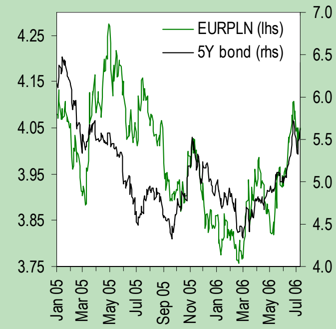
Bank Zachodni WBK

MACROscope

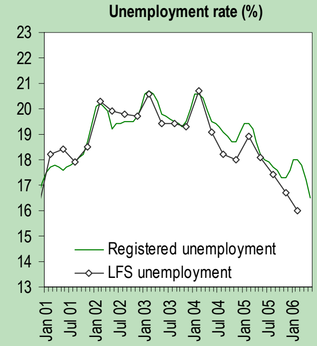
Polish Economy and Financial Markets

July 2006

EURPLN rate and 5Y bond yield



Unemployment rate (%)



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This is the end…

- **… of the World Cup. But not only. Kazimierz Marcinkiewicz has stepped down from the Prime Minister's post after Zyta Gilowska's resignation as deputy prime minister and minister of finance. These changes, however, have not created any major turmoil in the financial markets.** Quick presentation of candidates for the new prime minister's and finance minister's offices as well as their public statements in which they emphasized their will to continue the economic policy (as well as keep the budget anchor at PLN30bn) have contributed to stabilisation of the zloty and bonds after a temporary sell-off. Quite instrumental in this is also the fact that the zloty, bonds and the stock exchange have recently seen major corrections in the Polish market. It seems that over the summer holiday season, political factors (in the course of budget work) will give rise to investors' uncertainty and they will be awaiting the first decisions as regards economic policy. If, however, the budget deficit of PLN30bn (too high in our view given very good business climate) is kept, once again the crucial role in the Polish market will be played by the global markets sentiment around the so-called emerging markets. If, on the other hand, the new government decided, despite the declarations, to significantly step up the deficit and/or budget expenses, a potential capital outflow from the emerging markets could start in Poland. Our basic scenario is based on the first option and therefore we are not changing our foreign exchange projections for the forthcoming months.

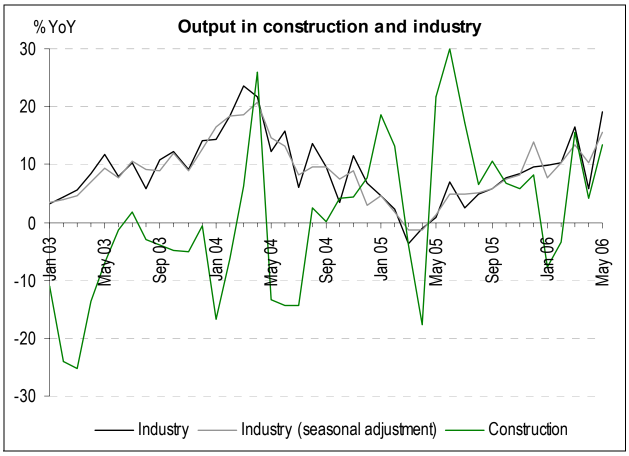
- **The shape of the government's economic policy is accepted by the investors in the financial market given very strong fundamentals of the Polish economy.** As long as a quick GDP growth produces high budget income, even excessive expenditure does not give rise to major fiscal issues. The problem is, however, that notwithstanding conservative macroeconomic assumptions, the draft budget for next year does not prepare public finance for economic slow-down which cannot be ruled out in a medium term perspective, given, for example, the global situation.

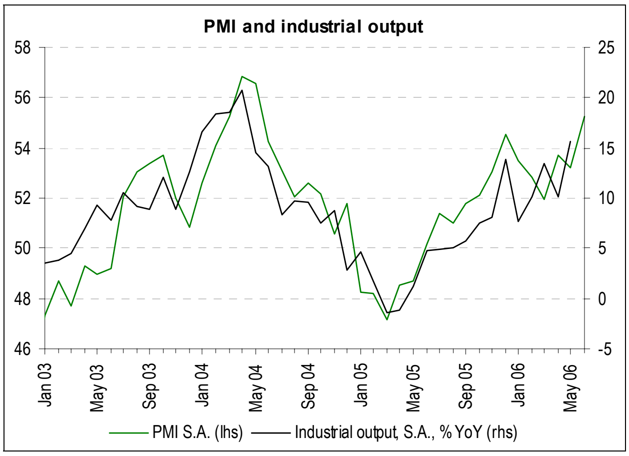
- **Even though the communiqué following the last MPC meeting sounded more "hawkish", it was not to extent that we should modify our forecast whereby NBP interest rates will be left unchanged until the end.** From the Council's point of view, the key question is whether the change in the inflation outlook for a medium term is crucial enough to permanently jeopardize the inflation target. The most likely scenario still assumes that the inflation will come back to the target gradually to reach it at the turn of 2007. Even if the inflation grew up to 2.5% still this year (not a very likely scenario), this would only mean that the Council would finally achieve its objective. With the inflation below 1.5% (and net inflation at ca. 1%), it is hard to imagine a decision to increase interest rates being taken.

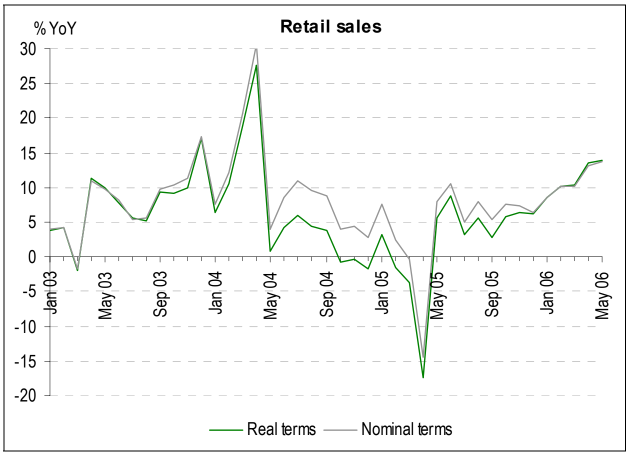
Financial market on 30 June 2006:					
NBP deposit rate	2.50	WIBOR 3M	4.21	USDPLN	3.1816
NBP reference rate	4.00	Yield on 52-week T-bills	4.35	EURPLN	4.0434
NBP lombard rate	5.50	Yield on 5-year T-bonds	5.51	EURUSD	1.2709

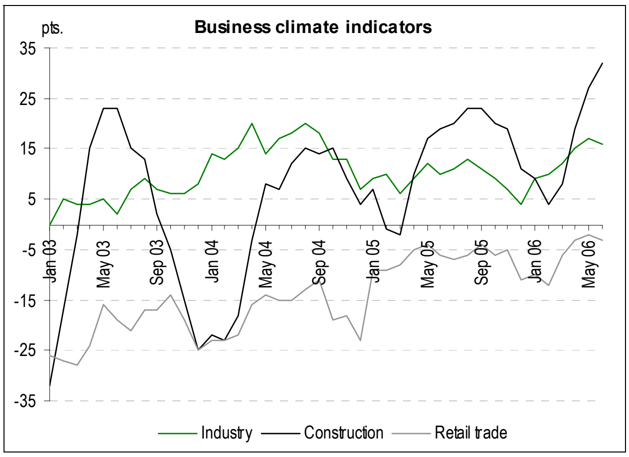
This report is based on information available until 10.07.2006

Economic update









Source: CSO, Reuters, own calculations

Boom in industry

- Our optimism regarding industrial production growth was not enough. Although we had the highest output growth forecast on the market of almost 17%YoY, the data showed that in May industrial output rose by as much as 19.1% against market consensus of ca. 13%, not to mention the Ministry of Finance's forecast of 10%.
- As we have written a month ago, the April's slowdown in production was a temporary phenomenon driven to a large extent by seasonal factors (number of working days). Of course, one has to bear in mind that seasonal factors were important again and worked in opposite direction than in April (one working day more than in May 2005). However, industrial output adjusted by seasonal factors rose by as much as 15.6%, which was the best result since the pre-accession boom.
- As regards the output breakdown, very high growth was recorded in manufacturing sector (21.7%YoY), which suggests that foreign demand for Polish goods keeps growing robustly. We think this trend should continue especially as recent changes on the FX market has been favourable for exporters.
- Construction output increased 13.4%YoY (7%YoY seasonally adjusted), which bodes well for investment performance in the second quarter of this year.
- Continuation of positive tendencies in industry was signalled by PMI for June. It rose to 55.3pts from 53.2pts in May, which means that activity in manufacturing sector improved the strongest for two years (indicators for output and new orders recorded almost two year highs). This was coupled with record high level of new jobs. Indicator for employment showed that the pace of creating new jobs was the strongest since the beginning of PMI series, i.e. from 1998.

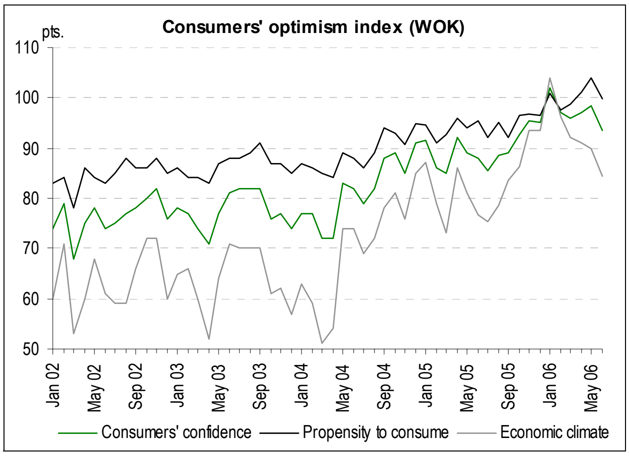
Robust upward trend in retail sales

- Retail sales growth in May proved higher than median of market forecasts, reaching 0.6%MoM and 13.7%YoY in nominal terms. Thus, it was even stronger than our forecast of 13%YoY which was one of the most optimistic on the market.
- In real terms retail sales grew 14%YoY, i.e. stronger than in nominal terms for the third straight month (negative deflator) which indicates no inflationary pressure despite growing demand.
- Both nominal and real growth has been the strongest since pre-accession boom, and excepting this period the strongest since early 2000. What is important, accelerating retail sales growth was not an effect of a one-off in case of a single component, yet a result of strong underlying trend in majority of retail sales' components. All in all, the data showed that firmer labour market translates into stronger consumption.

