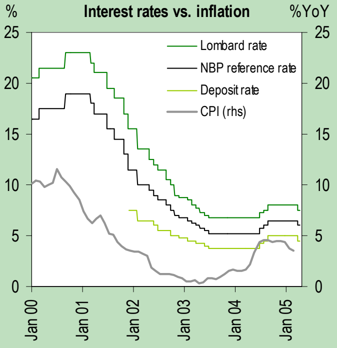
Bank Zachodni WBK

MACROscope

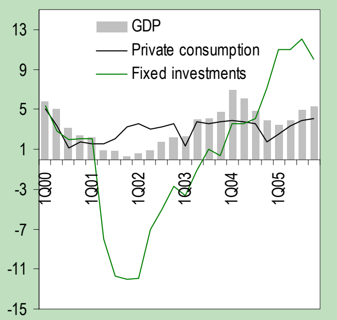
Polish Economy and Financial Markets

April 2005

Interest rates vs. inflation



Economic growth (%YoY)



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The first cut is the deepest

▪ **The Monetary Policy Council lowered interest rates by 50 bp (reference rate to 6.0%).** The statement after the meeting left no doubts that more interest rate cuts will come – almost all domestic factors (low inflation measures, better food prices outlook, no wage pressure) pointed to lower inflation in future, although some risk factors were mentioned, including high commodity prices in world markets, oil prices in particular. The comment of MPC's Andrzej Sławiński was also quite unambiguous, as he said that something very extraordinary would have to happen NOT to cut rates in April. Dariusz Filar from the MPC was more restrained, as he would prefer to wait until May with another rate move. However, it seems that the only question today is about the scale of rate cut in April. More hawkish members of the Council may point to no-change in rates policy this month, while more dovish members are likely to call for another 50bp. Therefore, a 25 bp reduction may appear as a compromise solution, acceptable for vast majority of the Council. Next move will also depend on upcoming data releases (in particular, another inflation surprise would increase a chance for 50 bp cut).

▪ **After surprising data on inflation in January and February, the MPC decision was expected by the majority of market participants.** It was double inflation surprise, as January figure was revised down to 3.7%YoY from 4% (due to changes in the weighting of goods and services in the consumer basket) and in February food prices decreased, which brought inflation rate down to 3.6%. It seems that record high last year's crops are starting being reflected in current retail prices, which will be one of the factors lowering inflation in the following months. Starting from April inflation will show sharp decrease amid high statistical base effect (high prices before EU accession in 2004). According to our forecasts, CPI will not only fall to the inflation target of 2.5%, but even to the lower end of the allowed fluctuation band around the target (1.5%).

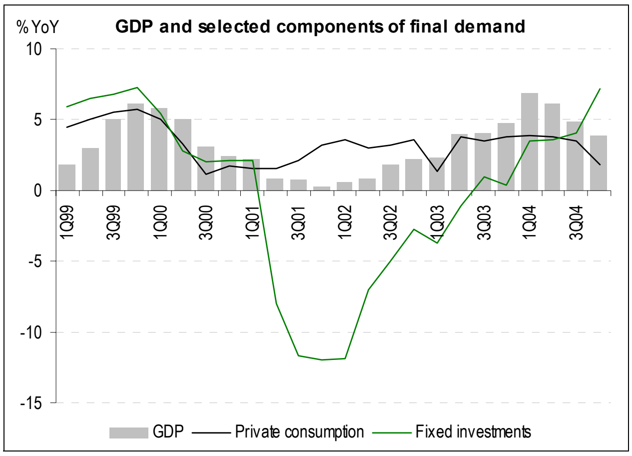
▪ **March interest rates reduction was most likely driven also by weaker perspective of economic growth**, under influence of GDP data on Q4 2004 and monthly figures of industrial production and retail sales. This information led us also to revision of GDP growth forecast for 2005. Now we predict the full-year growth will reach 4.4% (previously 4.7%). The two first quarters of the year will be the weakest (3.5% and 3.8% growth, respectively) due to strong effect of high base in case of domestic demand (except for fixed investment). However, this should not be serious slowdown and thanks to recovery in investment it will be possible to achieve solid pace of economic expansion (ca. 5%) in subsequent quarters.

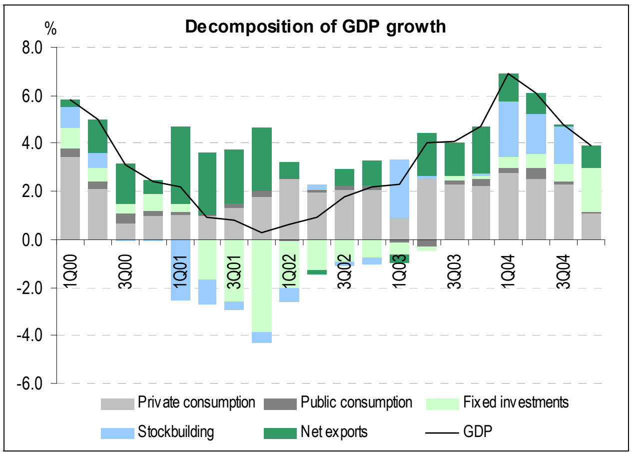
Financial market on 31 March 2005:

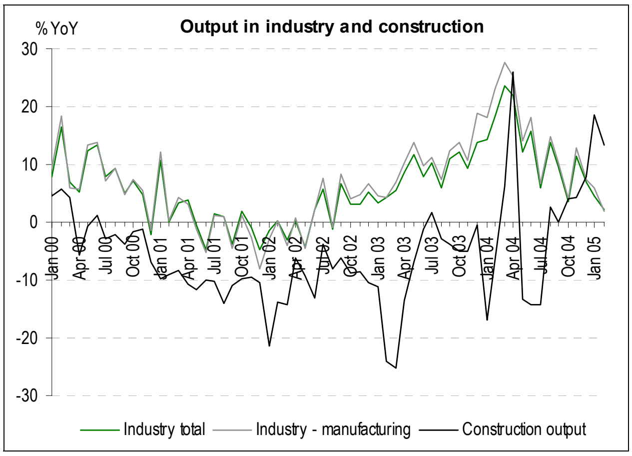
NBP deposit rate	4.50	WIBOR 3M	5.91	PLN/USD	3.1518
NBP reference rate	6.00	Yield on 52-week T-bills	5.40	PLN/EUR	4.0837
NBP lombard rate	7.50	Yield on 5-year T-bonds	5.50	EUR/USD	1.2957

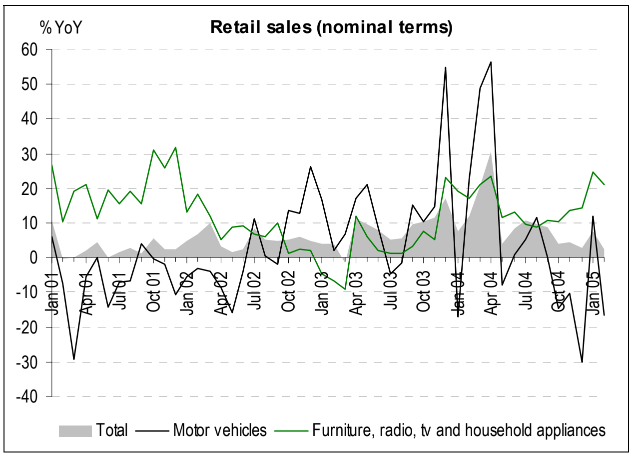
This report is based on information available until 07.04.2005

Economic update









Source: CSO, BZWBK own estimates

Temporary slowdown in economic growth

- According to the CSO, GDP growth in 4Q04 was 3.9%YoY. The result was slightly weaker than estimated earlier.
- GDP growth in the whole 2004 was revised down to 5.3% from earlier reported 5.4%.
- In 4Q04 alone, individual consumption growth amounted to 1.8%YoY, which was the weakest result since 1Q03. Fixed investment grew 7.2%YoY in the final quarter of the year, confirming that we face rebound in investment activity. Net export maintained its positive contribution to GDP growth (almost 1pp).
- Unexpectedly, weaker than earlier estimated results of the economy in 4Q04 stemmed from the fact that there was no positive effect in a form of strong rise in change in inventories (this element was neutral for GDP growth in 4Q04), which was observed in the three previous quarters of 2004 (when its contribution to GDP growth ranged between 1.6 and 2.3pp).
- This year, the main driver of economic growth should be fixed investment (we predict fixed investment will grow by almost 11%YoY in 2005 against 5.1% rise in 2004). Strong slowdown in individual consumption growth should not be permanent (upbeat results of consumer confidence and business climate surveys).
- Data on GDP in 4Q04, slightly weaker than earlier estimated, and weak economic activity indicators for first months of 2005 made us revise our GDP growth forecasts for this year. Now we predict the full-year growth will reach 4.4%. The two first quarters of the year will be the weakest (3.5% and 3.8% growth, respectively) due to strong effect of high base in case of domestic demand (except for fixed investment).
- However, this should not be serious slowdown and thanks to recovery in investment it will be possible to achieve solid pace of economic expansion (ca. 5%) in subsequent years.

