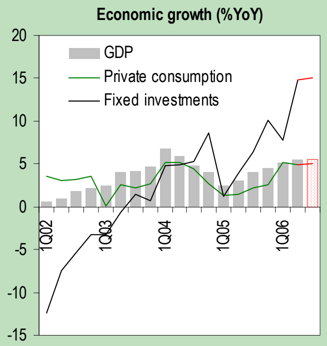
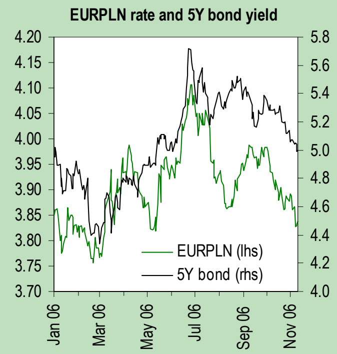
Bank Zachodni WBK

MACROscope

Polish Economy and Financial Markets

November 2006





Markets in good mood

- **Last month showed a continuation of positive moods on the Polish financial market.** It refers to zloty appreciation, as well as higher bonds' and equities' prices. This was connected to a large extent not with developments in the Polish economy (not to mention politics), but rather with the situation on global markets and higher investors' risk appetite, although of course good Polish fundamentals favoured zloty strengthening and higher equity prices. Although maintaining very high GDP growth is not positive for the fixed income market, downward trend in yields abroad together with message from the Monetary Policy Council overweighed concerns about inflation increase. This is especially the case, as the Ministry of Finance lowered its inflation forecast for October, while lower oil prices and stronger zloty are likely to limit pressure on price growth in the following months.
- **Of course, the remaining question is how long this good mood will last.** In recent years, the last months of the year used to bring zloty strengthening. We do not expect the activity of the Ministry of Finance to repeat this year, but our forecast of EURPLN rate of 3.90 seems to be endangered, although we do not see much room for further zloty appreciation. We rather expect that the range of fluctuations of 3.8-3.9 will be maintained until year-end. As regards the bond market, taking into account economic fundamentals (very high GDP growth and domestic demand increase, inflation increase in 1Q07, risk of higher NBP rates) prices seem relatively high, but our base-case scenario assumes quite significant interest rates decreases in the US in 2007, which will be favourable for fixed income markets. At the same time, we do not expect major change in Polish MPC's rhetoric at least until the end of the year.
- **Hawkish projection of the central bank did not influence the view of the Monetary Policy Council (nor the markets).** It seems that motion to hike interest rates already in October was proposed but there was no majority to support it. Unfortunately, the MPC did not present its view on inflation outlook beyond 2007, though the decision suggested that it is not as pessimistic as presented in the new projection. The key data for future MPC's decisions will be labour market statistics. If they surprise on the upside again and unit labour costs show a substantial increase, than a fine-tuning in rates will be possible. However, in our opinion, even if we see some monetary tightening, this would be rather a fine-tuning (e.g. two hikes by 25 bp in the first quarter in order to build credibility of the new NBP governor) rather than a beginning of longer cycle of interest rates increases. Such scenario is already priced-in by the market for quite long time, and decrease in market rates from the levels observed at the end of September (pricing-in ca. 100 bp hikes) seems justified.

In this issue:

Financial market on 31 October 2006:

NBP deposit rate	2.50	WIBOR 3M	4.21	USDPLN	3.0631
NBP reference rate	4.00	Yield on 52-week T-bills	4.33	EURPLN	3.8871
NBP lombard rate	5.50	Yield on 5-year T-bonds	5.06	EURUSD	1.2690

This report is based on information available until 10.11.2006

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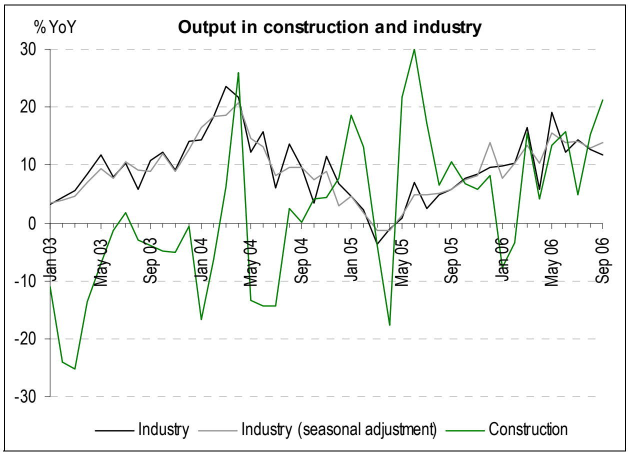
Economic update

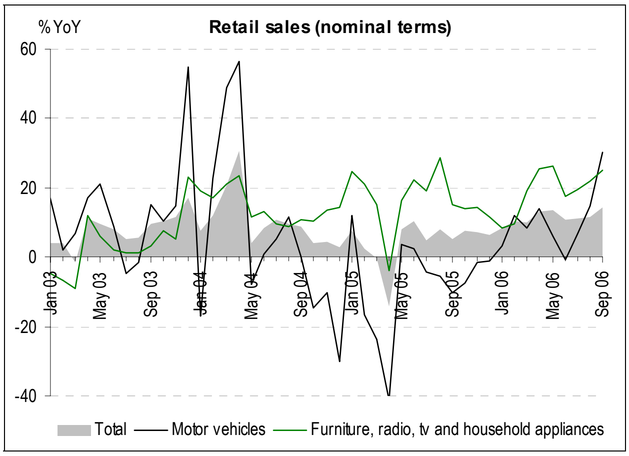


Industry and construction remain in strong upward trend

▪ Industrial output grew 11.7%YoY in September, at slightly lower pace than in a few previous months, but this resulted mainly from the effect of lower number of working days.

▪ Seasonally adjusted growth in industrial output amounted to 13.8%YoY against average growth of 12.2%YoY in January-August. On average in 3Q06 industrial output (seasonally adjusted) increased 13.6%YoY versus 13.2%YoY rise in 2Q06 and 10.4%YoY growth in 1Q06. An increase in output was noted in 27 out of 29 branches which means broad-based expansion of the industrial sector.

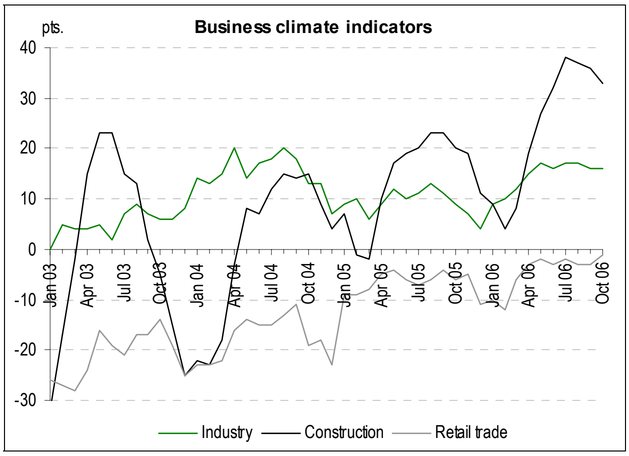
▪ Construction output surged 21.3%YoY in September, which also bodes well for estimates of GDP growth at 5.5% in 3Q06. On average in 3Q06 construction output grew 13.8%YoY accelerating from 6.2%YoY in the first half of the year.



… and so do retail sales

▪ In September, retail sales increased 14.5%YoY in nominal terms and 14.4%YoY in real terms. Nominal growth was recorded in all segments of retail sales which means that we face broad-based expansion of consumption demand, and not a temporary revival in some segments of the market of consumption goods.