Upbeat moods among enterprises

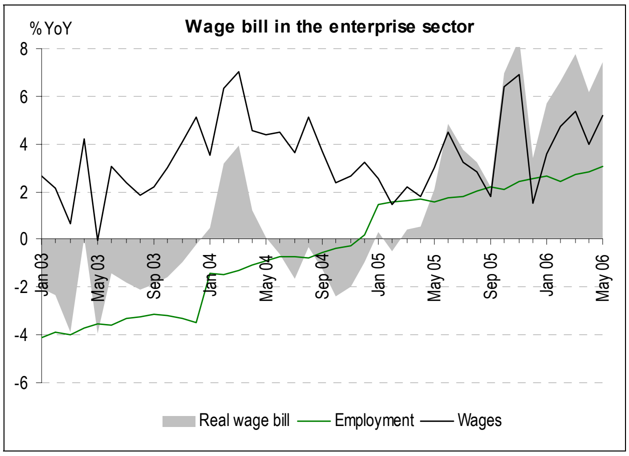
- In line with expectations, business climate indicators for June confirmed the already known (very good) picture of economic situation. Indices for two sectors – manufacturing and retail trade – recorded 1pt decreases as compared to May, but this was a seasonal phenomenon.
- Annual growth of all the three indices (the two mentioned above and construction) slightly accelerated, suggesting cementation of positive tendencies in the economy.
- All in all, business climate indicators for June confirmed upbeat moods among enterprises, which supports our predictions assuming continuation of upward trend in investments and thus our forecast of solid economic growth (at the level of around 5%) both in 2Q06 and in the whole year.

Economic update



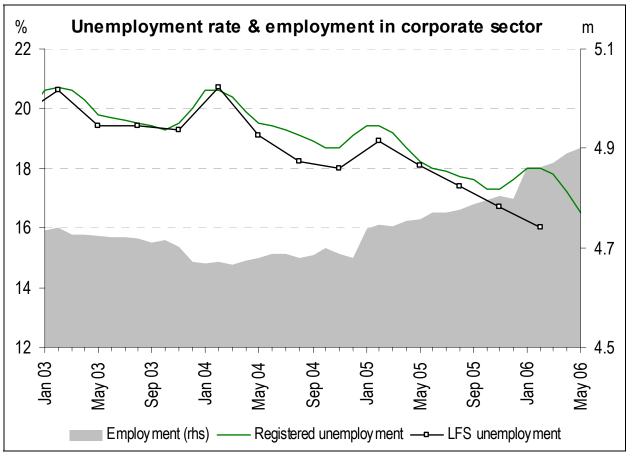
Seasonal deterioration in households' moods

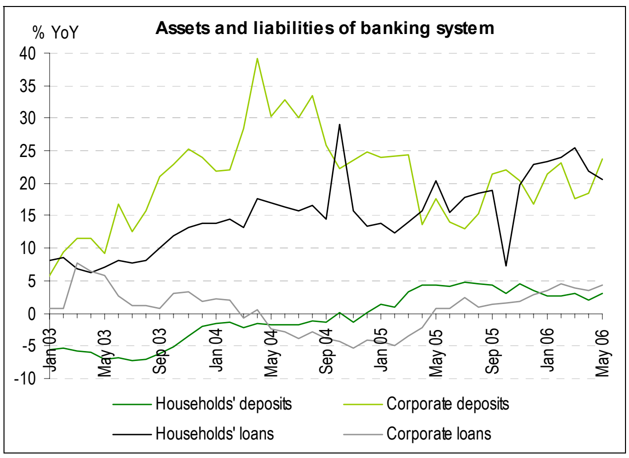
- According to latest survey carried out by Ipsos institute, June saw some deterioration in consumers' confidence in comparison with the previous month. The biggest slump (from 90 to 84.3 pts) took place in assessment of general economic climate.
- Authors of the survey explain this by government's reluctance to implementation of economic reforms, however it seems to us that the downturn is more of seasonal nature, as it was observed at a similar scale also in June 2005.
- Consumers' propensity to spend and general index of confidence also declined a little, but they still remain at fairly high levels, one of the highest since late nineties. All indices, although lower than in May, were growing in annual terms in June. Thus, we argue that the results of the survey support expectations of fast rise in private consumption.



Robust improvement of labour market conditions

- Data about employment and wages in enterprises sector for May brought positive surprise. While the market expected quite substantial employment creation of 2.9%YoY, it turned out even higher as the number of jobs increased by 3.1%, which was the best result ever.
- Also, while average wage was forecasted to rise by ca. 4.5%YoY it actually increased by as much as 5.2% (average for January-April period was 4.4%).
- As a result of record strong employment rise and solid wage growth, wage bill in the enterprise sector increased by 8.4% in nominal and 7.6%YoY in real terms.
- Recent data on unemployment has been impressive. The registered unemployment rate fell to 16.5% at the end of May from 17.2% in April. This has been the strongest unemployment fall since 1998, i.e. the culmination of the previous economic boom. LFS survey for the first quarter of this year also showed significant reduction in the unemployment rate to 16%, the lowest level since the turn of 1999 and 2000. The data clearly shows that the labour market conditions strongly improves and this trend is not likely to reverse soon. This will add fuel to consumption demand.
- The question is, however, whether firming labour market conditions will not strengthen inflationary pressures. From this point of view, a worrisome phenomenon is a fall in labour activity recorded in 1Q06. If this tendency proves permanent and is coupled with strong employment growth, the labour market situation will become much more tight than until recently and this could have inflationary consequences. Especially if we take into account relatively high level of NAIRU (non-accelerating inflation level of unemployment) in Poland.



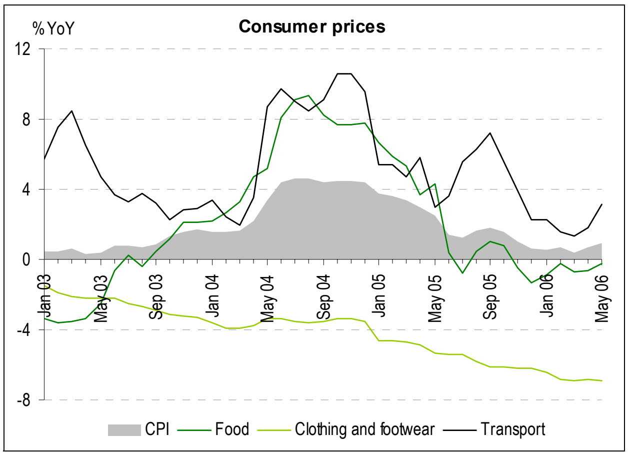


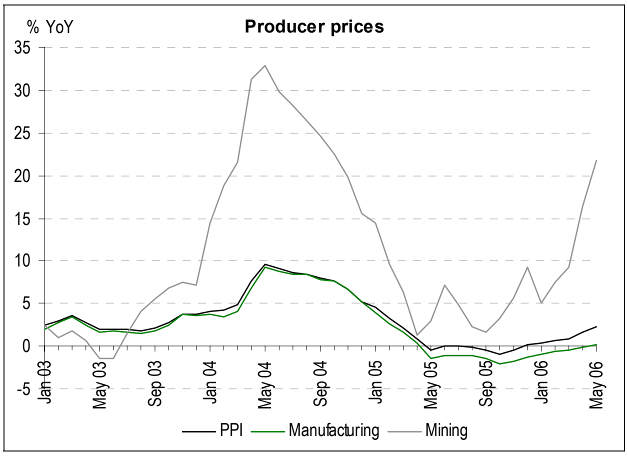
Healthy growth of money supply

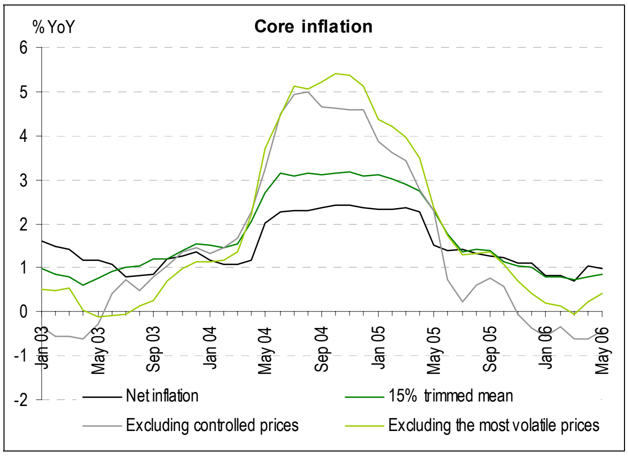
- Monetary statistics for May showed money supply rose 2.3%MoM and 10.1%YoY while market expected 8.8%YoY rise. The biggest surprise were huge increase in corporate deposits (6.6%MoM and 23.7%YoY) to almost PLN104bn. Meanwhile, households' deposits were flat on a monthly basis in May and grew a mere 3% in annual terms.
- Total loans grew a healthy 2.2%MoM which took the annual growth rate slightly up to 12.4% from 12.2% in April. Demand for loans in still driven mainly by households' borrowing (20.5%YoY rise) while corporate borrowing shows still very shy signs of improvement (4.3%YoY rise versus 3.6%YoY increase in April).
- The data are consistent with continuation of strong economic expansion on the one hand and lack of considerable concerns about monetary pressure on prices on the other hand.

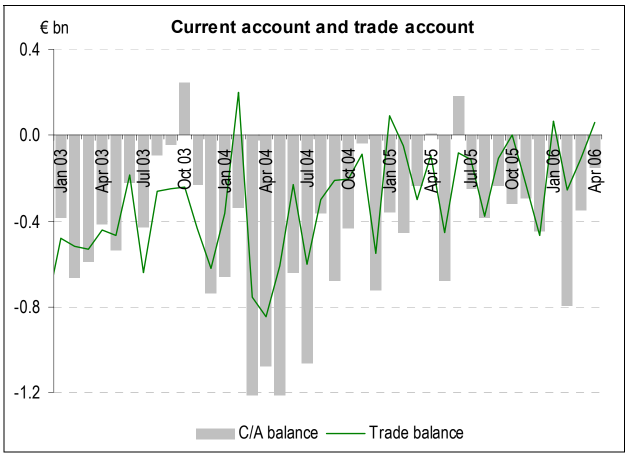
Source: CSO, Ipsos, NBP, own calculations

Economic update









Source: CSO, NBP, own calculations

CPI and PPI slightly up, but inflationary pressure still weak

▪ Consumer prices in May increased 0.5%MoM and 0.9%YoY. The figures were slightly higher than our predictions and market consensus, both at 0.8%YoY. The reason for inflation acceleration from 0.7%YoY in April were two factors: food prices which jumped 1.3%MoM (driving annual growth rate up from –0.6% in April to –0.2%) and transport prices that grew 1.5%MoM (taking the annual growth rate to 3.1% from 1.8% in the previous month).

