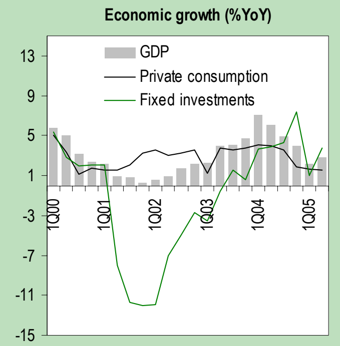
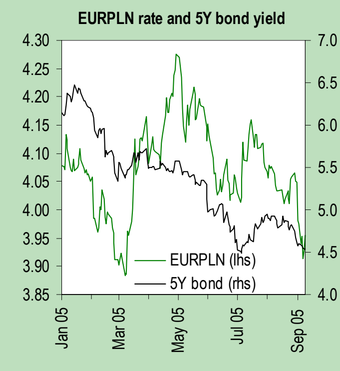
Bank Zachodni WBK

MACROscope

Polish Economy and Financial Markets

September 2005





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Market jumps up and down

- **Over the last few months moods have been swinging on the Polish interest rate market – there have been ups followed by downs and the other way round depending on the data published and signals sent by the Monetary Policy Council.** Let us remind you that in early June, the yield on a five-year bond was ca 5%, and then, after the June decisions of the Council (50 bp cut and easing bias), there was a strengthening on the bond market (4.5% in early July) which reversed a month ago after the market had lost its faith in subsequent rate cuts (5-year rate nearly 5% again). At that time we wrote that the data which would be key for establishing the market sentiment prior to the August meeting of the Council might be disappointing. And indeed, after the publication of production, retail sales (which were worse than expected, yet not that bad after all) and GDP data (which indicated a drop in domestic demand in real terms), and after the decision of the Council and the doveish signal included in the communiqué issued following the meeting and in the *Inflation Report*, the bond market actually strengthened and the yield on 5-year bonds got closer to 4.5% again. It seems that upcoming data (higher inflation, strong growth in production and retail sales) and no interest rate cut at the next meeting can cause another correction on the interest rate market. Obviously, key factors here will be the post-election situation and bond yield abroad.

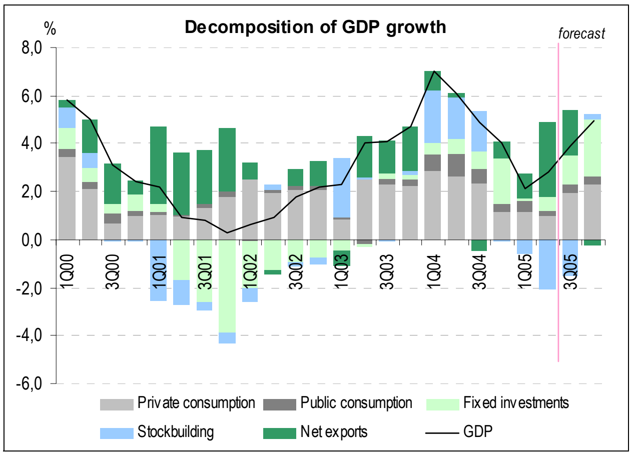
- **For the time being the currency market seems to disregard the upcoming parliamentary election.** In other words, the market considers the political risk related to the election to be low. The wave of optimism (foreign capital) for the Polish bond market, after the decision and communication by the MPC, and for the stock exchange, unexpectedly strengthened the zloty and brought it back to the March level. Opinion polls before the election are favourable from the point of view of financial markets and if what they predict will happen, further zloty appreciation cannot be ruled out. It must be remembered, however, that a few main points of electoral economic program of future coalition members is a source of potential conflicts (tax reform, euro zone entry). There is also a question of what impact the presidential election campaign will have on the appointment of the new government (and its programme). It cannot be ruled out that the new government will be appointed as late as the end of October.

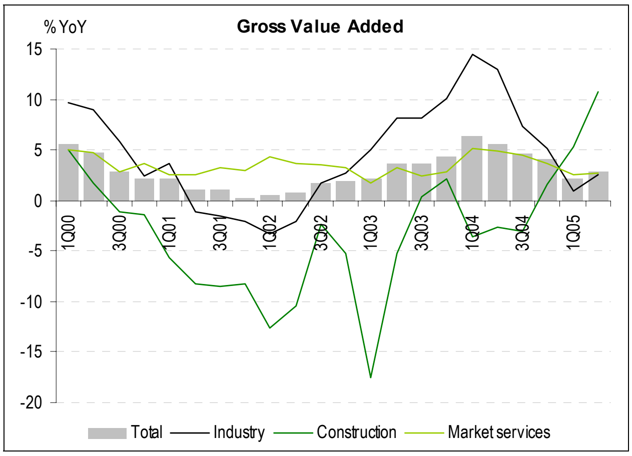
- **While July and early August were hardly favourable for Treasuries and Bunds, in late August the market sentiment reversed again.** Following the gradual drop in yield in August, this trend was strengthened in September by factors similar to those which triggered a temporary dollar depreciation (weak macroeconomic data, aftermath of the Katrina hurricane, high oil prices). Oil market prices and information about American economy which will help the market define its expectations around the coming Fed decision to be made on 20 September will be key for international markets.

Financial market on 31 August 2005:					
NBP deposit rate	3.25	WIBOR 3M	4.61	USDPLN	3.3140
NBP reference rate	4.75	Yield on 52-week T-bills	4.23	EURPLN	4.0495
NBP lombard rate	6.25	Yield on 5-year T-bonds	4.61	EURUSD	1.2219

This report is based on information available until 09.09.2005

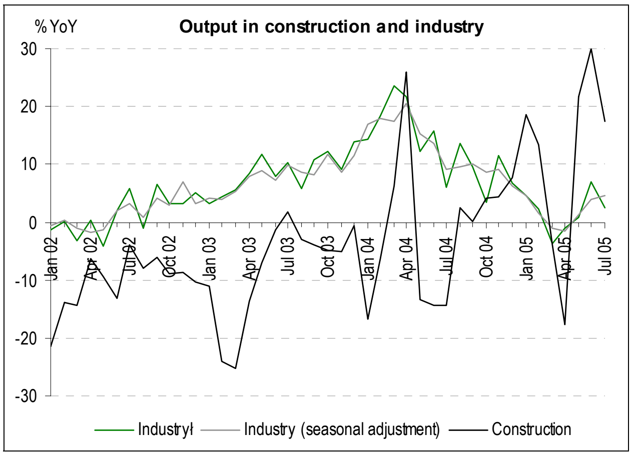
Economic update





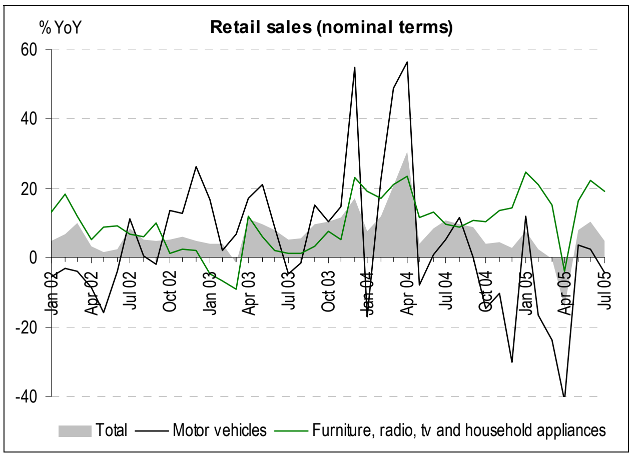
Decent GDP growth, but weak domestic demand

- GDP growth in 2Q05 matched our expectations and reached 2.8%. However, a breakdown of the growth was different than we predicted.
- While consumption growth was exactly in line with our estimates and acceleration in investment did not differ dramatically from our assumptions, but due to very small change in inventories as compared to 2Q04 (which lowered GDP growth rate in 2Q05 by 2.1pp) total domestic demand decreased by 0.3%YoY against 1.1%YoY rise in 1Q05.
- Fortunately, to an even larger degree than expected, GDP growth in 2Q05 was driven by net exports. Its positive contribution to economic growth in that period totalled as much as 3.1pp.
- As far as supply side of national accounts is considered, the data showed accelerating rise in value added in industry, slight improvement in market services and strong rebound in construction. Such structure of economic growth seems favourable, as it heralds recovery of investment activity.
- Seasonally adjusted data on economic growth in 2Q05 showed a GDP decrease of 0.2%QoQ (against a rise of 0.7%QoQ in 1Q05) with a fall of domestic demand by 0.1%QoQ. However, total consumption grew by 0.5%QoQ and investment by 2.0%QoQ, while the main reason for slump in domestic demand was unfavourable adjustment in change in inventories, which might be a one-off.
- All in all, CSO data indicated that the Polish economy is gradually gaining momentum and we maintain our view that GDP growth will accelerate to around 4%YoY in 3Q05 and reach above 4% on average in 2H05. In the whole year, the economic growth should reach ca. 3.5% (possibly slightly more).



Output figures disappointed, but were not bad

- Industrial output in July rose 2.6%YoY, falling behind market expectations of 5%YoY rise, but was stronger than we forecasted 1.1%YoY).
- Thus, while the figures were a disappointment for market participants and some of MPC members, in our opinion they confirmed that the Polish economy gains momentum and 2H05 is set to see faster pace of economic growth.
- This is suggested by seasonally adjusted data, which showed industrial output growth of 4.7%YoY, the strongest this year.
- A positive news was another surge in construction output. Although it was not as impressive as in June, when it reached nearly 30%YoY, a jump of 17.4%YoY is undoubtedly a very decent result. It seems a boom in construction has begun.