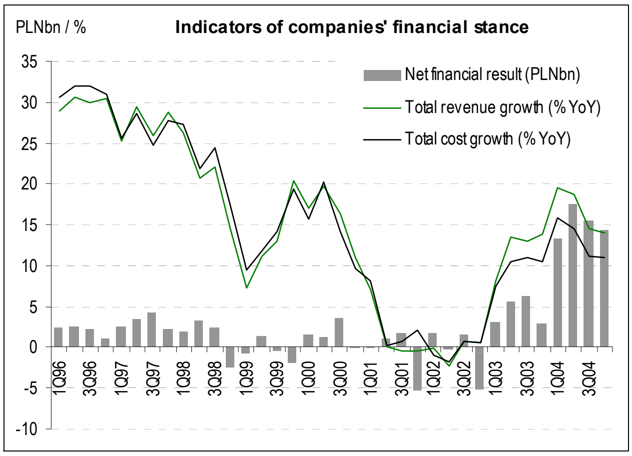
Waning growth in industry, recovery in construction

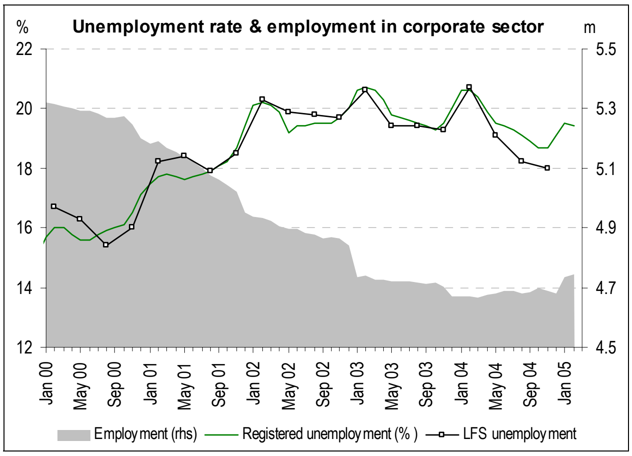
- Industrial output grew a mere 2.1%YoY in February (against 4.6%YoY in January), below cautious expectations.
- Slowdown in industrial output growth stemmed partly from high base effect (extraordinary strong economic activity just before EU entry, which is impossible to repeat this year). Annual growth rate of industrial output (and many other indicators) is doomed to slow down (even below zero) between January and May. However, results of business climate survey for March – the weakest since November 2003 - are worrying as regards medium-term prospects.
- Construction output rose 13.3%YoY in February, confirming favourable tendency in investment activity. March saw very good results of business climate survey for construction again, which indicates that improvement in the sector (and investment) should be permanent.

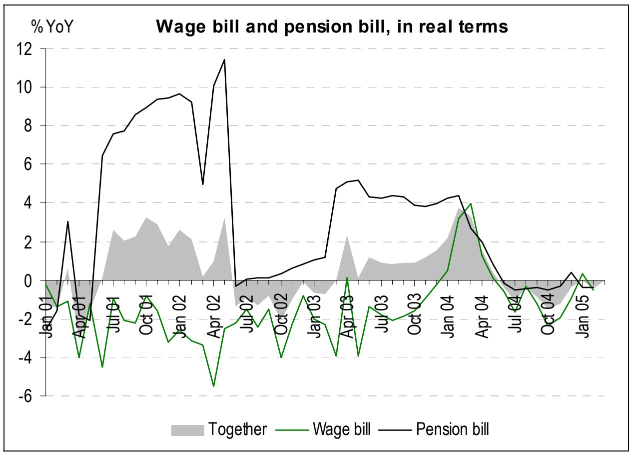
Lower retail sales growth, but consumers more optimistic

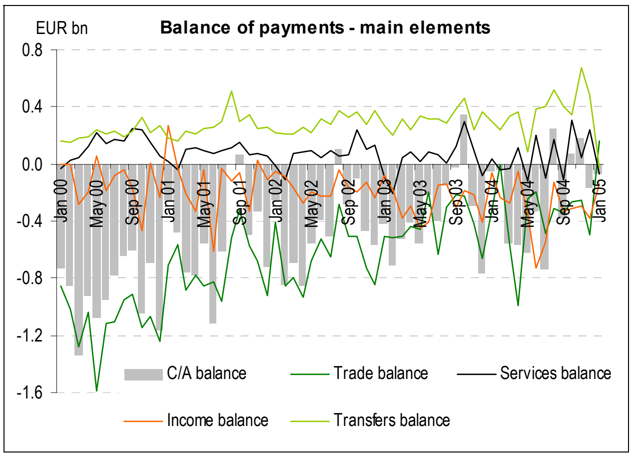
- Retail sales grew a mere 2.4%YoY, below shy market forecasts pointing to growth of slightly above 4%YoY.
- Since October 2004 (with except for January 2005) retail sales growth in real terms has been negative and this was continued in February (decrease of 1.6%YoY).
- This does not bode well for growth in individual consumption in 1Q05. Together with weak industrial output figures, low retail sales growth was a factor, which caused revision of our GDP growth forecasts for 2005, especially for the first half of the year.
- However, March results of business climate for retail trade and consumer confidence surveys show that prospects for consumption demand in the subsequent quarters of this year (after high base effects disappears) remain good.

Economic update









Source: CSO, NBP, BZWBK own estimates

Excellent financial results of firms maintain

- Financial situation of enterprises (employing over 49 persons) has substantially improves last year, on a unprecedented scale.
- Gross financial result was PLN75.4bn (against PLN30bn in 2003) and net financial result amounted to PLN60bn (versus PLN18bn a year earlier). Costs-to-income ratio dropped significantly to 94.3% from 97.2% in 2003, reflecting continuous efforts of Polish firms aimed at improvement of their competitiveness and efficiency. Net profitability indicator rose to 4.8% from 1.7% a year earlier.
- What is important, the final quarter of 2004 was equally beneficial for Polish firms as the three previous quarters of last year. This means that the strong zloty appreciation, lasting since May 2004, has not harmed considerably financial stance of Polish enterprises, at least for the moment.

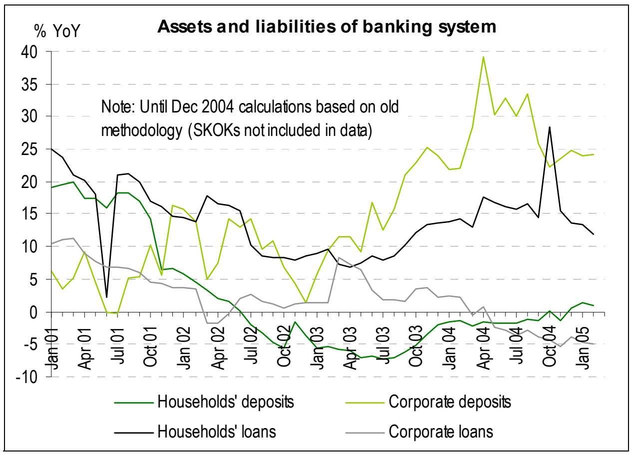
Stronger labour demand, wages under control

- Excellent financial results of Polish enterprises gradually translate not only into acceleration in investment growth, but also contribute to some revival on the labour market.
- In February, for the third straight month, after a few years of uninterrupted decline, employment in the enterprise sector inched up 1.6%YoY. What is more, results of LFS survey (encompassing the whole economy) showed that 4Q04 saw very strong rise in employment of 2.5%YoY (the highest growth since 1995. i.e. since results of LFS survey are available).
- The unemployment rate according to LFS dropped to 18% in 4Q04 from 18.2% in 3Q04 and 19.3% in the final quarter of 2003. The registered unemployment rate in February also decreased and reached 19.4% against 19.5% in January and 20.6% a year ago.
- We think that improvement of the situation on the labour market will be continued and will be supportive for faster consumption growth in future.
- At the moment, however, increase in labour demand is not strong enough to prevent real disposable income from falling, because wage discipline remains very tight. In February, wage bill in the enterprise sector grew 3%YoY in nominal terms, but dropped 0.5%YoY in real terms. This was caused by slowdown in wage growth in firms to a mere 1.4%YoY.
- We expect that growth in real disposable income of households will accelerate and will stronger influence consumption growth in the second half of this year, when faster and faster wage growth (4-5%YoY) will coincide with falling inflation.
- At the same time, even if one assumes that February's slowdown in wage was temporary, the general conclusion still holds that labour market condition does not pose threat to inflation prospects for this year.

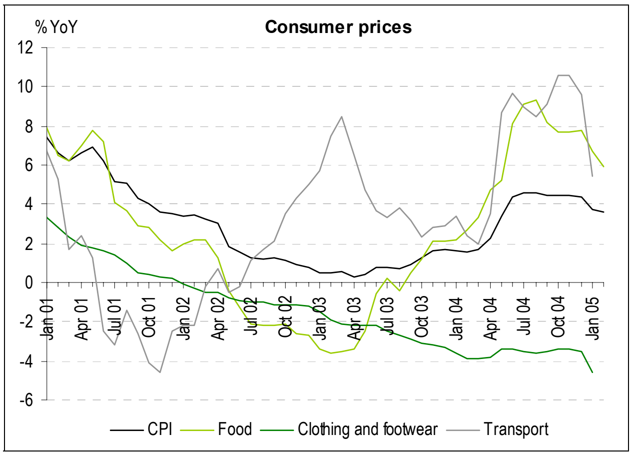
Trade surplus for a good start of the year

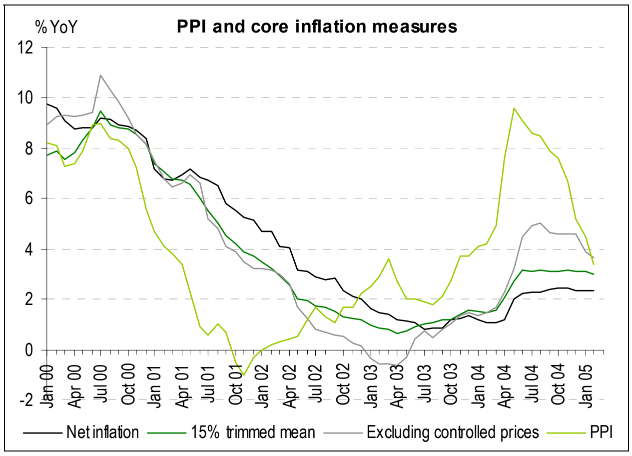
- When the NBP published balance of payments data for January on April 1, one could have thought it was a Fool's Day joke.
- Namely, it turned out that despite a few months period of strong appreciation, January saw surplus in Poland's foreign trade of €158m – for the first time since the central bank publishes comparable monthly data (January 2000).
- With relatively low deficits in the remaining elements of the current account, overall deficit on the current account was a mere €72m (cumulated 12-month C/A deficit in relation to GDP remained at 1.5% seen after December).
- The key factor was sharp acceleration in export growth (close to 30%YoY), much exceeding high pace of imports growth (suggesting good shape of domestic demand, mainly investment one).