▪ Meanwhile, prices of other categories of goods and services were broadly stable, showing no signs of inflationary pressure. They were even slightly lower than we had predicted and net inflation (CPI excluding food and fuel prices) did not increase in May (see below).

▪ All in all, the CPI figures confirmed that medium-term inflation prospects remain favourable. We predict CPI inflation will slightly increase in June (to 1%YoY) and then it should ease and not exceed 1%YoY between July and October before start rising again in the last two months of the year.

▪ PPI inflation rose from 1.7%YoY in April to 2.3%YoY in May, but this was to a large extent driven by prices in mining sector (rise by 4.8%MoM and 21.7%YoY), while prices in manufacturing remained stagnant (rise by 0.2%MoM and 0.2%YoY).

▪ If we combine this with the fact that underlying pressure on price increase visible in other inflation indicators is weak (CPI is rising only because of food and fuel prices, while net inflation remains around 1%), even accelerating economy should not create a significant risk for inflation target of 2.5%. While inflation is expected to rise in the following months and quarters this should be rather gradual and constrained increase towards the target.

Continuously low core inflation

▪ Four out of five core inflation measures calculated and published by the National Bank of Poland slightly increased in May and one measure slightly dipped. The latter is net inflation which inched down to 0.99%YoY from 1.04%YoY.

▪ This confirms that acceleration in the headline inflation rate was caused by food and fuel prices. Although other measures of core inflation inched up, they remain very low – all of them are below 1%YoY and one is still negative.

▪ Thus, there is continuously no evidence of any increase in underlying inflationary pressure despite total demand in the economy has been reviving for a few quarters. This supports our view that contrary to market expectations (reflected in FRAs and other financial instruments) the MPC will not decide for swift interest rate hikes.

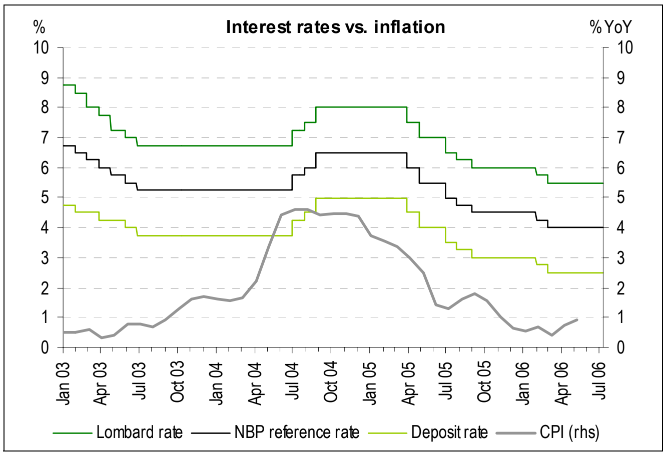
Trade surplus, narrow C/A deficit

▪ According to NBP data, Poland's C/A deficit narrowed to €154m in April from a revised €459m in March. According to our estimates, 12-month cumulative C/A deficit in relation to GDP remained at 1.5% seen in March.

▪ The figures showed some deceleration in trade turnover, yet both exports and imports' growth remained solid. Exports expanded 13%YoY and imports 10.4%YoY, which translated into trade surplus of €62m.

▪ All in all, balance of payments statistics for April confirmed good external position of the Polish economy, including continuation of robust exports' growth. Persistently good balance of payments position and strong exports is a factor supporting the zloty and preventing it from deeper falls which were seen recently in case of currencies with weak fundamentals.

Central bank watch



More risk factors, but rate hikes not so soon

▪ June introduced no big surprises in monetary policy. The reference rate remained unchanged at the record low level of 4.0%.

▪ In the statement published after the meeting the MPC wrote that "the balance of risks for future inflation may point to an increased probability of inflation running, in monetary policy transmission horizon, at a higher level than it was accounted for in the April projection and at the May meeting of the MPC".

▪ This means a change in view as compared to previous month when the MPC judged that balance of risks for future inflation has not changed much. It was probably influenced by recently published economic data, which were, in the Council's opinion, "markedly higher than expected both by the NBP and external forecasters" in most cases.

▪ At the same time, in the MPC assessment, "low level of all core inflation indices suggests that inflationary pressure continues to be low".

▪ Hence, it seems that stronger than expected economic expansion will be a reason of increased central bank's vigilance in the nearest future, although first rate hikes still seem to be quite distant on the horizon. It is still hard to imagine a decision to tighten monetary policy already this year in a situation when current CPI inflation rate and – even more importantly – net inflation stays at very low level, at around 1%.

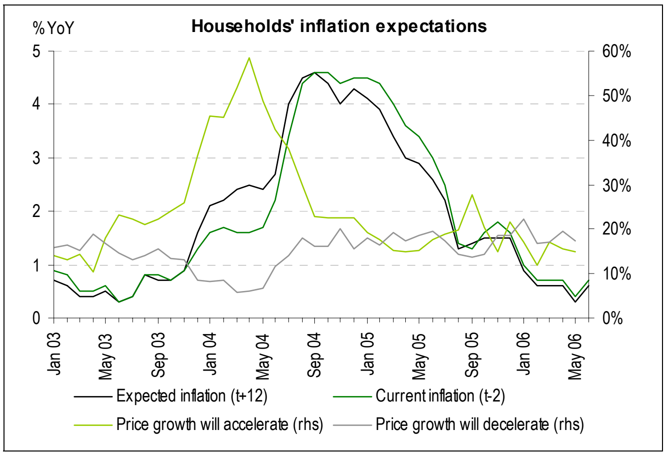
▪ Undoubtedly, key elements for MPC decisions will be the results of next inflation projections (subsequent updates scheduled for July and October), that will deliver guidelines on a possible reaction of CPI to changes in macroeconomic environment in medium term.

Fragments of the MPC statement from 28 June 2006

In the Council's assessment, the balance of risks for future inflation may point to an increased probability of inflation running, in monetary policy transmission horizon, at a higher level than it was accounted for in the April projection and at the May meeting of the Monetary Policy Council. A broader assessment of the inflation outlook will be possible in July 2006 after the publication of the inflation projection.

This low level of all core inflation indices suggests that inflationary pressure continues to be low.

Since the May meeting of the Council: the Government has adopted a draft act on transferring funds to public health-care institutions to finance a 30-percent pay rise for their employees, an agreement has been reached on bonus payments for miners to be made from profits of coal-mines and further signals have arisen pointing to building wage pressure in some parts of the public sector. All this may lead to further increases in wage pressure. It should be emphasised that an indispensable condition for a sustained acceleration of economic growth which would not pose a threat to the achievement of the inflation target is that the growth in wages does not outpace the growth in labour productivity.

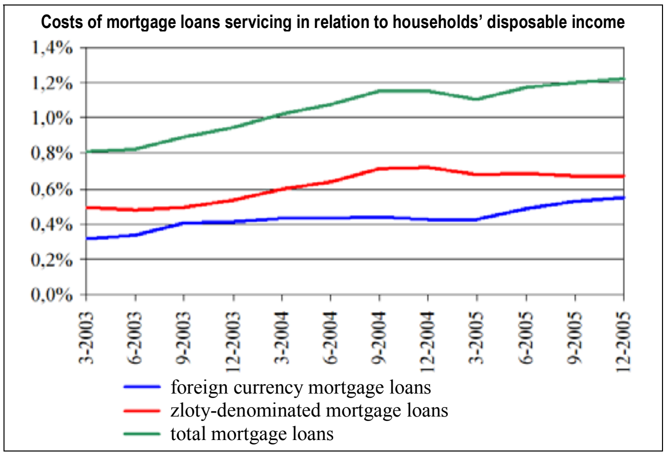


Low inflation expectations of households

▪ Apart from low core inflation, fears of sudden rise in inflationary pressure are curbed also by low households' inflation expectations. In June they were slightly higher than in May but still much below 1%.

▪ One should keep in mind that a way of computing households' expectations measure implies that the index keeps following currently observed inflation rate (see the chart). Nevertheless, even looking at the structure of answers in the poll there are no dangerous trends seen in recent months.

▪ At the same time, the central bank has noticed somewhat different situation in the case of entrepreneurs' expectations – according to CSO survey, since early 2006 there is a gradual rise in predicted producer prices. This could suggest that firms could get more prone to raise prices in time.



Source: NBP, Reuters

Central bank not concerned about rapid credit growth

▪ *Financial Stability Report 2005* released by the NBP at the end of June confirmed main conclusions from the analysis of situation on the credit market than we presented last month.

▪ According to the central bank's report the pace of credit growth observed in Poland does not pose a direct threat to the stability of financial system. Such inference stems from experience of other UE countries that used to face rapid credit expansion in the past, and also from the fact that costs of debt servicing in proportion to households' income are still much lower in Poland than in EU-15 countries.

▪ Tightening conditions of granting FX loans since 1 July additionally reduces risk connected with buoyant surge in this kind of households' debt.