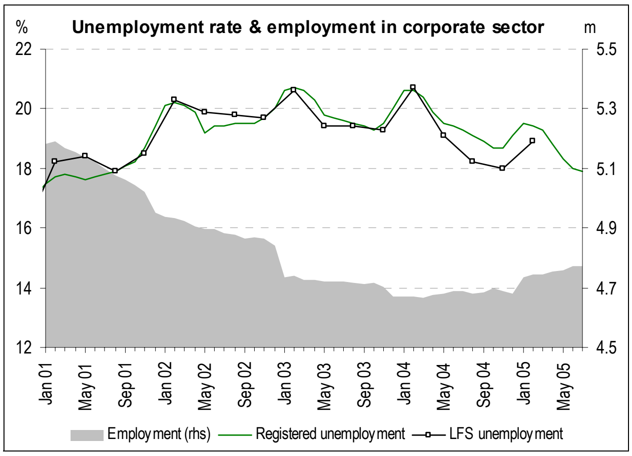


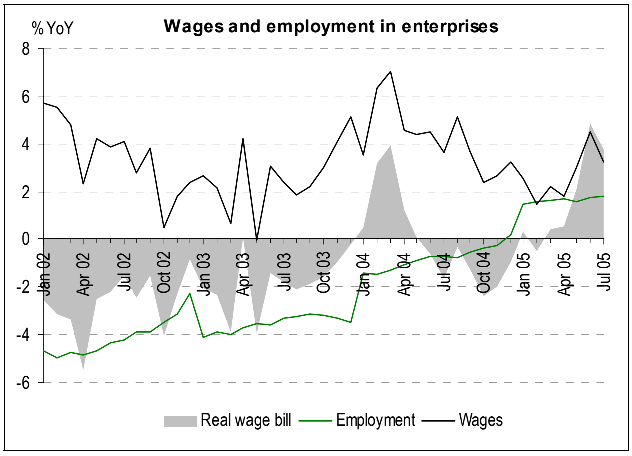
Source: CSO, NBP, own calculations

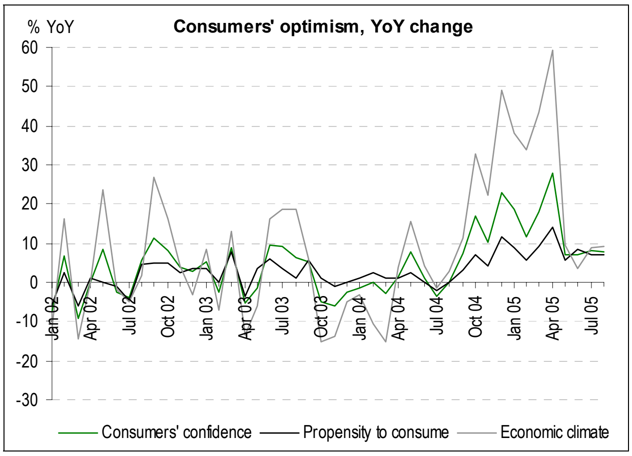
Retail sales fell behind expectations

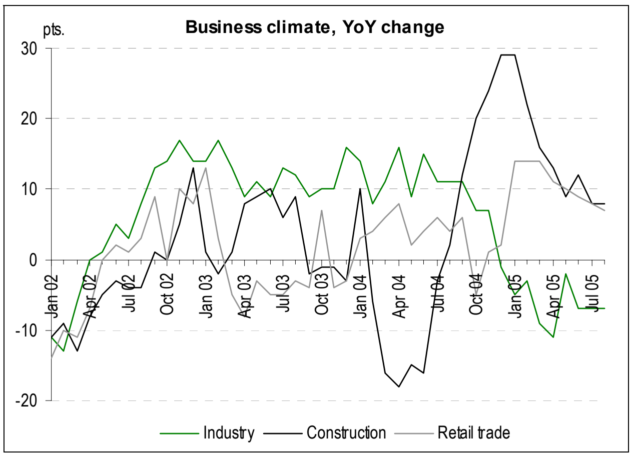
- Nominal growth in retail sales in July was 5%YoY, i.e. it was lower than not only market consensus and our forecasts, but also than the lower end of market forecasts' range (5.5-9.5%).
- Real growth in retail sales amounted to 3.2%YoY, which means improvement as compared to the first half of this year, when a decrease of 1%YoY took place, but also a worsening in comparison with the two previous months – strong increases of 5.5%YoY and 8.8%YoY in May and June, respectively.
- Retail sales growth rate would be more satisfactory, if not another slump in new car sales.
- All in all, we think that retail sales growth in July (together with output figures) confirmed that the Polish economy entered 3Q05 in better shape than in 1H05, but the scale of improvement is not stunning.

Economic update









Source: CSO, NBP, own calculations

Improvement on the labour market continues

▪ The registered unemployment rate in July fell by 0.1pp to 17.9%, which means it was below 18% for the first time since August 2001. We predict further decline in unemployment to 17.3 at the beginning of 3Q05, but towards the end of the year an increase to 17.7% is possible due to strong seasonal pattern.

▪ Unemployment reduction in July was also a seasonal effect to some extent, but not only, as for the second month in a row the unemployment rate dropped by as much as 1.4pp in annual terms.

▪ Thus, unemployment figures confirmed employment statistics from the enterprise sector, which have been showing rising labour demand for some time. In July, the pace of job creation accelerated to 1.8%YoY and was the highest since 7 years. We expect this trend to be continued in future.

▪ After clear acceleration of wage growth in enterprises noted in June (4.5%YoY), which was related to one-off payments in mining, July saw a deceleration in wage rise to 3.2%YoY.

▪ Nevertheless, moderate wage growth coupled with faster employment growth translated into further acceleration of growth in wage bill in the enterprise sector. In July, it grew by 5.1%YoY in nominal terms and 3.8%YoY in real terms against increases of 4.2%YoY and 1.3%YoY, respectively, in the first half of the year.

▪ In the nearest months real growth of wage bill in the enterprise sector will probably stabilise around a solid pace of 4%. Therefore, we expect improvement with respect to growth rate of households' disposable income and acceleration in private consumption growth in 2H05. This way, continued firming of labour market conditions will translate into strengthening of domestic demand and thus into acceleration of the economic growth.

Consumer moods improved again

▪ Results of consumer optimism survey carried out by Ipsos institute in August showed rise in all of the calculated indices of consumer moods as compared to the previous month and again indicated a healthy pace of growth in annual terms.

▪ Index for propensity to consume reached over 95pts, or almost the highest level in the last five years. What is interesting, the strongest rise in optimism (by 20pts) was observed among small entrepreneurs, which may herald a recovery in investment activity in the group of the smallest firms.

▪ Authors of the survey also noted strong improvement of moods (index rise of 10pts) in employees in private firms. This suggests that good condition of Polish firms translates into improvement in consumer confidence and thus into strengthening of consumption demand.

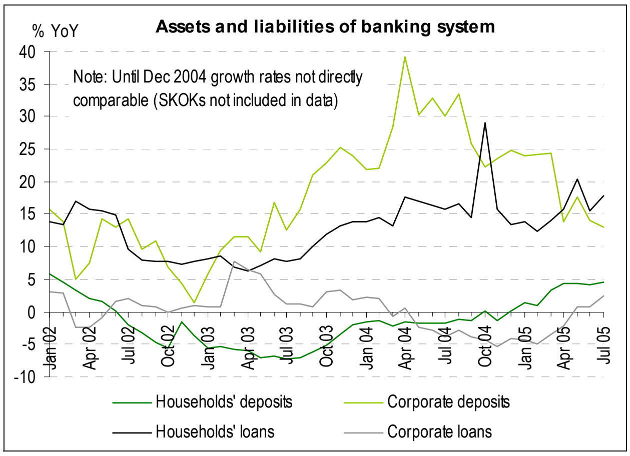
Business climate continuously warm

▪ Business climate indicators for August showed very similar picture as observed in the two previous months. Annual growth rates of indices calculated for three different analysed sectors were close to that recorded in July.

▪ In industry, an improvement of orders' portfolio and production is expected (although foreign orders slightly fell). Enterprises are also optimistic about their future financial situation (even though the current financial stance is not seen as satisfactory).

▪ Enterprises in the construction sector are also quite optimistic (larger orders, higher production, expected rise in prices and planned increase in employment), while moods of retailers were again relatively the weakest due to predicted decrease in sales in the nearest months.

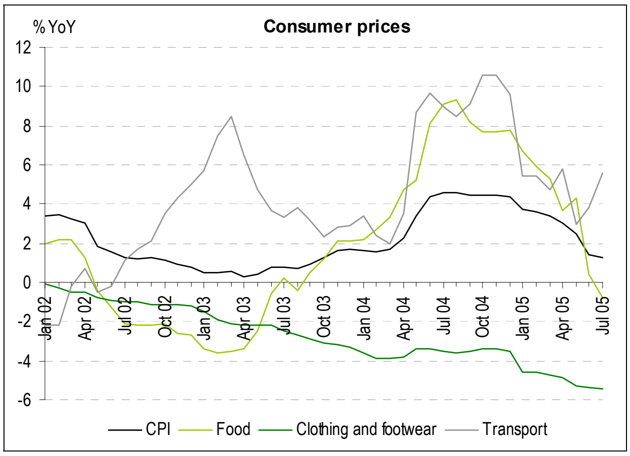
Economic update



Loan growth picking up

▪ Money supply growth reached 10.4%YoY in July. Although slightly weaker than expected, the result was not bad and represented reasonably strong rise in money flow in the economy. Total deposit rose 9.3%YoY amid accelerating growth (to 4.7%YoY) in households' deposits and decelerating increase (to 13%YoY) in companies' deposits.

▪ Data from credit market confirmed earlier signals about rise in demand for loans, as total loan growth reached 8.8%YoY against 7.5%YoY in June. The biggest hike was recorded in loans for households, which soared 17.8%YoY. However, gradual pickup was also seen in the case of loans for enterprises, accelerating to 2.5%YoY after 0.8%YoY rise in June. Subsequent months should see higher demand for credit, due to strong rise in mortgages and increasing firms' needs for external financing.