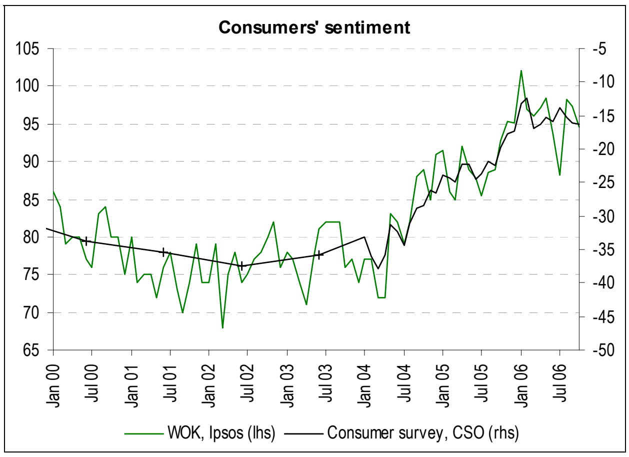
▪ Similar as in case of industrial and construction output, the rise in retail sales in real terms in 3Q06 was stronger than in the two previous quarters. What is more, both growth rates of industrial and construction output and retail sales in 3Q06 proved higher than predicted. Therefore, we estimate that GDP growth in 3Q06 was not weaker than in 2Q06 and have reached 5.5% or even more, but it depend on the contribution of net exports.



Business climate indicators bode well for future

▪ Business climate indicators for October were optimistic. In manufacturing a measure of business climate was unchanged (at 16pts), in construction a drop of 3pts was noted (to 33 from 36) while index for retail trade advanced 2pts (to –1 from –3).

▪ The slight deterioration in construction reflects a typical seasonal effect and in annual terms a strong rise of 13pts was maintained. In manufacturing and retail trade annual growth rates of business climate indices were faster than a month earlier. Detailed assessment of enterprises' situation – with regard to current and future orders portfolio, sales, employment, financial stance – were generally slightly better than last month and notably better than a year ago. As regards prices, a further increase is predicted by entrepreneurs in all the sectors, but on a smaller scale than it was expected a month ago.



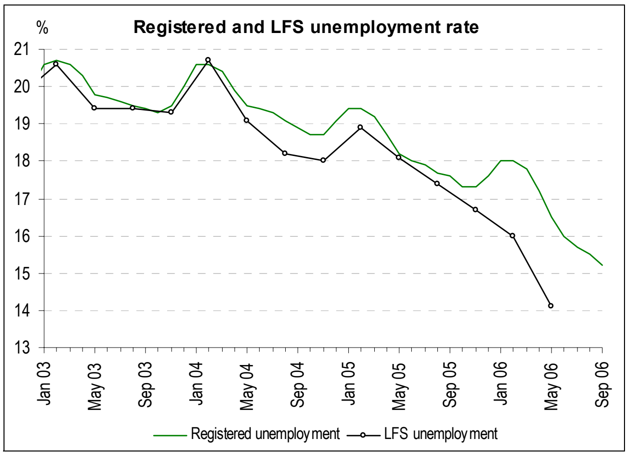
Source: CSO, Ipsos, own calculations

Consumers continuously in upbeat moods

▪ Consumer confidence survey for October carried out by Ipsos showed that there remain upbeat moods among households and there is no trace of the sharp deterioration noted in July. Firmer labour market conditions suggests that consumers will remain optimistic for some time.

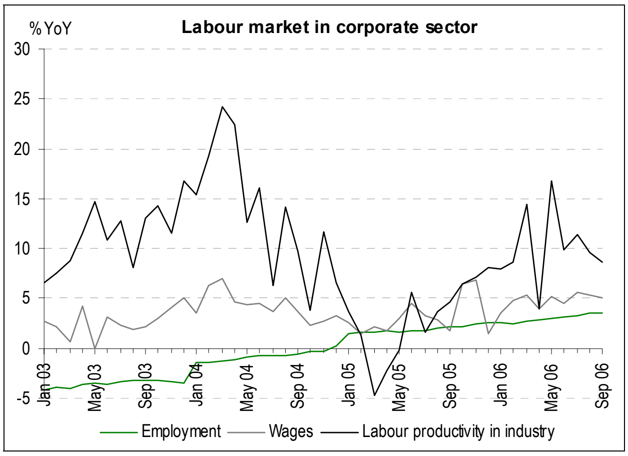
▪ The consumer sentiment survey carried out by the CSO showed continuation of improvement in October, heralding further increase in private consumption in the last quarter of the year. Households reported better financial situation and improvement in climate for big shopping (relevant index reached its record-high level). Only the assessment of current and future situation in the economy deteriorated, but this could have been affected by the events on the political front and changes in the government, and thus it probably was temporary.

Economic update



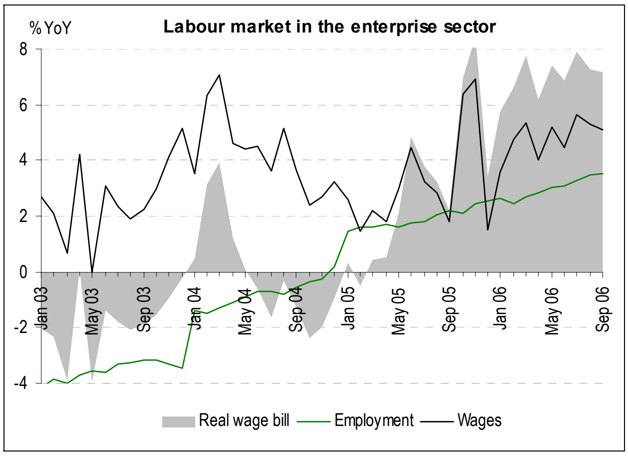
…thanks to sharp unemployment reduction

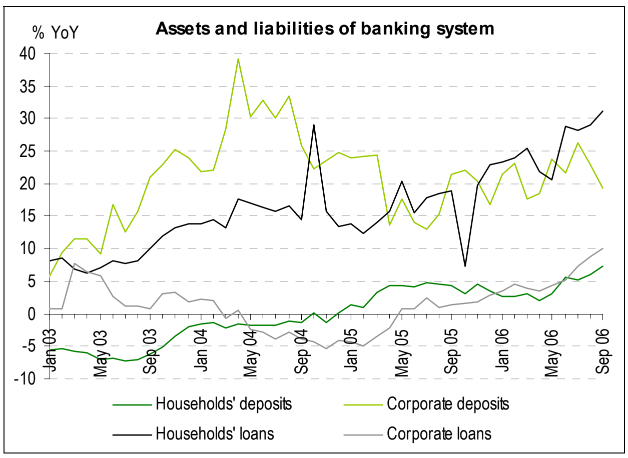
- The registered unemployment rate dropped to 15.2% at the end of September from 15.5% in August and 17.6% a year earlier. The number of unemployed dropped 14.4%YoY to 2.36m. This was the strongest reduction since the beginning of 1998, reflecting strength of current expansion of the Polish economy and boding well for consumption demand in the coming months.
- The significant reduction of the unemployment is an important factor positively affecting households' moods. With weaker fear of unemployment, consumers are likely to continue increasing their spending.
- According to the Ministry of Labour, the registered unemployment rate dropped to 14.9% at the end of October, falling below 15% for the first time in six years.



… and rise in incomes

- Average wage in the enterprise sector in September was unchanged on a monthly basis and grew 5.1%YoY. The result was lower than market consensus that had pointed to 5.7%YoY rise and our forecast at 6.3%YoY.
- Thus, the figures were not interpreted by the market as supporting expectations for swift rate hikes. Despite wage growth was weaker than predicted in September, it remained in the strong upward trend. September result is above the average pace of growth in January-August period that reached 4.8%YoY. This bodes well to households' income and strength of consumption demand in the near future.
- Especially that employment growth in September remained at record high level of 3.5%YoY, the same as the one noted in August, versus average growth of 2.9%YoY in January-August period.
- As a result of solid wage growth and record high employment rise, wage bill in the enterprise sector in September increased 8.8%YoY in nominal terms and 7.1%YoY in real terms. In the entire third quarter wage bill rose 7.4%YoY in real terms (9.0%YoY in nominal terms), accelerating from 6.8% in 2Q06 and 6.7%YoY in 1Q06.
- Rising pace of wage growth supports our estimates which point to private consumption growth of 5% in the third quarter and generally bodes well to economic activity. However, the other side of the coin is that stronger consumption demand may start to exert stronger pressure on prices. Therefore, development on the labour market will surely remain in focus of central bank's attention.