Central bank watch

Comments of the central bank representatives	Our remarks
Leszek Balcerowicz, NBP governor **MPC press conference, 28 June** In the opinion of the bank's experts, the proposed macroeconomic assumptions for the 2007 budget raise the fiscal burden, which was already at a high level, while it should be reduced. The proposed form of the macroeconomic assumptions is unfavourable. **Krzysztof Rybiński, deputy NBP governor** **PAP, 6 July** In the nearest two years improvement in the public finances will be more difficult than it is right now. Currently the economy is expanding at good pace, the structure of growth is favourable for budget revenues. Income side is good though, but there are risks for global growth on the horizon, in 2-3 years perspective. (...) If we do not make use of current fast economic growth and high revenues to reduce budget deficit, then when a slowdown comes it will be even more difficult.	Monetary Policy Council's assessment of the next year's budget draft will be prepared in the autumn, only after the government submits the draft bill in the parliament. However, some comments from the central bank officials regarding government's budgetary assumptions have started appearing already now. They suggest that the central bank is not very enthusiastic about increase in spending planned by the government and the Ministry of Finance, and it points out – quite rightly – that keeping a nominal budget deficit unchanged in the period of very good business climate and fast growth of budget revenues is not an ambitious achievement of the ruling administration. It simply implies that extraordinarily favourable circumstances are being wasted, while they could have been utilized to reduce fiscal imbalances, not necessarily through very unpopular spending cuts but even by constraining the growth in spending by several percentage points below growth in revenues. The situation implies that in the coming years Poland's public finances will remain extremely vulnerable to the risk of economic slowdown.
The latest LFS survey for 1Q06 showed optimistic results for employment and pessimistic for labour activity. Activity has been rising slowly, which may be dangerous for inflation if next quarters do not show that accelerating employment rise is at least to some extent offset by an increase in labour activity. Inflation path for 2006 should be consistent with inflation projection, although firmer labour market conditions pose some risk to medium-term inflation prospects. Even if negative tendencies are maintained, one should not be afraid of "inflation explosion".	According to deputy NBP president, while labour market conditions create some risks for inflation in the medium-term, there is no significant danger of rapid inflation acceleration. This is consistent with our view and we stick to our scenario of flat interest rates at least until year-end. Still, the question is whether such opinion is also shared by a majority of MPC members. From this point of view, interviews with professors Andrzej Sławiński and Andrzej Wojtyna would be the most interesting for the market.
Dariusz Filar, MPC member **PAP, 30 June** Current level of main NBP rate seems to be close to the rate that guarantees inflation stabilisation and one could expect that a potential escape of inflation above the target will not be significant. Therefore, the steps would be rather 25pb wide. In this process of seeking natural rate for Poland we are recently somewhere near adequate level. Future path of inflation need not increase over the entire projection period. The shape of the path could change. If projection in July or November shows that inflation stabilisation at ca. 2.5% is under threat, monetary policy adjustment would be necessary. We would like that after end of convergence process to 2.5% inflation stays as close as possible to the target, i.e. in 2.4-2.6% range, no more. **Halina Wasilewska-Trenkner, MPC member** **Radio PiN, 29 June** What is going on in the economy is still extremely positive, but it does not bear a direct threat to inflation growth, i.e. it will rise but within the limits outlined by our target; we predict it will arrive to 2.5% a bit earlier than we had previously predicted. We presume it could be a quarter or two earlier. This is not a threat, there is still a margin, a possibility of inflation rise within the target, and the economy is expanding well and we do not want to interrupt it. We are in a very good position. We still do not have to apply tightening that others are forced to do. Probably, we will have to make such decisions in course of the next few quarters. [...] We would like to avoid at all costs a situation when interest rate hike would have to be abrupt. [Q:] If I present a hypothesis that rate hikes will be made since 2007 with small 25 bp steps, would I be wrong? [A:] No, you would be optimistic. [Q:] 2006 and 50 bp, is this pessimistic? [A:] I would call this extremely pessimistic.	After the last meeting of Monetary Policy Council, the comments of its representatives in media were very rare. In fact, we only had an opportunity to learn the point of view of the members representing "hawkish" faction within the Council. Two MPC members signalled that potentially there could appear a need to hike interest rates in future, however – what is important – their belief in inevitability of such decisions was not so strong in our opinion. While Halina Wasilewska-Trenkner expects that the new inflation projection will show faster return of inflation to the target (probably by one-two quarters), which in her opinion could justify a need to tighten monetary policy, Dariusz Filar clearly conditioned monetary policy tightening on threat to inflation target at 2.5% level. This implies that a necessary condition for a rate hike would be not so much a return of forecasted inflation to the target, but only a risk that inflation would go up further above 2.5%. For now, Filar does not consider this risk to be significant, as in his opinion future inflation path does not have to lift in the entire projection horizon, but could change shape. In Filar's opinion inflation stabilisation at the target level should mean maintaining inflation quite closely to 2.5%, i.e. in 2.4-2.6% range, no more. It would imply lower tolerance for inflation jump above the target than below, especially that inflation rate has been staying not only below the target but also below the lower end of tolerance band for a long time. It is not certain whether Filar's opinions are shared by the majority of MPC members. One should notice that even in Halina Wasilewska-Trenkner's comments there was an opinion that for now inflationary pressure is not particularly strong, and the MPC would not like to interrupt fast economic growth with its policy as long as a threat of excessive inflation rebound gets real. MPC representative is also of opinion that interest rate hikes should be made in small steps, and only in the most pessimistic scenario she could imagine strong 50 bp rate hike already at the end of this year.

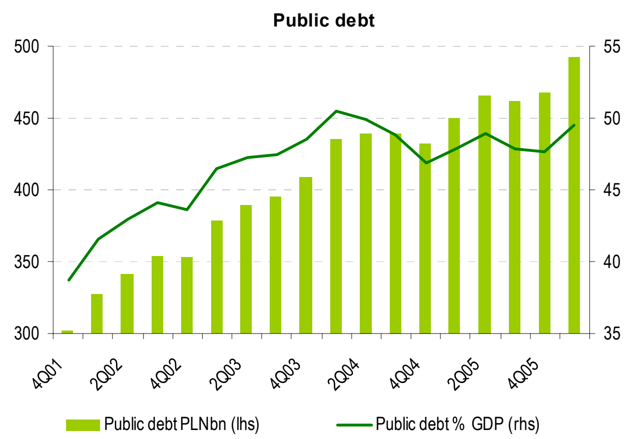
Government and politics

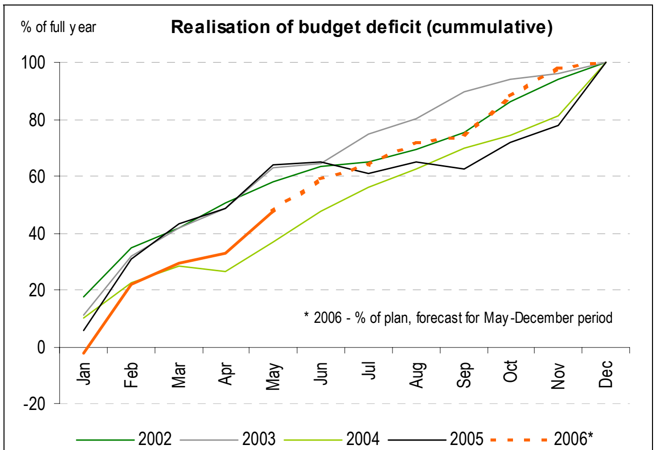
Macroeconomic assumptions for budget 2007

	2006	2007
GDP (% YoY)	4.6	4.6
Domestic demand, %	4.7	4.9
Total consumption, %	3.8	3.7
- private consumption, %	4.1	3.7
Gross accumulation, %	8.1	9.6
- fixed investments, %	8.5	10.0
Unemployment rate (%, year end)	15.9	14.4
Inflation (%, average)	0.8	1.9
NBP reference rate (%, year-end)	4.0	4.0
EURPLN	3.90	3.90
USDPLN	3.14	3.10

Budget assumptions

	2006	2007
Total revenues (PLNbn)	195,282	213,140
- tax revenues (PLNbn)	172,199	192,628
out of which PIT revenues (PLNbn)	27,300	30,380
- non-tax revenues (PLNbn)	20,800	20,413
Expenditures (PLNbn)	225,829	243,140
Deficit (PLNbn)	30,547	30,000
Deficit (% GDP)	3.0	2.7





Source: CSO, Ministry of Finance

Macro assumptions without major reservations

▪ Macroeconomic assumptions for the budget 2007 seems to be quite conservative as regards the forecast of economic growth.

▪ In our opinion there is a chance for even higher growth in domestic demand and lower negative contribution of net exports in both 2006 and 2007.

▪ Forecasts of CPI inflation and interest rates, as well as exchange rate against the euro, are roughly consistent with our expectations. We forecast lower exchange rate of the zloty against the U.S. dollar amid the assumption of higher EURUSD rate.

▪ As regards official interest rates abroad, the Ministry of Finance's assumptions (5.5% in the U.S. and 3.5% in the euro zone) are approximately yin line with ours.

High growth in revenues and spending

▪ While the government should take advantage of fast economic growth and reduce fiscal imbalance more decisively, the next year's deficit was set at PLN30bn (the limit known as "budget anchor").

▪ The revenues' target growth should be regarded as quite ambitious, as the ministry counts on over 9% rise in total revenues and almost 12% jump in tax revenues. Although this year's revenues may top the planned value, the difference should not be big and would not concern tax revenues.

▪ It seems that high revenues were needed to spend more as planned growth in budget expenditures amounts to almost 8% (almost 6% in real terms). Additionally, it is not certain whether this includes spending in the healthcare sector. The remaining question is whether the budget draft will be accepted by the new cabinet. First comments suggest than nothing will change.

Public debt up in the first quarter

▪ Very favourable economic situation should be used as an opportunity to reduce public debt. Meanwhile, instead of debt reduction, we are observing a rise in the debt to GDP ratio despite accelerating GDP growth.

▪ In 1Q06 public debt rose by 5.1% to PLN491.8bn. While the first quarter of the year typically sees an increase in debt level, this time the hike was stronger than usually.

▪ The ratio of debt to GDP advanced as well, from 47.7% in December 2005 to 49.5%, the highest level since Q2 2004.

▪ While public debt in nominal terms will continue to rise, it seems that ratio to GDP should maintain a the level of ca. 50%, at least until we see some economic slowdown and the budget draft 2007 do not prepare Polish public finance sector for a possibility of lower GDP growth figures in medium-term.

Only 60% of deficit in the middle of the year

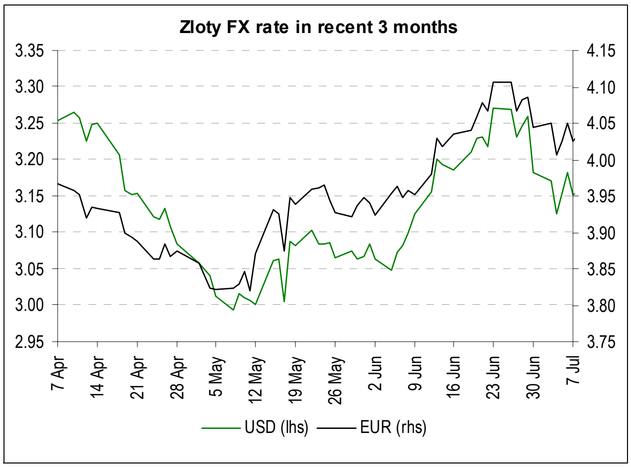
▪ Data on budget performance after five months of this year. showed budget deficit reached 47.8% of the full-year plan. Good budget performance in May, likewise in previous months, was the effect of higher revenue rise amid stronger than expected economic growth. At the same time budget spending remain under control.

