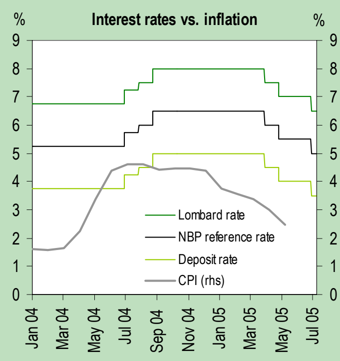
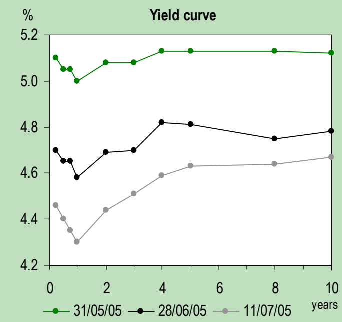
Bank Zachodni WBK

MACROscope

Polish Economy and Financial Markets

July 2005





Quick change

- **Last month, we wrote here that although disappointing performance of the economy in 1Q05 may incline the Monetary Policy Council to cut the interest rates as early as June, central bankers will not be so bold as to slice them more than by 25 basis points not knowing whether this slowdown is of transient or longer-term nature. But still!** Low GDP growth in 1Q05 (and worse than expected industrial output) drove the Council into an aggressive decision. The interest rate cut by 50 bp was accompanied by a changing monetary policy bias to easing, after a period of neutral approach that lasted for merely two months. At first glance adoption of easing bias in monetary policy implies that subsequent interest rate cuts are necessary and bound to occur, but still it seems that the Council simply wanted to be very precise in terms of the balance of risks for the future inflation; the likelihood of interest cuts is higher than hikes, however it does not mean that such reductions must be immediate and deep. However, the market reaction was obvious with market interest rates in record lows (see the chart).

- **In our opinion, medium-term economy outlook is not as gloomy as suggested by the recent indicators.** We are still expecting that GDP growth will gather up more speed in the second half of the year, but it is not sure whether a majority of the Council members would subscribe to that point of view. Especially that the members have already demonstrated differing views when it came to interpreting GDP figures for the first quarter of 2005, which implies that the June decision (relating to interest rates and/or monetary policy bias) trend might not have been unanimous.

- **A more consistent view across the MPC and further changes in its policy will be shaped by messages that the Polish economy will send.** According to the Council's statement, 'the data to be released in the coming months should allow a better assessment of the scale of the expected improvement in economic activity and, in consequence, should determine the scale and period of the adjustment in monetary policy'. In our opinion this refers more to data related to the real sphere of the economy than to inflation as the latter is doomed to drop significantly. Capital expenditure figures to be released in August will be of key importance, likewise the NBP's updated inflation and GDP forecast which will probably indicate more promising trends from the inflation point of view. The Council may then postpone its next decision until the new information is available. Nevertheless, following the June decision we are expecting the next cut by 50 bp to occur within the next two months. Obviously, in this scenario the financial market recognises a cut in the interest rates as early as July and the next one at the turn of August and September. Further developments will depend on the election results in September, but an aggregated reduction of the interest rates by 100 basis points is possible within the next 12 months. Unless, the central bank will again change its view on the economic outlook in relation to data suggesting acceleration and will adopt a neutral stance.

Financial market on 30 June 2005:

NBP deposit rate	3,50	WIBOR 3M	4,90	USDPLN	3,3461
NBP reference rate	5,00	Yield on 52-week T-bills	4,45	EURPLN	4,0401
NBP lombard rate	6,50	Yield on 5-year T-bonds	4,65	EURUSD	1,2074

This report is based on information available until 11.07.2005

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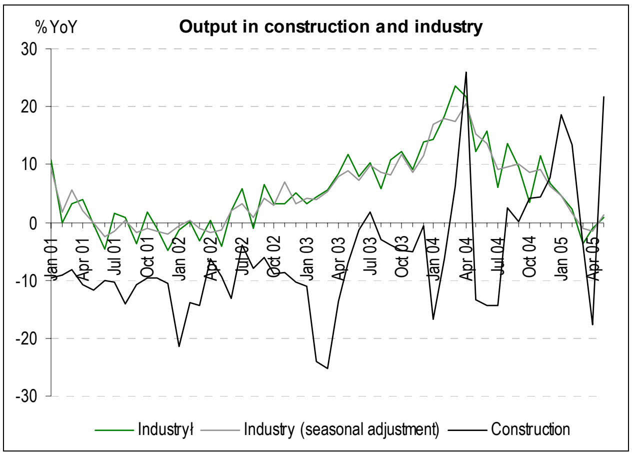
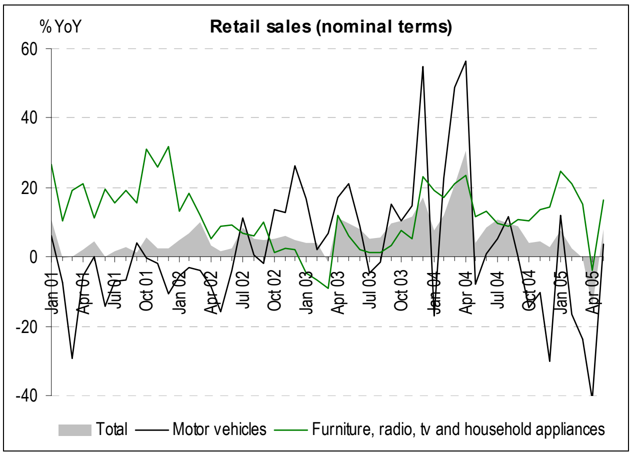
Economic update



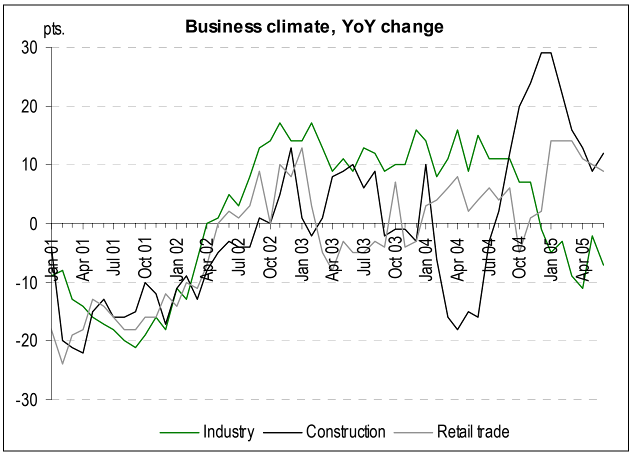
Weak growth in industry, surge in construction

- Industrial output rose 0.9%YoY in May, after 1.1%YoY drop in April. The result was weaker than market consensus forecast, showing ca. 3%YoY growth and our prediction 1.7%YoY.
- Production rose in 14 out of 29 branches of industry. Deep fall took place in manufacturing of motor vehicles (-11.2%YoY), which has been growing steadily up to now (7.7%YoY in April).
- The uncertainty still remains with respect to pace of investment growth in the remainder of the year. The CSO data about sector breakdown of industrial output in May showed a fall in production of investment goods by 1%YoY.
- Much better were results in construction, where output grew 21.8%YoY. To some extent, it was boosted by low base effect, but the data suggest that rise in investment is not that low as it seems.



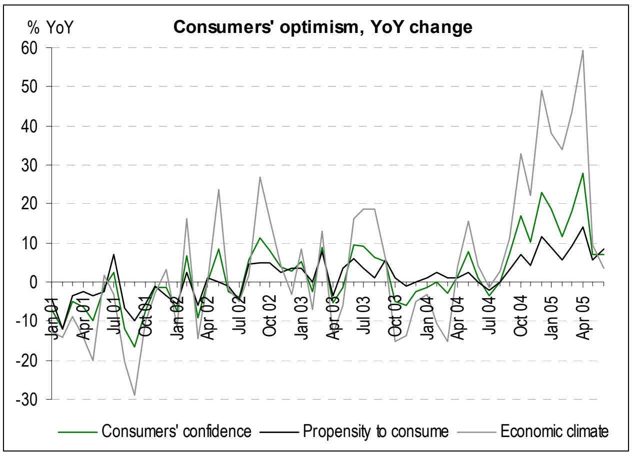
Robust growth in retail sales

- Retail sales rose in May by 8%YoY in nominal terms, while its real growth reached 5.5%YoY, and was the highest since July 2004. The result was better than market consensus, showing 7.5%YoY rise.
- The weakest was sale of motor vehicles (+3.8%YoY). Sales of durable goods other than cars was continuing fast rise – e.g. sales of furniture and household appliances surged 16.3%YoY – which confirmed that that consumption demand is quite strong, as it does not concentrate only on necessities.
- The data confirmed hopes for improvement in consumption growth in the second half of this year (2Q05 is likely to be quite weak again, biased heavily by very weak April's results), which will fuel GDP rise in the corresponding period.



Business climate not that bad

- According to CSO's survey, June saw similar trends in entrepreneurs' moods like several previous months. Assessment of business climate in industry was optimistic, yet weaker than one year before. Index in construction was positive and much higher than last year. In retail trade negative moods still prevailed, however balance of opinions had been improving quickly (almost 9 pts rise since June 2004).
- Less unanimous were signals about economic perspectives from the business climate survey made by IRG SGH. June's results showed improvement in business climate in private companies and deteriorating moods in public sector in relation to previous month. Nevertheless, both groups reported worse climate than in the corresponding period of last year.