Economic update



Weight system in CPI (%)	2004	2005
Food and non-alcoholic beverages	26.9	26.9
Alcoholic beverages and tobacco	6.0	5.7
Clothing and footwear	5.4	5.0
Housing, water, electricity, gas and other fuels	21.2	20.9
Furnishings, routine maintenance of the house	4.9	4.7
Health	5.0	5.3
Transport	8.4	8.8
Communication	4.9	5.0
Recreation and culture	6.4	6.6
Education	1.5	1.6
Restaurants and hotels	3.9	4.3
Miscellaneous goods and services	5.5	5.2





Source: CSO, NBP, BZWBK own estimates

Stable trends in monetary statistics

- Money supply M3 increased 1.1%MoM in February (exactly in line with our forecast). This translated into moderate acceleration of annual growth rate to 9.4% from 9.3% in January.
- Annual growth in deposits accelerated 8.7% from 8.4% a month earlier with lower growth in households' deposits (1.0%YoY versus 1.5%YoY in January) and higher growth in corporate deposits (24.2%YoY against 23.9%YoY). As regards money counterparts, loans growth slowed down to 2.1%YoY from 3.1%YoY in January. This concerned both households and corporate borrowing (the latter decreased 4.9%YoY after 4.6%YoY drop in January).
- Monetary statistics for February were under influence of zloty strengthening, which lowered zloty value of foreign currency-denominated deposits and loans.

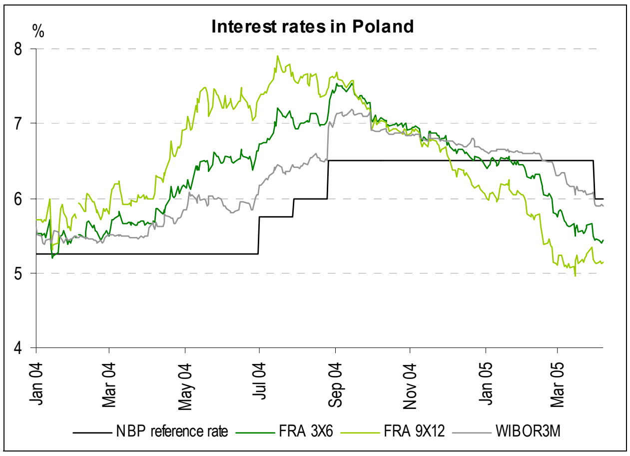
Double inflation surprise

- Among all data published last month, the most important were CPI figures, partly due to the fact that they were the most surprising.
- Annual CPI growth in February was only 3.6% against revised 3.7% in January (revision from earlier reported 4%).
- The first of factors, which contributed to such result was a downward revision of January data, caused by change in weights system used by the CSO in calculation of CPI (for the first time it was based on the results of the National Census).
- Although one could have predicted a downward revision, its scale exceeded any expectations.
- Despite weights of main CPI categories did not change much (e.g. weight of food and non-alcoholic beverages remained at 26.9%), there were probably quite significant changes at the lower level of aggregation.
- Revision of January inflation and its scale was not the only surprise. The second one was a price change in February, namely price fall of 0.1%MoM.
- For the second month in a row, there was decline in food prices (this time by 0.2%MoM). It seems that record high crops from last year began to affect consumer prices only at the beginning of this year. Annual growth in food prices fell to 5.9% and we believe the trend will be continued (to ca. 0% in the middle of year).
- Surprisingly deep CPI reduction at the beginning of this year made us, similarly as other market participants, to revise short-term inflation forecasts. Currently, we predict that in June CPI will not only drop to the inflation target of 2.5%, but will decline to the lower end of allowed fluctuation band of inflation (at 1.5%) and will stay there until the end of the year.

Good signals from alternative inflation measures

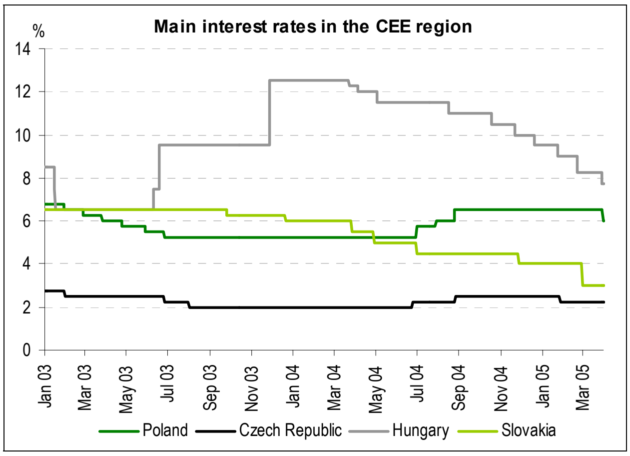
- In February, annual PPI growth lowered to 3.4% from 4.5% posted in January (the average market forecast was 3.7%).
- Slowdown in producer prices growth stemmed partly from high base effect (relatively large price increase last year).
- Additionally, deceleration in annual PPI growth was strengthened by considerable appreciation of the zloty.
- The two most important measures of core inflation was stable not only in January and February, but they remain almost unchanged since summer 2004 when CPI peaked at 4.6%YoY.
- The remaining three measures of core inflation gradually decline at the similar pace to CPI reduction.
- This shows that CPI decline results mainly from supply-side factors, but at the same time demand pressure stays under control.

Central bank watch



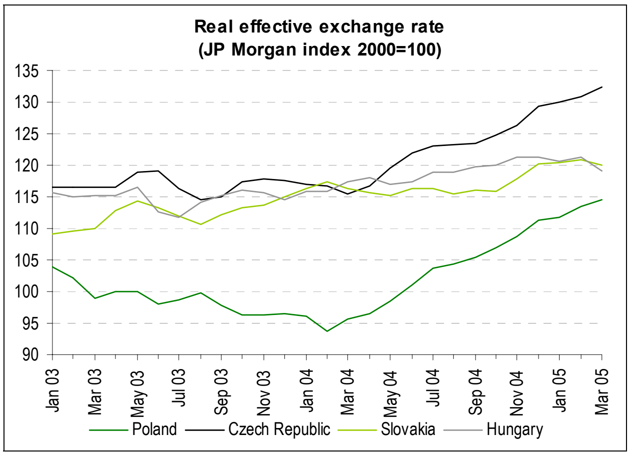
This time the MPC did not surprise

- Interest rates of the NBP were lowered by 50 bp – reference rate to 6.0%, lombard rate to 7.5%, deposit rate to 4.5%. after surprising data ion inflation such decision was expected by the majority of market participants.
- As some market players expected only 25 bp reduction, after zloty weakening in March, the instant market reaction was some strengthening on the interest rate market, which triggered a moderate zloty appreciation.
- According to the MPC, almost all domestic factors (low inflation measures, better food prices outlook, no wage pressure) pointed to lower inflation in future.
- Some risk factors were mentioned, including high commodity prices in world markets, oil prices in particular.



Rates down in the whole region, up in the US

- In recent weeks, interest rates were reduced in the whole region – by 25 bp in Czech Republic, by 50 bp in Hungary and by 100 bp in Slovakia (at the beginning of March).
- The Bank of England and the European Central Bank kept interest rates on hold.
- In line with expectations the US FOMC increased interest rates by 25 bp, though it was accompanied by rather a hawkish statement, which upbeat positive mood for the dollar and this trend was not stopped even by weak US labour market report.
- The MPC noted in the statement that higher inflationary pressure as well as higher US rates led to increases in the interest on American securities increased, which resulted in a decrease in the relative return on portfolio investments in the developing countries and new EU member states alike.



Zloty real effective exchange rate did not weaken

- Taking into account MPC's remarks on exchange rate, we do not think that foreign exchange market developments will be crucial for interest rates changes in the coming months.
- However, it is worth to notice that while nominal exchange rates of CEE countries depreciated as a result of capital outflow in to the US, behaviour of real effective exchange rates was different.
- In Poland we saw a continuous appreciation of the zloty REER – almost 3% since December 2004 and 15% in 2004 (see chart).
- Capital flows between the US and CEE region had the highest significant impact on the Hungarian market – real effective exchange rate of the forint fell by close to 2% this year. Czech koruna got stronger, while Slovakian koruna was quite stable. This confirms that economic fundamentals are worst in Hungary.

Crucial fragments of the MPC statement from 30 March
The forecasts for the next few years now presume that the decrease in oil prices will be significantly smaller than previously expected.
The gradual improvement of the situation in the labour market is not accompanied by any acceleration in the wage dynamics. (…) If the rate of pay rises continues to be lower than labour productivity dynamics, then it should be possible to sustain the high pace of economic growth, which will be based to the greater extent on the employment growth.
The fact that the GDP dynamics in 2004 Q4 and probably also in 2005 Q1 proved lower than expected raises the probability of inflation in 2005 running lower than it was presented in the February *Inflation Report*.
The data on inflation in the first months of 2005 and the latest forecasts of food prices both increase the probability of inflation in 2005-2006 running lower than presented in the February *Inflation Report*. This assessment may be changed following commodity price developments in world markets, oil price shifts in particular.
Since the last meeting of the Council the zloty has depreciated. The developments of the exchange rate in 2005 Q1 have been broadly consistent with the path accounted for in the February *Report*. The Council acknowledges the rise in uncertainty surrounding the future course of the exchange rate in view of the situation in international financial markets and the uncertainty related to the pre-election period

Source: NBP, Reuters, own estimates

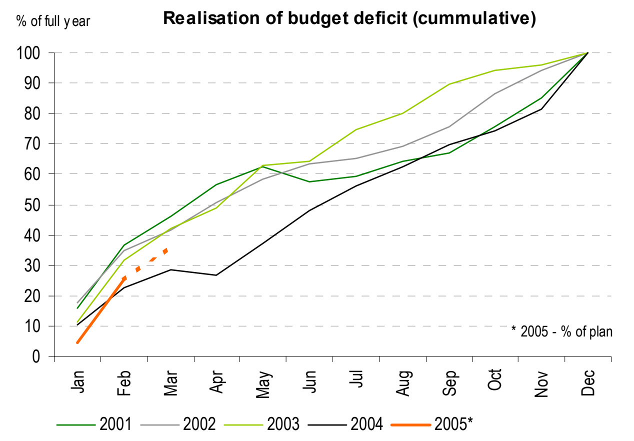
When the next rate cut?

- The communiqué after the meeting was not very helpful in assessing timing of next moves in monetary policy parameters, although it left no doubt that more interest rates cuts will come.
- However, after the statement of MPC member, Andrzej Sławiński (see *Central bank watch* section below), the next interest rates reduction is almost certain in April.
- The scale of next rate cut will depend on macroeconomic data, which will be released in the upcoming months. In our opinion, 25 bp cut in April is more likely than 50bp, but financial market is likely to price in deeper reduction.
- A cut of 50bp would be possible especially if CPI inflation data surprise again on the downside. In such case, cumulative cut in 2005 might be higher than 100 bp we predicted by earlier.