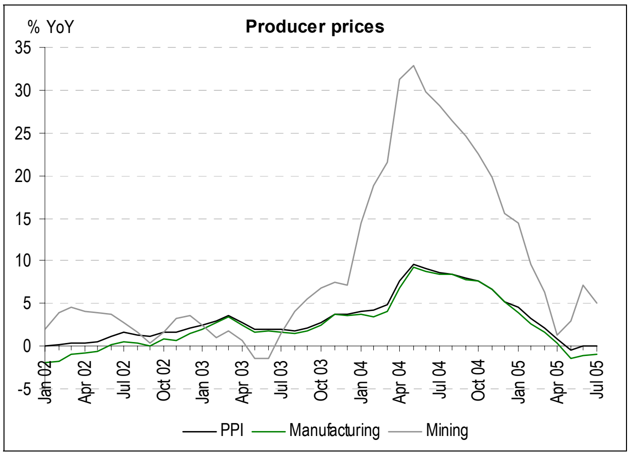


CPI fell by only 0.1pp in July

▪ Annual growth rate of consumer prices in July decelerated by a mere 0.1pp to 1.3% from 1.4% in June, while the market awaited the drop to 1.1%. CPI in July was higher than expected mostly due to weaker than predicted fall in food prices (just 1.7%MoM instead of assumed 2.5%MoM).

▪ There was also upside surprise in case of prices of housing and energy prices (increase of 0.8%MoM). Price changes of other components of consumer basket were broadly in line with predictions. Among others, our forecasts were matched in case of transport prices (1.6%MoM rise with fuel prices rising by 3.5%MoM – an effect of record high oil prices).

▪ We expect that until the end of the year inflation will stay around 1.5%YoY, or the lower end of the allowed margin of inflation fluctuations from the central bank's target of 2.5%.



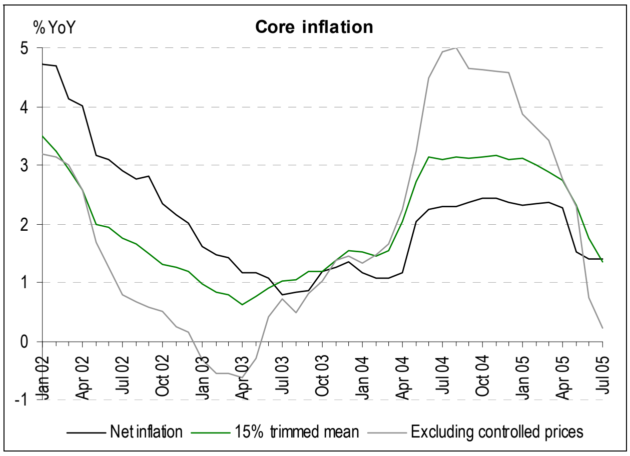
PPI stable despite record high oil prices

▪ PPI inflation had been expected to reach 0.4%YoY in July (we had forecasted 0.2%), but the actual growth rate in producer prices was only 0.0%YoY.

▪ Such level of PPI inflation seems surprisingly low given very high oil prices. However, one should remember that transactions with oil prices are settled in the US dollars and the zloty exchange rate versus the greenback appreciated during the last year (by around 6.5%).

▪ All in all, PPI figures showed that up-to-date worries about significant impact of record high oil prices on domestic prices (both producer and consumer prices) has been exaggerated, as so far there is no visible impact.

▪ However, a change of tendencies on the FX markets and further rises in oil prices may eventually create some pressure.



Source: CSO, NBP, own calculations

All core inflation measures below 1.5%

▪ In line with our estimates, the most closely watched measure of core inflation, that is net inflation (CPI excluding food and fuel prices) stabilised in July at June's level of 1.4%YoY.

▪ Other measures of core inflation fell significantly in comparison with June (in a scale from 0.4 to 0.7pp).

▪ Even if one take into account the fact that except for net inflation all core inflation measures are to some extent favourably affected by falling food prices (which is a transitory, exogenous shock), very low level of core inflation shows that demand pressure on prices in the Polish economy is almost inexistent.

▪ The MPC faces a necessity to answer the question how long favourable inflation situation will last, i.e. how long demand pressure in the economy will not be strong enough to lift consumer prices.

Central bank watch

Crucial fragments of the MPC statement from 31 August 2005

According to the August inflation projection, the price growth should be lower than expected in the May *Report*. In line with the projection, inflation will reach a level close to the inflation target in mid-2007.

Still, it has to be emphasised that the inflation projection presented in the Report does not account for all sources of uncertainty, such as the unknown economic policy of the government in the coming years and the effects of worsened outlook for public finance in connection to the bills passed by the Parliament largely impeding the necessary reduction of the public finance deficit and of the pace of public debt growth in the subsequent years. Moreover, the projection does not allow for the latest information which might have a significant bearing on the forecasted price growth. In view of the latest data the most probable path of oil prices for 2005-2007 lies approximately 15% above the path assumed in the August projection. Prices of crude oil running much higher than those accounted for in the projection constitute an important factor of inflationary risk in the monetary policy transmission horizon.

In the Council's assessment, in the monetary policy transmission horizon the probability of inflation running below the inflation target is higher than presented in the August inflation projection, among others, due to possible acceleration in the structural changes ongoing in the Polish economy.

MPC decision without surprise, statement quite "doveish"

▪ In line with majority of forecasts, the MPC cut the reference rate by 25 bp to 4.5% and maintained easing bias in monetary policy. The overtone of the official statement and *Inflation report* may be perceived as more doveish than expected.

▪ Despite the two important risks for inflation (fiscal policy, oil prices) mentioned by the MPC, medium-term inflation outlook perceived by the MPC is even more optimistic than new (lower) inflation projection.

▪ Given views of the majority of the MPC, we maintain our view that borrowing costs may be trimmed further by total of 50bp within the six months horizon, although we do not expect a cut in election period. The timing of the decision will depend on economic data for 3Q and zloty performance after elections.

NBP projections of CPI inflation and GDP growth (YoY)

CPI inflation	Q4 2005	Q4 2006	Q4 2007
II 2005	1.2-4.0%	0.4-4.2%	0.5-4.6%
V 2005	1.1-2.2%	1.2-3.8%	0.7-4.3%
VIII 2005	0.9-1.5%	1.0-3.1%	1.2-4.1%
GDP growth	**Q4 2005**	**Q4 2006**	**Q4 2007**
V 2005	4.4-5.7%	3.9-6.2%	4.3-6.7%
VIII 2005	3.2-3.5%	3.9-5.3%	3.8-5.6%

Note: Projection shows that assuming unchanged interest rates, there is a 50-percent probability that inflation and GDP growth will stay within the ranges indicated in the table.

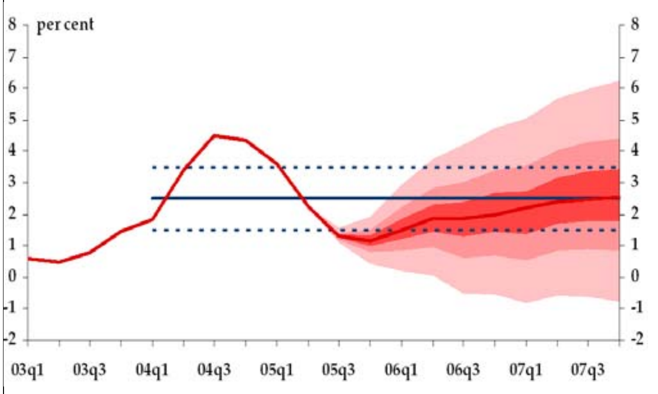
Structural changes lower inflation

▪ *Inflation report* showed lower inflation and GDP growth projections as compared to May *Report*. It also explained in more details the view of (the majority of) the MPC.

▪ Among others, it included explanation of "structural changes" that justified opinion of the Council presented in the statement that price pressure in future may be limited. The structural changes were defined as: probable increase in labour market flexibility, corporate restructuring and increased international competition.

▪ It is unfortunate that the central bank does not publish the schedule of *Inflation report* releases, as August report was issued quite unexpectedly. Maybe this is one of the reasons behind poor assessment of NBP's communication with markets, as compared to Czech and Hungarian central banks.

Inflation projection in NBP's August *Inflation report*



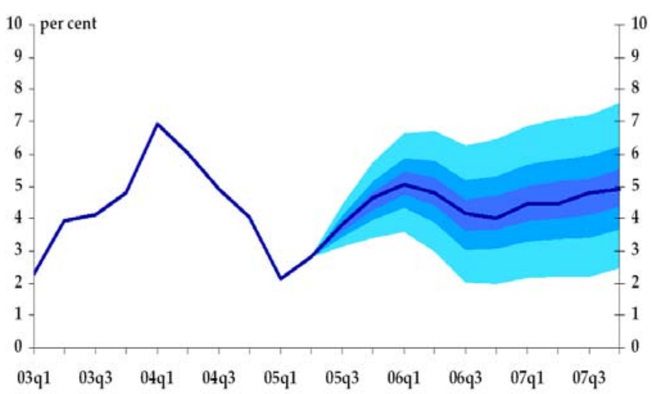
Inflation projection lower, especially in 2006-07

▪ In the previous report, the comparable probabilities of inflation running below the target and inflation rising above the target were seen already in mid-2006. Now it is since Q2 2007.

▪ The NBP stated that inflationary impact of elevated oil prices has been offset by a low rise in domestic demand, appreciation of the zloty and a low growth rate of unit labour costs.

▪ The important factor for the MPC will be development on the FX market after elections (political risk), although the MPC said that improvement in the current account balance may favour the zloty appreciation. The MPC emphasised that monetary policy restrictiveness should be perceived as a combination of real interest rates and real effective exchange rate, and the new projection assumes stronger zloty than in May *Report*.

GDP growth projection in NBP's August *Inflation report*



Source: NBP

... and GDP projection much lower than previously

▪ GDP data for H1 changed the economic situation expected by the MPC and created a room for rate cuts.

▪ It is reflected in the following quotes: "the period of a gradual closing-up of the output gap will be longer than anticipated in the May *Report*" and "the GDP growth structure (…) should also be limiting inflationary pressure". The conclusion is that "the demand factors will be acting towards an inflation decline in the projection horizon".