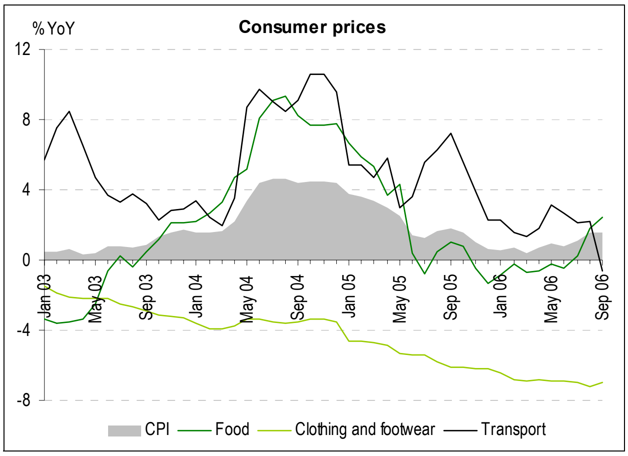


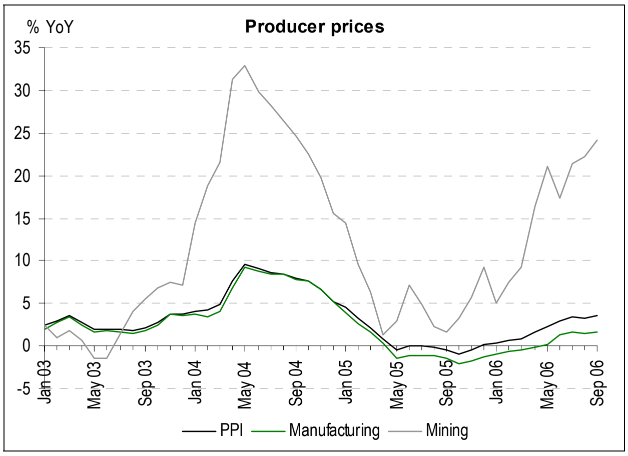
Source: CSO, NBP, own calculations

Further revival in demand for loans

- Total credit growth accelerated to 19.2%YoY in September, the fastest rate for six years, from 18% in the previous month and ca. 12% at the start of this year. The fastest rate of growth was still recorded in households' loans, but there was also clear revival in corporate borrowing that advanced 9.9%YoY, against 8.8%YoY in August and 4%YoY at the start of the year. Such information supported expectations for continuation of rapid expansion in both private consumption and investment activity in 2H06.
- Broad money M3 increased 13%YoY in September, slightly faster than 12.9%YoY in August. Deposit growth also remained fast, at 11.6%YoY, with households' deposits growing 7.3%YoY and firms' savings rising 19.4%YoY.
- Results of NBP survey among senior loan officers suggest that 4Q06 will see further acceleration in loans growth.

Economic update





CPI and PPI inflation stabilised

▪ CPI inflation rate remained stable in September at 1.6%YoY, The result was slightly below market consensus, mainly because a rise in food prices proved to be not as strong as expected. Nevertheless, the effect of summer drought was visible, as foodstuffs got more expensive by 0.6%MoM (in August it was 0.7%MoM), and 2.4%YoY (1.8%YoY in August). After two months of strong increases, fuel prices went down in August by 2.5%MoM along with correction on global oil markets. Other components of the inflation index performed in line with expectations, showing very little signs of upward pressure.

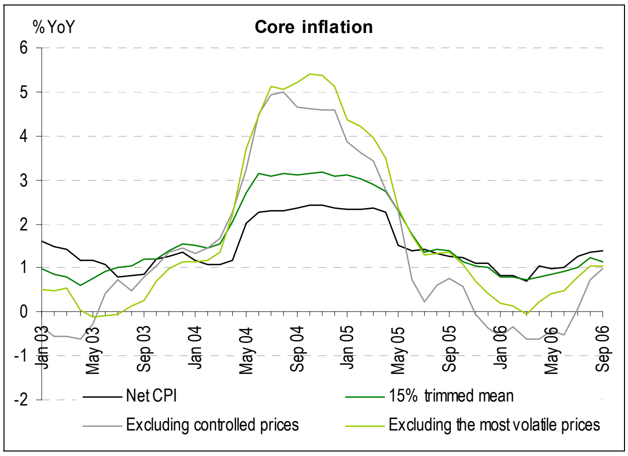
▪ According to FinMin's estimates, consistent with our forecast, CPI inflation dropped to 1.2%YoY in October due to further fall in oil prices and lower than earlier predicted food prices.

▪ Because of low base effect and expected continuation of surge in food prices, we expect CPI inflation to rise to ca. 1.9%YoY in December, and further to ca. 2.5% in 1Q07. Still, we think the inflation target of 2.5% is not endangered in the medium-term.

▪ Producer prices in September dropped 0.1%MoM and grew 3.6%YoY. At the same time, PPI inflation in August was slightly revised down to 3.3%YoY from the earlier reported 3.4%YoY.

▪ Likewise in previous months, relatively strong producer price growth was mainly a consequence of high prices in mining (up 24.2%YoY in September after 22.2%YoY rise in August) while price growth in manufacturing was still constrained (1.7%YoY versus 1.5%YoY a month earlier).

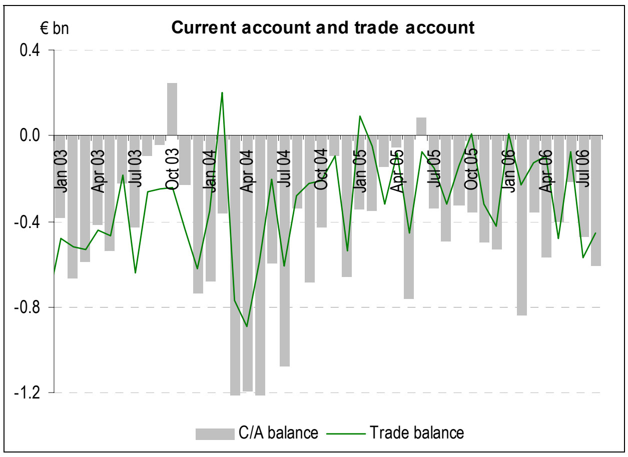
▪ Therefore, the data do not seem to reflect broad-based pressure on prices, yet an effect of sharp annual rise in prices of fuel and commodities. Thus, we think the figures will not affect a picture of inflation prospects perceived by the central bankers and are neutral for expectations regarding future MPC actions.



Core inflation also stable

▪ Core inflation measures were broadly stable in September. Two out of five measures were stable, one declined and two increased. Net inflation (CPI excluding food and fuel prices) remained at 1.4%YoY and CPI excluding the most volatile prices at 1%YoY. 15% trimmed mean dropped to 1.1%YoY from 1.2%YoY a month earlier. The other two measures – CPI excluding controlled prices and CPI excluding the most volatile prices and fuel prices – inched up by 0.3pp to 1%YoY and 1.2%YoY, respectively. All in all, the data confirmed that underlying inflationary pressure remains quite weak.

▪ We predict that net inflation will remain below the inflation target of 2.5% not only until the end of 2006, but also throughout 2007. Materialisation of such scenario would support our view that interest rates may stay unchanged in a foreseeable future.