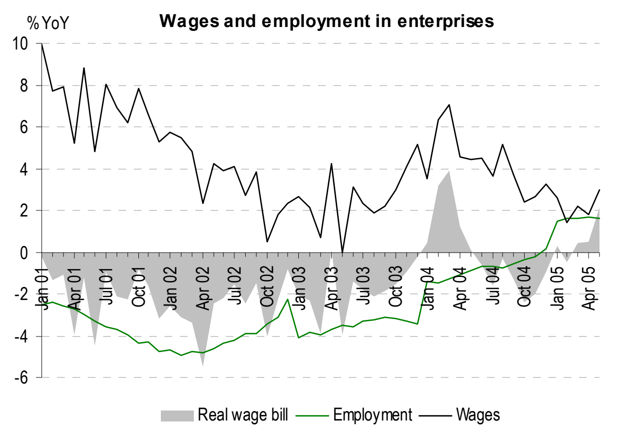


Source: CSO, Ipsos, own calculations

Consumers' optimism slightly down

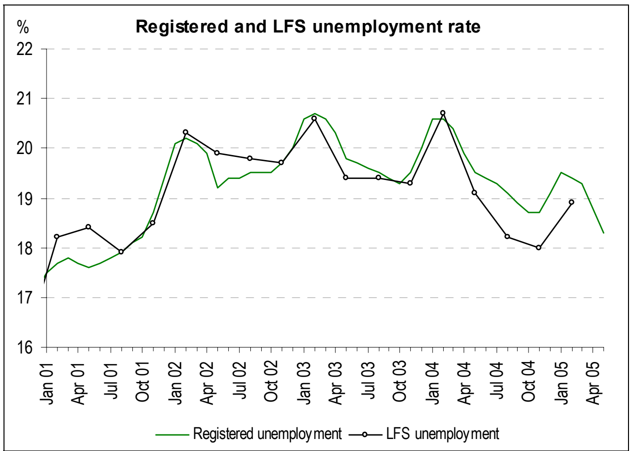
- Consumers' sentiment slightly deteriorated in June as compared to May. Index of overall consumers' optimism reached 87.9pts, down 1pt from May, propensity to consume was at 95.3 pts, up 1pt on the month, and assessment of economic climate declined by 4pts to 76.7pts.
- In annual terms, the pace of improvement in consumers' moods did not change much from the previous month.
- According to authors of the survey, there was no change in the level of households' fear of unemployment while inflation expectations mildly increased.
- Although improvement in consumers' sentiment clearly slowed down in the recent two months, it is optimistic that moods are still warming up after a long period of sharp increases.

Economic update



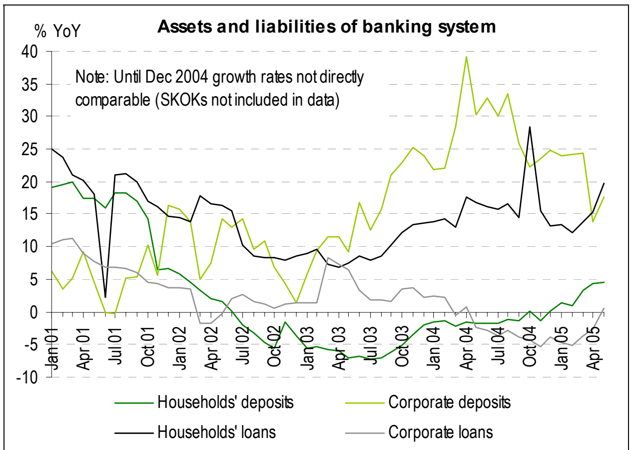
Wages and employment picking up

- Average wage in enterprise sector rose in May by 3%YoY, above market consensus. It was the highest growth this year. Real wage increased 1.5%YoY, the fastest in over a year, and will be accelerating further e.g. amid falling inflation.
- Growth in employment was slightly weaker than in April and amounted to 1.6%YoY. Subsequent months should be better.
- Wage bill in corporate sector increased by 4.6%YoY in nominal terms and by 2.1% in real terms – the fastest since Q1 2004. This confirms our forecasts of gradual improvement in households' disposable incomes in 2H05.
- Improving income of consumers and diminishing fears of unemployment will be supportive for private consumption rise in the second half of this year. Especially, amid declining level of interest rates in the economy.



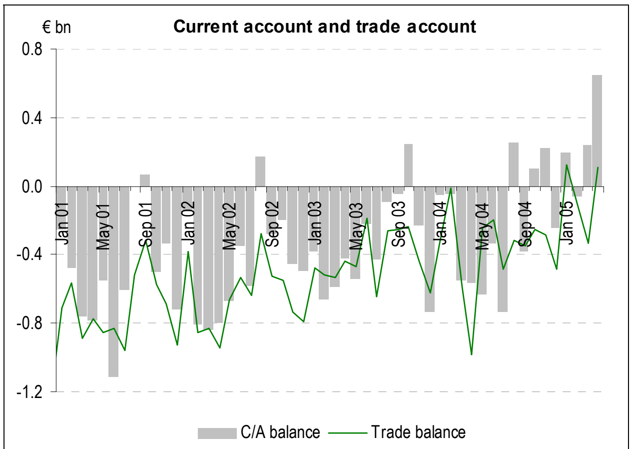
Drop in unemployment gains momentum

- Registered unemployment rate fell in May to 18.3% from 18.8%. In comparison with May 2004, it dropped by 1.2 pct. point, which was the fastest annual rate of decline for about 7 years.
- The number of registered unemployed fell below 2,9 million for the first time since August 2001, and was over 7% lower than last year.
- LFS survey for 1Q05 also showed improvement in situation – fall in unemployment rate by almost 2 pp, lower number of unemployed by 310,000 people (8.8%YoY), higher number of people in a job by 302,000 (2.2%YoY).
- According to the Ministry of Economy and Labour, in June labour offices recorded significant pickup in growth of new job offers.



Money supply affected by large IPO again

- Broad money M3 rose 13%YoY in May against 10%YoY rise in April. This acceleration was caused mainly by heavy short-term borrowing connected with IPO of Lotos refinery.
- Households' deposits rose 4.5%YoY (the highest growth since February 2002) and corporate deposits jumped by 17.7%YoY.
- Total loans increased 8.9%YoY after 4.8%YoY rise in April. This resulted from considerable acceleration in growth of households' borrowing to 19.7%YoY from 15.2% a month earlier – a consequence of loans for purchases of Lotos shares. After many months of annual decline, loans for firms rose 0.5%YoY in May. While this does not allow to herald credit boom in corporate sector, such development gives hope that revival in investment activity has not ceased like was suggested by GDP data for the 1Q05 showing sharp deceleration in investment growth.

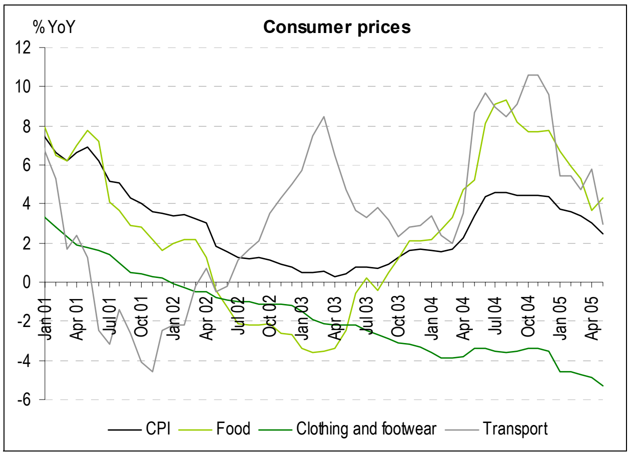


Source: CSO, NBP, own calculations

Current account in surplus again

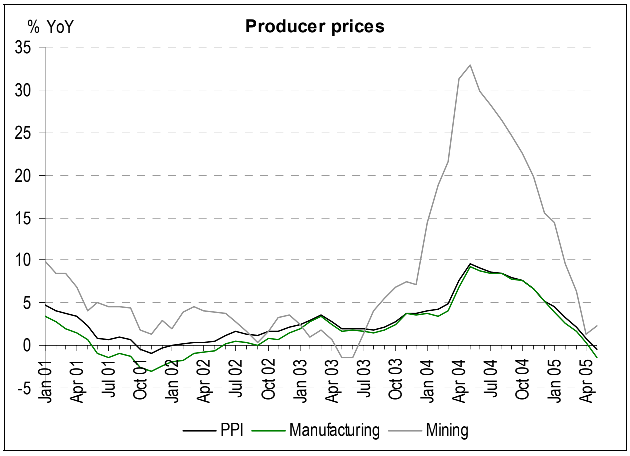
- In April, current account balance was in surplus, exceeding €0.5bn, while trade deficit reached merely €7m.
- Apart from very low trade deficit, improvement in current account balance resulted also from high net transfers.
- Growth rates of both export and import saw strong slowdown in April (in the case of import, it fell below zero), which resulted from very high base effect. We predict that in subsequent months growth of import and export will be higher, confirming high level of economic activity.
- Almost balanced trade account in April suggested that in the second quarter of 2005 contribution of net export to GDP growth should be significantly positive again.

Economic update



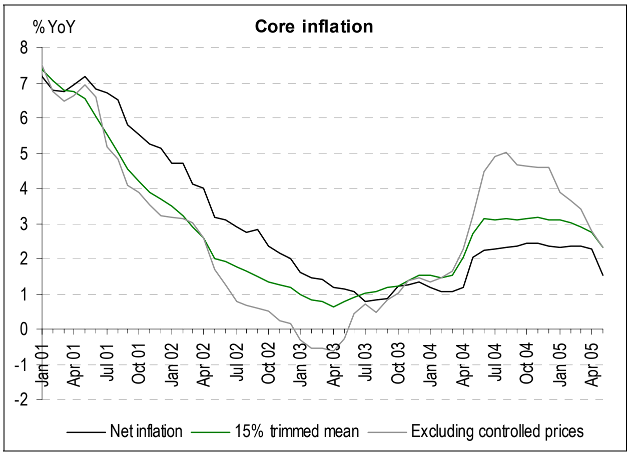
CPI growth hit inflation target in May

- Growth in consumer prices in May matched the MPC's inflation target, reaching 2.5%YoY.
- Inflation was slightly higher than market consensus, mostly because food prices rose faster than forecasted. Their increase reached 0.9%MoM and 4.3%YoY. Annual pace of price growth in other CPI components was broadly unchanged in comparison with previous months, with the exception of fuel prices (0.8%MoM and 6.8%YoY) tobacco prices (0.6%MoM and 2.6%YoY).
- In June, inflation rate will drop again, largely due to very high base effect in food prices (which had surged just after EU entry). Even significant rise in fuel prices will not stop inflation from falling this time. We predict that CPI growth will reach 1.6%YoY, while the MinFin foresees drop to 1.3% amid very low food prices.