▪ After disappointing data on investments in H1 2005, data for 3Q will be especially important for the MPC.

▪ The MPC expects acceleration in industrial output growth. Thus, better economic activity indicators in the nearest months should not be surprising for the Council. It is the pace of acceleration that will be important.

Central bank watch

Comments of the central bank representatives	Remarks

Press release of the National Bank of Poland;

www.nbp.pl; 2 September

Due to the strategic and still increasing weight of research studies conducted at the NBP, the President of the National Bank of Poland has assumed direct supervision of the research departments of the NBP: the Macroeconomic and Structural Analyses Department and the Bureau of Macroeconomic Research. Moreover, the First Deputy President of the NBP has assumed supervision of the Department of Statistics, and the Deputy President has assumed supervision over the Cash and Issue and Payment Systems Departments.

Krzysztof Rybiński is not responsible anymore for NBP research departments. Justification of the decision is quite weird, as it seemed that increasing weight of research at the NBP was the reason behind… employing Rybiński. And it is worth to remind that it was successful given that he was responsible for preparing first inflation and GDP projections a year ago. While of course the projection was (quite rightly) criticised by market analysts, it has to be stressed that it became an important point of reference not only for the market, but also (or above all) for the MPC. What is more, the decision on diminishing Rybiński's role in the NBP was made at the moment when the NBP projections became less controversial and some improvement was visible on this front.

Leszek Balcerowicz, NBP governor, MPC chairman

PAP, 2 September

Monetary policy of the bank, which is carrying out its constitutional obligation, should be such as not to jeopardise price stability not only in the short term, but also in the long-term perspective. The central bank is independent constitutionally as not to give in current pressure. And it is not only about politicians, but also about analysts and commentators. We should show likewise that we can resist the pressure from current data. Good conducting of monetary policy is not about reacting to current data and current commentaries.

In our opinion, pressure on the MPC is almost imperceptible recently. Government's representatives do not talk about lower rates, and as regards analysts' comments the MPC proved its independence many times in the past, surprising with its decisions.

We agree with the NBP governor that successful monetary policy should not be based on current data. However, current data may change predictions for future. From this point of view, the August *Inflation report* showed very clearly that, according to the central bank, recent macroeconomic data changed perspective for inflation and GDP growth in the medium term.

Stanisław Nieckarz, MPC member

PAP, 7 September

Easing bias in monetary policy means that there is higher probability of interest rates decreases in future. However, the timing and scale will depend on upcoming information, out of which investments data will be the most important.

Stanisław Nieckarz presented an opinion that another interest rate cuts are well possible if the next economic data do not show a breakthrough in investments. Very similar comments were also presented by Mirosław Pietrewicz. In their opinion, direct influence of high fuel prices on CPI is moderate and second-round effects are not significant amid high unemployment. At the same time, they mentioned a possible negative impact of high oil price on economic growth.

Marian Noga, MPC member

TVN24, 2 September

At the moment it is easier to predict inflation and forecasts as regards GDP growth are more difficult. Therefore, there might be an impression that the MPC is attaching more weight [in decisions] to growth. But this is only an impression, which appeared when growth slowed down significantly. Still, we are conducting monetary policy in direct inflation targeting framework with inflation target of 2.5% and we are targeting inflation as close as possible to this target.

We do not have an impression that the MPC is conducting monetary policy targeting GDP growth rather than inflation. Simply, according to the MPC, inflation perspective is favourable even if we assume some acceleration in GDP growth. Marian Noga also said that the neutral bias (which he supported) cannot be treated automatically as high restrictiveness of monetary policy or as a way to go far away from the easing bias. This may suggest that Noga allows a possibility of changing interest rates when the easing bias is adopted and maybe that is why he was convinced to change bias to neutral.

Halina Wasilewska-Trenkner, MPC member

PAP, 8 September

I still do not see a room for rate cuts. A possible room for rates reductions was very small and it filled. Oil prices rose significantly recently, but at the same time it was offset by zloty appreciation, which is probably the factor stopping a rise in domestic prices currently and in future. With high oil prices it is difficult to say that inflation pressure does not exist. (…) We still remember about poltiicla risk. Election period may increase this uncertainty.

The risks mentioned by Wasilewska-Trenkner were also emphasised by the NBP president during the press conference after August MPC meeting. However, what is important is that these risks were not perceived by the majority of the Council as sufficient argument not to cut rates. Also, Wasilewska-Trenkner seemed to agree with conclusions from the latest inflation projection of the central bank that CPI inflation will be within the target in the medium-term and that is why the MPC maintained the easing bias in monetary policy. We continue to expect that the MPC will keep rates on hold in the post-election period, unless the economic data surprise significantly on the downside

MPC voting results in Q2 2005

	April		May	June	
	neutral	-50 bp	easing	easing	-50 bp
L. Balcerowicz	+	+	-	-	+
J. Czekaj	+	+	+	+	+
D. Filar	+	+	-	-	+
S. Nieckarz	+	+	-	+	+
M. Noga	+	+	-	-	+
S. Owsiak	+	+	+	+	+
M. Pietrewicz	+	+	+	+	+
A. Sławiński	+	+	+	+	+
A. Wojtyna	+	+	+	+	+
H. Wasilewska-Trenkner	+	+	-	-	+

Source: Inflation report August 2005

While 50bp rate cut in June was voted unanimously, the Council was split as regards change in bias back to easing (after it adopted neural bias unanimously in April). What is interesting, the MPC voted on bias change already in May but the motion was rejected, as Stanisław Nieckarz quite unexpectedly changed his mind and joined the hawkish camp. However, just one month later Nieckarz changed view again and voted for the easing bias together with 50 bp rate cut. While his June's decision should not be surprising (he is perceived by the market as a ultra-dove), it is hard to understand why he voted against easing bias in May given his doveish comments before May's meeting (suggesting his will to cut rates).

Voting records of the MPC showed (confirmed) that opinions of four hawks are not crucial for decision of the whole Council at the moment, unless they are able to convince (unexpectedly) one more member. Similar situation happened in February when Stanisław Owsiak suddenly change his view and supported shift in policy bias directly to easing from tightening just one month after he opposed adoption of neutral bias. Therefore, market participants should pay much more attention to comments of mainstream members in the Council as well as to possible swing voters.

Government and politics

Main parameters of 2006 budget, PLNm

	2005 P	2005 E	2006 P
Total revenue	174 703.7	178 870.0	189 228.0
- tax revenue	155 285.9	156 950.0	171 996.0
- indirect taxes	116 980.7	115 650.0	126 220.0
- CIT	14 690.6	17 300.0	20 126.0
- PIT	23 614.6	24 000.0	25 650.0
- non-tax revenue	16 641.5	19 085.6	15 083.0
- foreign revenue	71.1	336.9	105.7
- payments from EU	2 705.2	2 498.4	2 043.3
Total spending	209 704.0	209 704.0	221 803.0
Deficit	-35 000.0	-30 833.7	-32 575.0

P – planned in the budget bill/draft; E – estimated execution

Macroeconomic assumptions of 2006 budget

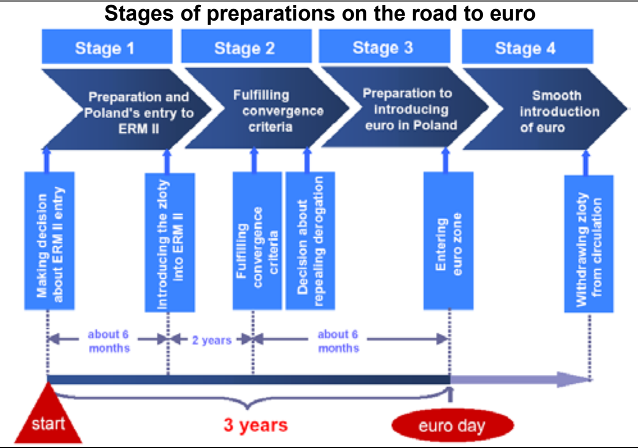
	2005 E	2006 P
GDP, %	3.3	4.3
GDP, current prices	925.4	976.0
CPI avg., %	2.1	1.5
CPI Dec/Dec, %	1.2	1.5
Unemployment rate, %	17.7	16.9
Investment, %	5.3	8.7
Export, %	5.0	10.0
Consumption, %	2.0	3.7
Domestic demand, %	1.7	4.3
Current account balance, % GDP	-0.2	-0.7

P – planned in the budget draft; E – estimated execution

Budget draft accepted, to be changed by the next cabinet

- Government tentatively accepted 2006 budget draft and sent the document to Three Party committee for consultations.
- Budget deficit was set at PLN32.6bn, i.e. close to upper end of PLN30-33bn range declared earlier by the minister of finance. It is also a maximum level allowed by public finance law (deficit to revenue ratio cannot be higher than this year).
- Finance minister said the general government deficit according to ESA95 methodology is planned to reach 3.2% of GDP, i.e. the same as central budget deficit computed according to the Polish methodology.
- Presented macroeconomic assumptions to the budget seem to be realistic, however in our opinion it would be better to see more conservative GDP forecast. On the other side, inflation prediction seems to be underestimated.
- Financial market received government's proposals with little interest, being aware that they will be altered by the next ruling coalition after the election. PO representatives declare reduction of 2006 budget deficit below PLN30bn.
- Meanwhile, there are more positive news about realisation of 2005 budget. According to finance minister Mirosław Gronicki this year's budget revenue will be higher than planned by PLN4.3bn, and deficit could be smaller than PLN31bn. Possibly, the actual gap will be even lower because the minister usually predicted its level with a safety margin.
- Higher than predicted tax inflows was one of the factors than persuaded minister Gronicki to reduce excise tax for fuel by PLN0.25 per litre, temporarily since 15 September. The cut aimed at easing impact of high oil prices on the economy was estimated to lower tax revenue by ca. PLN400m.