Source: CSO, NBP, own calculations

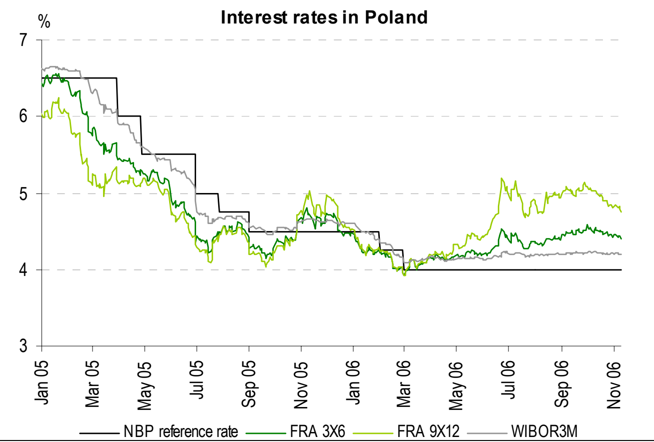
Slight widening of external imbalance

▪ C/A deficit in August reached €610m. Both exports and imports maintained very rapid growth rates, respectively 23.4% and 24.3%YoY, but it is worth noticing the latter was faster (for the second straight month), which could imply that rising strength of domestic demand gradually starts worsening Poland's trade balance and will continue to do so in the coming months. As for now, trade gap was still moderate and reached €453m.

▪ The balance of current transfers proved to be twice lower than we predicted, amounting to €406m, which resulted from exceptionally low balance of transfers from the EU (€13m), one of the lowest in history.

▪ Given revised data for previous months, the cumulative 12-month C/A deficit and GDP remained quite low, despite slight rise from 2.0% in July to 2.1% in August.

Central bank watch



Fragments of MPC statement, 25 October 2006

The latest data have confirmed that in 2006 Q3 both headline and "net" inflation were higher than expected in the July inflation projection. In this way, headline inflation was close to the lower limit for deviations from the inflation target. New data and the October inflation projection suggest that in the medium-term inflation may prove higher than assessed in the previous meeting.

At its meeting on 19 October 2006 the Council decided that starting from the next Inflation Report (January 2007) the format of the chapter "Monetary Policy" (chapter III of the Inflation Report) will be modified. The new format of the chapter will make it possible to present in greater detail the views expressed at the Council's meetings against changing economic developments, thus bringing it closer to the practice of many central banks (minutes).

NBP inflation projections in 2006 (% YoY)

	January	April	July	October
4Q06	0.5-2.3	0.5-2.0	1.0-1.9	1.8-2.2
4Q07	1.1-3.6	1.3-3.4	1.5-3.5	1.9-3.8
4Q08	0.8-3.9	1.2-3.9	1.7-4.3	2.2-4.6

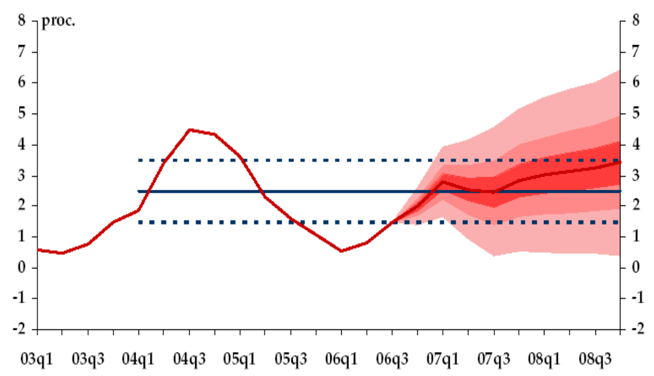
GDP growth projections prepared in 2006 (%)

	January	April	July	October
2006	3.8-5.1	3.9-5.0	4.7-5.3	5.2-5.5
2007	3.4-5.2	3.4-5.8	3.6-5.9	4.1-6.2
2008	3.6-5.5	3.5-6.2	4.0-6.6	4.5-7.0

Source: NBP Inflation reports

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

Inflation central projection, fanchart and MPC's target



Source: NBP, Reuters

MPC does not talk much, but is a bit more hawkish

- The overall message sent by the MPC in the official statement and during the press conference was only slightly more hawkish as compared to the previous month, although the rate hike was probably proposed.
- According to the MPC, in the medium-term inflation may prove higher than assessed in the previous meeting. The problem is, however, that after the previous meeting no detailed assessment of the inflation outlook was presented! In September the MPC promised only that we would get to know more in October, while in October they referred to September's statement.
- It seems to us that the view of the MPC is that CPI inflation may be temporarily above the target in 2007 (mostly as a result of higher food prices). However, this would not necessarily lead to higher interest rates as the inflation target does not seem to be endangered in the medium-term.
- At the beginning of 2007 the MPC decisions will be data dependant. If labour market statistics surprise on the upside again and unit labour costs show a substantial increase, than a fine-tuning in rates (one or two hikes by 25 bp) will be possible. As for now, however, we maintain the view about stable rates for some time.
- Labour market data will be important, but not decisive, as there is a view within the MPC that very good financial situation of companies may be treated as a kind of safety cushion in case of higher wage pressure in the economy i.e. enterprises may decide to lower their margins as their pricing power (and passing through higher costs into retail prices) is limited amid strong competition (also from abroad).

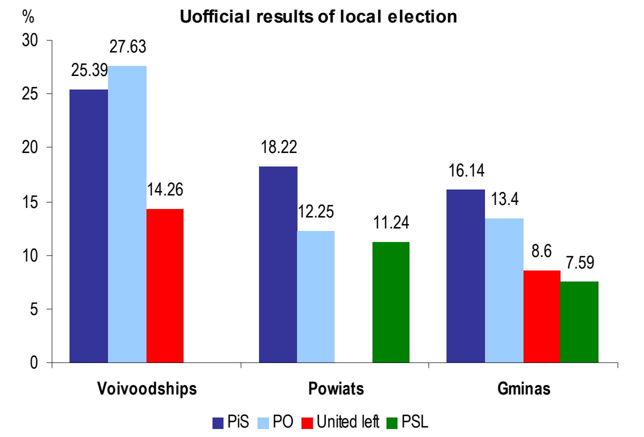
… and new projection was not very convincing

- Main conclusions from the projection were hawkish with CPI inflation reaching the target at the beginning of 2007, falling slightly below the target in 2H07 and rising again in 2008, to close to 3.5%.
- Additionally, according to authors of NBP inflation projection, there is a risk on the upside, mostly as a result of the situation on the labour market i.e. risk of higher wage pressure as compared to the projection, which assumes close to 7% annual pay growth in 2007-08.
- The projection for 2007 does not seem controversial and it was mentioned during the press conference there is a chance that inflation would be even lower. What is important, however, majority of the MPC does not seem to share the view of authors of the projection as regards inflation beyond 2007.
- According to the NBP's chief economist, rate hikes in the scale priced-in by the market at the end of September (cut-off date of the projection), i.e. ca. 100 bp, would not be enough to achieve the inflation target in 2008.
- According to estimations based on NBP model a hike of 100 bp would lower GDP growth projections by 0.3 pp and CPI inflation by 0.2 pp in 4Q08.
- Therefore, the first conclusion is that domestic interest rates are not very efficient tool in influencing Polish economic situation. Secondly, official rates of the NBP should be much higher than today's level of 4% to achieve the inflation target of 2.5% if one believes in all model's assumptions.
- As inflation depends more and more on global output gap, and not on domestic factors, it should be noted that higher interest rates abroad do a part of job for the Polish central bank.