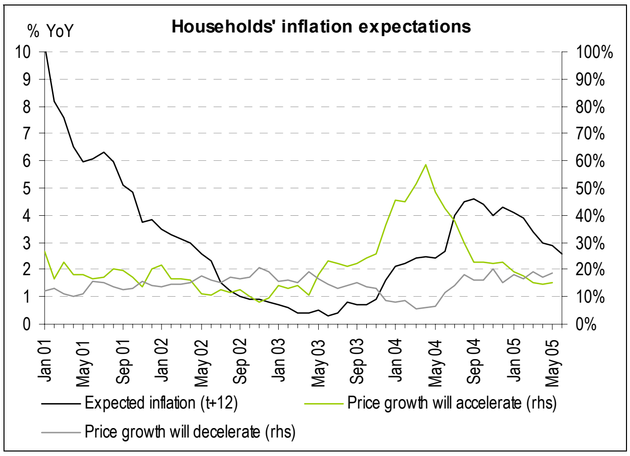
... while PPI fell below zero

- Producer prices in May fell 0.5%YoY after 0.9%YoY increase in April. PPI growth fell below zero for the first time since December 2001.
- Of course, one has to remember that we are far from deflation in producer prices (defined as persistent decline in price level), as their annual fall is transitory and results from high base effect.
- Developments in producer prices growth observed in last couple of months confirmed very positive inflation perspectives for the near future.
- According to our forecasts, annual PPI growth will remain close to zero at least until August, and then should start picking up steadily, up to ca. 2%YoY at the end of the year.



Core inflation below inflation target

- In line with expectations, all measures of core inflation declined in May, following headline CPI. The drop was substantial and ranged between 0.4 and 1.1 pct. points.
- Consequently, all measures of core inflation dropped below the MPC's inflation target of 2.5%. The lowest was net inflation that reached 1.5%YoY against 2.3% in April.
- A source of this downturn was mainly a disappearance of impact of one-off shift in prices after EU entry on annual growth rates of relevant indices. One should note, however, that drop in core inflation in May 2005 was significantly weaker than a corresponding rise recorded in May 2004, and that all core measures in May were above their levels from the period just before EU accession shock had appeared.

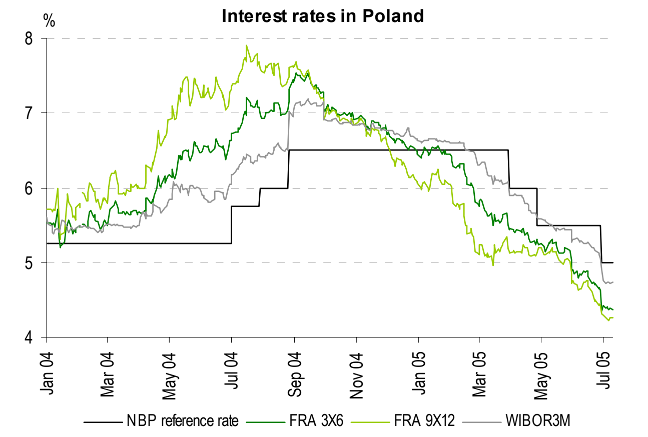


Source: CSO, NBP, own calculations

Households' inflation expectations going down

- For a couple of months, households' inflation expectations have been in steady downward trend. In June, inflation expected in next 12 months horizon declined to 2.6%, the lowest level for at least a year.
- The decline in expectation index results not so much from improvement in structure of answers in monthly polls (which got better only slightly in recent months), but most of all from rapid reduction in currently observed inflation rate, which is used for quantification of opinion poll.
- One way or another, data about inflation expectations confirm positive picture of inflation perspectives, showing no significant threat of sudden price pressure from the households' side.

Central bank watch



Crucial fragments of the MPC statement from 29 June 2005

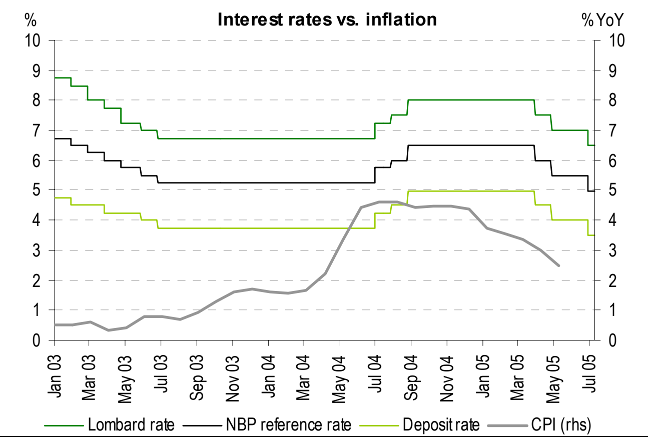
Economic forecasts which have appeared since the last MPC meeting signal a lowering of expected economic growth in the euro area in 2005 and 2006. Most of these forecasts point to a lower than previously expected inflation in the euro area. Oil price increases observed since the Council's last meeting increased the likelihood that high oil prices will persist longer than previously expected.

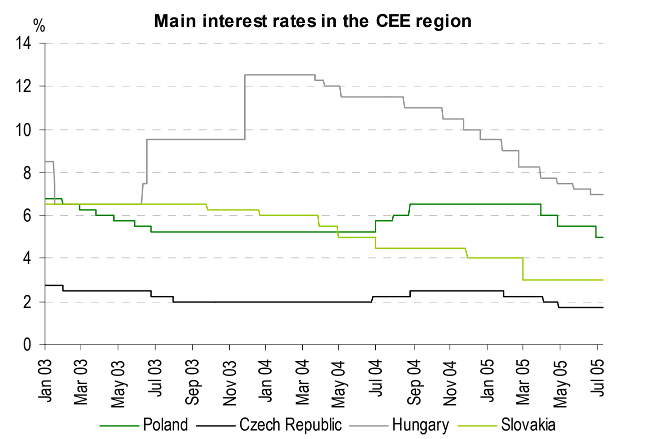
In view of the available GUS data GDP growth in 2005 Q2 has probably not accelerated significantly.

Economic data received since the publication of the May Inflation Report suggest that economic growth in 2005 may be significantly lower than expected. The reported slowdown in economic growth is likely to be temporary. Yet, at present it is difficult to assess how long the period of lower growth will last. The data to be released in the coming months should allow a better assessment of the scale of the expected improvement in economic activity and, in consequence, should determine the scale and period of the adjustment in monetary policy.

This decline in inflation was in line with expectations and it may be expected that inflation in the coming months will fall below the inflation target of 2.5%.

The MPC decision to lower the interest rates was based on the assessment that the balance of risks for future inflation has changed in the direction of lower inflation.





Source: GUS, NBP, Reuters

Record low interest rates

▪ The MPC cut interest rates by as much as 50 bp (reference rate to 5.0% - the lowest level in history), but what is more it changed monetary policy approach from neutral to easing.

▪ The Council surprised the markets again - yields fell sharply across the curve and the zloty strengthened. Well, most of changes in monetary policy parameters during the last couple of quarters brought additional volatility to the market.

▪ It seems that a substantial fall in market rates to record-low levels, was in Council's view not a sufficient impulse for the economy given recent economic data.

▪ It is worth to remind that just a month ago the MPC sent the signal to the market that medium-term outlook for GDP and CPI (as well political uncertainty) justified neutral bias in monetary policy (equal probability of cutting and hiking rates).

… mainly as a result of low GDP growth in 1Q05

▪ The MPC statement and the press conference (see next page for MPC members quotes) showed that behind decision there was practically one economic data – low GDP growth for Q1 2005, especially a mere 1%YoY growth in investment.

▪ First of all, it changed assessment as regards current economic environment, which justified rate cut by 50 bps. Second, it created a risk for medium-term economic predictions, which backed introduction of easing bias.

▪ While at the first glance the adoption of easing bias suggest that further rate cuts are necessary and certain, it seems the MPC simply wanted to be very precise about the balance of risks for future inflation – probability of rate cut is higher that probability of rate hike, but it does not mean that cuts will be very significant and immediate.

Further cuts will depend on forthcoming data

▪ As the MPC wrote in the statement, future moves in monetary policy will depend on forthcoming economic data.

▪ In our opinion, this concerns more data from the real sphere of the economy than data on inflation.

▪ Given our forecasts of industrial production, retail sales and labour market data, we think it is possible the Council will keep rates on hold in July, especially as crucial data on investments (in big enterprises for H1) will be released only in August.

▪ Also, the new inflation and GDP projection of the central bank will be published in August, which will probably show more favourable outlook for inflation and the Council may wait for these new pieces of information with the next decision.

Will MPC change view once again this year?

▪ Given above-mentioned comments, after June's decision it seems clear that additional 50 bps may be delivered within the next two months.

▪ In such case financial market is very likely to price-in rate cut already in July and then another in August-September, which is well visible in current market situation.

▪ Further steps will depend on the outcome of election scheduled for end-September, but one cannot exclude a possibility of 100 bp cumulative rate cut within next 12 months.

▪ Also, one should remember that the central bank used to change its view on economic prospects quite frequently and therefore, we cannot exclude a possibility that after another rate cut(s) in H2 2005 the MPC will adopt neutral bias again when the data confirm relatively positive picture of the economy.