Stages of preparations on the road to euro



At least 3 years since decision until euro adoption

- In the second half of August the Ministry of Finance has finally published document *Poland's integration with the euro zone: conditions of membership and strategy of process management* prepared by its experts.
- The report outlines problems connected with the process of Poland's integration with the euro zone and specifies range of actions (mostly of technical and administrative nature) necessary on the way to euro adoption in Poland.
- The Ministry's document shows that period since making strategic decision about euro zone accession until introduction of single currency must last at least 3 years for the procedural reasons (2 years within ERM2 and two periods of 6 months each before and after this stage for organisational arrangements – see chart on the left).

Support for political parties

	PBS poll		GFK Polonia poll	
	support (in %)	number of seats	support (in %)	number of seats
PO	38 (27)	210	35 (26)	176
PiS	23 (25)	121	26 (26)	133
Samoobrona	8 (11)	38	11 (12)	51
SLD	11 (10)	57	8 (10)	41
LPR	8 (10)	34	7 (8)	36
PSL	4 (4)	-	5 (5)	23

Note: GFK Polonia poll prepared for Rzeczpospolita daily between 2-4 September; PBS poll prepared for Gazeta Wyborcza on 3-4 September.
Previous month's results in parenthesis

Source: Ministry of Finance, Gazeta Wyborcza, Rzeczpospolita

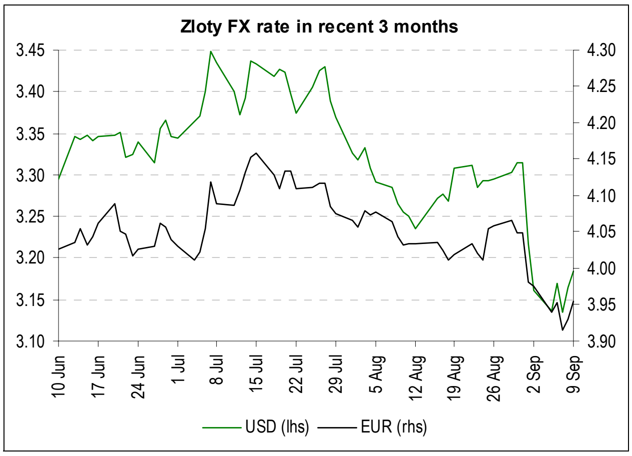
Rising chances for pro-market government

- Latest public opinion polls were very good from the financial market's point of view. There was a significant rise in the support for the Civic Platform that has became a clear leader in the pre-election ranking. Amid quite stable support for the Law and Justice, it implied much higher chances that coalition PO-PiS could get clear majority in the parliament. According to polls by PBS and GfK Polonia, the coalition could even get 2/3 majority of seats in the Sejm, allowing for changing the Constitution.
- At the same time, PO leader Donald Tusk reached record-high support of more than 40% voters in run-up to President's chair.
- PO's likely lead in the government and victory of their candidate for president make up a scenario that is very positively perceived by financial market players, which results in pressure for strengthening of the zloty and Polish bonds.

Government and politics

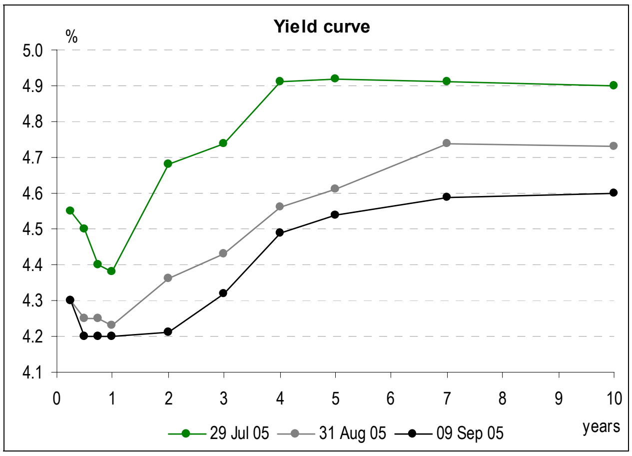
Comments of government representatives and politicians	Remarks
Mirosław Gronicki, finance minister PAP, 5 September Without vetoing the bill about VAT refund on construction materials, the deficit [in 2006] could have been at PLN31bn. Consequence of introducing this bill is PLN3bn shortfall in next year's revenue. Besides, we have reduced subsidy for ZUS by PLN150m, spending from Dwelling Fund by PLN100bn, Stipend Fund by PLN300m.	Exactly as one could have supposed, minister Gronicki explained higher than declared earlier deficit with unexpected costs that appeared after the parliament rejected President's veto on VAT bill. Incurred shortfall in revenue amounting to PLN3bn partly was covered by higher deficit (by ca. PLN1.5bn), and partly offset by reduction of some spending and hikes in excise tax planned for 2006, which will more than offset temporary reduction adopted for September-December period.
PAP, 5 September We have decided to reduce fuel prices since 15 September by a cut in excise tax by PLN0.25 per litre. Unfortunately, we can reduce only excise for gasoline. A reduction will cause loss of budget revenue until the end of this year by almost PLN400m. PAP, 10 September If prices on oil markets return to levels like before Hurricane Katrina, we will try to make moves eliminating excise tax reduction.	Quite significant reduction in excise tax for fuel in the middle of September could help in reduction of gasoline prices that would have slightly positive impact on inflation rate in September and October. However, one should remember that the tax cut is only temporary and will last until year-end. Next year excise rate will not only return to previous level but will be increased steadily throughout the year to offset partly shortfall in revenue caused by introduction of VAT bill.
Jacek Męcina, deputy economy and labour minister PAP, 5 September Unemployment rate reached 17.8% in August. However we do not have the data about number of employed and thus official data from the CSO could be lower by 0.1 pct. point. I am sure that in September the unemployment rate will reach previously announced 17.5%. At the end of the year it could reach 17.2-17.3% but it will depend on weather conditions and lengthening of construction season.	The Ministry of Economy's estimates regarding unemployment rate in the next two months are consistent with our forecasts and reflect the continuation of gradual improvement on the labour market lasting for a dozen of months already. However, at the end of this year we predict a bit higher jobless ratio than expected by the ministry – rise in unemployment in the final months of the year is a typical seasonal phenomenon that repeats every year.
Mirosław Błażej, deputy head of FinMin's research dept. Reuters, 1 September Inflation growth in August is mainly caused by base effects, while the month-on-month decline was smaller than previously expected because of rising oil prices which should impact the inflation path in the whole year. We think September inflation may grow to 1.6-1.7 percent, but it should decline in October and November to 1.3 percent and end the year at 1.2 percent. Impact of oil prices on inflation growth in our conditions is eased by strong zloty.	The Ministry of Finance expects inflation rise to 1.6% in August which is consistent with our estimates. It was caused mainly by the significant price hikes on fuel market and slightly lower than last year seasonal drop in food prices. Despite rise in August, inflation rate will remain at safe level until the end of year (although in our opinion a bit higher than expected by the FinMin, i.e. 1.5%). What is more, net inflation is likely to be even lower (we forecast it to fall to 1.3% in August) because CPI up-tick resulted mostly from prices excluded from the net measure.
Jan Rokita, Civic Platform, candidate for Prime Minister Reuters, 7 September I believe the entry to the euro zone will not be a problem that could divide us from Law and Justice, because the main goal of the new government will be meeting the convergence criteria, including the budget target. Once we have met the convergence criteria we will be able to talk about adopting the euro, however in my opinion 2009 is very unlikely. Of course I think we have to move to the euro zone as soon as possible but it is difficult to talk about the date now. The new government should not set a date for entry. First we should aim to fulfil the convergence criteria.	In Rokita's opinion the government will be able to talk about adopting the euro only after meeting the convergence criteria. But the question is whether he meant only fiscal criteria or foreign exchange stability criterion as well. If only the former, then the euro zone entry may be delayed not only beyond 2009. One should remember that the document on euro zone entry, published recently by the Ministry of Finance, showed that the minimum period between taking strategic decision on euro entry and the eventual adoption of common currency is three years. Therefore, if fiscal Maastricht criteria are met in 2007 and the cabinet plans then to start talks on euro zone entry, a targeted timing of the euro adoption would be well in the next decade. And one should remember that after four years (2009) we will have another parliamentary election.
Zbigniew Chlebowski, Civic Platform Reuters, 6 September We will aim for a substantial reduction of the deficit. It is now hard to talk about a deficit of 20 billion zlotys as we wanted [after recent Sejm's decisions], but I believe we should be able to limit it to below 30 billion. This government's budget outline is not credible, it hides significant spending, its forecasts of growth and inflation are too optimistic.	Civic Platform's pledge to implement substantial changes in the 2006 budget and cut budget deficit below PLN30bn caused that the financial market did not worry too much about budget draft prepared by the current cabinet, awaiting for the new crew's effects. However, until now those are only declarations. It is very interesting how the new cabinet will manage to work out much lower budget gap if it adopts more conservative macro assumptions and fulfils pre-election promises, reducing taxes. We will find out in practice soon.
Ludwik Dorn, Law and Justice PAP, 29 August Our experts' calculations show that ca. 10 million of Poles will lose on Civic Platform's tax proposals, even comparing to present tax system. Those who will suffer a loss will be people with small earnings. [...] We appeal to the Civic Platform to withdraw from their flawed ideas considering those calculations.	Apart from the euro zone entry, tax strategy is another point of major difference of opinions between potential coalition partners PO and PiS. Until now, Law and Justice strongly opposes proposal of introduction flat tax rate that is one of PO's top priorities. But we have to remember that pre-election campaign is usually a period of strong declarations, and after the elections a tendency of both parties for a compromise solutions will most likely increase.