Central bank watch

Comments of the central bank representatives	Our remarks
MPC's press conference after the meeting of October 25 **Leszek Balcerowicz, MPC chairman** I think that independence of the central bank is to be pre-emptive rather than to act later, in order to avoid inflation being above the target for too long. (…) Credibility should be treated as a consistency of words and actions (…) I also feel longing for full knowledge, but I know it will last forever. Monetary authorities make decisions in conditions of imperfect information, and while the full information is given it is too late (…) Wishful thinking is irresponsible , especially in public positions. **Andrzej Wojtyna, MPC member** The economy is expanding at fast pace, but stable. Factors driving this growth, such as stable investment growth and favourable position of Polish exports in the environment of accelerating GDP growth, makes inflation outlook more optimistic. There are no unfavourable changes in current account deficit, we have very good financial situation of enterprises and relationship between productivity growth and wages increase is still positive. Even if we were to see a certain acceleration in wage growth, there is a certain potential for companies to absorb such changes due to their favourable financial situation. **Halina Wasilewska-Trenkner, MPC member** I think this shows clearly what was the subject of discussion at today's meeting and how many problems there were, how difficult it was to reach consensus regarding the outlook for the economy.	A couple of months ago it was quite clear that the period of convergence of MPC members' views had ended. During the last press conference it was even more visible for wide audience. Although NBP President emphasised the importance of being consistent as regards words and actions, the justification of MPC decision he presented was far from ideal, as his arguments might have been used rather with a rate hike. It seems a motion to increase interest rates was proposed, but it was rejected and the MPC chairman was outvoted (again). To asses probability of rate hikes in the following months one has to carefully watch comments of those members, who form majority in the Council. From this point of view, we positively assess the fact that professor Andrzej Wojtyna presented their view during the press conference. Presenting such balanced view led to market rates decrease. In our opinion, different views of MPC members as regards inflation perspective are normal and that is why it is positive that collective body such as MPC make decision on interest rates, as it lowers the risk of making a mistake in monetary policy. And difference in views (in this case no will to hike rates) has nothing to do with wishful thinking or with lack of responsibility in public function. Based on interviews with MPC members (some details below), we think that only one vote was missing to hike interest rate sin October. The motion was probably supported by Leszek Balcerowicz, Dariusz Filar, Marian Noga and Halina Wasilewska-Trenkner. We do not think the balance of votes may change until year-end and next year when we will see the new NBP President.
Urszula Grzelońska, MPC member **Reuters, 26 October** There is no urgent need to increase interest rates. I think the MPC can wait at least half a year. I am afraid that GDP growth may be a bit lower than 5% next year.	First comments of possible candidate for NBP President post as regards interest rates indicate that her views may be similar to those of the majority of the Council. At the same time, it cannot be excluded that she will support a moderate rate hike at the beginning of 2007.
Jan Czekaj, MPC member **Reuters, 27 October** A rise in rates before the end of the year is not a foregone conclusion, because it is not the case that we want to greet the new governor with different rates. Inflation path is higher as compared to July's projection, but does it mean that the target cannot be achieved? The main factor responsible for inflation increase were food prices and the most interesting for us is whether higher inflation is influenced by higher demand. This is will the key for our future decisions. **Mirosław Pietrewicz, MPC member** **PAP, 27 October** There is no need to hike interest rates at the moment. We have to carefully analyse the situation, but only after the next projection it will be possible to better assess inflation prospects and possibly to make decisions on interest rates. If the third quarter shows still healthy GDP growth with high input from fixed investments, which would indicate higher potential growth in the economy, I would not see risk for inflation.	Comments of two MPC members being in majority confirm, in our opinion, that there will be no rate hike this year. It seems also that some Council members are awaiting the new President. The *Monetary Policy Guidelines for 2007* published in September said that the appointment of the new President may have some influence on monetary policy. We hope it will also have influence on communication of the Council. We are glad to see some steps in this direction already now – *Inflation Reports* will include more details on the views expressed at the Council's meetings, bringing it closer to the practice of many central banks (minutes). As for now, it seems the MPC would like to have more time to analyse the economic situation, especially as situation on the foreign exchange and commodities' markets is favourable from the point of view of inflation environment. Thus CPI inflation increase in the first quarter of next year may be less significant than it was previously expected. Next MPC decisions will depend on to a large extent on upcoming economic data, especially information from the labour market and inflation indicators. As regards economic expansion, the breakdown of GDP growth will be equally important as its pace.
Dariusz Filar, MPC member **Radio PiN, 31 October** We can say that there were opinions in the Council that interest rate hike is needed (...) At the moment we have the situation as follows: in November we will have only monthly data, which should not change much the economic picture, while in December it will be only one month more to see the next inflation projection.	It seems very unlikely that hawks will be able to hike interest rates before the end of the year. Filar indirectly confirmed it himself, saying that in November the MPC will have not much more information than currently and in December there will be only one month left until publication of the next inflation projection. However, it is worth to notice that conclusions of the NBP projections are not fully accepted by the majority of Council members. Thus, importance of January's projection may be also limited, to some extent.
Marian Noga, MPC member **Reuters, 8 November** The bank should be forward-looking in its policy and tighten rates already now. In my opinion, the Monetary Policy Council should raise interest rates in two 25 basis-point steps in the first quarter of next year to prevent an overshoot of the inflation target.	Statement that monetary policy should be tightened already now suggested that professor Noga voted in favour of 25 bp rate hike in October. While he hopes that majority of the MPC will decide to hike rates in the first quarter of 2007 (although it will depend on upcoming data), it seems he is against interest rate hikes more significant than 50 basis points.

Government and politics



Local election results

▪ Initial results of the local elections show that the ruling Law and Justice (PiS) party performed well in gminas, the smallest units of the Polish administrative system – PiS gained 16.14%, PO 13.43%, united left came third with 8.66% of votes.

▪ In districts (powiats), PiS won 18.22% of votes, PO 12.25%, and peasants' PSL 11.24%.

▪ Civic Platform (PO) has beaten the Law and Justice in the provinces (voivodships), the largest unit of local government, gaining 27.63% of votes, ahead of PiS with 25.39%, and united left 14.26%.

▪ A second round of elections is faced by the Polish capital, Warsaw, where the Law and Justice candidate, ex-prime minister Kazimierz Marcinkiewicz, failed to gather the required majority over Civic Platform's Hanna Gronkiewicz-Waltz.

European Commission's forecasts

	2005	2006	2007	2008
	General government balance (% of GDP)			
Excl. pension reform costs	-2.5	-2.2	-2.0	-1.8
Pension reform costs	1.9	2.0	2.0	2.1
Including pension reform costs	-4.4	-4.2	-4.0	-3.9
	General government debt (% of GDP)			
Excl. pension reform costs	42.0	42.4	43.1	42.7
Pension reform costs	5.3	6.9	8.0	8.9
Including pension reform costs	47.3	49.3	51.1	51.6
	Macroeconomic forecasts (%)			
GDP growth	3.2	5.2	4.7	4.8
HICP inflation	2.2	1.4	2.5	2.8
Unemployment rate	17.7	13.9	12.2	11.6

Source: *Autumn 2006 Economic Forecasts*, European Commission

New forecasts of the European Commission

▪ The European Commission has raised GDP growth forecasts for Poland to 5.2% in 2006 and 4.7% in 2007.

▪ The Commission predicts Poland's general government deficit to fall from 2.2% of GDP this year to 1.8% in 2008, but according to EU regulations since April 2007 Polish government will be no longer able to write off the costs of pension system reform from the general government balance, which will push the deficit up by ca. 2 percentage points.

▪ Commission's forecasts regarding fiscal balance are less optimistic than those presented by the Ministry of Finance (general government deficit at 3.5% of GDP in 2007), nevertheless they still compare favourably with other countries in the region, especially with Hungary (where the deficit is likely to reach ca. 10% of GDP this year).