Central bank watch

Comments of the central bank representatives	Remarks
Leszek Balcerowicz, NBP governor, MPC chairman MPC press conference, 29 June There is no reason to claim that low GDP growth slowed for good. There is no reason to change estimates of potential GDP. Investments are not likely to subside. [Question concerning doubts as regards GDP data for 1Q05] There is always an uncertainty, especially with structural changes, and the EU entry can be treated as such. Different MPC members treated GDP data in a different way. There was no answer to the questions which were raised. I would like to stress, and this is the opinion of the whole Council, that easing bias does not mean automatic rate cuts. The situation is changing - the picture of the future today may be different from the picture of the future in one month time. (…) Balance of risks may change between MPC meetings because of high uncertainty. [Question: is MPC decision not too late?] Decision is based on new information. We need time to assess the decision. [Question concerning deputy NBP governor on deflation] This was not official projection of the central bank.	If we rely on the official statement and comments during the press conference one can conclude that the medium-term scenario did not change much. we agree that medium-term economic prospects are not as negative as it could have been suggested by the recent data. We expect GDP growth to accelerate in H2, but it is not certain whether such view is shared by the majority of the Council. The president mentioned that there was a difference of opinions among the MPC members as regards the interpretation of Q1 GDP data, which suggested that June's decision (as regards rates or/and bias change) was not unanimous. Actually, we think that it is well possible that the president was outvoted again (similarly to February's voting when the Council introduced easing bias for the first time). As the NBP president said during the press conference, the situation is changing each month. This is particularly true if we take into account that the central bank used to change its view on economic prospects quite frequently (easing bias in February, neutral bias in April, easing bias in June). Also, the Council is internally divided and it is enough that one of ten members changes his view to change the view of the whole Council (which already happened in the past).
Krzysztof Rybiński, deputy NBP governor Reuters, 24 June If the (economic) slowdown proves to be more permanent, I cannot rule out that inflation in 2006 will be very low. In an extreme situation there might be deflation. An optimal solution from the macroeconomic point of view is Poland's entry into the ERM-2 mechanism in April 2006 and adopting the euro in January 2009. If we assume that the government adopts the convergence programme in current shape, then the change connected with the Eurostat's decision (on Polish pension funds) will bring general government deficit at the level above 4% in 2007.	The statement of NBP deputy governor on deflation significantly influenced financial markets. It was a surprising as a month before Rybiński presented very optimistic GDP projections for 2006-07. did central bank's forecast changed drastically during just one month? Well, it is difficult to understand the official view of the central bank , as during the press conference after MPC meeting, NBP president distanced from the view expressed by Rybiński. It seems that deputy NBP president does not have confidence that optimal scenario may materialise, as he sees fiscal deficit rather above 3% of GDP target in 2007. He mentioned also that excessive zloty appreciation is one of the most important risks for the Polish economy.
Dariusz Filar, MPC member Reuters, 5 July I think there is chance that GDP growth significantly exceeds 3% this year. This is still possible, and the second half of the year will be crucial, because the second quarter did not change the (gloomy) picture of the economy. We are nearing elections which increase uncertainty on the financial markets and this forces us to act with restraint, especially in the months of August and September. The period of higher uncertainty on financial markets is not conducive to making monetary policy decisions.	Filar shared quite optimistic view on this year's GDP growth, expressed by Halina Wasilewska-Trenkner. Let's remind that according to the official statement economic growth in 2005 may be significantly lower than expected, while around 4% was expected. So, is the central bank's forecast of GDP growth in 2005 3.5% (implying some 4.5% in H2) or maybe Filar is simply more optimistic as compared to average view within the Council? In our opinion, majority of the Council may also not share Filar's opinion tat the MPC should keep rates on hold before elections amid higher uncertainty on financial markets. Although, there is no doubt that besides watching data from the real economy, the MPC will closely analyse movements on the FX market.
Stanisław Owsiak, MPC member PAP, 30 June There are different views on this subject in the MPC, however most of us agrees that the bias should be used to signal the Council's intentions. It does not mean that easing bias today heralds next rate cuts with 100%. Possibly, monetary policy bias in not needed, but we will have to discuss it. But now, once we have it in 2005 policy guidelines as a policy instrument, we should make use of it.	It seems that during June's meeting the MPC discussed MPC member Stanisław Owsiak said yesterday that majority of M not only rates and bias change, but also reasonableness of using monetary policy bias. Owsiak suggested that the bias in monetary policy is not a necessary instrument and the MPC could consider removing it completely in future. Owsiak also confirmed our interpretation of MPC's decision saying that introduction of easing bias was not a declaration that there will be more rate cuts coming up with 100% certainty, as the next moves will depend on the upcoming economic data.
Halina Wasilewska-Trenkner, MPC member MPC press conference, 29 June Crucial will be data about investment in August. There are funds available that could be used for investment. Information about data for 1Q05 in comparison with forecasts have impact on future developments. One has to ensure the best possible environment for future development. Radio PiN, 1 July We are not threatened with inflation in future, not only now but also in 2006, and even in 2007 [...] It implies that the Council has more freedom for manoeuvre with interest rates. Therefore, we said we are entering a period when one has to bear into account higher probability of change in interest rates downwards, rather than up.	Halina Wasilewska-Trenkner gave a number of interviews after last MPC decision. She believes that perspectives of realisation of inflation target in the horizon of monetary policy transmission are not endangered. In such situation, for the MPC will not be important precise level of inflation in the nearest months, but rather situation in real economy, affecting medium-term inflation perspectives. She presented forecast of GDP growth by more than 3.5% this year, which is quite close to our predictions, and requires significant acceleration in GDP growth in the second half of the year – to ca. 4% in Q3 and ca. 5% in Q4. It is quite optimistic assumption, especially if we take into account completely different view presented by another MPC member Mirosław Pietrewicz, who said recently that economic growth in 2H05 will not accelerate and will reach 2.0-2.5%. In our opinion, scenario outlined by Wasilewska-Trenkner does not necessarily call for further relaxation in monetary policy at large scale.

Government and politics

Main budgetary parameters

	2005 E	2006 P
Revenues (PLNbn)	176.25	184-189
Expenditures (PLNbn)	209.7	216-222
Budget deficit (PLNbn)	33.45	28-34*
Budget deficit (% of GDP)	3.4	2.8-3.4

Note: P – planned, F – forecast; * according to *Rzeczpospolita* daily from 9-10 July finance minister Mirosław Gronicki narrowed the range of planned budget deficit for 2006 to PLN29-33bn from PLN28-34bn

Budget deficit rather above PLN30bn

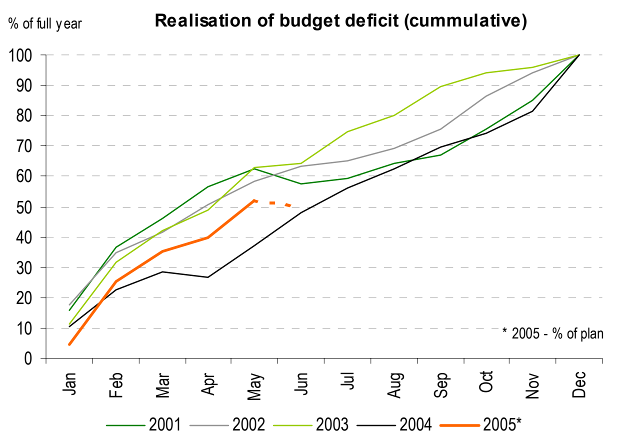
- In mid-June the government approved assumptions to the next year's budget, prepared by the Ministry of Finance.
- Planned level of budget revenues, spending and deficit were presented in the form of ranges rather than point targets. What is important, the range for the planned deficit is asymmetric in relation to the earlier declarations of finance minister who pledged the deficit of no more than PLN30bn next year.
- This is not explained by necessity of indexation in spending for pensions, as the finance minister said before it had been taken into account when he had declared target of PLN30bn.
- Budget spending may rise by 6% in nominal terms, which with only 1.5% inflation, implies high growth in real terms. It is hard to perceive it as positive news for the market, though of course the budget may be changed after election.

Main macroeconomic indicators

	2005 E	2006 P
GDP (% YoY)	3.7	4.0
Domestic demand (% YoY)	3.1	4.6
Investments (% YoY)	7.0	10.0
Unemployment rate (%, year-end)	18.0	17.0
Inflation (%, annual average)	2.1	1.5
Inflation PPI (%, annual average)	0.9	1.7
EURPLN	4.16	4.07
USDPLN	3.20	3.16
EURUSD	1.30	1.29

Macroeconomic assumption rather on the safe side

- Macroeconomic assumptions underlying the budget targets are very similar to preliminary figures presented in May.
- The Ministry of Finance's forecast are also roughly consistent with our projections. Although after worse-than-expected economic activity data for 1Q05 there is a risk on the downside.
- Taking into account this risk, this is positive phenomenon that the ministry assume relatively low GDP growth and inflation for the next year.
- As compared to the ministry's forecast we see stronger zloty against the euro (below 4.0), but weaker to the dollar. This is a result of different assumption as regards EURUSD rate, although we think that the ministry is likely to change its forecast in this respect after recent market developments.



Indirect tax revenues, but still quite far form the target

- Budget gap after five months of the year proved to be in line with earlier hints of the ministry's officials and amounted to 52.3% of the full-year plan. A surplus is possible in June alone amid transfer of the central banks' profit.
- Better than expected result was partly due to some delay in compensation payments for pensioners.
- Performance of tax revenues was in line with relatively optimistic predictions of ministry's representatives. Inflows from indirect taxes grew by 15.3%YoY in May alone (after declines in March and April) and by 11%YoY in January-May (10% in January-April).
- Flows form indirect taxes are still the main risk factor for execution of this year's budget (rise in inflows by 12.8% was planned for the whole year).