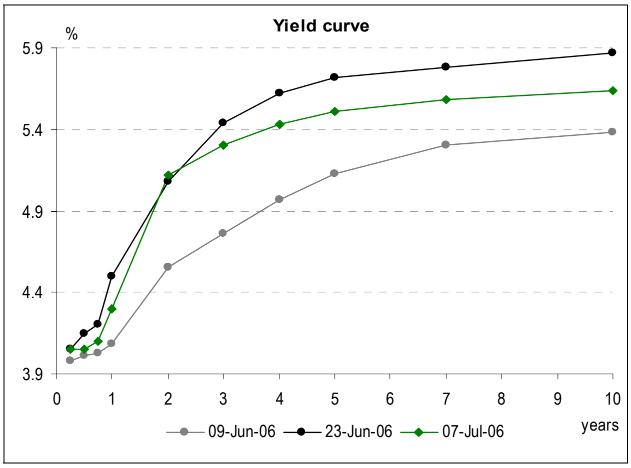
▪ Thus, it seems there are no threats to execution of this year's budget (actually, there is even a chance for lower-than-planned deficit) despite revenue targets were set at ambitious levels. This was confirmed in the statements of the Ministry of Finance's representatives on budget realisation in the middle of the year of some 60% only (see next page). As performance of this year's budget is trouble-free, it gives some support to the domestic financial market.

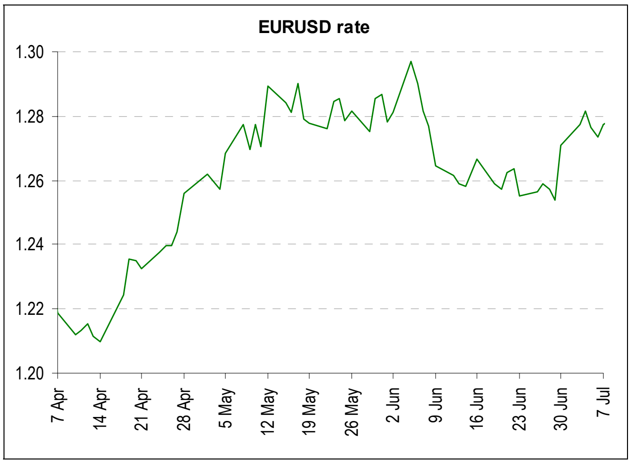
Government and politics

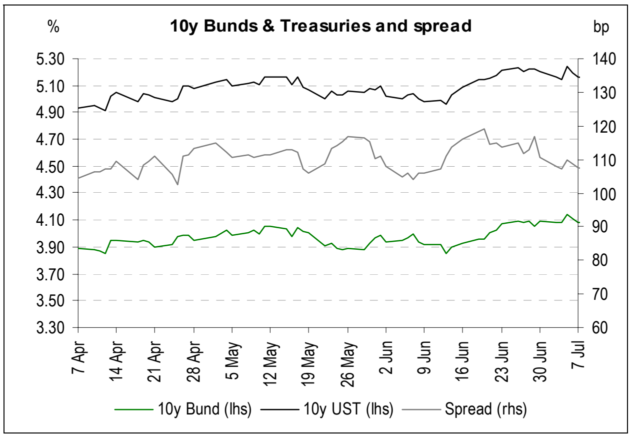
Comments of government representatives and politicians	Our remarks
Kazimierz Marcinkiewicz, Prime Minister **PAP, 3 July** Finance Minister has to be free from any suspicions and accusations. Finance minister has to busy himself with public finances and financial markets. I cannot imagine that a person with a suit against, also as regards allegations of cooperation with communist-era secret police, could be finance minister.	At the end of June Zyta Gilowska was dismissed by Prime Minister Kazimierz Marcinkiewicz following allegations she failed to reveal her ties with communist-era secret police. Although a couple of days later PM Marcinkiewicz invited her again to the government but the proposal was rejected. After short-term turmoil on financial markets, the zloty and bonds strengthened. In the situation PM Marcinkiewicz became a guarantee of responsible economic policy. At least until his resignation.
Jarosław Kaczyński, candidate for new Prime Minister **PAP 9 July** Stanisław Kluza will be an excellent continuator of economic policy of Mrs Zyta Gilowska. Direction of policy towards deep reform in public finance sector will be maintained and competently put into effect. Decidedly this will be a continuation in the most important areas presented by Gilowska, mainly public finance reform and tax reform. Also one should not disregard issues connected with financial markets. Nevertheless all these elements create the overall policy, which will ensure safety, stability of financial markets and will be also favourable from the point of view of business climate. As a result higher GDP growth will be helpful in government's policy aimed at combating unemployment. As regards deputy Prime Minister responsible for economic affairs, the issue of is open. I am still waiting until the problem of Zyta Gilowska is solved. If this happens Mrs Gilowska will be back in the government, if she wants. **Stanisław Kluza, candidate for new finance minister** **PAP, 9 July** It was never in history the case that political situation was a main factor driving financial markets. I expect that situation on financial markets will be very stable, as regards both capital and money market. Today there is no danger as regards market's reaction because the Polish economic situation is very good and additionally we should remember that a political scenario does not dominate economic fundamentals in the long-run.	It turned out that even Prime Minister change did not cause significant reaction of financial markets. Although the EURPLN rate was close to 4.10 (while on Friday before the resignation it was 4.02), such weakening was perceived as a buying opportunity after candidates for Prime Minister and finance minister emphasised they will continue economic policy of the previous cabinet. From the market point of view, the most important was that new finance minister's name was presented already on Sunday (even before official appointment of new PM) and was accompanied by his declarations (with support from Jarosław Kaczyński) about keeping budget deficit at PLN30bn.In he short-term this gave a reason for stability on the market, but of course further developments will depend on facts rather than words. Before deputy finance minister post, Stanisław Kluza was chief economist at BGŻ bank, and economist specialising in statistics and macroeconomic policy at the Warsaw School of Economy. As deputy finance minister he actively participated in preparing budget for the next year and thus he sees no reason to change main assumptions in the budget draft and thus it seems the economic policy of the previous cabinet will be indeed continued. The risk factor is that candidate for finance minister has no political experience and it may be difficult for him to fight off pressure from coalition partners as regards higher budget spending. However, it is hard to say that Zyta Gilowska (not to mention Paweł Wojciechowski) had much stronger support of PiS' politicians. The remaining issue is a change in the public finance act, which was proposed by Gilowska and was expected to bring savings of PLN8-9bn within 2-3 years. According to press information acceptance of this change may be postponed, though the government will try to accept it as soon as possible.
Stanisław Kluza, deputy finance minister **PAP, 3 July** Statistical effects would allow to forecast inflation rate in June at 1.0-1.1%, but our estimations suggest this may be 0.9% YoY (-0.2%MoM) and thus we would have better situation as regards prices than it could have been suggested by economic situation. Especially, it is worth to notice that vegetables' prices fell by 4-5%. Also meat is cheaper. Poultry prices rose a bit but this is the effect of previous reductions in prices. We also expect moderate falls in prices of dairy products and rise in prices of flour products. As a consequence, our estimate for prices change in the food category as a whole is a fall of 1%MoM. On the other hand, alcohol beverages and tobacco prices may rise by some 0.5%. We expect that in July-August period CPI inflation will be maintained at the level of ca. 1%. In September it should fall to 0.7% and in the fourth quarter it will rise, but without any risk for the realisation of inflation target. (…) According to our estimations, in December CPI inflation may be close to 1.4%.	Favourable estimates of food prices by the Ministry of Finance and its lowered inflation forecast for June supports domestic fixed income market. This should not be surprising given high accuracy of ministry's inflation estimates in a few recent months. Taking into account information (among other from FinMin) on favourable price developments on food market we predict that CPI in June was 1.0%YoY. Our inflation forecasts for the remainder of this year are broadly in line with FinMin's assumptions. We forecast that inflation will again drop below 1%YoY in July-October period and then rise to around 1.5% at the end of the year. It is worth to notice that the Ministry of Finance revised GDP growth forecast upwards to 4.7-4.8% from previously expected 4.6%. We still expect this may be even more. As regards the second quarter the ministry expects GDP growth of ca. 5%, which is consistent with our view. According to Kluza, the main driver of economic growth will be strong domestic demand and high growth in industrial production, which should amount to some 10% in the following months, as suggested by the ministry's forecasts.
Elżbieta Suchocka-Roguska, deputy finance minister **PAP, 29 June** We expect budget deficit to reach 59-60% of the annual plan after June. This forecast is based on assumption that NBP profit for 2005 is transferred in June. Budget expenditures are lower than planned as some shift took place and we expect spending to rise in the following months. (…) Revenues are realised in line with the plan. Though there are no full set of data for June it seems these may be PLN92.bn, while in the plan we assumed they will amount to PLN93.7bn in the middle of the year. Such a difference is a question of statistical error.	Such result would be much better than FinMin's initial predictions that foresaw nearly 67% of the plan. What is important, the relatively narrow budget gap after June was not a result of one-off payment of NBP profit for 2005, as it will be transferred to the budget only in July. On the other hand, lower than predicted shortfall in the budget was a result of some delay in budget spending and so the expenditures will be accordingly higher in next months. Meanwhile, budget revenues were reported to grow in line with the schedule, although their structure could be a bit different than initially planned – according to FinMin's recent report on economic situation, lower than forecasted receipts from VAT and CIT will be offset among others by higher PIT tax inflows, higher dividends, and higher revenue of budgetary units.

Market monitor









Source: Reuters, BZ WBK

A correction after sell-off in June

- In June investors continued the sell-off in the emerging markets, which was under influence of increased expectations of further rate hikes in US and negative signal from the emerging economies and the region (disappointing reforms package in Hungary, elections' results in Slovakia). Additional reason of zloty weakening was the dismissal of Zyta Gilowska. Interventions of Turkish and Slovakian central banks and Fed's communiqué improved moods toward the emerging markets and the zloty.
- After PM dismissal, which eventually had little impact on the market, the more important than the new names is going to be the shape of economic policy with increased risk of higher budget deficit ahead of local government elections. On the other hand, fundamental factors should support the zloty and with no essential changes in the emerging markets moods we expect some stabilisation near the current levels.