IMF's economic forecasts

	2005	2006	2007
GDP (% YoY)	3.4	4.9	4.5
Private consumption (% YoY)	2.0	4.3	3.8
Fixed investment (% YoY)	6.5	10.0	9.5
CPI (% YoY)	2.1	0.8	2.0
Unemployment rate (%)	17.7	17.0	16.1
Export (% YoY)	8.1	11.8	10.3
Import (% YoY)	4.9	12.9	11.4
Current account balance (% of GDP)	-1.4	-1.7	-2.1
General government balance (%GDP)	-3.9	-4.5	-4.4
Public debt (% of GDP)	47.7	48.9	50.0

Source: *IMF Country Report No. 06/391*

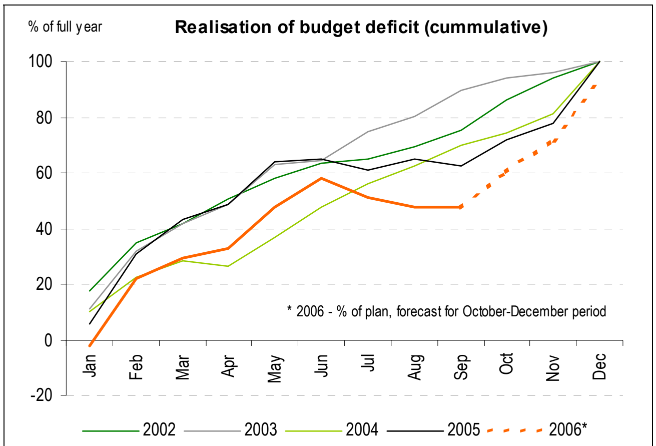
... and of the International Monetary Fund

▪ In its latest report on Poland, the International Monetary Fund also presents quite optimistic outlook for economic growth in Poland, predicting 4.9% GDP growth in 2006 and 4.5% in 2007.

▪ IMF points to chances that Poland's economy is facing, yet underscores that they could be undermined without appropriate action in macroeconomic policy. The Fund points to a need of more decisive cuts in fiscal deficit and progress in privatisation.

▪ In the Fund's assessment the inflation perspectives do not point to a need of monetary policy tightening, despite concerns of some MPC members.

▪ IMF staff expressed grave concern about the reorganization of financial sector supervision that in Fund's opinion risked politicizing its operations.



Another surplus in this year's budget

▪ State budget deficit reached PLN14.49bn after nine months of this year (47.4% of annual plan) against 14.52bn after August. It implies that September was third straight month of surplus in the central budget.

▪ Likewise in the previous months, good outcome was a result of strong revenue growth and postponement of some spending. The latter implies that next months will see rapid accumulation of the deficit amid realisation of delayed expenditures.

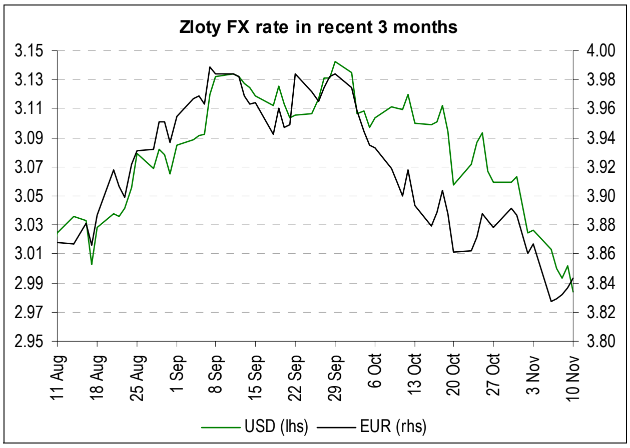
▪ According to estimates presented by the Ministry of Finance, October saw an increase in deficit to 60-61.5% of the annual plan. Nevertheless, at the end of the year the estimated budget deficit should be lower than PLN30.5bn planned in the budget bill by ca. PLN2.0-2.5bn.

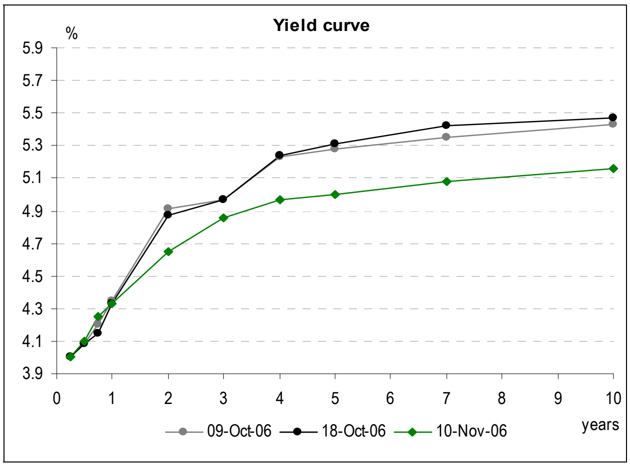
Source: Ministry of Finance, European Commission, IMF, National Electoral Committee