Market monitor



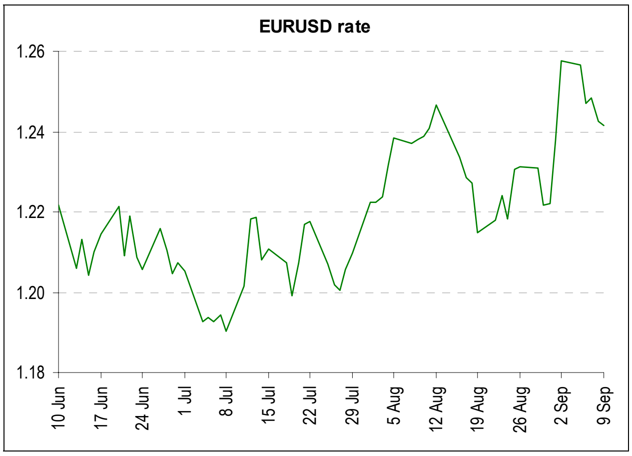
Unexpected zloty strengthening in September

- In line with our expectations, in August the zloty was traded against the euro in the range of 4.0-4.1, which was accompanied by a stabilisation of EURUSD rate in 1.20-1.25 range.
- Beginning of September was quite surprising, as the zloty not only did not start to price-in higher political risk ahead of elections, but significantly appreciated. After the market did not react to rejection of presidential veto to the VAT bill (allowing for rebate on construction materials), a wave of optimism (foreign capital) led to sharp strengthening. Capital flows were visible on both fixed income (after MPC decision and statement) and equity markets. At the same time, pre-election polls were optimistic from financial market's perspective. As a result of strong appreciation of the euro against the dollar, the zloty gained more against the greenback.



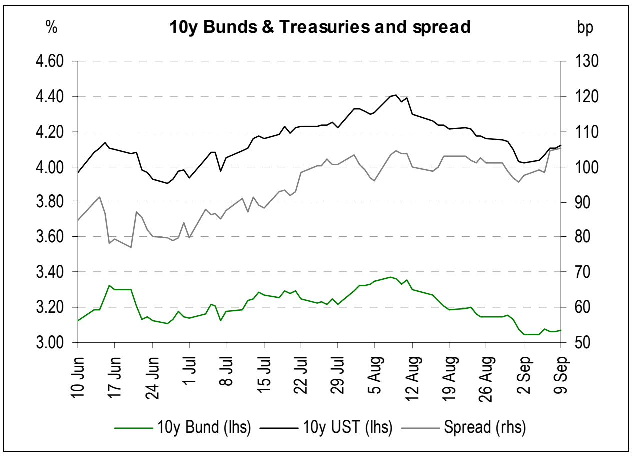
Market rates sharply down

- After a significant market weakening in late July – beginning August, we saw another yields decrease. As we expected, data critical for determining the market sentiment prior to the August next MPC meeting were disappointing and additionally the MPC official communiqué was more doveish than predicted. Additionally, decrease in yields abroad was supportive factor for the market.
- Yields of two- and five-year bonds fell again to ca. 4.2% and 4.5%, respectively. At the same time, FRA market re-started to believe in further rate cuts (of some 50 bp within 6 months). It is worth to notice, however, that the upcoming economic data may bring a swing in market sentiment again. Higher inflation, as well as strong growth in industrial production and retail sales, may cause a correction on the market, especially as the MPC is not expected to cut rates in September.



EURUSD above 1.25 only for a moment

- For the better part of the previous month, the ERUUSD rate fluctuated within the range of 1.20-1.25. At the beginning of September a rising trend appeared, which was reinforced by (poor) economic data form the US. Of course, important factors behind negative mood for the dollar were effects of hurricane Katrina and high oil prices. However, breaking 1.25 threshold for the first time since end-May proved to be only temporary.
- In the nearest time the key factors determining sentiment for the dollar will still be oil prices and the data on American economy, which may be an indication for the market to adjust expectations as regards the next Fed meeting (scheduled for September 20). A possible strengthening of expectations for another rate hike may be a factor positive for the dollar, but still within the range indicated above.

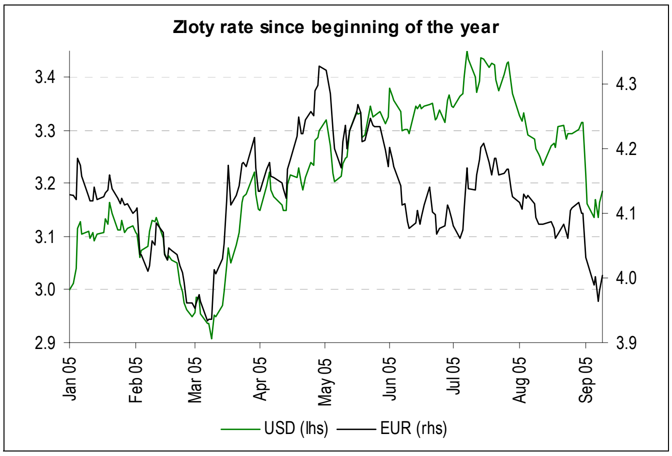


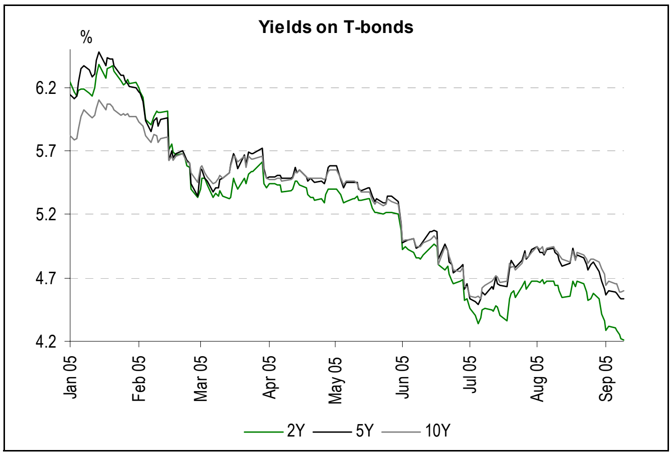
Katrina and oil prices behind yields fall

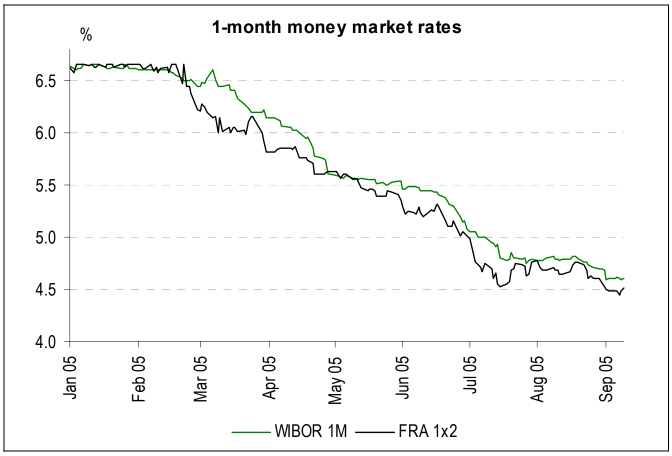
- After the period of negative sentiment towards bonds (July and beginning August), change in market mood took place in the later part of the previous month. After a gradual decrease in yields in August this trend was even stronger at the beginning of September. Similar factors that were behind dollar weakening (weak macro data, effects of hurricane and high oil prices) resulted in strengthening of Treasuries. Ten-year yield in US fell to close to 4%, while yields of ten-year Bund reached record-low level in history (below 3.05%). Spread between the two papers rose to above 105 bp.
- While the long end of Polish yield curve also saw significant move downwards, following good sentiment abroad, the spread 5x5 between yield curve in Poland and in the euro zone stabilised at around 75 bp.

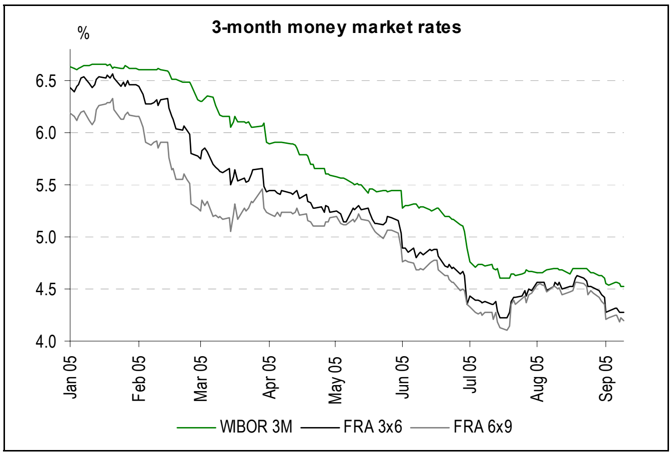
Source: Reuters, BZ WBK

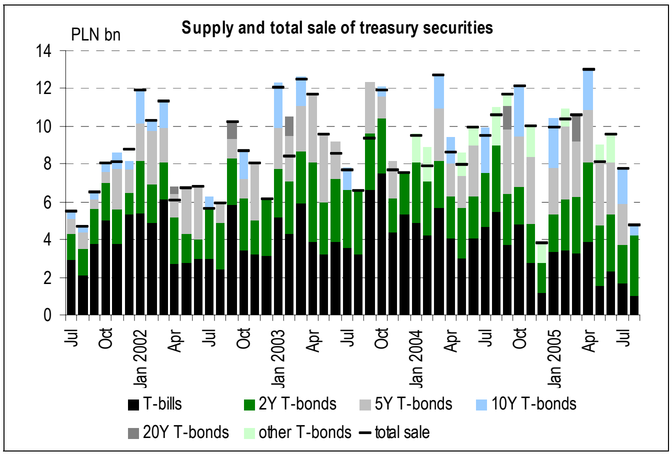
Market monitor











Treasury bill auctions (PLN m)

Date of auction	OFFER / SALE 13-week	52-week	Total
04.07.2005	100/100	600/600	700/700
11.07.2005	100/100	400/400	500/500
18.07.2005	100/100	400/400	500/500
Total July	**300/300**	**1 400 / 1 400**	**1 700 / 1 700**
08.08.2005	-	500/500	500/500
22.08.2005	-	500/500	500/500
Total August*	**-**	**1 000 / 1 000**	**1 000 / 1 000**
05.09.2005	100/100	400/400	500/500
19.09.2005	100	400-600	500-700
Total September*	**200**	**800 – 1 200**	**1 000 – 1 400**