Central bank watch

Comments of the central bank representatives	Remarks
Leszek Balcerowicz, NBP governor, MPC chairman MPC press conference, 30 March Recent zloty weakness justifies the MPC's assessment that it is extremely difficult to forecast FX movements. If favourable tendency in the food prices market maintains, this factor may bring inflation down below 1.5% in several months of this year. The important fact is that, given much higher uncertainty, which is observable at the moment, such policy is in line with dominant standards - changes in doses, and not in one big move. This is connected with high uncertainty. Please notice the Fed policy, which is often cited as an exemplar, was based on small moves in interest rates both cycles – easing previously and recently observed tightening.	NBP president emphasised that exchange rates are unpredictable , which may suggest that the MPC will not base its policy on short-term movements on the FX market. Especially as after sharp zloty appreciation to below 3.9 against euro we saw a depreciation to 4.2 within just a couple of weeks amid factors, which were not connected with domestic macroeconomic policy. NBP chief agreed that inflation will be below 2% in the second half of 2005 or may fall even below 1.5% if food prices surprise on the downside (this is against views expressed by some MPC members before the March meeting, that 12M CPI will be close to 2.5%). However, at the same time, he emphasised that the medium-term perspective will be the most important for the Council. This suggests that much lower inflation in the second half of this year was already priced-in by the MPC to an extent.
Reuters, 16 March The band width issue [within the ERM2 system] has not been settled. The point is for the bands to be reasonably wide... I do not rule out asymmetric bands - a 15 percent (limit) on appreciation and 2.25 percent for depreciation. I support this less rigorous solution.	So far the central bank's stance was rather inflexible in this regard, and the NBP opted for wide ±15% band. Balcerowicz's comment suggests that the bank's viewpoint could be changing and that a compromise solution with the EU (EU favours limiting currency move on the depreciation side) is well possible. This was also suggested in statements made by finance minister recently (see section *Government and politics*).
Krzysztof Rybiński, NBP deputy governor Gazeta Wyborcza, 23 March NBP forecasts show that we cannot "outgrow" the deficit with high GDP growth only. Without fiscal reforms we cannot enter the euro zone in this decade nor in the foreseeable future. It is necessary to convince society that fiscal reforms and euro zone entry are good investments, which will favourable for all. I do not think that currency board would be a good idea.	It is hard to disagree with deputy chief of the central bank that deep fiscal adjustment is needed if budget deficit is expected to be lowered below 3% of GDP on permanent basis. The MPC in its statement also made an appeal to politicians to introduce fiscal reforms. The central bank disagreement with currency board introduction is nothing new. According to the NBP this may make inflation reduction to Maastricht criterion level more difficult (if not impossible), as inflation would be controlled by fiscal policy only in such scenario.
Dariusz Filar, MPC member Reuters, 6 April It is not written anywhere that the easing cycle must be long and deep. It could be that after the first big step, the next moves will be more limited, of 25 basis points (each) and more carefully spread out in time. (…) For me, May would be an appropriate time for decision. It is a natural market characteristic to have more radical evaluations than those who conduct monetary policy.	Professor Filar's statements suggest that hawkish members of the MPC (including NBP chief Leszek Balcerowicz) may point to no-change in rates policy this month. This supports the view that 25 bp is the most likely option, as for today. As dovish members are likely to call for another 50bp, 25 bp may appear as a compromise solution, acceptable for vast majority of the Council. Filar also mentioned that investment would be the key factor for the MPC, as they would suggest whether "the investment pick-up already underway guarantees that GDP growth will be sustained above 4%".
Andrzej Sławiński, MPC member Radio PiN, 1 April [Q] What would have to happen to persuade the MPC to keep rates on hold at the next meeting? [A] Something, which is very unlikely at the moment (…) Something which would sharply increase the expected path of inflation (…) Such risks always exist but they are very unlikely at the moment, according to us. [Q] Will a falling zloty be a factor limiting scope for interest rates reductions? [A] We should have seen significant changes in the zloty level, which do not seem very probable taking into account the overall macroeconomic situation, balance of payments statistics as well as global markets situation. (…) As regards exchange arte of the zloty, it seems there are no such factors, which would force us to assume significant changes.	Interview with professor Sławiński is unambiguous suggestion that when taking decision on cutting rates in March, the MPC was already thinking about next reduction in the following month. As the MPC decided to reduce interest rate gradually (as it was suggested by NBP president, see above), the only question is about the scale of the next moves. During the same interview, Sławiński avoided to answer a question on whether gradual approach means 25 bp or 50 bp cuts, saying that all central bank (excluding Reserve Bank of New Zealand) do not present expected path of interest rates changes. Most likely the scale of next reduction will depend (not to mention upcoming macroeconomic data) on MPC's assessment of cumulative rate cuts in the upcoming months. This issue was mentioned by another MPC member, Mirosław Pietrewicz, as he said: "in my opinion rate reduction in 2005 as a whole should amount to at least 150 bp". Below presented quotes of Halina Wasilewska-Trenkner might be also helpful in this regard.
Halina Wasilewska-Trenkner, MPC member PAP, 18 March Sudden rate cut by 150bps could make further inflation reduction more difficult. This is possible. In current situation a reduction of 150 bp would be substantial and might weaken the trend of falling inflation. Whether it would result in a rise in inflation? I do not know. Recent inflation data releases challenged the view presented by NBP deputy chief Krzysztof Rybiński that interest rate cut of 150bps in 12 months time would significantly increase a risk of inflation staying above the target.	The opinion presented by Halina Wasilewska-Trenkner seems to suggest clearly that she would not hesitate much before cutting interest rates in a scale slightly lower than 150bps. It seems obvious that after recent publications macroeconomic data the assessment of economic perspective by the MPC has changed substantially. However, MPC member mentioned also some risk factors. She said that fiscal adjustment is necessary precondition for monetary easing. She suggested also that budgetary plans for the next year (which will be prepared by current finance minister) are important element for analyses of future tendency in monetary policy. Wasilewska-Trenkner mentioned also possible zloty depreciation and rising oil prices that could hurt inflation in foreseeable future.

Government and politics

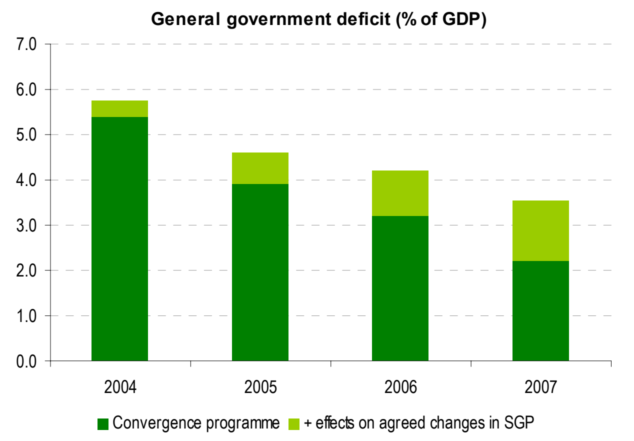


2005 budget under control, future uncertain

▪ After February budget deficit reached ca. 25% of annual plan, and according to MoF's rough estimates after March it was ca. 36%. The results suggest there should be no problems with execution of this year's target deficit level. Tax income is high.

▪ S&P's and Fitch Ratings upgraded outlook for Poland's debt ratings to positive from neutral, explaining it by solid economic fundamentals and improvement in fiscal outlook, and assuming that the next cabinet will carry on fiscal reforms.

▪ According to *Rzeczpospolita* daily, minister Gronicki will put forward 2006 deficit at PLN30bn, PLN5bn lower than this year's gap, and assuming 5% GDP growth. If election is held in autumn, the next government will have little choice but to approve and implement Gronicki's draft. However, continuation of fiscal reforms is not so certain.



Does SGP reform bring us closer to the euro zone?

▪ EU leaders agreed on shape of Stability and Growth Pact's reform, relaxing fiscal austerity measures within the EU.

▪ Some of the changes were criticised by the ECB, as they could be destructive for stability of the single currency area.

▪ For Poland the most important was change allowing avoiding sanctions by the countries breaching budget deficit ceiling because of costs of pension reform.

▪ Approved solution allows for closing excessive deficit procedure in 2007 even with fiscal deficit slightly above 3% of GDP, but if government has plan of reduction below 3% next year.

▪ However, euro introduction in Poland still depends on politicians' will to finish fiscal reforms. Will it be among top priorities of the next government?

EC macroeconomic forecasts for Poland (%YoY)

	2004		2005		2006	
	old	new	old	new	old	new
GDP	5.8	5.3	4.9	4.4	4.5	4.5
Priv. consumption	4.0	3.2	4.2	3.8	4.4	3.9
Fixed investment	6.5	5.6	10.0	10.0	12.0	11.0
Unemploym. rate	19.0	18.8	18.7	18.3	18.1	17.6
HICP inflation	3.5	3.6	3.3	2.1	3.0	2.3
General govt deficit *	-5.6	-4.8	-4.1	4.4	-3.1	-3.8
General govt debt *	47.7	43.6	49.8	46.8	49.3	47.6

Note: * (in % of GDP)

EC forecasts: lower GDP and inflation, higher fiscal deficit

▪ European Commission updated economic forecasts for EU member states. In the case of Poland, forecasts of economic growth and inflation rate were revised down.

▪ General government deficit in 2004 was notably lower than assumed earlier, amid better than planned performance of state budget and better result of social security system.

▪ General government deficit is expected to drop to 4.4% of GDP in 2005 and 3.8% GDP in 2006, against 4.1% and 3.1% respectively in autumn's projection. Deterioration resulted from taking into account implementation of fiscal reforms and lower GDP growth forecast.

▪ Deficit forecast still assumed surplus in second pillar pension system, reaching ca. 2% of GDP in 2004 and 19% GDP in 2005.