Yields still high

- In the wave of continuation of the retreat from the emerging markets amid very good macroeconomic data (production, sales, labour market) along weakening in the core markets the yields of Polish papers rocketed and reached the highest levels right after Zyta Gilowska's dismissal. Later on the bond market started to recover with improved sentiment toward the emerging economies, as well as after less hawkish Fed's communiqué. The MPC did not change the rates, and in reaction to the communiqué there was a slight rise of FRA rates and drop in yields.
- We assume that the MPC will leave the rates unchanged at least till the end of this year, as good macroeconomic data will be balanced by the low inflation and zloty strengthening at the end of the year. Polish bonds may strengthen further in the environment of falling expectations for further rate hikes in US, which would result in improved moods toward the emerging markets.

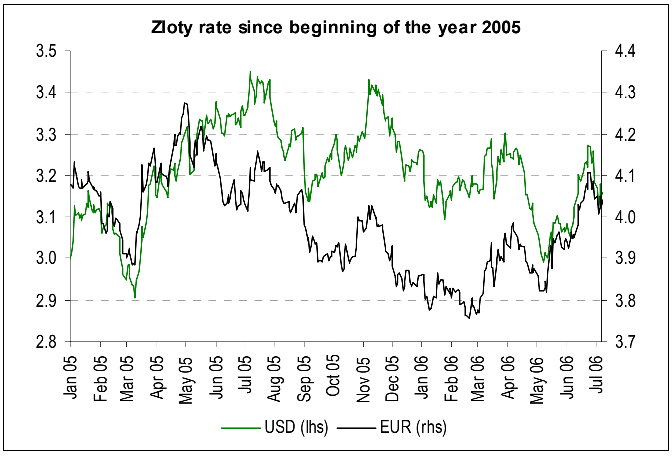
Dollar's depreciation after Fed's communiqué

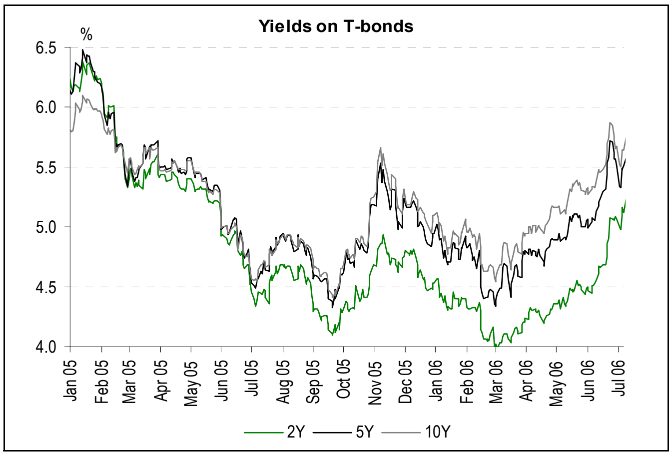
- Despite the hawkish comments of the ECB the dollar strengthened almost throughout the whole June falling below 1.26 on speculations for higher pace of interest rate hikes in US. Fed increased the Fed Funds rate by 25 bp, while the communiqué appeared to be less hawkish than expected, which effected in a correction of the EURUSD rate to above 1,28. the ECB's communiqué was quite dovish, which supported the euro, while the dollar weakened additionally after non-farm payrolls.
- Falling expectations on further monetary policy tightening in United States would work against the dollar, while the rising activity in the euro zone and expectations for higher pace of rate increases by the ECB may support the single currency. The relation of the euro to the dollar may feature high volatility with regards to the data released abroad, and the EURUSD rate may verge to 1.30 at the end of this year in our view.

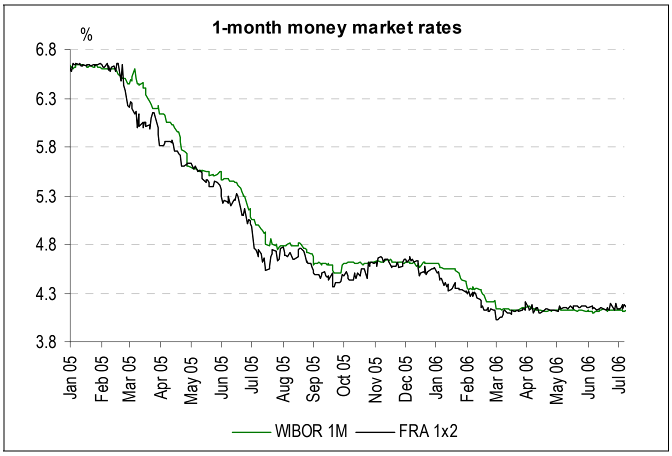
The weakening in the core markets

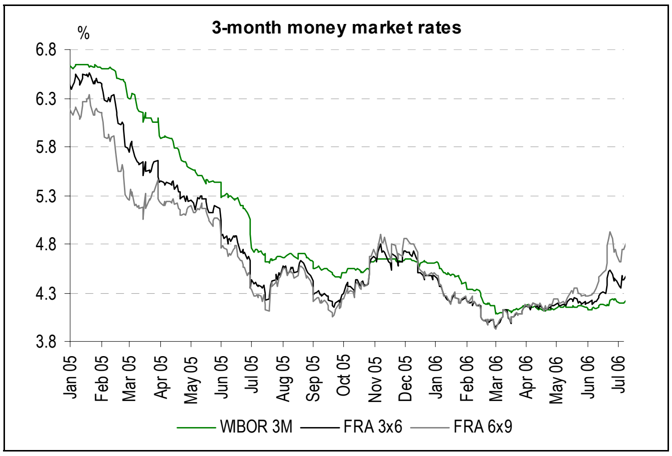
- In June Treasuries prices came back to the falling trend with rising expectations on continuation of rate hike cycle by Fed (high CPI), as well as decreased fears toward the economic growth. In the euro zone bonds weakened among others in reaction to good macro data (PMI). After less hawkish Fed and weaker labour market data there was a slight strengthening.
- In our opinion Fed will not change the interest rate level till the end of this year, while the ECB will raise the main rate to 3% till the end of Q3, to 3.5% till the end of the year and to 3.75% till the end of Q1 2007. Treasuries may find some support in the released data in US, if they signal that the economy is slowing down, while the risk for the higher rates and yields are going to be inflation data in United States and economic data in the euro zone.

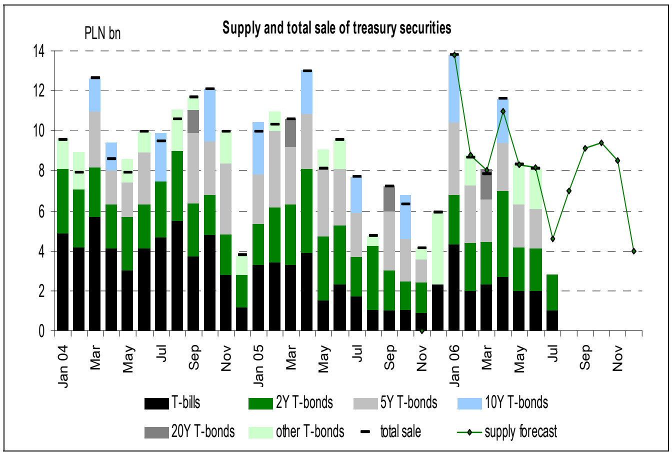
Market monitor











Treasury bill auctions (PLN m)

Date of auction	OFFER / SALE 26-week	52-week	Total
08.05.2006	-	1 000 / 1 000	1 000 / 1 000
22.05.2006	-	1 000 / 1 000	1 000 - 1 000
Total May	**-**	**2 000 / 2 000**	**2 000 / 2 000**
05.06.2006	-	1 000 / 1 000	1 000 / 1 000
19.06.2006	-	1 000 - 1 300	1 000 - 1 300
Total June	**-**	**2 000 - 2 300**	**2 000 - 2 300**
10.07.2006	-	1 000 / 1 000	1 000 / 1 000
24.07.2006	-	1 000 - 1 200	1 000 - 1 200
Total July*	**-**	**2 000 - 2 200**	**2 000 - 2 200**

* estimations based on Ministry of Finance preliminary information

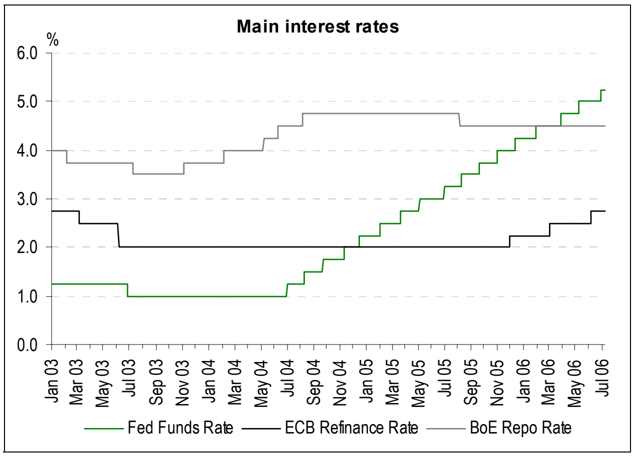
Treasury bond auctions in 2006 (PLN m)

month	First auction date	T-bonds	offer	sale	Second auction date	T-bonds	offer	sale	Third auction date	T-bonds	offer	sale
January	04.01	OK0408	2 500	2 500	11.01*	DS1015	3 360	3 360	18.01*	DS1110	3 600	3 600
February	01.02*	OK0408	2 400	2 300	08.02	WZ0911 | IZ0816	1 000 | 500	1 000 | 493	15.02*	DS1110	2 880	2 880
March	01.03*	OK0408	2 160	2 160	08.03	WS0922	1 500	1 500	15.03*	PS0511	2 160	1 880
April	05.04*	OK0408	4 320	4 320	12.04*	DS1015	2 160	2 160	19.04*	PS0511	2 400	2 400
May	04.05*	OK0808	2 160	2 160	10.05	WZ0911 | IZ0816	500 | 1 500	500 | 1 500	17.05	PS0511	2 000	2 000
June	07.06	OK0808	2 100	2 100	14.06	WZ0911 | IZ0816	1 800 | 500	1 800 | 500	21.06	PS0511	2 000	2 000
July	05.07	OK0808	1 800	1 800	12.07	10L	800	-	-	-	-	-
August	02.08	2L	-	-	09.08	7L WIBOR | 12L CPI	-	-	-	-	-	-
September	06.09	2L	-	-	13.09	20L	-	-	20.09	5L	-	-
October	04.10	2L	-	-	11.10	10L	-	-	18.10	5L	-	-
November	02.11	2L	-	-	08.11	7L WIBOR | 12L CPI	-	-	15.11	5L	-	-
December	06.12	2L	-	-	-	-	-	-	-	-	-	-