Support for political parties

	OBOP poll		GFK Polonia poll	
	support (in %)	number of seats	support (in %)	number of seats
PiS	23 (18)	121	21 (23)	115
PO	21 (26)	113	18 (22)	99
Samoobrona	18 (13)	102	15 (15)	84
LPR	8 (12)	43	13 (10)	69
SLD	8 (6)	43	11 (7)	61
PSL	7 (3)	36	6 (6)	32

Note: GFK Polonia poll prepared for Rzeczpospolita daily between June 29 and July 3; OBOP poll prepared on 1-4 July. Previous month results in parenthesis

No big changes in public support for PO-PiS

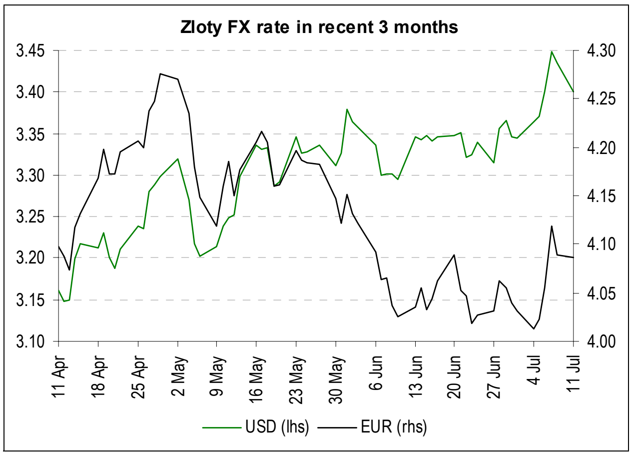
- Opinion polls do not present clear-cut conclusion as regards a winner in September's election, though leaders are still the same.
- According to one of polls PO and PiS would not have majority. In such circumstances, Peasants' Party (PSL) could be third coalition partner. This would be bad news for financial markets as economic programme could be different and stability of future cabinet would be lower.
- The SLD won a couple of percentage point support after Lower House speaker (Włodzimierz Cimoszewicz) decided to candidate for president's post.
- From financial markets point of view, presidential election are less important, although it is worth to remember that the president of the country will nominate NBP governor at the beginning of 2007 (and the parliament will vote to accept this candidature).

Source: Ministry of Finance, PAP, Rzeczpospolita

Government and politics

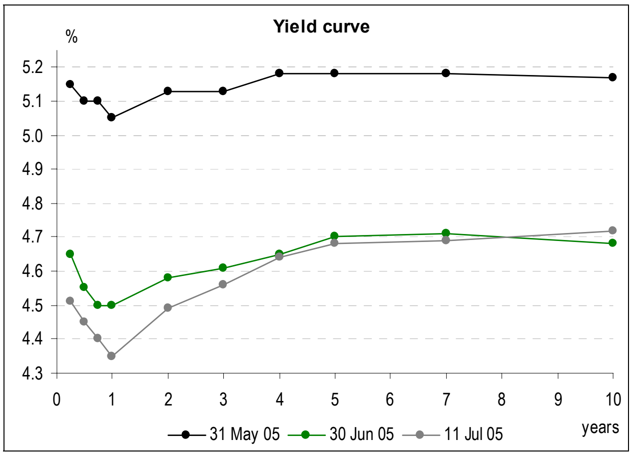
Comments of government representatives and politicians	Remarks
Mirosław Gronicki, finance minister PAP, 14 June What we present is conditional on what could happen. As far as it goes, the economy does not look bad, although worse than assumed in the budget bill for this year. I hope this deficit will be closer to the middle of the range, however it is too early to determine it. The band was proposed as a field for negotiations, but I will not agree for PLN34bn. Main driver of economic growth in 2005 will be export, however in 2006 GDP growth is forecasted to accelerate to 4%. This acceleration will be supported by significantly higher growth in private consumption, by almost 1 pct. point, and acceleration in investment growth. The budget is fine. After abandoning excise rise, we expect the revenues could be higher [than planned] by ca. PLN1.5bn. In current circumstances, the deficit could be lower by ca. PLN2bn. Next year's borrowing needs are ca. PLN20bn lower than this year. Drop in borrowing needs results mainly from change in the structure of debt, which means lengthening maturity of Poland's debt.	It is really hard to understand why budget parameters for the next year were assumed in the form of ranges. Gronicki said that it simply reflected high uncertainty about next year's growth and was not a licence to ease up on budget consolidation. There is, of course, substantial uncertainty regarding macroeconomic developments and shape of political scene after elections, but the scale of uncertainty was not much lower in previous years when finance ministers were more precise. Maybe this is a kind of new communication strategy of the ministry, but this does not seem to be transparent. Interestingly, whereas the range of proposed budget deficit allows for a maximum level PLN34bn, finance minister said he would not allow for such large budget gap. Will not allow, but anyhow such big deficit was within the range he proposed and accepted. Answering question whether there was a chance for deficit in the lower end of the range (PLN28bn), minister said that next year's gap will be rather closer to the middle of the announced band. Let's remind that the middle of the band is at PLN31bn, i.e. higher than the minister had planned only a few months before. One way or another, Gronicki's budget draft will be changed after the election.
Mirosław Gronicki, finance minister Reuters, 28 June This was a relief, on the other hand I was already thinking about holidays and now I will have to work on the budget.	Not many market participants believed that the minister of finance could be really dismissed by the parliament, so announcement of Sejm's voting results triggered no market reaction. Especially that the market was already awaiting MPC decision. Thus, the minister of finance will not go on vacation this year but will be preparing the budget, which will be changed later by the opposition anyway.
Grzegorz Stanisławski, deputy finance minister Reuters, 22 June In the first week of July, between 5-7 July, the finance ministry will present a technical roadmap of Poland's entry to ERM-2 and the euro zone. It will be a sort of a legacy of Miroslaw Gronicki. The document will include analysis of risk factors, technical aspects of ratifying specific treaties, and precise time schedule. PAP, 28 June There are no threats for deadlines for this document. [...] Minister Gronicki, strengthened with today's voting underscored that it was especially important that this document must be released. PAP, 7 July Poland's strategy of the euro zone entry will be presented by the finance ministry in the last week of July.	Promised document has not yet been published at the beginning of July. Apparently they agreed that it was still too early for the finance minister's testament, even though the minister was "strengthened" with voting over his fate in the parliament. Probably, the truth is that the document is still in the early stage of production, although on the other hand there is indeed no hurry with its publication. The document will include analysis of risk factors and technical aspects of the road to euro, and also it will identify acts and agreements that need to be approved, and will specify a timeline of the process. While such a paper would be definitely a useful reference point for the market, one has to bear in mind that Poland's road to the euro zone will be soon in hands of the next government and the parliament, to be elected in the autumn. And there are still significant differences of views in this regard – PO wants to adopt euro as soon as possible, while PiS is more sceptical.
Jacek Krzyślak, Director of research department in the Ministry of Finance Reuters, 1 July We believe that in June prices fell 0.3-0.4%MoM, and annual inflation rate reached 1.3%. The ministry foresees that inflation rate in the subsequent months will keep sliding down, and in December it will reach 0.8%.	The Ministry of Finance presented quite optimistic forecasts of inflation. Most likely, a major assumption behind their forecast was significant drop in food prices (almost 2%MoM). Our forecast shows fall in food prices by ca. 0.5%MoM in June, which yields estimate of CPI at 0.0%MoM and 1.6%YoY (down from 2.5%YoY in May). One should remember that June saw rise in average Brent price by ca. 10%, and additionally the zloty depreciated against the dollar by over 1%.
Jacek Piechota, economy minister Reuters, 22 June It will be hard to achieve 3 percent economic growth in the second quarter. According to our preliminary estimates, economic growth may reach around 2.7 percent.	After weaker than expected data for May, indeed achieving 3% GDP growth in 2Q05 will be quite difficult. Although, everything will depend on statistical figures for June, which we predict to be quite optimistic. Nevertheless, entire second quarter is under impact of April, which was strongly depressed by high base effect.
Zbigniew Chlebowski, Civic Platform (PO) PAP, 5 July Our proposals must appear as self-amendment [to the budget draft], but in practice it will be entirely new budget. In 2006 we want to save PLN10-15bn in relation to Gronicki's plans. For us a fight with the deficit is one of the most important tasks. We plan to present detailed strategy, including economic programme, in August. Entry to the ERM2 would have to take place in 1H06 in order to enter the euro zone in 2009. We do not withdraw from this. At all expense, we would like to introduce changes to PIT and CIT since 2006, and lower budget revenues would be compensated with lower spending. [...] However it seems the most difficult to convince the coalition partner (PiS).	One of the Civic Platform leaders responsible for party's economic programme said that the budget prepared by Mirosław Gronicki would be changed entirely. The new parliament (or at least parliamentary commission) will have to do the first reading of the Gronicki's draft (e.g. in the first half of October), but in the meantime the new cabinet will prepare new budget draft, which will be officially called "amendment" to budget of Gronicki, but in practice will be a completely new document. Together with this amendment a few dozen of bills will be prepared and they will be aimed at reducing budget expenditures. Chlebowski said that additional savings as compared to Gronicki's budget would amount to PLN10-15bn, but it is interesting how such calculations were possible given that detailed budget of current administration is not known, and deficit, revenues and spending targets were presented in quite wide ranges.

Market monitor



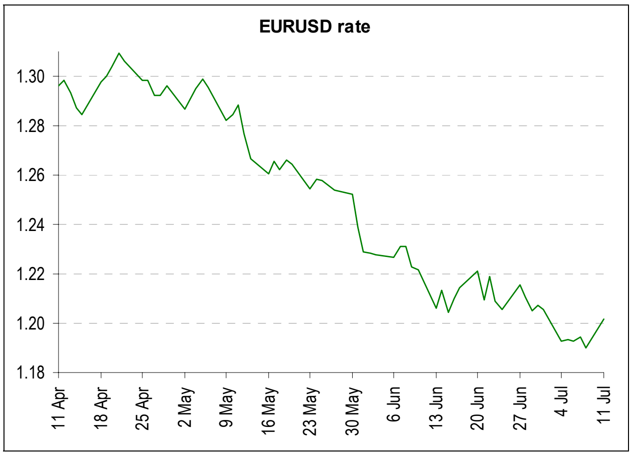
During summertime rather no change

- Last month the zloty fluctuated within a range of 4.0-4.1 to the euro despite meaningful movements in EURUSD market, as the full burden of currency basket adjustment was “assumed” by the dollar which finally gained by over 3%to the zloty. EURPLN rate approached to the level of 4.0 when capital flows into the Polish bond market intensified, but was not able to breach it lastingly. At the end of the month disappointing demand for 2y bond auction made a rate stabilise at 4.1.
- Relative political stability and reduction of market liquidity due to summer holidays should allow the zloty to retain this month on average current levels. However the Polish currency will be vulnerable to the bond market developments which amid current low yields levels may accept another papers auctions less willingly, even amid moderate supply.