Public support for political parties in March

	Pentor	Ipsos	CBOS	OBOP
PO	28 (28)	25 (24)	22 (25)	23 (23)
Samoobrona	18 (14)	19 (15)	14 (12)	16 (14)
PiS	14 (11)	17 (22)	16 (15)	12 (15)
LPR	10 (12)	10 (8)	11 (13)	10 (11)
SLD	5 (8)	7 (8)	6 (6)	9 (7)
SdPl	5 (5)	4 (6)	3 (4)	5 (7)
PSL	4 (6)	6 (6)	8 (7)	9 (7)
UW	6 (4)	- (9)	5 (5)	7 (4)
PD	-	6	-	6

Note: February's results given in parenthesis

Timing and result of general election still highly uncertain

▪ Public opinion polls suggest that potential coalition between PO and PiS could count on just slightly more than 40% of votes if the election was held in March

▪ It implies a risk that it would be extremely hard to establish government having stable majority in the parliament.

▪ Backing for Samoobrona rose in March in all opinion polls, which creates another risk factor. Brand new Democratic Party earned merely 6% support.

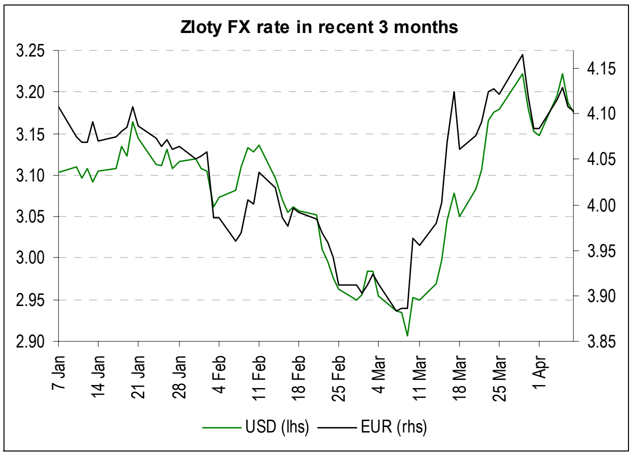
▪ Election date is till uncertain. Marek Belka declared he would submit resignation on 5 May, but president Kwaśniewski ensured he would not accept the dismissal before 17 May. It could render spring election impossible. Thus, despite Belka's efforts it could happen he will be forced to act as a prime minister until autumn.

Source: Ministry of Finance, European Commission, polling institutes, own estimates

Government and politics

Comments of government representatives and politicians	**Remarks**
Aleksander Kwaśniewski, President PAP, 17 March Will Marek Belka resign? I don't rule it out. However, the president has the right to reject dismissal in such special circumstance. [...] I declare that until end of Council of Europe's summit I will accept no dismissals. PAP, 18 March I would prefer election in June, however I am not the one to vote [on it]. If deputies approve shortening their term of office, election would be on 19 June, otherwise it would be on 25 September. **Marek Belka, Prime Minister** PAP, 17 March [Q.] Will you resign on 5 May? [A.] Of course I will. PAP, 24 March I will not get offended and will not leave for Mars [if the President refuses to accept my dismissal]. I will keep doing my job, however I believe it won't be good. Prime minister has great power in Poland, with one exception – he cannot quit effectively in a situation that we have today.	PM Marek Belka explicitly confirmed that he was going to resign on 5 May, after Sejm's voting on self-dissolution. What is more, leader of the new Democratic Party Władysław Frasyniuk hinted that Belka would surely join his centrist group on 5 May. Meantime, president Aleksander Kwaśniewski assured that he was not going to accept Belka's dismissal, at least until the end of Council of Europe summit that would be held in Warsaw on 16-17 May. This complicates issue of election date again. On one hand, it may be extremely hard to imagine a scenario when the government is run for six months by one of the leaders of minor opposition faction that is not even represented in the parliament (this could be the case in fact if Sejm rejects dissolution motion and Belka joins PD in May). On the other hand, shortening parliament's term of office becomes questionable if PM's dismissal is delayed until 17 May. In such case, earliest possible election date would be probably in July. This is hardly desirable scenario for all major political parties, as during summer holidays turnout of the election would be very low and results – highly unpredictable. The conclusion is that election date is still very uncertain and despite PM Belka's efforts if could be impossible to hold voting before autumn.
Mirosław Gronicki, finance minister PAP, 22 March I agree with words of Mr. Balcerowicz, that it would be better to have asymmetric band [of currency fluctuations in ERM2], because there is no need for intervention when the zloty is strengthening, while there is such obligation when it weakens. Nevertheless, it would be better if we had +/- 15% band, which seems to be not very likely anyway.	After comments of finance minister and NBP chief it seems likely that Poland will be willing to accept the asymmetric band within the ERM2. In such situation, the EU side may be prone to accept relatively weaker central parity rate of the zloty against the euro within the transitory mechanism, for instance 4.2PLN (implying fluctuations band of ca. 3.6-4.3). However, the final parity rate, at which the zloty will be replaced with the single currency may be lower (e.g. 4PLN) due to likely appreciation pressure on the zloty on the way to the euro zone. This was the case when Greece was adopting the euro.
Reuters, 23 March Interest rates are already priced-in in investors' decisions. What is going on with the zloty is based on [events] outside the country, chiefly in the U.S. But when hot money leaves, real money comes back in. Therefore after a correction, I expect the exchange rate to stabilise.	Finance minister's hints regarding perspectives of the zloty are quite close to our own predictions. Even though in the coming months we expect amplified investors' vulnerability and higher FX volatility on the Polish market amid growing political risk and euro-dollar fluctuations, in the longer run the zloty should be strengthening, which will be supported by strong economic fundamentals in Poland.
Jan Rokita, PO caucus leader Reuters, 21 March It is in our own interest that next governments have ambitious goals regarding euro zone entry as soon as possible, because it imposes discipline on Poland's public finances. [...] The problem is whether it is optimal solution for Poland to enter the euro zone, which is slowly becoming a zone of economic stagnation. It would require further analysis. Reuters, 23 March In my opinion Poland's entry into the euro zone should be a priority for the new government, regardless of the fact that the euro zone is not an economic tiger. Balance of benefits and risks is favourable. [...] I believe we should try to make it happen as soon as possible, but Poland's current situation is pushing it back rather than bringing it closer.	The closer the election, the more important are declarations of its possible winners regarding future economic policy of the government. Jan Rokita, potential PO's candidate for the Prime Minister's post after election, keeps declaring that Poland's entry to the euro zone "as soon as possible" should be a priority of the next government (imposing discipline on public finances). But at the same time he is questioning benefits of such solution. Together with earlier declarations of the PiS leaders (euro zone entry should be delayed far beyond 2010), such statements suggest that the next government may not be particularly determined to introduce euro in Poland before the end of this decade. If signals like that from potential winners of the next election repeat more often, it could introduce another uncertainty factor for the market regarding future economic policy of the new government.
Zbigniew Chlebowski, PO deputy Reuters, 11 March We have our own plans of tax and public finance reform, which we want to implement after the election. For sure we will not make use of this document [Gronicki's plan] in order to guide Poland to the euro zone, which is our strategic goal by the way. **Józef Oleksy, SLD leader** PAP, 16 March We are not going to support minister Gronicki's plans, revealed by a surprise. [...] We believe they cannot be used as basis for planning next year's budget.	Ministry of Finance announced that it had plan of savings in public finances, allowing Poland to meet convergence criteria even in the case of unfavourable ruling on OFE classification. Later on it turned out that EU decision met Poland's postulates halfway. However, it does not imply that MoF's proposals became obsolete. The plan was based mainly on elimination of abuse and inefficiencies, which are highly desirable anyway, regardless of EU ruling in any case. Especially, that in MoF's opinion those goals could be achieved without any major legislative changes. Unfortunately, the ministry's ideas did not find any support of politicians from SLD and PO. It shows that uncertainty regarding future fiscal policy in Poland is still substantial.

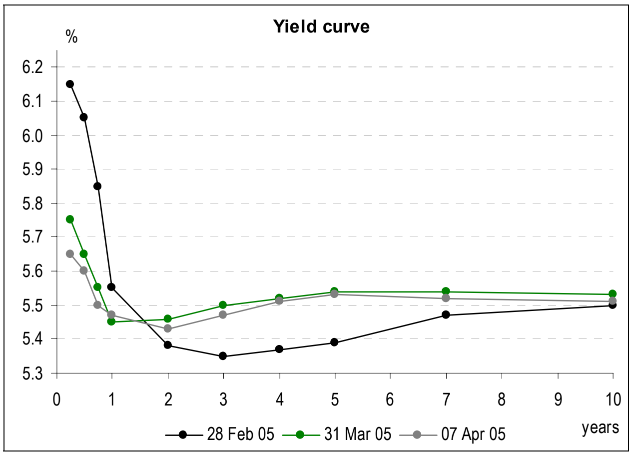
Market monitor



Capital outflow goes on

▪ The zloty last month weakened due to capital outflow from emerging markets ahead of expected interest rate hikes in US and domestic political risk before approaching election. The dollar gained against the zloty by 7.7% and versus the euro 3.7%. Positive influence of MPC's decision and statement managed only to briefly support the zloty owing to prevalence of strong dollar. Last week brought limited changes, as investors lowered their activity due to national mourning period.

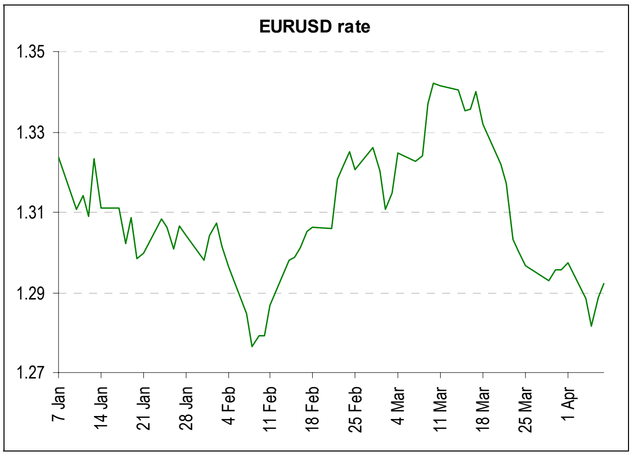
▪ Currently EURUSD rate refrains Polish currency from increases. Because there is a chance for EURUSD rate gains, it should be a supportive factor for our currency. However, approaching to voting in parliament on May 5th, willingness to invest in the zloty may gradually erode. Expectations for interest rate cut may bring short term capital inflows into Polish treasuries.