* with supplementary auction

Source: Ministry of Finance, Reuters, BZ WBK

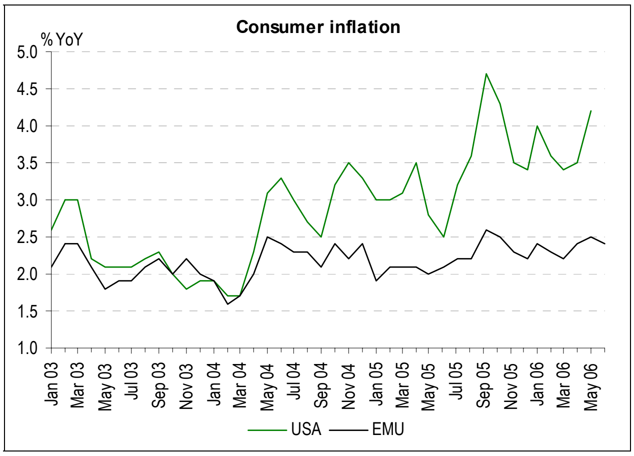
International review



Less hawkish Fed, and more hawkish ECB

▪ In line with analysts' forecasts Fed raised the main interest rate for the 17th consecutive time by 25 bp to 5.25%. Its communiqué included expressions on economic slowdown as well as contained inflation, with some inflation risks remaining and was relatively less hawkish than expected. With reference to its wording further steps in monetary policy will be determined by incoming data.

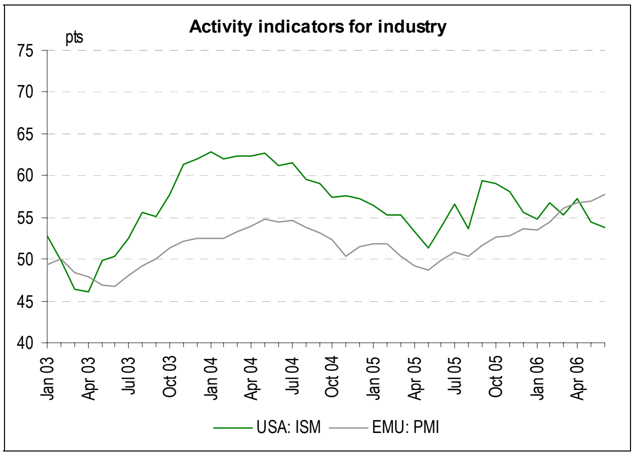
▪ In July the European Central Bank decided to leave the main interest rate in the euro zone at 2.75% level. In its statement the ECB emphasized that the rates are still at low level and that the bank was going to exercise strong vigilance so as the price stability risks did not materialise. This strengthened market expectations for further interest rate hikes in the euro zone in faster pace.



High US CPI, core CPI and PPI above forecasts

▪ The headline CPI figure in United States in May amounted to 0.4%MoM and 4.2%YoY and was in line with market expectations. The core CPI inflation excluding the most volatile food and energy prices rose by 0.3%MoM and 2.4%YoY, while the market expected 0.2%MoM rise. U.S. PPI rose in May by 0.2% with 0.9% rise in April and was below market consensus at 0.4%. However, the more important for Fed core figure increased by 0.3% and was higher than economist forecasts at 0.2% and above 0.1% in April.

▪ According to Eurostat's data the final HICP inflation figures in the euro zone amounted in May to 2.5% and was in line with analysts' forecasts. Preliminary data on the HICP index fot the EMU showed a rise by 2.4%, which was below market expectations at 2.5%.

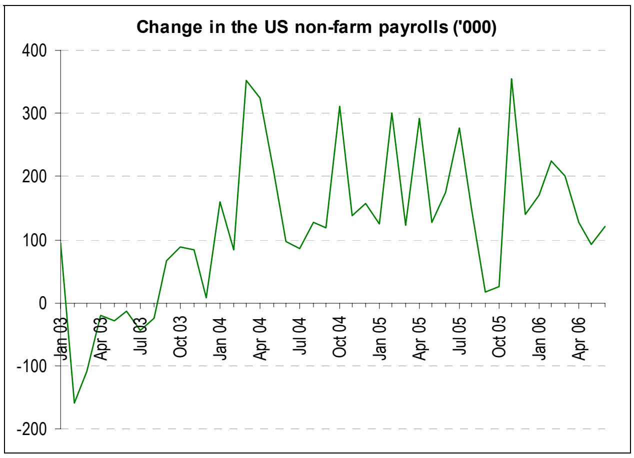


High PMI in EMU, weaker activity in the U.S.

▪ The ISM manufacturing index fell from 54.4 in May to 53.8 in June. The employment component dipped from 52.9 to 48.7, the lowest level since October 2003. The ISM business activity index for the U.S. services sector fell in June to 57 from 60.1, which was much below the expected 59. The employment component dropped to 52 from 58, while the prices paid index softened from 77.5 to 73.9, however still shows elevated inflation pressures.

▪ PMI index in the euro zone increased from 57 in May to 57.7 in June, the highest level in six years. PMI index for non-manufacturing sector in the euro zone rose from 58.7 to 60.7 in June and showed the biggest rise in business activity since June 2000 and increased price pressures. Prices charged index soared from 54.5 to 54.7, the highest level since November 2000. Jobs index increased from 55.0 to 56.6.

▪ Final U.S. GDP for the first quarter increased by 5.6% as compared to previous estimates of 5.3%. The GDP deflator was downwardly revised from 3.3% to 3.1%. The PCE (Personal Consumer Expenditures) prices index rose by 2% in Q1 and by 3%YoY, while the core figure increased by 2% and 1.9%YoY.



Source: Reuters, ECB, Federal Reserve

Labour market data confirm the falling trend

▪ The non-farm payrolls in the United States amounted to 121,000 in June as compared to market consensus of 185,000 and from upwardly revised 92,000 (75,000 before revision) in the previous month. Hourly average earnings in US rose by 0.5%MoM, which was higher than the analysts' forecasts at 0.3%. The unemployment rate remained at 4.6% level.

▪ Jobless claims in United States fell in the previous week to 313,000 from 315,000 reading in the prior week, while the 4-week average rose from 306,000 to 308,500.

Economic calendar

Monday	**Tuesday**	**Wednesday**	**Thursday**	**Friday**
10 July ***POL: Treasury bills auction*** US: Wholesale inventories (May)	**11**	**12** ***POL: Auction of 10Y bonds*** EMU: Revised GDP (Q1) USA: Foreign trade (May)	**13** ***POL: Balance of payments (May)*** USA: Fed budget (May) USA: Jobless claims	**14** ***POL: CPI (Jun)*** ***POL: Money supply (Jun)*** USA: Foreign trade prices (May) USA: Retail sales (Jun) USA: Preliminary Michigan (Jul)
17 ***POL: Wages (Jun)*** ***POL: Employment (Jun)*** EMU: Final HICP (Jun) EMU: Industrial production (May) USA: Capacity use (Jun) USA: Industrial production (Jun)	**18** GER: ZEW index (Jul) USA: PPI (Jun) USA: Net capital flow (May)	**19** ***POL: PPI (Jun)*** ***POL: Output in industry and construction (Jun)*** USA: CPI (Jun) USA: House starts (Jun) USA: Build permits (Jun)	**20** USA: Philadelphia Fed index (Jul) USA: Jobless claims	**21**
24 ***POL: Treasury bills auction*** ***POL: Business climate (Jul)*** ***POL: Net inflation (Jun)***	**25** ***POL: Retail sales (Jun)*** ***POL: Unemployment (Jun)*** ***POL: MPC meeting*** USA: Consumer confidence (Jul) USA: Home sales (Jun)	**26** ***POL: MPC meeting – decision*** GER: IFO index (Jul)	**27** ***POL: Switch auction*** USA: Durable goods orders (Jun) USA: New homes sales (Jun) USA: Jobless claims	**28** EMU: M3 money supply (Jun) USA: Core PCE (Q2) USA: Advance GDP (Q2) USA: GDP deflator (Q2) USA: Jobless claims USA: Final Michigan (Jul)
31 EMU: Preliminary HICP (Jul) EMU: Economic sentiment (Jul) USA: Chicago PMI (Jul)	**1 August** EMU: Manufacturing PMI (Jul) EMU: Unemployment (Jun) US: Core PCE (Jun) US: Manufacturing ISM (Jul)	**2** ***POL: Auction of 2Y bonds*** EMU: PPI (Jun)	**3** GB: BoE meeting - decision EMU: ECB rate decision (Jul) EMU: Non-manufacturing PMI (Jul) EMU: Retail sales (Jun) USA: Factory orders (Jun) USA: Non-manufacturing ISM (Jul)	**4** USA: Non-farm payrolls (Jul) USA: Unemployment (Jul)
7 ***POL: Treasury bills auction***	**8** US: Labour productivity (Q2) US: Unit labour costs (Q2) US: Fed meeting – decision (Jun)	**9** ***POL: Auction of 7Y floating rate bonds and 12Y CPI linked bonds*** US: Wholesale inventories (Jun)	**10** USA: Foreign trade (Jun) USA: Fed budget (Jul) USA: Jobless claims	**11** ***POL: Balance of payments (Jun)*** JP: BOJ meeting - decision USA: Foreign trade prices (Jul) USA: Retail sales (Jul)

Source: CSO, NBP, Finance Ministry, Reuters

MPC meetings and data release calendar for 2006

	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
MPC meeting	30-31	27-28	28-29	25-26	30-31	27-28	25-26	29-30	26-27	24-25	28-29	19-20
GDP*	-	-	2	-	31	-	-	30	-	-	30	-
CPI	16	15[a]	15[b]	14	15	14	14	14	14	16	15	14
Core inflation	24		23[b]	24	23	23	24	23	22	24	23	22
PPI	19	17	17	20	19	20	19	18	19	18	20	19
Industrial output	19	17	17	20	19	20	19	18	19	18	20	19
Retail sales	24	23	23	26	24	23	25	-	-	-	-	-
Gross wages, employment	16	15	15	18	17	19	17	16	15	16	16	15
Unemployment	24	23	23	26	24	23	25	-	-	-	-	-
Foreign trade	about 50 working days after reported period											
Balance of payments*	-	-	31	-	-	30	-	-	-	2	-	-
Balance of payments	13[c]	13	14	12	17	14	13	11	12	13	-	-
Money supply	13	14	14	14	12	14	14	14	14	13	-	-
NBP balance sheet	6	7	7	7	5	7	7	7	7	-	-	-
Business climate indices	23	23	23	24	23	23	24	23	25	23	23	22