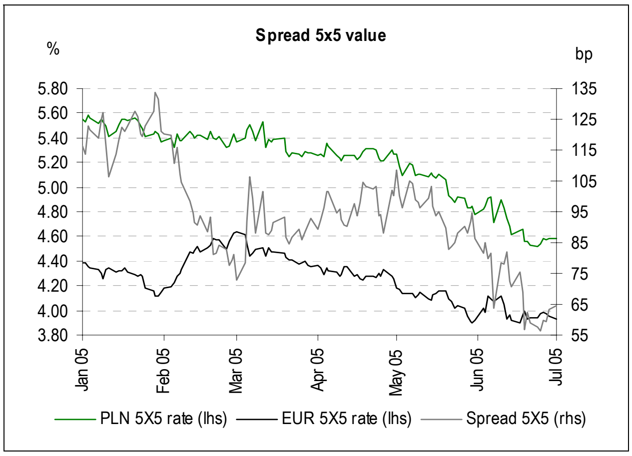
Yields still low

- Last month saw significant decline of yields along the whole Polish yield curve. Initially in spite of unsuccessful auction for 5y papers and deteriorating in core markets the Polish bonds were widely purchased on the back of dovish comments from NBP representatives. Later on demand stemmed from recovering core markets and MPC decision on rate reduction by 50 bp and a change in bias to easing one. Only low demand for 2y bonds allayed the willingness of investors. FRA curve also fell strongly, where further easing by 75 bp totally is priced in till the year-end.
- Recent MPC decision, as long as macro situation does not alter, will probably maintain yields of the Polish papers in the vicinity of 4.5% for 5y bonds. Expectations for further easing, which will get closer the end of loosening cycle, may force a curve to steepen.



The dollar loses breath

- Last month was again a period of the euro decline against the dollar in the core markets. Both US large C/A deficit and low inflation were not able to restrain (pullbacks were only short lived) the dollar’s upward tendency. The fall of the euro was compounded by the problems with European Union budget and comments from one ECB member on possibility of quitting the euro zone by member states. The rate at 1.19 was set by very good data from US economy. Finally the euro fell by almost 3%.
- The euro traded close to the low reached last year supported by a shade better data from EMU members’ economies may bring to a stop a decline in the range of 1.19-1.20, though one cannot rule out breaking upward through the upper band. For further strengthening the dollar will require equally strong economic growth as in the first quarter.

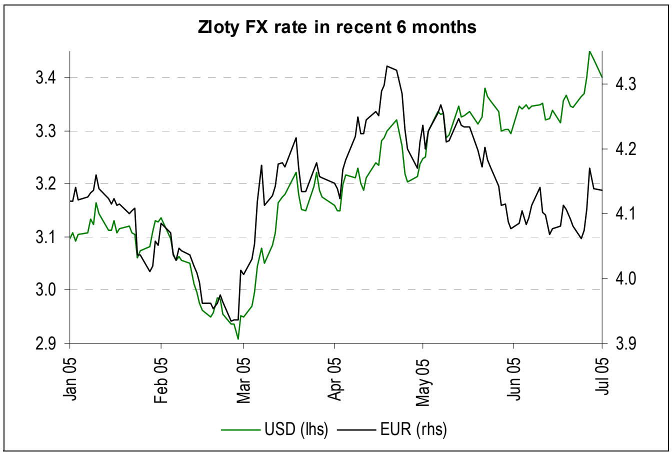


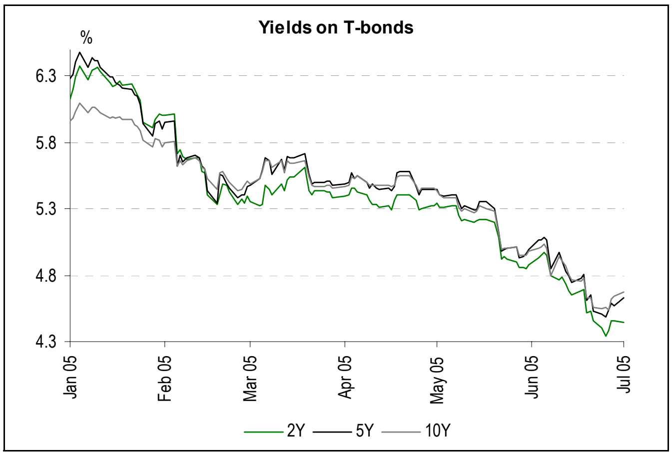
Yields abroad are likely to go up

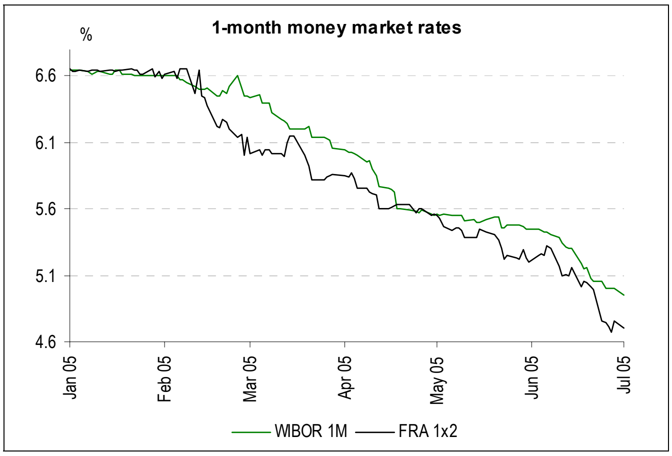
- Bond yields in core markets, though with significant volatility, fluctuated around their recently observed average values. US 10y bonds, despite consistent tightening by the Fed, maintained low level of yields (ca. 4%) due to weaker condition of real economy amd low inflation. Bunds followed then, though at slower pace that reflects a bit wider spread (87 bp). Recent yields declines in Poland translated into narrowing of the 5/5y spread between the euro and the Polish curve to ca. 60 bp.
- Yields in core curves should rise within upcoming month, as climbing Fed rates renders papers at the level of 4% less attractive. At so low levels spread 5/5y may have difficulties with further reduction, so rising yields on the core curves may have an impact on the Polish papers.

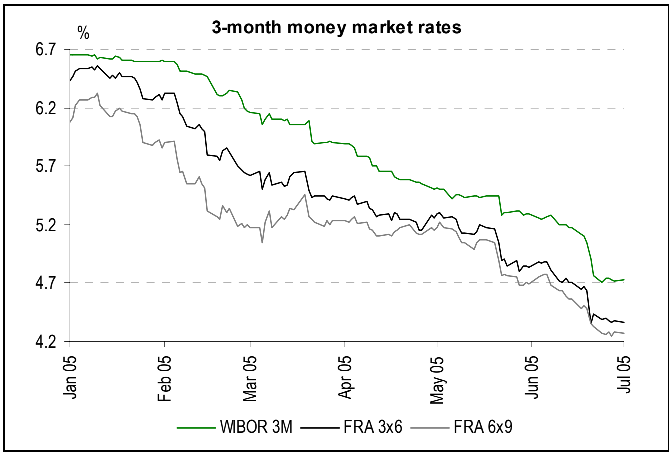
Source: Reuters, BZ WBK

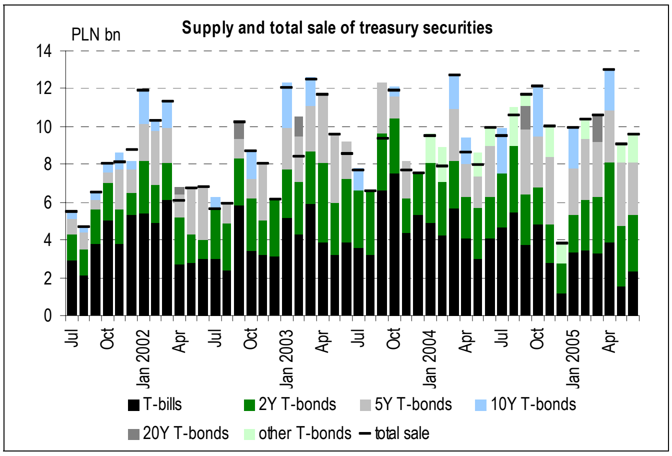
Market monitor











Treasury bill auctions (PLN m)

Date of auction	13-week	OFFER / SALE 52-week	Total
06.06.2005	-	600/600	600/600
13.06.2005	-	600/600	600/600
20.06.2005	-	600/600	600/600
27.06.2005	100/100	400/400	400/400
Total June	**100**	**2 200 / 2 200**	**2 300 / 2 300**
04.07.2005	100/100	600/600	700/700
11.07.2005	100	600 – 800	700 – 900
18.07.2005	100	600 – 800	700 – 900
Total July*	**300/100**	**1 800 - 2 200 / 600**	**2 100 - 2 500 / 700**

* estimations based on Ministry of Finance preliminary information

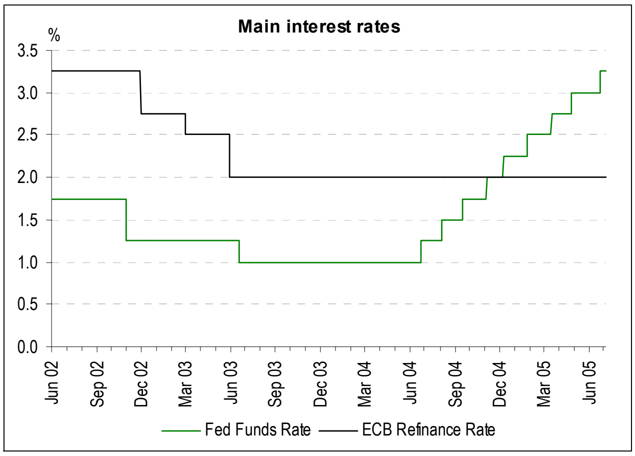
Treasury bond auctions in 2005(PLN m)