The market resilient to currency sell-off

▪ Polish bonds' prices fell either, but their deterioration was limited b market expectations for interest rate cut after very low inflation data. If one could have expected in such circumstances the steepening of the curve, then however yields no the short end of the curve rose as well because of concerns about weaker currency influence to NBP decision. Because MPC allayed them, bond yields fell to one month old levels.

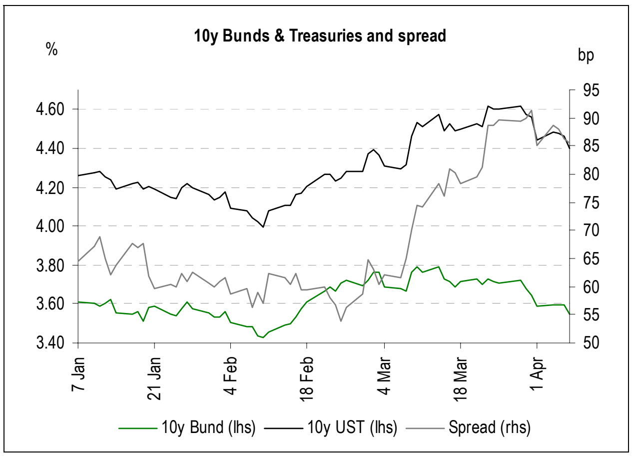
▪ This month inflation data wil be important again, but this time majority of market participants anticipates quite low level what implies that yield declines may prove to be long-lasting only at the short end of the curve. In that maturity bucket another rate cut already in April may lend support. The voting on dissolving of parliament is getting closer, which may discourage some investors from allocating their resources into Polish assets.



The dollar – the most wanted unit

▪ Last month the euro lost to the dollar almost 4%. The data on still large US external deficit only briefly supported the euro which due to expectations and decisions itself sharply declined. Unexpectedly weak data from US labour market did not caused the euro appreciation, as the players in the market focus presently on US inflation indicators. None of the latest comments from Fed speakers did not alter a market picture.

▪ Subsequent release of US international trade data and its financing will surely point that US external imbalance is still considerable, but is still financed by Asian central banks (gains of USDJPY). Tuesday's FOMC Minutes will cast some light on recent Fed statement of March 22nd. Given those circumstances and technical signal of long term support, the euro should gradually advance.



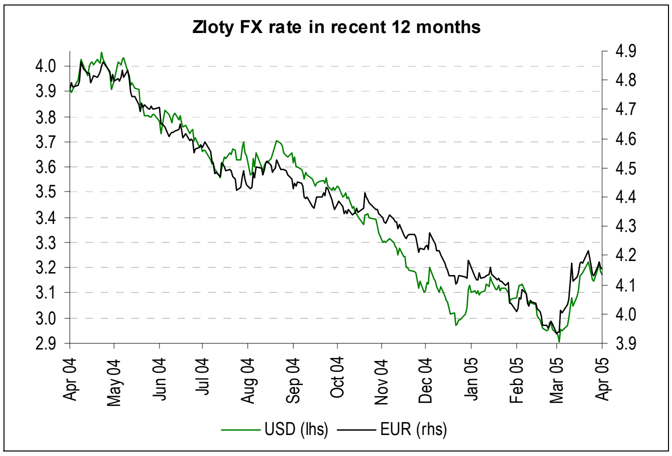
Source: Reuters, BZ WBK

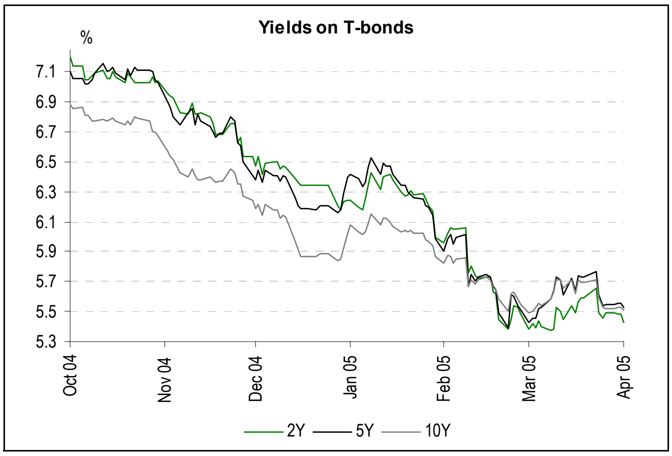
Bonds are afraid of lower growth, not inflation

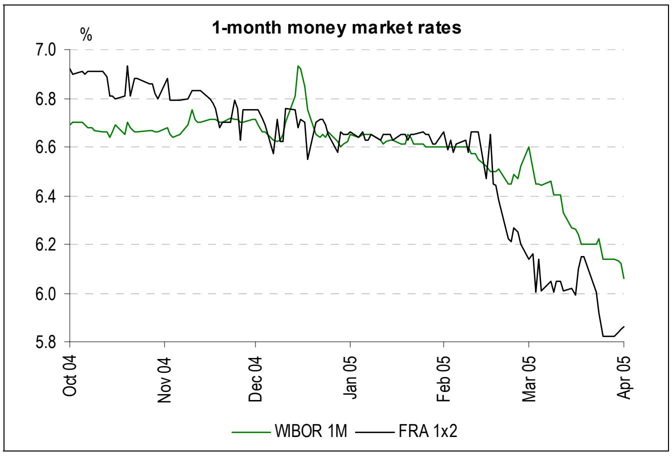
▪ Spread 5/5y between the Polish and euro curve was not subject to major changes and stayed at ca. 90 bp. However spread between 10y bonds in US and Germany widened to 88 from 74 bp. It is justified by record high US external deficit and change in Fed's rhetoric. Bonds themselves however gained within last month to, respectively 4.48% and 3.60%, but they recorded fluctuations triggered by the Fed and US labour market data, which as opposed to EURUSD rate strongly supported papers prices.

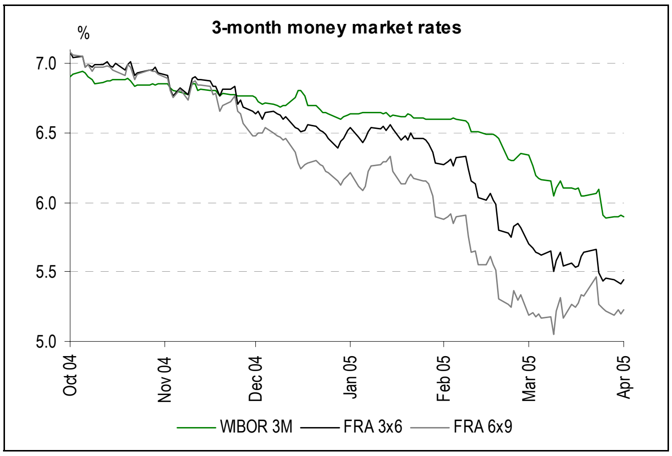
▪ Prices of foreign treasury papers have not such potential as EURUSD rate. US Employment level, by its nature volatile, forces to wait till next data and Fed meeting slated for May 3rd. Tuesday's FOMC Minutes and incoming CPI release will surely recall markets of inflation that may cause a rise of bond yields.

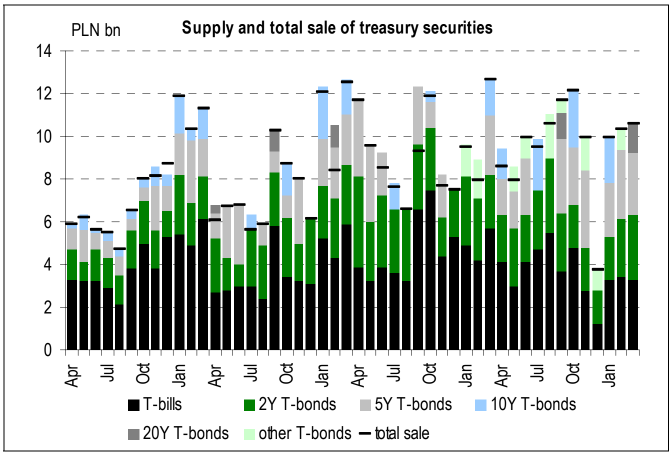
Market monitor











Treasury bill auctions (PLN m)

	OFFER / SALE		
Date of auction	**13-week**	**52-week**	**Total**
07.03.2005	-	800 / 800	800 / 800
14.03.2005	-	800 / 800	800 / 800
21.03.2005	-	800 / 800	800 / 800
24.03.2005	100/100	800 / 800	900 / 900
Total March*	**100/100**	**3 200 / 3 200**	**3 300 / 3 300**
04.04.2005	100/100	1000 / 1000	1 100 / 1 100
11.04.2005	100	800 – 1 000	900 – 1 100
18.04.2005	100	800 – 1 000	900 – 1 100
25.04.2005		800 – 1 100	800 – 1 000
razem April*	**300/100**	**3 400/-4 000/ 1 000**	**3 700-4 300/ 1 100**

* estimations based on Ministry of Finance preliminary information

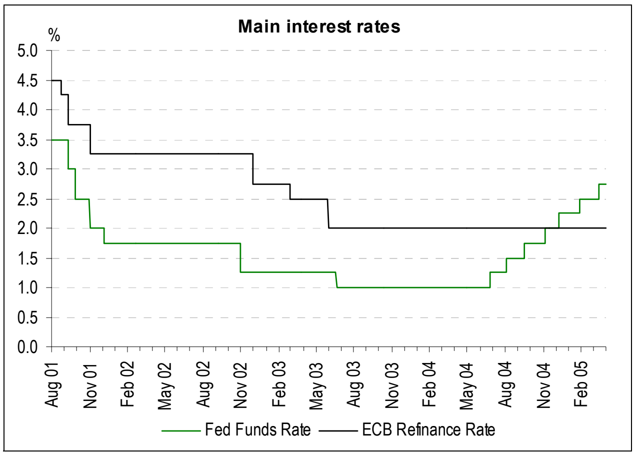
Treasury bond auctions in 2005(PLN m)

month	First auction				Second auction				Third auction			
	date	T-bonds	offer	sale	date	T-bonds	offer	sale	date	T-bonds	offer	sale
January	05.01	OK0407	2 000	2 000	12.01	DS1015	2 600	2 130	19.01	PS0310	2 500	2 500
February	02.02*	OK0407	2 760	2 760	09.02*	IZ0816	960	960	16.02*	PS0310	3 840	3 200
March	02.03*	OK0407	3 000	3 000	09.03	WS0922	1 400	1 400	16.03	PS0310	2 900	2 900
April	06.04	OK0407	3 500	3 500	13.04	DS1015	2 200	-	20.04	PS0310	2 200–3 200	-
May	04.05	2Y	-	-	11.05	12Y CPI	-	-	18.05	5Y	-	-
June	01.06	2Y	-	-	08.06	3&7Y Float	-	-	15.06	5Y	-	-
July	06.07	2Y	-	-	13.07	10Y	-	-	20.07	5Y	-	-
August	03.08	2Y	-	-	10.08	12Y CPI	-	-	-	-	-	-
September	07.09	2Y	-	-	14.09	20Y	-	-	21.09	5Y	-	-
October	05.10	2Y	-	-	12.10	10Y	-	-	19.10	5Y	-	-
November	02.11	2Y	-	-	09.11	12Y CPI	-	-	16.11	5Y	-	-
December	07.12	3&7Y Float	-	-	-	-	-	-	-	-	-	-