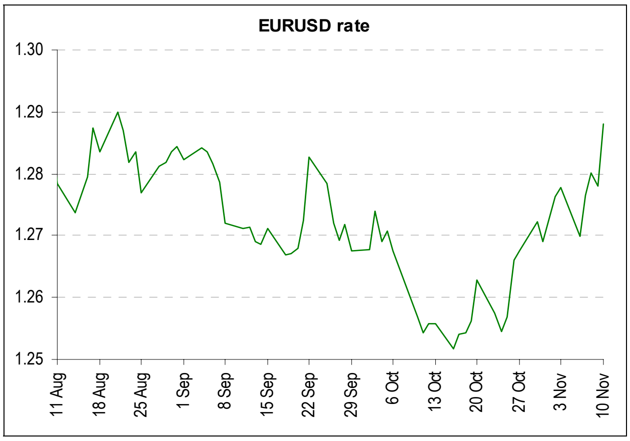
Government and politics

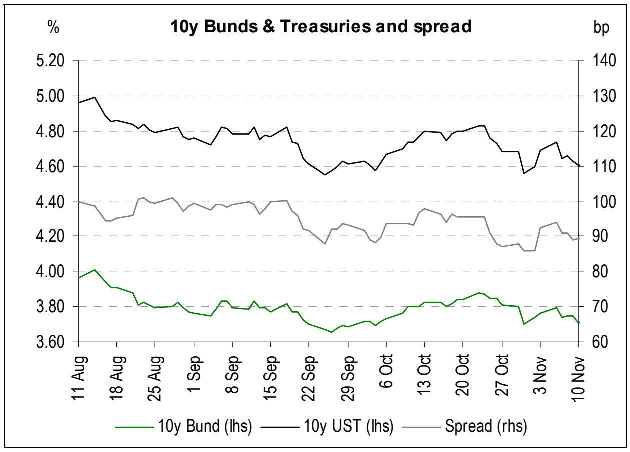
Comments of government representatives and politicians	Our remarks
Jarosław Kaczyński, Prime Minister **Handelsblatt, 30 October** Firstly, if a fixed exchange rate should be applied during the two-year preparation period the zloty could lose its stability. (...) We are worried about a strong social reaction. Not unrest but at the ballot box. Slovakia is an excellent example. A few years of very effective liberal policies and the policymakers who implemented them were voted out.	Comments of Poland's Prime Minister as well as the president suggest that fast euro entry is not among the priorities of current administration. Meanwhile, lack of political commitment to join euro zone was one of the risk factors mentioned in the latest IMF report. In Fund's opinion Poland already benefits from financial markets' anticipation of euro adoption and questioning this view could have negative market consequences that could forgo these anticipatory benefits.
Zyta Gilowska, deputy PM, finance minister **Parkiet, 30 October** If positive trends pass into 2007 then one could assume that – counting in line with EU methodology – we can land with general government deficit of around 3.5% of GDP (against earlier predicted 3.7% of GDP). If it is below 3.5%, then we will be free from critique. It's because it is close to reference value and then we will be able to write off some percentage of pension reform costs. In effect, it could turn out that we will be outside the excessive deficit procedure. **Piotr Soroczyński, deputy finance minister** **PAP, 8 November** At this moment work on convergence program update is carried on, including the path of meeting fiscal criterion. I believe it should be completed until the end of this week or the middle of next week. Surely, the path will not be worse than the one presented in the draft budget, possibly it will be better, but it depends a lot on the realisation of 2006 budget. (...) All efforts will be made to avoid reaching 50% of GDP (by the public debt). According to the current plans the debt should be stabilising around 50% of GDP, rather than 52-53% assumed year ago.	Even though the Ministry of Finance draws prospects of Poland's public finances in very bright colours, opinions of international institutions are much more sceptical. The latest IMF report clearly point to insufficient steps towards reduction of fiscal debt and deficit, which could undermine the perspectives of fast economic expansion in future. According to unofficial information, the European Commission will criticise government's fiscal strategy in the just-prepared report about Poland's convergence program. The Commission's recommendation, to be debated by EU finance ministers, will mark another step in the bloc's excessive deficit procedure. Draft recommendation prepared by the Commission states that "the action of the Polish authorities to correct the excessive deficit by 2007 is proving inadequate". It also adds that taking into account the risk of a higher-than-targeted deficit outcome in 2007, as identified in the Commission autumn forecast, this deficit is well above 3% of GDP. As Poland is not yet a member of the euro zone, the EU could only freeze a part of the regional development aid for Poland. Hopefully, those sanctions seem to be quite unlikely at this stage, taking into account experiences of other countries that used to have problems with deficit reduction. If the EU finance ministers agree with the Commission recommendation, the EU executive is likely to set deficit-cutting targets for Poland.
Jacek Krzyślak, head of FinMin's research department **PAP, 2 November** CPI drop results from the fact that prices of non-food products and services went down 0.1% MoM, and this is a consequence of fuel price drop by 4.4% MoM. As regards food prices, we have 0.6% MoM increase, alcoholic drinks rose 0.1%, while prices of non-food goods fell 0.1%. In the food category, vegetables prices increased 8.2%, bread went up in price 2.0%, while fruit prices decreased by 3.3%, and meat prices dropped 1.4%. (...) It seems to us that at the end of the year the 12-month price growth will reach 1.9%.	Again, information of the Finance Ministry about new inflation estimates influenced market CPI forecasts, as the ministry's predictions proved to be quite accurate in the past (although this time the analysts did not fully believe in FinMin's forecast as the consensus is slightly above, at 1.3%). On the one hand, lower CPI at the turn of the year could be seen as a factor reducing chances for swift interest rate hike in Poland. On the other hand, however, our rough estimate suggests that if FinMin's assumptions regarding inflation numbers prove correct, net inflation would pick up to 1.6%YoY in October from 1.4% in September.
Ludwik Kotecki, deputy head of FinMin's research dept. **Reuters, 25 October** We estimate that economic growth in the third quarter will stand at 5.5 percent, thanks to dynamic industrial output, rising investment and strong exports. In the whole year, economic growth may exceed the earlier estimated 5.2 percent. **Janusz Witkowski, CSO chief** **Reuters, 24 October** Everything indicates that in terms of economic growth the third quarter was not weaker than the second quarter.	For some time it turns out almost every month that officially released statistical data are clearly better than predicted. Similar situation took place also in September, when fast increase in production and sales has been recorded. In sum, overall results of the third quarter suggest that the pace of economic growth in this period was faster than indicated by recent economic forecasts. The data gave reasons to believe that GDP growth in the third quarter was at least equally strong as in the second quarter (5.5%). Such assessment was also confirmed by the head of statistical office at the press conference summarising economic situation in the third quarter. Accordingly, it seems likely that GDP growth in the entire 2006 could be also close to 5.5%. Official data on GDP growth in Q3 will be released on November 30.
Bohdan Socha, deputy labour minister **Reuters, 7 November** The jobless rate last month likely fell to 14.9 percent, down from 15.2 percent in September **Anna Kalata, labour minister** **Reuters, 9 November** More funds to fight unemployment and relatively good weather could result in another fall of the unemployment rate in November, although we did not forecast this earlier. The jobless rate would end 2006 below 15.5 percent.	Estimates of the labour ministry suggest that registered unemployment rate fell below 15% in October, for the first time in almost six years. The estimate is based on figures from the labour offices while the official data will be published by the CSO in the second part of this month. Seasonal factors may drive unemployment up again slightly in the winter. However, in year on year terms a strong downward tendency should be maintained and we expect it to be continued in 2007. We forecast the registered unemployment rate will reach 15.2% in December and then could rise even further in the first quarter of next year, but afterwards it should decline and reach around 13.5% at the end of 2007. Still, the unemployment rate in Poland will probably remain the highest in the European Union.

Market monitor









Source: Reuters, BZ WBK

Further zloty appreciation

▪ Since the beginning of October zloty was strengthening against the euro and the dollar with regards to improved sentiment in the region and broke important resistance range 3.88-3.9 supported by appreciation of forint and crowns (CZK and SK). Further gains and moods improvement toward emerging economies was influenced by the positive data from the US labour market suggesting soft landing of US economy. In the last days zloty fluctuated in a narrow range of 3.81-3.85.

▪ We assume that zloty may strengthen further, though 3.8-3.81 is going to be an important resistance level. In our view there is much less potential for the zloty appreciation than a month before. The EURPLN will rather stay above 3.8, and USDPLN rate slightly below 3.0, though further gains in the region and good US data may contribute to stronger zloty appreciation.

Significant fall of yields

▪ Substantial improvement of sentiment in the region and investors' interest toward the emerging markets positively influenced also the Polish debt market. Yields fell along the yield curve by ca. 30 bp. US data, core bond markets behaviour, lowering the MF's inflation forecast with regards to falling oil prices and some Urszula Grzelońska's comments had influence on bonds strengthening. All this despite hawkish inflation projection.

▪ The downward revision of the forecasts of the Ministry of Finance, early comments of Urszula Grzelońska and as it seems declining importance of inflation projection for the majority of MPC members support our expectations of lack of interest rate hikes in the coming months. The pace of US economic weakening as well as the domestic labour markets data may have still strong influence on the Polish debt. Bond prices are very high, and space for their further increases is undoubtly tightened.

Dollar sell-off

▪ Since the moment of the last report release the greenback depreciated against the single currency with reference to the weaker economic data from US (most of all Q3 GDP, activity indices) and less hawkish than expected Fed's communiqué. There was slight strengthening after the labour market statistics however the dollar significantly weakened almost to 1.29 after information on possible Chinese currency reserves diversification and expected rate hike by the ECB.

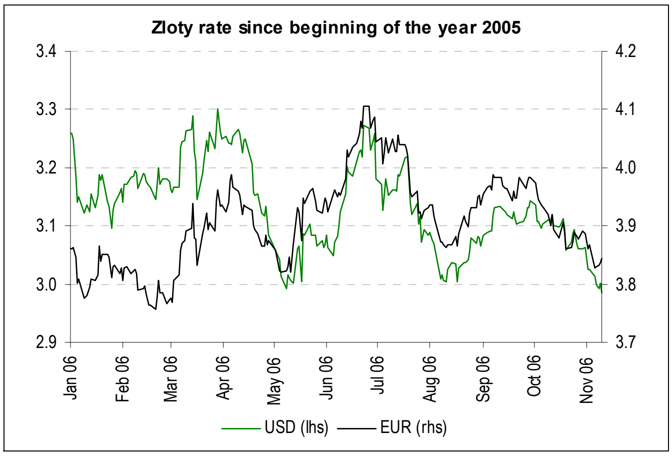
▪ In line with our expectations the dollar is weakening against the euro with regards to the US economic slowdown. The EURUSD rate will be influenced by US inflation data, though it seems, that figures reflecting economic growth may be more essential. We still expect the rise of the EURUSD rate above 1.3 next year.