* estimations based on Ministry of Finance preliminary information

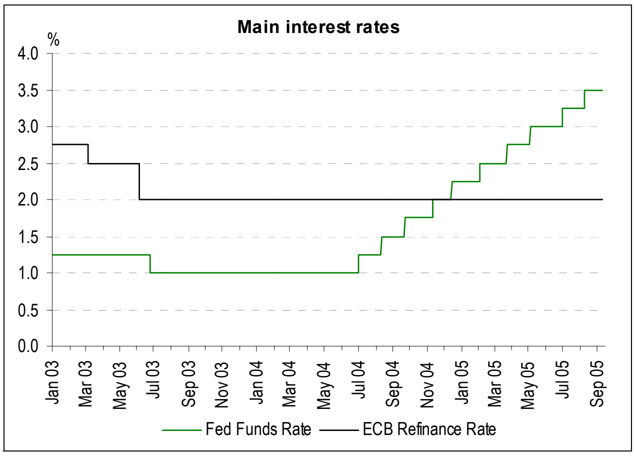
Treasury bond auctions in 2005 (PLN m)

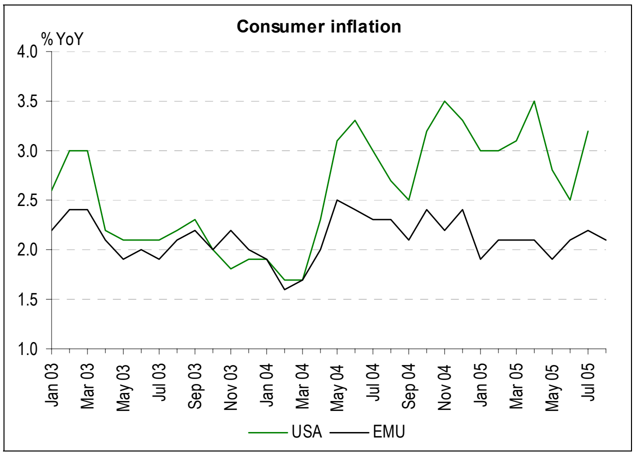
month	First auction date	T-bonds	offer	sale	Second auction date	T-bonds	offer	sale	Third auction date	T-bonds	offer	sale
January	05.01	OK0407	2 000	2 000	12.01	DS1015	2 600	2 130	19.01	PS0310	2 500	2 500
February	02.02*	OK0407	2 760	2 760	09.02*	IZ0816	960	960	16.02*	PS0310	3 840	3 200
March	02.03*	OK0407	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	1 800	20.07	PS0310	2 200	2 200
August	03.08*	OK0807	3 240	3 240	10.08	12Y CPI	500	500	-	-	-	-
September	07.09	OK1207	2 000	2 000	14.09	WS0922	-	-	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	-	-	-	-	-	-	-	-	-	-

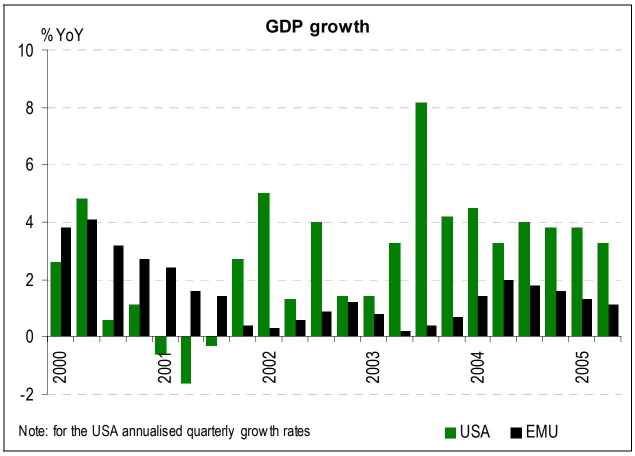
* with supplementary auction

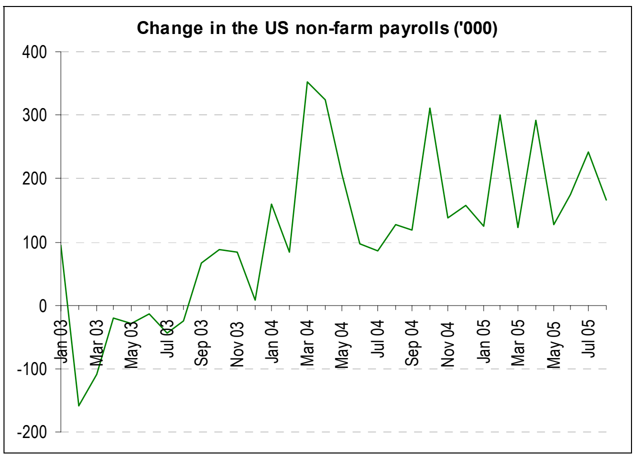
Source: Ministry of Finance, Reuters, BZ WBK

International review









Source: Reuters, ECB, Federal Reserve

Diminishing hopes for more rate hikes in the US

▪ Very high oil prices and negative impact of Hurricane Katrina that hit the US caused concerns about slowdown in American economy. It triggered speculations that Fed could break a cycle of interest rate hikes in September. Although uncertainty regarding Fed's decision has increased indeed, it seems that the Fed's meeting scheduled for 20 September will end up with another, 11th in the cycle interest rate hike in the US.

▪ In line with expectations, the European Central Bank kept interest rate unchanged at 2.0% in August. The overall message from the ECB was that this level of refinance rate will be maintained for some time, although it is worth to notice that not much emphasis was put on rising money supply. While there are some upside risks for inflation, economic growth may be lower than previously expected.

High oil prices push up inflation

▪ US CPI rose 0.5%MoM in July, boosted by substantial 3.8% increase in energy prices. Annual inflation rate went up to 3.2% from 2.5%YoY in June. Core inflation (excluding prices of food and energy) inched up 0.1%MoM, while market analysts predicted 0.2% rise. Producer prices soared 1%MoM, which was twice as much as expected by market consensus, also boosted by high energy costs. The data was perceived as a possible sign of inflationary pressure in the American economy.

▪ According to Eurostat's flash estimate, inflation in the euro zone fell slightly to 2.1% in August from July's 2.2%, but still remains above the target of the ECB. Producer prices were boosted by high oil prices and rose by as much as 0.5%MoM or 4.0%YoY. Money supply in July grew 7.9%YoY, at its fastest pace since October 2003. Loans to the private sector accelerated to 8.2%.

Concerns about slowdown after hurricane and oil price hikes

▪ Euro zone's GDP rose by 0.3% QoQ or 1.1% YoY in 2Q05, as compared to 0.4% and 1.3%, respectively, in 1Q05. The annual growth rate was slightly below market expectations of 1.2%. Growth in the entire European Union was a bit higher than euro zone's and amounted to 1.3%YoY (1.5% in 1Q05). The European Commission maintained GDP growth forecasts for the euro zone at 0.2-0.6% QoQ in 3Q05 and 0.4-0.8% QoQ in 4Q05.

▪ US GDP growth amounted to 3.3% in 2Q05, down from 3.4% flash estimate and 3.8% in the first quarter. However, impact of Hurricane Katrina caused concerns about growth slowdown in the next quarters. According to US Congress' experts impact of the hurricane could reduce American GDP growth by 0.5-1.0% in the remainder of the year and trim jobs number by 400,000.

Signs of recovery in German economy

▪ Recent statistical data from Germany showed notable upturn in business climate in the Europe's biggest economy. New orders in German industry rose 3.7%MoM in July, mostly due to export orders. Services PMI increased to 54.6, the highest level since January 2004. ZEW index measuring sentiment in German industry recorded increase to 50, the highest reading in 17 months.

▪ US non-farm payrolls amounted to 169,000 in August, which was below market expectations of 188,000. On the other hand, data for the previous two months were revised upwards – July's figure to 242 thousands from 207 and June's from 166 to 175. It is still difficult to assess how strong will be impact of the hurricane on the American labour market.

Economic calendar

Monday	Tuesday	Wednesday	Thursday	Friday
5 September ***POL: Treasury bills auction*** EMU: Retail sales (Jul) USA: Public holiday	**6** USA: ISM non-manufacturing (Aug)	**7** ***POL: 2y bond auction*** USA: Unit labour costs, productivity (2Q05) – final	**8** UK: BoE meeting – decision USA: Wholesale inventories (Jul)	**9** USA: Foreign trade prices (Aug)
12 ***POL: C/A (Jul)***	**13** USA: Foreign trade (Jul) USA: PPI (Aug)	**14** ***POL: 20y bond auction*** ***POL: CPI (Aug)*** ***POL: Money supply (Aug)*** USA: Retail sales (Aug) USA: Capacity utilisation (Aug) USA: Industrial production (Aug)	**15** USA: CPI (Aug)	**16** USA: C/A (2Q05) USA: Net capital flows (Jul) USA: Preliminary Michigan Index (Sep) EMU: Final HICP (Aug)
19 ***POL: Output in industry and construction (Aug)*** ***POL: PPI (Aug)***	**20** USA: Fed meeting – decision EMU: Trade balance (Jul) GER: ZEW index (Sep)	**21** ***POL: Retail sales (Aug)*** ***POL: Unemployment rate (Aug)*** EMU: Current account balance (Jul)	**22** ***POL: Core inflation (Aug)*** ***POL: Business climate (Sep)*** EMU: Industrial orders (Jul) USA: Leading indicators (Aug)	**23**
26	**27** ***POL: MPC meeting*** EMU: Money supply (Aug) GER: IFO index (Sep) USA: Consumers' confidence (Sep)	**28** ***POL: MPC meeting – decision*** USA: Durable goods (Aug)	**29** USA: GDP final (Q2)	**30** ***POL: Balance of payments (Q2)*** EMU: HICP flash (Sep) EMU: Consumers' sentiment (Sep) USA: Michigan final (Sep) USA: Chicago PMI (Sep)
3 October EMU: PMI manufacturing (Sep) USA: ISM manufacturing (Sep)	**4** EMU: PPI (Aug) EMU: Unemployment (Aug) USA: Industrial orders (Aug)	**5** EMU: Retail sales (Aug) EMU: PMI non-manufacturing (Sep) USA: ISM non-manufacturing (Sep)	**6** EMU: ECB meeting – decision UK: BoE meeting – decision	**7** USA: Non-farm payrolls (Sep) USA: Wholesale inventories (Sep) USA: Unemployment (Sep)
10	**11**	**12**	**13** ***POL: Balance of payments (Aug)*** USA: Foreign trade (Aug)	**14** ***POL: CPI (Sep)*** ***POL: Money supply (Sep)*** USA: CPI (Sep) USA: Retail sales (Sep) USA: Industrial output (Sep)