* with supplementary auction

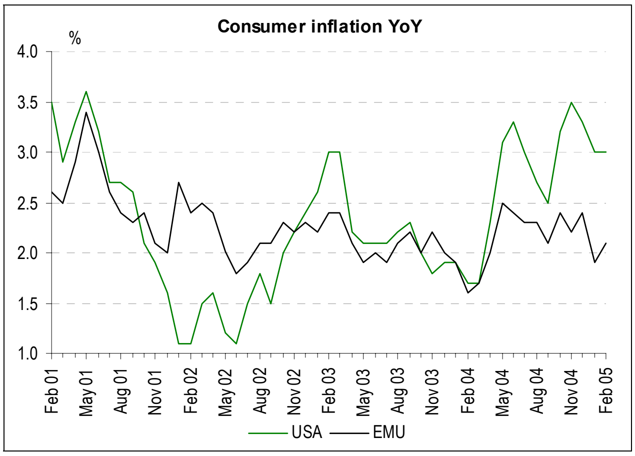
Source: Ministry of Finance, Reuters, BZ WBK

International review



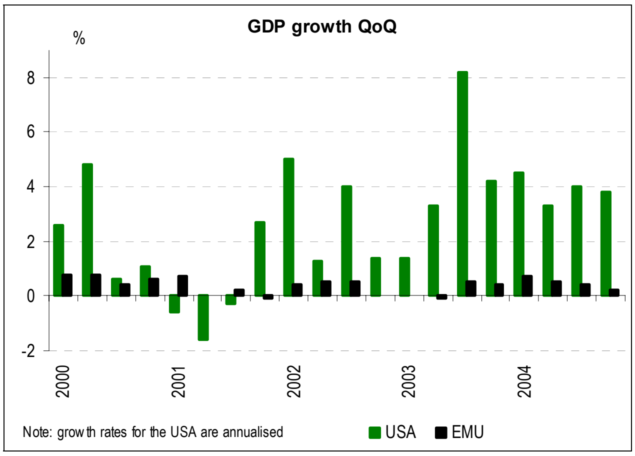
Fed changes rhetoric

- The Fed seventh time in a row hiked interest rates in US to 2.75% at the meeting held on March 22nd. It changed a wording of the official statement, in which it indicated that inflation may accelerate, though it retained a phrase of “measured” of further hikes. At the same time the Fed gave a signal to the markets that one should not expect a pause in the tightening cycle and it increased the likelihood of more aggressive movements. FOMC Minutes release is scheduled for April 12th.
- ECB on its meeting on April 7th left interest rates unchanged at 2%. In the statement it expressed its concerns about fiscal policy I many euro zone countries, but alleviated slightly an overtone on durability of economic expansion and the threat for inflation from money supply growth. ECB emphasized that high oil prices may exert negative influence on economic growth.



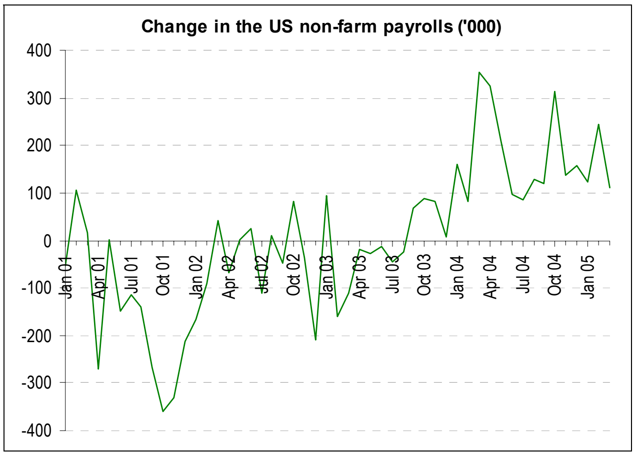
Oil leaves its imprint again

- Consumer prices in euro zone rose by 0.3% in February, what translates into inflation expressed in annual terms at 2.1%, that is upward revision took place from preliminary estimates of 2.0%. Thus HICP reverted to the levels above inflation target following one-off decline to 1.9%. Core inflation in turn fell do 1.4% from 1.6% in the first month of the year.
- Substantial rise in energy prices triggered monthly growth of US CPI to 0.4% in February. Core inflation also speeded up and amounted to 0.3%. But its rise stemmed from one-off factors, so it won’t constitute an alarming signal to the Fed. It was the biggest growth since September, which broke a series of four subsequent monthly rises of 0.2%. However in annual terms prices accelerated by 3.0%, similarly to last month reading. Core inflation in annual terms grew to 2.4% against 2.3% previously.



Commission lowers growth forecasts

- US economy ended last year with fast pace of growth on the back of the biggest growth in companies’ profits for three years. GDP expanded at the pace of 3.8%YoY in 4Q04, exactly the same as was presented in preliminary estimates a month ago. It was a bit lower than 4.0% forecasted by analysts, but it still reflects meaningful growth, only slightly lower than 4.0% in 3Q04.
- European Commission forecasts of economic growth in euro zone to 1.6% this year from 2.0% presented in October 2004. the reasons behind that change in predictions were high oil prices and still strong euro. But, in its opinion, expansion will accelerate in 2006 to 2.1% owing to growing domestic demand and investment amid declining inflation and lower unemployment rate.



Source: Reuters, ECB, Federal Reserve

Labour market falters again

- Index of business confidence IFO fell unexpectedly, though ZEW recorded increase in March the second month in a row, as investment demand lags. Business climate index declined to 94.0 from 95.4 in February. Increase to 95.6 was widely expected. IFO reported in the statement that there is more and more evidence that expansion in the largest European economy may slow.
- US employers in March created only 110,000 new jobs, the lowest number for 8 months. Additionally two previous payrolls numbers were downwardly revised by a total of 27,000 jobs. It was preceded by significant rise in weekly initial jobless claims . Unemployment rate fell to 5.2% from 5.4%. Recent data have a chance to allay concerns about inflation pressure in the economy and they may also fuel concerns about durability of lasting expansion.

What's hot this month

Monday	Tuesday	Wednesday	Thursday	Friday
4 April ***POL: Treasury bills auction*** EMU: PPI (II)	**5** EMU: Retail sales (II)	**6** ***POL: 2y bond auction (OK0407)***	**7** ***POL: Reserve assets (III)*** EMU: ECB meeting - decision GB: BoE meeting - decision EMU: Wholesale inventories (II)	**8** ***POL: Treasury bills auction***
11 ***POL: Treasury bills auction***	**12** USA: International trade (II) USA: Monthly budget statement (III) USA: FOMC Minutes	**13** ***POL: 10y bond auction (DS1015)*** USA: Retail sales (III)	**14** ***POL: CPI (III)*** ***POL: Money supply (III)*** EMU: GDP (4Q) - revision USA: Business inventories (II)	**15** ***POL: Gross wages (III)*** ***POL: Employment (III)*** USA: Import prices (III) USA: Net capital flows (II) USA: Industrial production (III) USA: Capacity utilisation (III) USA: Preliminary Michigan Index (IV)
18 ***POL: Treasury bills auction*** EMU: CPI (III)	**19** ***POL: PPI (III)*** ***POL: Industrial production(III)*** GER: ZEW index (IV) EMU: Industrial production (II) USA: PPI (III)	**20** ***POL: 5y bond auction (PS0310)*** EMU: Trade balance Eurostat (II) USA: CPI (III) USA: Beige book (III)	**21** ***POL: Retail sales (III)*** ***POL: Unemployment (III)*** USA: Leading indicators (III)	**22** ***POL: Core inflation (III)*** ***POL: Business climate (II)*** EMU: ECB balance of payment (II)
25 ***POL: Treasury bills auction*** ***POL: Retail sales (III)*** ***POL: Unemployment (III)*** GER: IFO index (IV)	**26** USA: Consumer confidence (IV)	**27** ***POL: MPC meeting - decision*** EMU: Money supply (III) USA: Durable goods orders (III)	**28** ***POL: Switching auction*** USA: GDP (1Q) USA: PCE (1Q)	**29** ***POL: C/A (II)*** EMU: Business climate (IV)
2 May USA: ISM manufacturing (IV)	**3 Constitution Day** USA: Factory orders (III) USA: FOMC meeting - decision	**4** ***POL: 2y bond auction*** USA: ISM non-manufacturing (IV)	**5** USA: Productivity (1Q)	**6** USA: Payrolls (IV)

Source: CSO, NBP, Finance Ministry, Reuters

MPC meetings and data release calendar for 2005

	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
MPC meeting	25-26	24-25	29-30	26-27	24-25	28-29	26-27	30-31	27-28	25-26	29-30	20-21
GDP*	-	-	11	-	-	9	-	-	8	-	-	9
CPI	17	15[a]	14[b]	14	16	14	14	16	14	14	14	14
Core inflation	25	-	22[b]	22	24	22	22	24	22	24	22	22
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	23	23	25	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	23	23	25	23	21	21	22	21	21	23	21
Foreign trade	about 50 working days after reported period											
Balance of payments*	-	-	31	-	-	30	-	-	-	-	-	-
Balance of payments	31[c]	28	31	29	31	30	12	-	-	-	-	-
Money supply	14	14	14	14	13	14	14	-	-	-	-	-
NBP balance sheet	7	7	7	7	6	7	7	-	-	-	-	-
Business climate indices	21	21	22	22	20	22	22	19	22	21	22	22