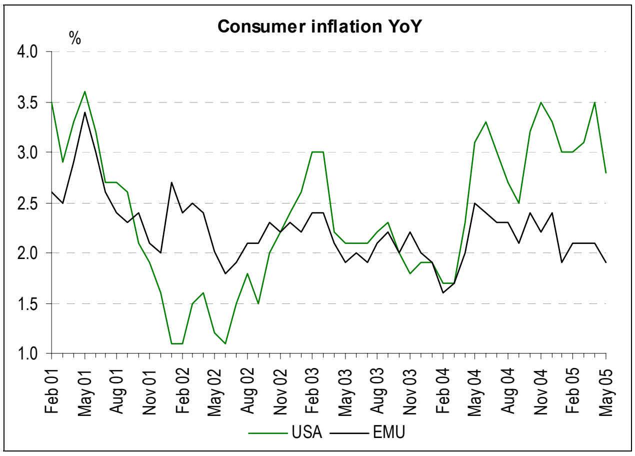
month	First auction date	T-bonds	offer	sale	Second auction date	T-bonds	offer	sale	Third auction date	T-bonds	offer	sale
January	05.01	OK0407	2 000	2 000	12.01	DS1015	2 600	2 130	19.01	PS0310	2 500	2 500
February	02.02*	OK0407	2 760	2 760	09.02*	IZ0816	960	960	16.02*	PS0310	3 840	3 200
March	02.03*	OK0407	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	2 130	20.04*	PS0310	2 750	2 750
May	04.05*	OK0807	3 120	3 120	11.05	IZ0816	1 000	0	18.05*	PS0310	3 360	3 360
June	01.06*	OK0807	3 000	3 000	08.06*	WZ0911	1 440	1 440	15.06	PS0310	2 800	2 800
July	06.07	OK0807	2 000	2 000	13.07	DS1015	1 800	-	20.07	PS0310	2 000 – 3 000	-
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	-	-	-	-	-	-	-	-	-	-

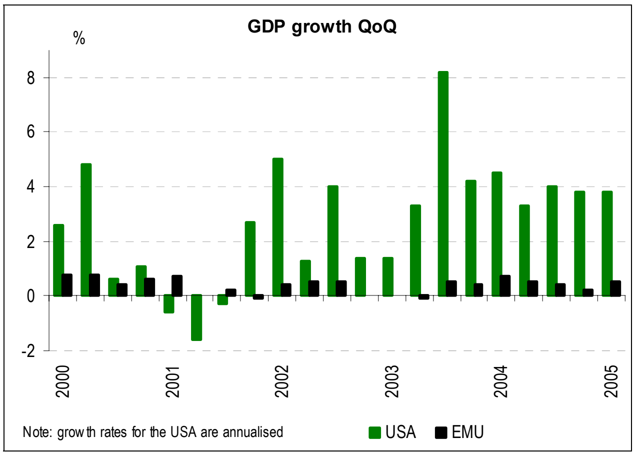
* with supplementary auction

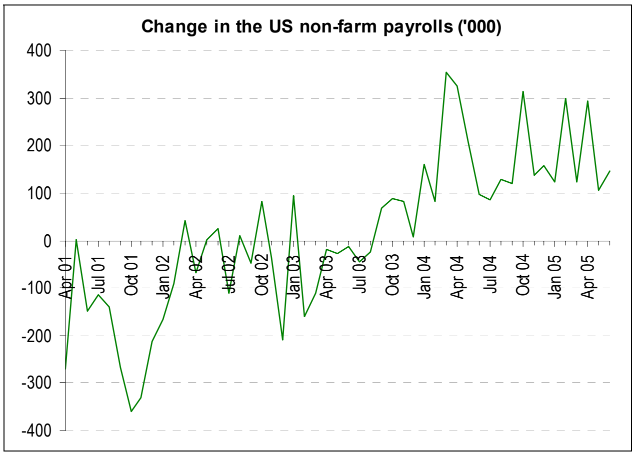
Source: Ministry of Finance, Reuters, BZ WBK

International review









Source: Reuters, ECB, Federal Reserve

Central banks consistently do their job

▪ On 30th June the Fed made a decision, according to expectation, on a rise of main interest rate by 25 bp to the level of 3.25%, signalling at the same time that tightening cycle is not over yet. In the statement accompanying the decision, the Fed emphasized observed recently increase of energy prices (mainly oil), but conceded that economic growth and labour market conditions correspond with quite optimistic predictions. It was reiterated that interest rates will be upwardly adjusted at "measured" pace.

▪ At the meeting on the 7th July ECB left official interest rates unchanged at the level of 2.0%. Rhetoric of the statement did not changed, as ECB chief emphasized that borrowing cost in the euro zone is still very low and remains vigilant to all the signals pointing to growth of inflationary pressure.

Inflation fall around the globe

▪ US CPI data were lower that initially predicted, as prices fell in May by 0.1% (in annual terms to 2.8%), though the market expected it to stay flat. Core inflation, excluding volatile food and energy prices, rose by 0.1%MoM, giving 2.2% increase for past twelve months, while 0.2% increase was widely expected. The decline of headline inflation number was caused to a large extent by 2.0 fall in energy prices.

▪ Inflation in the euro zone amounted in May 0.2%MoM and 1.9%YoY that meant distinct decline from 2.1% a month ago. That result was also below market expectations indicating the level of 2.0%. Core inflation arrived at 1.6%YoY. Preliminary estimations of inflation in the euro zone showed that it would be 2.1%YoY in June after 1.9% in May. The market consensus was agreed at 2.0%YoY.

US GDP yet high

▪ GDP growth in US amounted to 3.8%QoQ in 1Q05. It was the second in a row upward revision of economic growth pace in the first three months of the year. Initially it was reported that GDP growth within that period reached 3.1%, but then this estimation was risen to 3.5%. Ultimately the data exceeded economists expectations pointing to the growth of 3.6%, showing that the strength of the American economy in the first quarter of the year was higher that predicted earlier.

▪ PMI index for services in the euro zone fell in June to 53.1 from 53.4 in May, while analysts expected a slight increase to 53.8. Despite a decline it is a reading pointing to the expansion in the economies of countries within EMU. The final GDP revision for 1Q05, that according to that latest estimations amounted to 1.3%YoY in euro zone will take place on 14th July.

Employment proved to be good, but not astounding

▪ The German index ZEW increased in June to 19.5 pts from 13.9 pts in May. Achieved in June the value o an index was better than market expectations at 16 pts. Business confidence indicator IFO rose in June in line with expectations to the level of 93.3 from 92.9 in May. It is related to entrepreneurs' optimism ahead of early parliamentary election and after recent weakening of the European currency.

US employers created 146,000 jobs in June, below analysts' forecasts, which average was agreed at the level of 188,000, but unemployment rate fell to 5% against expectations of 5.1%. Job growth in April and May will be revised up to 292,000 and 104,000, boosting count by 44,000 payroll jobs. The drop in unemployment rate was mostly due to a slight increase in the workforce.

What's hot this month

Monday	Tuesday	Wednesday	Thursday	Friday
27 June ***POL: Treasury bills auction*** GER: IFO index (VI) EMU: C/A (IV)	**28** EMU: Money supply (V) USA: Consumer confidence (VI)	**29** ***POL: MPC meeting - decision*** USA: Net PCE (1Q) USA: Final GDP (1Q)	**30** ***POL: C/A (IV)*** EMU: Business climate (VI) USA: FOMC meeting - decision	**1 July** USA: ISM manufacturing (VI)
4 ***POL: Treasury bills auction*** EMU: PPI (V)	**5** EMU: Retail sales (V) USA: Factory orders (V)	**6** ***POL: 2y bond auction*** USA: ISM non-manufacturing (VI)	**7** GB: BoE meeting - decision EMU: ECB meeting - decision	**8** USA: Payrolls (VI) USA: Wholesale inventories (V)
11 ***POL: Treasury bills auction***	**12** ***POL: C/A (V)***	**13** ***POL: 10y bond auction*** USA: Import prices (VI) USA: International trade (V) USA: Budget statement (VI)	**14** ***POL: CPI (VI)*** ***POL: Money supply (VI)*** EMU: GDP - revision (1Q) USA: CPI (VI) USA: Retail sales (VI)	**15** ***POL: Employment (VI)*** ***POL: Gross wages (VI)*** USA: Business inventories (V) USA: PPI (VI) USA: Industrial production (VI) USA: Capacity utilisation (VI) USA: Preliminary Michigan Index (VII)
18 ***POL: Treasury bills auction*** EMU: Final HICP (VI) USA: Net capital flows (V)	**19** ***POL: PPI (VI)*** ***POL: Industrial production (VI)*** GER: ZEW index (VI) EMU: Industrial production (V)	**20** ***POL: 5y bond auction*** EMU: Trade balance(V)	**21** ***POL: Unemployment (VI)*** ***POL: Retail sales (VI)*** EMU: C/A (V) USA: Leading indicators (VI) USA: Fed Minutes	**22** ***POL: Business climate (VII)*** ***POL: Core inflation (VI)*** EMU: Industrial orders(V)
25	**26** GER: IFO index (VII) USA: Consumer confidence (VII)	**27** ***POL: MPC meeting - decision*** USA: Durable goods orders (VI)	**28** ***POL: Switching auction*** EMU: Money supply (VI)	**29** EMU: Business climate (VII) EMU: Flash HICP (VII) USA: Preliminary GDP (2Q) USA: Chicago PMI (VII) USA: Final Michigan index (VII)
1 August ***POL: Treasury bills auction*** USA: ISM manufacturing (VII)	**2** EMU: PPI (VI) USA: Factory orders (VI)	**3** ***POL: 2y bond auction*** EMU: Retail sales (VI) USA: ISM non-manufacturing (VII)	**4** GB: BoE meeting - decision EMU: ECB meeting - decision	**5** USA: Payrolls (VII)