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*	31	-	11	-	31	-	-	29[f]	-	-	29[f]	-
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	24	23	23	25	25	23	25	23	21	21	23	21
Gross wages, employment	17	15	15	15	18	15	15	16	15	17	17	15
Unemployment	24	23	23	25	25	23	25	23	21	21	23	21
Foreign trade						about 50 working days after reported period						
Balance of payments*	-	-	31	-	-	30	-	-	30	-	-	30
Balance of payments	31[c]	28	31	29	31	30	12	11	12	13	15	14
Money supply	14	14	14	14	13	14	14	12	14	14	14	14
NBP balance sheet	7	7	7	7	6	7	7	5	7	7	7	7
Business climate indices	21	21	22	22	20	22	22	22	22	21	22	22

* quarterly data, [a] preliminary data, January, [b] January and February, [c] November 2004, [d] January, [e] February , [f] not officially confirmed

Source: CSO, NBP

Economic data and forecasts

Monthly economic indicators

		Aug 04	Sep 04	Oct 04	Nov 04	Dec 04	Jan 05	Feb 05	Mar 05	Apr 05	May 05	Jun 05	Jul 05	Aug 05	Sep 05
Industrial production	%YoY	13.7	9.5	3.5	11.4	6.8	4.6	2.3	-3.7	-1.1	0.9	6.9	2.6	7.5	8.6
Retail sales [c]	%YoY	9.6	8.8	4.0	4.4	2.8	7.5	2.4	-0.3	-14.4	8.0	10.5	5.0	6.9	7.2
Unemployment rate	%	19.1	18.9	18.7	18.7	19.1	19.5	19.4	19.3	18.8	18.3	18.0	17.9	17.7	17.5
Gross wages [b c]	%YoY	5.1	3.7	2.4	2.7	3.2	2.6	1.4	2.2	1.8	3.0	4.5	3.2	3.4	3.7
Employment [b]	%YoY	-0.8	-0.6	-0.4	-0.3	0.2	1.5	1.6	1.6	1.7	1.6	1.7	1.8	1.9	2.1
Export [d]	%YoY	22.1	18.0	15.3	29.5	20.9	32.5	23.2	10.1	13.0	12.0	13.4	21.1	22.0	18.9
Import [d]	%YoY	22.0	18.9	14.8	24.0	15.8	20.3	25.4	5.3	-5.1	13.5	9.3	15.0	15.7	16.3
Trade balance [d]	EURm	-314	-345	-250	-282	-488	126	-110	-334	107	-362	29	-242	-42	-239
Current account balance [d]	EURm	253	-383	105	223	-243	197	-56	235	647	-690	222	58	678	141
Current account balance [d]	% GDP	-1.8	-2.0	-2.0	-1.8	-1.5	-1.4	-1.3	-0.9	-0.3	-0.4	-0.1	0.3	0.4	0.7
Budget deficit (cumulative)	PLNbn	-25.9	-29.0	-30.8	-33.8	-41.5	-1.6	-8.8	-12.3	-13.9	-18.3	-18.5	-17.5	-17.5	-20.6
Budget deficit (cumulative)	% realisation	62.3	69.8	74.1	81.4	100.0	4.5	25.2	35.2	39.6	52.3	52.9	49.9	58.8	69.1
CPI	%YoY	4.6	4.4	4.5	4.5	4.4	3.7	3.6	3.4	3.0	2.5	1.4	1.3	1.6	1.6
PPI	%YoY	8.5	7.9	7.6	6.7	5.2	4.5	3.2	2.2	0.9	-0.5	0.0	0.0	0.1	0.5
Broad money (M3)*	%YoY	7.4	6.5	10.5	6.4	8.7	9.3	9.4	11.0	10.0	13.2	10.8	10.4	10.3	10.9
Deposits*	%YoY	7.6	6.6	11.5	6.5	8.1	8.4	8.7	10.4	8.7	11.9	9.2	9.3	9.0	9.5
Credits*	%YoY	5.3	4.3	9.7	4.2	2.9	3.5	2.4	4.6	5.3	9.4	7.5	8.8	8.8	10.0
USD/PLN	PLN	3.64	3.58	3.46	3.28	3.09	3.11	3.06	3.04	3.21	3.29	3.34	3.40	3.29	3.21
EUR/PLN	PLN	4.43	4.37	4.32	4.26	4.14	4.08	3.99	4.02	4.16	4.18	4.06	4.10	4.05	3.95
Reference rate [a]	%	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.00	5.50	5.50	5.00	4.75	4.75	4.50
WIBOR 3M	%	6.58	7.12	6.89	6.81	6.72	6.63	6.54	6.15	5.78	5.48	5.22	4.66	4.67	4.50
Lombard rate [a]	%	8.00	8.00	8.00	8.00	8.00	8.00	8.00	7.50	7.00	7.00	6.50	6.25	6.25	6.00
Yield on 52-week T-bills	%	7.24	7.38	7.00	6.81	6.44	6.28	5.95	5.51	5.36	5.19	5.09	4.30	4.33	4.20
Yield on 2-year T-bonds	%	7.66	7.51	7.04	6.81	6.39	6.24	5.82	5.43	5.39	5.27	5.14	4.50	4.60	4.40
Yield on 5-year T-bonds	%	7.65	7.33	7.03	6.78	6.29	6.31	5.80	5.56	5.50	5.38	5.25	4.70	4.84	4.60
Yield on 10-year T-bonds	%	7.36	6.96	6.75	6.43	6.02	5.98	5.72	5.57	5.49	5.36	5.24	4.72	4.87	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	816.1	885.3	938.2	204.1	216.3	219.2	245.7	218.5	226.8	231.2	261.7
GDP	%YoY	1.4	3.8	5.4	3.5	7.0	6.1	4.9	4.0	2.1	2.8	3.9	5.0
Domestic demand	%YoY	0.9	2.6	5.0	2.1	6.0	5.8	5.2	3.3	1.1	-0.3	2.0	5.2
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	6.2	3.7	3.9	4.3	7.4	1.0	3.8	7.0	9.0
Industrial production	%YoY	1.1	8.4	12.3	4.2	19.0	16.4	9.2	6.2	0.7	2.2	6.2	7.6
Retail sales (real terms)	%YoY	1.9	3.6	7.1	2.7	13.6	11.3	4.0	1.1	-0.4	-1.8	4.6	8.2
Unemployment rate [a]	%	20.0	20.0	19.1	17.7	20.4	19.4	18.9	19.1	19.3	18.0	17.5	17.7
Gross wages (real terms)	%YoY	1.5	2.0	0.8	0.8	3.8	1.6	-0.5	-1.5	-1.3	0.8	1.9	2.2
Export [b]	%YoY	6.0	9.1	21.9	15.8	19.3	29.1	17.6	21.8	20.8	12.9	20.7	10.0
Import [b]	%YoY	3.5	3.3	19.1	12.0	12.6	29.3	16.3	18.2	15.7	5.3	15.8	12.0
Trade balance [b]	EURm	-7 701	-5 077	-4 510	-2 555	-909	-1 438	-1 148	-1 015	-315	-226	-523	-1 491
Current account balance [b]	EURm	-5 404	-4 109	-2 958	838	-654	-1 530	-868	94	379	179	877	-596
Current account balance [b]	% GDP	-2.7	-2.2	-1.5	0.4	-1.7	-1.9	-2.0	-1.5	-0.9	-0.1	0.7	0.4
Budget deficit (cumulative) [a]	PLNbn	-39.4	-37.0	-41.5	-30.8	-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	-3.3	-5.8	-3.7	-4.1	-5.1	6.4	3.9	3.0	2.0
CPI	%YoY	1.9	0.8	3.5	2.2	1.6	3.3	4.5	4.4	3.6	2.3	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	1.4	1.6	1.5
PPI	%YoY	1.0	2.6	7.0	1.2	4.4	8.8	8.3	6.5	3.3	0.1	0.2	1.3
Broad money (M3)* [a]	%YoY	-2.0	5.6	8.7	10.0	5.7	7.2	6.5	8.7	11.0	10.8	10.9	10.0
Deposits* [a]	%YoY	-4.1	3.7	8.1	8.5	4.8	6.9	6.6	8.1	10.4	9.2	9.5	8.5
Credits* [a]	%YoY	4.7	8.1	2.9	10.0	6.0	5.7	4.3	2.9	4.6	7.5	10.0	10.0
USD/PLN	PLN	4.08	3.89	3.65	3.22	3.82	3.89	3.62	3.27	3.07	3.28	3.30	3.24
EUR/PLN	PLN	3.85	4.40	4.53	4.04	4.78	4.69	4.43	4.24	4.03	4.13	4.03	3.98
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	5.26	5.47	5.87	6.68	6.81	6.44	5.49	4.61	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	4.90	5.75	6.24	7.26	6.75	5.91	5.21	4.28	4.20
Yield on 2-year T-bonds	%	7.94	5.38	6.89	4.95	6.28	6.86	7.66	6.75	5.83	5.27	4.50	4.20
Yield on 5-year T-bonds	%	7.86	5.61	7.02	5.12	6.67	7.10	7.59	6.70	5.89	5.38	4.71	4.50
Yield on 10-year T-bonds	%	7.34	5.77	6.84	5.09	6.70	7.00	7.25	6.40	5.76	5.37	4.73	4.50

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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