* 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

		Mar 04	Apr 04	May 04	Jun 04	Jul 04	Aug 04	Sep 04	Oct 04	Nov 04	Dec 04	Jan 05	Feb 05	Mar 05	Apr 05
Industrial production	%YoY	23.5	21.8	12.2	15.8	6.0	13.7	9.5	3.5	11.4	6.8	4.6	2.1	-0.7	-0.8
Retail sales [c]	%YoY	20.7	30.6	4.0	8.6	10.9	9.6	8.8	4.0	4.4	2.8	7.5	2.4	-7.0	-15.4
Unemployment rate	%	20.4	19.9	19.5	19.4	19.3	19.1	18.9	18.7	18.7	19.1	19.5	19.4	19.2	18.7
Gross wages [b c]	%YoY	7.0	4.6	4.4	4.5	3.6	5.1	3.7	2.4	2.7	3.2	2.6	1.4	1.8	2.4
Employment [b]	%YoY	-1.3	-1.1	-0.9	-0.7	-0.7	-0.8	-0.6	-0.4	-0.3	0.2	1.5	1.6	1.7	1.8
Export [d]	%YoY	26.9	28.5	23.5	35.3	13.5	23.3	17.3	15.1	29.3	21.4	29.4	16.6	9.6	6.9
Import [d]	%YoY	25.6	37.2	16.9	33.6	9.1	21.9	18.9	15.2	23.7	15.7	16.7	18.9	5.9	-3.7
Trade balance [d]	EURm	-578	-987	-248	-192	-486	-314	-345	-265	-255	-501	158	-114	-405	-339
Current account balance [d]	EURm	-552	-562	-627	-336	-734	253	-383	75	176	-163	-72	-264	-350	-129
Current account balance [d]	% GDP	-1.7	-1.8	-1.8	-1.9	-2.1	-1.8	-2.0	-2.1	-1.8	-1.5	-1.5	-1.6	-1.4	-1.2
Budget deficit (cumulative)	PLNbn	-11.8	-11.0	-15.3	-19.9	-23.2	-25.9	-29.0	-30.8	-33.8	-41.5	-1.6	-8.8	-12.6	-14.1
Budget deficit (cumulative)	% realisation	28.4	26.5	36.9	47.9	55.9	62.3	69.8	74.1	81.4	100.0	4.5	25.2	36.0	40.4
CPI	%YoY	1.7	2.2	3.4	4.4	4.6	4.6	4.4	4.5	4.5	4.4	3.7	3.6	3.6	3.2
PPI	%YoY	4.9	7.6	9.6	9.1	8.6	8.5	7.9	7.6	6.7	5.2	4.5	3.4	2.0	0.2
Broad money (M3)*	%YoY	5.7	8.5	6.4	7.2	6.8	7.4	6.5	10.5	6.4	8.7	9.3	9.4	9.4	8.3
Deposits*	%YoY	4.8	8.4	6.2	6.9	6.4	7.6	6.6	11.5	6.5	8.1	8.4	8.7	8.7	7.7
Credits*	%YoY	6.1	8.5	6.1	5.7	4.6	5.2	4.2	9.5	4.0	2.9	3.1	2.1	3.0	2.6
USD/PLN	PLN	3.89	3.97	3.93	3.78	3.64	3.64	3.58	3.46	3.28	3.09	3.11	3.06	3.04	3.14
EUR/PLN	PLN	4.77	4.76	4.72	4.59	4.47	4.43	4.37	4.32	4.26	4.14	4.08	3.99	4.02	4.08
Reference rate [a]	%	5.25	5.25	5.25	5.25	6.00	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.00	5.75
WIBOR 3M	%	5.49	5.69	5.99	5.91	6.34	6.58	7.12	6.89	6.81	6.72	6.63	6.54	6.15	5.80
Lombard rate [a]	%	6.75	6.75	6.75	6.75	7.50	8.00	8.00	8.00	8.00	8.00	8.00	8.00	7.50	7.25
Yield on 52-week T-bills	%	5.87	6.20	6.65	6.79	7.15	7.24	7.38	7.00	6.81	6.44	6.28	5.95	5.51	5.40
Yield on 2-year T-bonds	%	6.34	6.83	7.41	7.44	7.80	7.66	7.51	7.04	6.81	6.39	6.24	5.82	5.43	5.40
Yield on 5-year T-bonds	%	6.60	7.13	7.57	7.50	7.79	7.65	7.33	7.03	6.78	6.29	6.31	5.80	5.56	5.50
Yield on 10-year T-bonds	%	6.65	7.02	7.32	7.27	7.44	7.36	6.96	6.75	6.43	6.02	5.98	5.72	5.57	5.50

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

* Since January 2005 the NBP changed methodology of monetary statistics (definition of Monetary Financial Institutions has been extended with cooperative savings and credit unions (SKOK)). As the NBP showed estimates of monetary aggregates in comparable terms only for last several months, forecasting the data for 2005 is burdened with large risk.

Quarterly and annual economic indicators

		2002	2003	2004	2005	1Q04	2Q04	3Q04	4Q04	1Q05	2Q05	3Q05	4Q05
GDP	PLNbn	781.1	814.7	883.7	943.3	203.8	216.1	218.8	245.0	218.6	229.8	233.0	261.5
GDP	%YoY	1.4	3.8	5.3	4.4	6.9	6.1	4.8	3.9	3.5	3.8	4.9	5.2
Domestic demand	%YoY	0.9	2.5	4.5	4.4	5.5	5.1	4.6	2.9	3.2	4.0	4.9	5.2
Total consumption	%YoY	2.8	2.5	2.8	2.9	3.3	3.5	2.9	1.5	2.2	2.8	3.3	3.5
- Private consumption	%YoY	3.3	3.1	3.2	3.5	3.9	3.8	3.5	1.8	2.5	3.3	3.9	4.1
Fixed investments	%YoY	-5.8	-0.9	5.1	10.8	3.5	3.6	4.1	7.2	11.0	11.0	12.0	10.0
Industrial production	%YoY	1.1	8.4	12.3	5.6	19.0	16.4	9.2	6.2	2.0	4.9	7.6	8.0
Retail sales (real terms)	%YoY	1.9	3.6	7.1	0.9	13.6	11.3	4.0	1.1	-3.1	-3.9	4.3	6.3
Unemployment rate [a]	%	20.0	20.0	19.1	17.7	20.4	19.4	18.9	19.1	19.2	18.1	17.6	17.7
Gross wages (real terms)	%YoY	1.5	2.0	0.8	1.4	3.8	1.6	-0.5	-1.5	-1.6	0.8	3.0	3.6
Export [b]	%YoY	6.0	9.1	21.9	11.0	19.3	29.1	17.6	21.8	17.6	11.0	10.0	10.0
Import [b]	%YoY	3.5	3.3	19.1	13.0	12.6	29.3	16.3	18.2	13.0	10.0	12.0	12.0
Trade balance [b]	EURm	-7 701	-5 077	-4 510	-4 881	-909	-1 438	-1 148	-1 015	-361	-1 413	-1 616	-1 491
Current account balance [b]	EURm	-5 404	-4 109	-2 959	-3 173	-654	-1 530	-868	93	-686	-989	-1 212	-1 118
Current account balance [b]	% GDP	-2.7	-2.2	-1.5	-1.3	-1.7	-1.9	-2.0	-1.5	-1.4	-1.1	-1.2	-1.7
Budget deficit (cumulative) [a]	PLNbn	-39.4	-37.0	-41.5	-35.0	-11.8	-19.9	-29.0	-41.5	14.0	22.8	29.8	35.0
Budget deficit (cumulative) [a]	% GDP	-5.0	-4.5	-4.7	-3.7	-5.8	-3.7	-4.1	-5.1	6.4	3.8	3.0	2.0
CPI	%YoY	1.9	0.8	3.5	2.2	1.6	3.3	4.5	4.4	3.7	2.4	1.5	1.4
CPI [a]	%YoY	0.8	1.7	4.4	1.5	1.7	4.4	4.4	4.4	3.6	1.6	1.5	1.5
PPI	%YoY	1.0	2.6	7.0	1.0	4.4	8.8	8.3	6.5	3.3	-0.3	-0.1	1.2
Broad money (M3) [a]	%YoY	-2.0	5.6	8.7	-	5.7	7.2	6.5	8.7	-	-	-	-
Deposits [a]	%YoY	-4.1	3.7	8.1	-	4.8	6.9	6.6	8.1	-	-	-	-
Credits [a]	%YoY	5.2	8.1	2.9	-	6.1	5.7	4.2	2.9	-	-	-	-
USD/PLN	PLN	4.08	3.89	3.65	3.01	3.82	3.89	3.62	3.27	3.07	3.06	2.95	2.95
EUR/PLN	PLN	3.85	4.40	4.53	3.98	4.78	4.69	4.43	4.24	4.03	4.04	3.95	3.93
Reference rate [a]	%	6.75	5.25	6.50	5.50	5.25	5.25	6.50	6.50	6.00	5.50	5.50	5.50
WIBOR 3M	%	9.09	5.69	6.21	5.80	5.47	5.87	6.68	6.81	6.44	5.63	5.55	5.58
Lombard rate [a]	%	8.75	6.75	8.00	7.00	6.75	6.75	8.00	8.00	7.50	7.00	7.00	7.00
Yield on 52-week T-bills	%	8.18	5.33	6.50	5.50	5.75	6.24	7.26	6.75	5.91	5.40	5.40	5.30
Yield on 2-year T-bonds	%	7.94	5.38	6.89	5.43	6.28	6.86	7.66	6.75	5.83	5.30	5.30	5.30
Yield on 5-year T-bonds	%	7.86	5.61	7.02	5.55	6.67	7.10	7.59	6.70	5.89	5.40	5.50	5.40
Yield on 10-year T-bonds	%	7.34	5.77	6.84	5.59	6.70	7.00	7.25	6.40	5.76	5.50	5.60	5.50

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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