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	-	-	30	-	-	-
Balance of payments	31[c]	28	31	29	31	30	12	11	12	13	-	-
Money supply	14	14	14	14	13	14	14	12	14	14	-	-
NBP balance sheet	7	7	7	7	6	7	7	5	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

		Jun 04	Jul 04	Aug 04	Sep 04	Oct 04	Nov 04	Dec 04	Jan 05	Feb 05	Mar 05	Apr 05	May 05	Jun 05	Jul 05
Industrial production	%YoY	15.8	6.0	13.7	9.5	3.5	11.4	6.8	4.6	2.3	-3.7	-1.1	0.9	7.8	1.1
Retail sales [c]	%YoY	8.6	10.9	9.6	8.8	4.0	4.4	2.8	7.5	2.4	-0.3	-14.4	8.0	5.7	3.7
Unemployment rate	%	19.4	19.3	19.1	18.9	18.7	18.7	19.1	19.5	19.4	19.3	18.8	18.3	18.2	18.0
Gross wages [b c]	%YoY	4.5	3.6	5.1	3.7	2.4	2.7	3.2	2.6	1.4	2.2	1.8	3.0	3.3	3.9
Employment [b]	%YoY	-0.7	-0.7	-0.8	-0.6	-0.4	-0.3	0.2	1.5	1.6	1.6	1.7	1.6	1.7	1.8
Export [d]	%YoY	35.0	13.8	22.1	18.0	15.3	29.5	20.9	32.5	23.2	10.1	5.6	11.3	5.0	16.8
Import [d]	%YoY	33.7	9.1	22.0	18.9	14.8	24.0	15.8	20.3	25.4	5.3	-9.7	10.8	8.0	14.7
Trade balance [d]	EURm	-192	-486	-314	-345	-250	-282	-488	126	-110	-334	-7	-250	-382	-447
Current account balance [d]	EURm	-336	-734	253	-383	105	223	-243	197	-56	235	537	80	-12	-47
Current account balance [d]	% GDP	-1.9	-2.0	-1.8	-2.0	-2.0	-1.8	-1.5	-1.4	-1.3	-0.9	-0.4	-0.1	0.1	0.4
Budget deficit (cumulative)	PLNbn	-19.9	-23.2	-25.9	-29.0	-30.8	-33.8	-41.5	-1.6	-8.8	-12.3	-13.9	-18.3	-17.5	-20.4
Budget deficit (cumulative)	% realisation	47.9	55.9	62.3	69.8	74.1	81.4	100.0	4.5	25.2	35.2	39.6	52.3	50.0	58.3
CPI	%YoY	4.4	4.6	4.6	4.4	4.5	4.5	4.4	3.7	3.6	3.4	3.0	2.5	1.6	1.5
PPI	%YoY	9.1	8.6	8.5	7.9	7.6	6.7	5.2	4.5	3.2	2.2	0.9	-0.5	0.1	0.1
Broad money (M3)*	%YoY	7.2	6.8	7.4	6.5	10.5	6.4	8.7	9.3	9.4	11.0	10.0	13.0	11.5	12.2
Deposits*	%YoY	6.9	6.4	7.6	6.6	11.5	6.5	8.1	8.4	8.7	10.4	8.7	12.0	10.7	11.8
Credits*	%YoY	5.7	4.6	5.2	4.2	9.5	4.0	2.9	3.7	2.2	4.4	4.8	8.9	8.3	9.2
USD/PLN	PLN	3.78	3.64	3.64	3.58	3.46	3.28	3.09	3.11	3.06	3.04	3.21	3.29	3.34	3.39
EUR/PLN	PLN	4.59	4.47	4.43	4.37	4.32	4.26	4.14	4.08	3.99	4.02	4.16	4.18	4.06	4.07
Reference rate [a]	%	5.25	6.00	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.00	5.50	5.50	5.00	5.00
WIBOR 3M	%	5.91	6.34	6.58	7.12	6.89	6.81	6.72	6.63	6.54	6.15	5.78	5.48	5.22	4.70
Lombard rate [a]	%	6.75	7.50	8.00	8.00	8.00	8.00	8.00	8.00	8.00	7.50	7.00	7.00	6.50	6.50
Yield on 52-week T-bills	%	6.79	7.15	7.24	7.38	7.00	6.81	6.44	6.28	5.95	5.51	5.36	5.19	5.09	4.50
Yield on 2-year T-bonds	%	7.44	7.80	7.66	7.51	7.04	6.81	6.39	6.24	5.82	5.43	5.39	5.27	5.14	4.50
Yield on 5-year T-bonds	%	7.50	7.79	7.65	7.33	7.03	6.78	6.29	6.31	5.80	5.56	5.50	5.38	5.25	4.60
Yield on 10-year T-bonds	%	7.27	7.44	7.36	6.96	6.75	6.43	6.02	5.98	5.72	5.57	5.49	5.36	5.24	4.60

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)). Before January 2005 the table presents growth rates in old methodology, not fully comparable with recent data.

Quarterly and annual economic indicators

		2002	2003	2004	2005	1Q04	2Q04	3Q04	4Q04	1Q05	2Q05	3Q05	4Q05
GDP	PLNbn	781.1	814.7	885.3	938.1	204.1	216.3	219.2	245.7	218.5	227.6	231.6	262.5
GDP	%YoY	1.4	3.8	5.4	3.7	7.0	6.1	4.9	4.0	2.1	2.8	4.1	5.3
Domestic demand	%YoY	0.9	2.6	5.0	3.0	6.0	5.8	5.2	3.3	1.1	1.6	3.5	5.5
Private consumption	%YoY	3.3	3.1	3.4	2.5	4.1	4.0	3.6	1.9	1.7	1.5	3.0	4.0
Fixed investments	%YoY	-5.8	-0.9	5.3	7.5	3.7	3.9	4.3	7.4	1.0	5.0	10.0	10.0
Industrial production	%YoY	1.1	8.4	12.3	4.0	19.0	16.4	9.2	6.2	0.7	2.5	5.4	7.3
Retail sales (real terms)	%YoY	1.9	3.6	7.1	1.6	13.6	11.3	4.0	1.1	-0.4	-3.2	3.3	6.6
Unemployment rate [a]	%	20.0	20.0	19.1	17.7	20.4	19.4	18.9	19.1	19.3	18.2	17.6	17.7
Gross wages (real terms)	%YoY	1.5	2.0	0.8	1.0	3.8	1.6	-0.5	-1.5	-1.3	0.3	2.5	2.8
Export [b]	%YoY	6.0	9.1	21.9	11.7	19.3	29.1	17.6	21.8	20.8	7.2	10.0	10.0
Import [b]	%YoY	3.5	3.3	19.1	10.3	12.6	29.3	16.3	18.2	15.7	2.3	12.0	12.0
Trade balance [b]	EURm	-7 701	-5 077	-4 510	-4 061	-909	-1 438	-1 148	-1 015	-315	-639	-1 616	-1 491
Current account balance [b]	EURm	-5 404	-4 109	-2 958	-259	-654	-1 530	-868	94	379	605	-647	-596
Current account balance [b]	% GDP	-2.7	-2.2	-1.5	-0.1	-1.7	-1.9	-2.0	-1.5	-0.9	0.1	0.2	-0.1
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	3.6	2.4	1.5	1.5
CPI [a]	%YoY	0.8	1.7	4.4	1.5	1.7	4.4	4.4	4.4	3.4	1.6	1.5	1.5
PPI	%YoY	1.0	2.6	7.0	1.2	4.4	8.8	8.3	6.5	3.3	0.2	0.2	1.2
Broad money (M3)* [a]	%YoY	-2.0	5.6	8.7	10.0	5.7	7.2	6.5	8.7	11.0	11.5	12.7	10.0
Deposits* [a]	%YoY	-4.1	3.7	8.1	9.3	4.8	6.9	6.6	8.1	10.4	10.7	12.0	9.3
Credits* [a]	%YoY	5.2	8.1	2.9	10.0	6.1	5.7	4.2	2.9	4.4	8.3	10.4	10.0
USD/PLN	PLN	4.08	3.89	3.65	3.26	3.82	3.89	3.62	3.27	3.07	3.28	3.41	3.28
EUR/PLN	PLN	3.85	4.40	4.53	4.07	4.78	4.69	4.43	4.24	4.03	4.13	4.11	4.01
Reference rate [a]	%	6.75	5.25	6.50	4.50	5.25	5.25	6.50	6.50	6.00	5.00	4.50	4.50
WIBOR 3M	%	9.09	5.69	6.21	5.25	5.47	5.87	6.68	6.81	6.44	5.49	4.57	4.50
Lombard rate [a]	%	8.75	6.75	8.00	6.00	6.75	6.75	8.00	8.00	7.50	6.50	6.00	6.00
Yield on 52-week T-bills	%	8.18	5.33	6.50	4.88	5.75	6.24	7.26	6.75	5.91	5.21	4.30	4.10
Yield on 2-year T-bonds	%	7.94	5.38	6.89	4.90	6.28	6.86	7.66	6.75	5.83	5.27	4.30	4.20
Yield on 5-year T-bonds	%	7.86	5.61	7.02	5.02	6.67	7.10	7.59	6.70	5.89	5.38	4.50	4.30
Yield on 10-year T-bonds	%	7.34	5.77	6.84	4.98	6.70	7.00	7.25	6.40	5.76	5.37	4.50	4.30

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

[a] at the end of period; [b] balance of payments data on transaction basis
* Since January 2005 the NBP changed methodology of monetary statistics. Before January 2005 the table presents growth rates in old methodology, not fully comparable with recent data.

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