* quarterly data, [a] preliminary data, January, [b] January and February, [c] November 2005, [d] January, [e] February

Source: CSO, NBP

Economic data and forecasts

Monthly economic indicators

		Jun 05	Jul 05	Aug 05	Sep 05	Oct 05	Nov 05	Dec 05	Jan 06	Feb 06	Mar 06	Apr 06	May 06	Jun 06	Jul 06
Industrial production	%YoY	6.9	2.6	4.8	5.9	7.6	8.5	9.6	9.8	10.2	16.4	5.7	19.1	8.2	8.2
Retail sales [c]	%YoY	10.5	5.0	7.9	5.4	7.5	7.3	6.3	8.6	10.2	10.1	13.2	13.7	9.2	12.6
Unemployment rate	%	18.0	17.9	17.7	17.6	17.3	17.3	17.6	18.0	18.0	17.8	17.2	16.5	16.0	16.0
Gross wages [b c]	%YoY	4.5	3.2	2.8	1.8	6.4	6.9	1.5	3.6	4.8	5.4	4.0	5.2	4.5	5.8
Employment [b]	%YoY	1.7	1.8	2.0	2.2	2.1	2.5	2.6	2.6	2.4	2.7	2.8	3.0	3.0	3.0
Export (€) [d]	%YoY	15.9	18.0	14.9	12.9	18.4	16.1	20.0	22.1	18.8	26.4	13.0	24.2	19.7	17.8
Import (€) [d]	%YoY	12.8	7.8	15.5	11.0	14.6	18.1	16.8	23.0	22.1	22.2	10.4	24.0	21.2	22.0
Trade balance [d]	EURm	-80	-113	-378	-107	3	-232	-467	64	-253	-106	62	-550	-200	-400
Current account balance [d]	EURm	181	-247	-381	-237	-317	-291	-451	-197	-794	-351	-154	-740	-300	-620
Current account balance [d]	% GDP	-2.1	-1.8	-1.7	-1.5	-1.5	-1.5	-1.4	-1.3	-1.5	-1.5	-1.6	-1.6	-1.7	0.0
Budget deficit (cumulative)	PLNbn	-18.5	-17.5	-18.5	-17.8	-20.6	-22.2	-28.6	0.7	-6.7	-9.0	-10.0	-14.6	-18.0	-19.5
Budget deficit (cumulative) [e]	% realisation	64.8	61.1	64.7	62.3	72.1	77.7	100.0	-2.3	21.9	29.4	32.8	47.8	58.9	63.8
CPI	%YoY	1.4	1.3	1.6	1.8	1.6	1.0	0.7	0.6	0.7	0.4	0.7	0.9	1.0	0.9
PPI	%YoY	0.0	0.0	-0.2	-0.5	-0.9	-0.4	0.2	0.3	0.7	0.9	1.7	2.3	2.2	2.2
Broad money (M3)	%YoY	10.8	10.4	11.1	12.7	8.7	12.6	10.4	10.4	11.7	9.8	9.6	10.1	11.7	12.3
Deposits	%YoY	9.2	9.4	10.1	11.6	6.3	11.1	9.4	10.2	10.8	9.1	8.6	8.8	11.0	11.3
Loans	%YoY	7.4	8.8	9.0	9.6	4.4	10.2	11.8	12.3	13.5	13.6	12.2	12.4	14.4	14.9
USD/PLN	PLN	3.34	3.40	3.29	3.20	3.26	3.37	3.25	3.16	3.18	3.23	3.20	3.05	3.17	3.17
EUR/PLN	PLN	4.06	4.10	4.05	3.92	3.92	3.97	3.85	3.82	3.79	3.88	3.92	3.90	4.02	4.06
Reference rate [a]	%	5.00	4.75	4.75	4.50	4.50	4.50	4.50	4.50	4.25	4.00	4.00	4.00	4.00	4.00
Lombard rate [a]	%	6.50	6.25	6.25	6.00	6.00	6.00	6.00	6.00	5.75	5.50	5.50	5.50	5.50	5.50
WIBOR 3M	%	5.22	4.66	4.67	4.57	4.50	4.64	4.62	4.49	4.26	4.12	4.14	4.15	4.17	4.15
Yield on 52-week T-bills	%	5.09	4.30	4.33	4.15	4.19	4.35	4.38	4.22	3.97	3.87	3.95	4.02	4.20	4.30
Yield on 2-year T-bonds	%	5.14	4.50	4.60	4.22	4.42	4.75	4.64	4.40	4.20	4.10	4.28	4.44	4.75	5.00
Yield on 5-year T-bonds	%	5.25	4.70	4.84	4.51	4.85	5.23	5.04	4.82	4.60	4.59	4.80	5.00	5.33	5.50
Yield on 10-year T-bonds	%	5.24	4.72	4.87	4.57	4.90	5.36	5.14	4.94	4.78	4.78	5.02	5.26	5.54	5.70

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 [e] 2005 - % of Dec, 2006 - % of plan

Quarterly and annual economic indicators

		2003	2004	2005	2006	1Q05	2Q05	3Q05	4Q05	1Q06	2Q06	3Q06	4Q06
GDP	PLNbn	842.1	923.2	980.9	1 037.2	228.7	238.2	241.0	273.0	240.3	252.8	254.5	289.6
GDP	%YoY	3.8	5.3	3.4	5.1	2.2	2.9	3.9	4.3	5.2	5.2	4.8	5.1
Domestic demand	%YoY	2.7	5.9	2.2	5.2	1.1	0.0	1.9	5.4	4.5	5.6	5.2	5.4
Private consumption	%YoY	1.9	4.0	2.0	4.6	1.4	1.4	2.3	2.8	5.1	4.8	4.5	4.1
Fixed investments	%YoY	-0.1	6.3	6.6	9.4	1.4	4.0	6.5	10.1	7.4	9.0	10.0	10.0
Industrial production	%YoY	8.4	12.3	4.0	10.6	0.7	2.3	4.5	8.3	12.1	11.0	9.6	9.8
Retail sales (real terms)	%YoY	3.6	7.1	1.5	11.1	-0.4	-3.2	4.1	5.4	9.4	12.3	11.9	11.0
Unemployment rate [a]	%	20.0	19.1	17.6	15.9	19.2	18.0	17.6	17.6	17.8	16.0	15.7	15.9
Gross wages (real terms) [c]	%YoY	2.0	0.8	1.2	4.3	-1.3	0.8	1.1	3.8	4.0	3.7	5.6	4.0
Employment [c]	%YoY	-3.5	-0.8	1.9	2.9	1.5	1.7	2.0	2.4	2.6	2.9	3.1	3.0
Export (€) [b]	%YoY	9.1	22.3	17.1	18.6	23.2	12.9	15.0	18.0	22.6	18.9	18.8	14.7
Import (€) [b]	%YoY	3.3	19.5	12.6	19.7	17.6	6.0	11.2	16.5	22.5	18.6	21.0	17.0
Trade balance [b]	EURm	-5 077	-4 552	-2 182	-3 432	-259	-633	-599	-691	-294	-688	-1 150	-1 300
Current account balance [b]	EURm	-4 108	-8 542	-3 457	-5 612	-1 043	-500	-861	-1 053	-1 338	-1 194	-1 530	-1 550
Current account balance [b]	% GDP	-2.1	-4.2	-1.4	-2.1	-3.4	-2.1	-1.5	-1.4	-1.5	-1.7	-2.0	-2.1
Budget deficit (cumulative) [a]	PLNbn	-37.0	-41.5	-28.6	-30.5	-12.3	-18.5	-17.8	-28.6	-9.0	-18.0	-22.5	-30.5
Budget deficit (cumulative) [a]	% GDP	-4.4	-4.5	-2.9	-2.9	-	-	-	-	-	-	-	-
CPI	%YoY	0.8	3.5	2.1	0.8	3.6	2.3	1.6	1.1	0.6	0.9	0.8	1.0
CPI [a]	%YoY	1.7	4.4	0.7	1.5	3.4	1.4	1.8	0.7	0.4	1.0	0.6	1.5
PPI	%YoY	2.6	7.0	0.7	2.3	3.3	0.1	-0.2	-0.4	0.9	2.2	2.6	3.4
Broad money (M3) [a]	%YoY	5.6	8.7	10.4	11.2	11.0	10.8	12.7	10.4	9.8	11.7	11.0	11.2
Deposits [a]	%YoY	3.7	8.1	9.4	9.5	10.4	9.2	11.6	9.4	9.1	11.0	9.7	9.5
Loans [a]	%YoY	8.1	2.9	11.8	15.0	4.6	7.4	9.6	11.8	13.6	14.4	16.6	15.0
USD/PLN	PLN	3.89	3.65	3.23	3.12	3.07	3.28	3.30	3.29	3.19	3.14	3.12	3.03
EUR/PLN	PLN	4.40	4.53	4.02	3.94	4.03	4.13	4.02	3.91	3.83	3.95	4.03	3.97
Reference rate [a]	%	5.25	6.50	4.50	4.00	6.00	5.00	4.50	4.50	4.00	4.00	4.00	4.00
Lombard rate [a]	%	6.75	8.00	6.00	5.50	7.50	6.50	6.00	6.00	5.50	5.50	5.50	5.50
WIBOR 3M	%	5.69	6.21	5.29	4.21	6.44	5.49	4.63	4.59	4.29	4.15	4.18	4.20
Yield on 52-week T-bills	%	5.33	6.50	4.92	4.18	5.91	5.21	4.26	4.31	4.02	4.06	4.30	4.30
Yield on 2-year T-bonds	%	5.38	6.89	5.04	4.69	5.83	5.27	4.44	4.60	4.23	4.49	5.00	5.00
Yield on 5-year T-bonds	%	5.61	7.02	5.25	5.18	5.89	5.38	4.68	5.04	4.67	5.04	5.50	5.50
Yield on 10-year T-bonds	%	5.77	6.84	5.24	5.38	5.76	5.37	4.72	5.13	4.83	5.27	5.70	5.70

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

[a] at the end of period; [b] balance of payments data on transaction basis [c] in corporate sector

Bank Zachodni WBK

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