5	-1.4
Budget deficit (cumulative) [a]	PLNbn	-39.4	-37.0	-37.5	-15.5	-23.8	-33.1	-37.0	-11.8	-19.9	-29.0	-37.5
Budget deficit (cumulative) [a]	% GDP	-5.0	-4.5	-4.2	-8.3	-4.2	-4.6	-1.7	-5.8	-3.7	-4.1	-3.4
CPI	%YoY	1.9	0.8	3.5	0.5	0.5	0.8	1.5	1.6	3.3	4.5	4.5
CPI [a]	%YoY	0.8	1.7	4.6	0.6	0.8	0.9	1.7	1.7	4.4	4.4	4.6
PPI	%YoY	1.0	2.6	7.3	3.0	2.2	1.9	3.4	4.4	8.8	8.3	7.7
Broad money (M3) [a]	%YoY	-2.0	5.6	6.9	0.5	1.3	3.1	5.6	5.7	7.2	6.5	6.9
Deposits [a]	%YoY	-4.1	3.7	6.5	-2.3	-1.9	-0.2	3.7	4.8	6.9	6.6	6.5
Credits [a]	%YoY	5.2	8.1	5.6	8.7	6.1	5.4	8.1	6.1	5.7	4.2	5.6
USD/PLN	PLN	4.08	3.89	3.66	3.90	3.83	3.93	3.89	3.82	3.89	3.62	3.31
EUR/PLN	PLN	3.85	4.40	4.54	4.19	4.36	4.42	4.62	4.78	4.69	4.43	4.26
Reference rate [a]	%	6.75	5.25	6.50	6.00	5.25	5.25	5.25	5.25	5.25	6.50	6.50
WIBOR 3M	%	9.09	5.69	6.21	6.37	5.60	5.20	5.60	5.47	5.87	6.68	6.82
Lombard rate [a]	%	8.75	6.75	8.00	7.75	6.75	6.75	6.75	6.75	6.75	8.00	8.00
Yield on 52-week T-bills	%	8.18	5.33	6.51	5.75	4.94	4.86	5.76	5.75	6.24	7.26	6.80
Yield on 2-year T-bonds	%	7.94	5.38	6.90	5.58	4.91	4.92	6.11	6.28	6.86	7.66	6.78
Yield on 5-year T-bonds	%	7.86	5.61	7.03	5.50	4.98	5.38	6.57	6.67	7.10	7.59	6.77
Yield on 10-year T-bonds	%	7.34	5.77	6.85	5.60	5.19	5.63	6.68	6.70	7.00	7.25	6.46

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

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

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