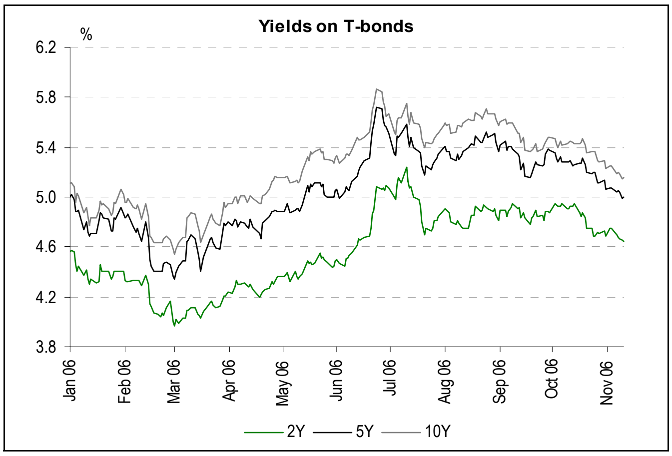
US economic weakening strengthens the core markets

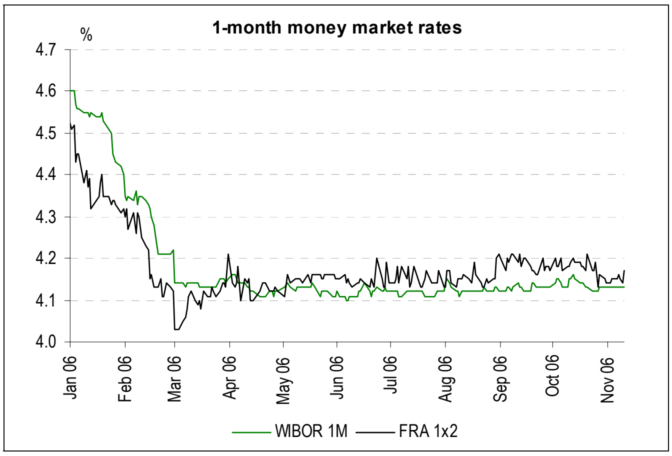
▪ Reassessment of the expected performance of the US economy among other after the Q3 GDP data, the housing market data and activity statistics contributed to Treasuries strengthening, which influenced the EU-12 market as well. The debt prices were supported by the weakening of inflation pressure fears (CPI fall, less hawkish Fed's communiqué). Despite non-farm payrolls revision 10Y yields of Treasuries and Bunds fell last month by ca. 10bp.

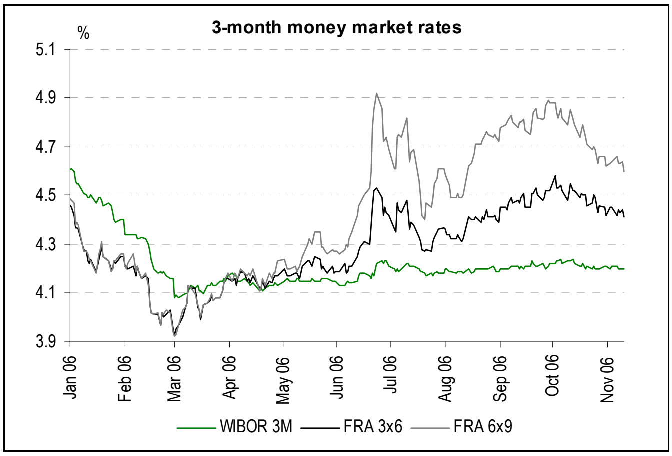
▪ We hold our view the interest rates in the United States will stay in 2006 at 5.25%, and starting from the Q2 next year the monetary policy easing is going to be pursued with rate cuts down to 4.75%, and even 75-100bp possible in 2007 with reference to the US economic slowdown. In the euro zone after expected rate hike in December we expect another 25 bp rate rise in Q1 2007.

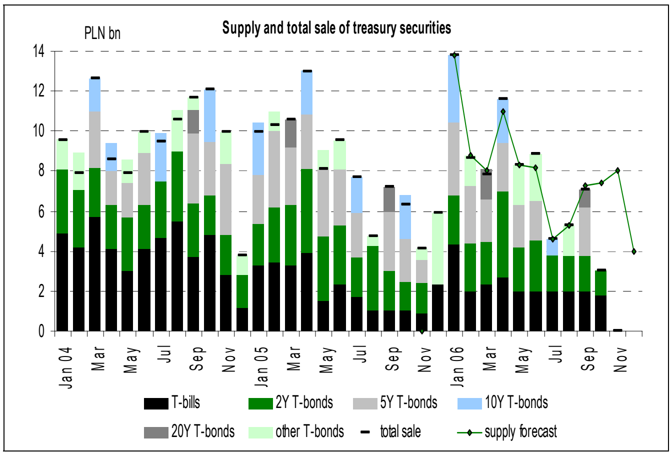
Market monitor











Treasury bill auctions (PLN m)

Date of auction	OFFER / SALE 52-week	OFFER / SALE Total
04.09.2006	1 000 / 1 000	1 000 / 1 000
18.09.2006	1 000 / 1 000	1 000 / 1 000
Total September	2 000 / 2 000	2 000 / 2 000
09.10.2006	800 / 800	800 / 800
23.10.2006	800 / 800	800 / 800
Total October	1 600 / 1 600	1 600 / 1 600
06.11.2006	800 / 800	800 / 800
20.11.2006	800 - 1000	800 - 1000
Total November*	1 600 - 1 800	1 600 - 1 800

* estimations based on Ministry of Finance preliminary information

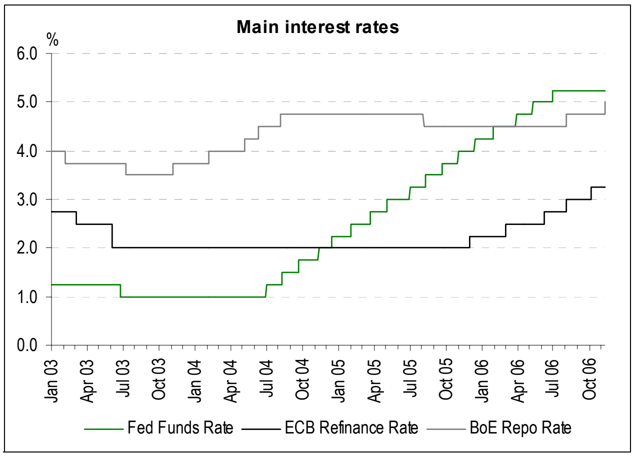
Treasury bond auctions in 2006 (PLN m)

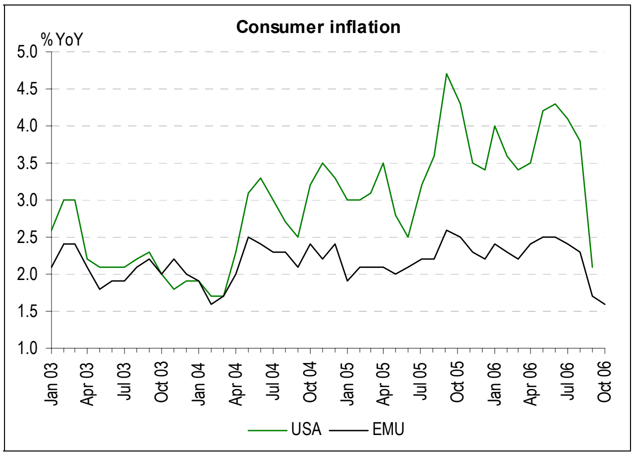
month	First auction				Second auction				Third auction			
	date	T-bonds	offer	sale	date	T-bonds	offer	sale	date	T-bonds	offer	sale
January	04.01	OK0408	2 500	2 500	11.01*	DS1015	3 360	3 360	18.01*	DS1110	3 600	3 600
February	01.02*	OK0408	2 400	2 300	08.02	WZ0911 | IZ0816	1 000 | 500	1 000 | 493	15.02*	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	2 520	2 520	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	DS1015	800	800	-	-	-	-
August	02.08	OK0808	1 800	1 800	09.08	WZ0911	1 500	1500	-	-	-	-
September	06.09	OK1208	1 800	1 800	13.09*	WS0922	840	840	20.09	PS0511	2 400	2 400
October	04.10	OK1208	1 200	1 200	11.10*	DS1017	2 400	2 400	18.10	PS0511	2 000	2 000
November	02.11	OK1208	1 400	1 400	08.11*	WZ0911 | IZ0816	2 760 | 500	2 760 | 0	15.11	PS0511	2 000	-
December	06.12	2Y	-	-	-	-	-	-	-	-	-	-

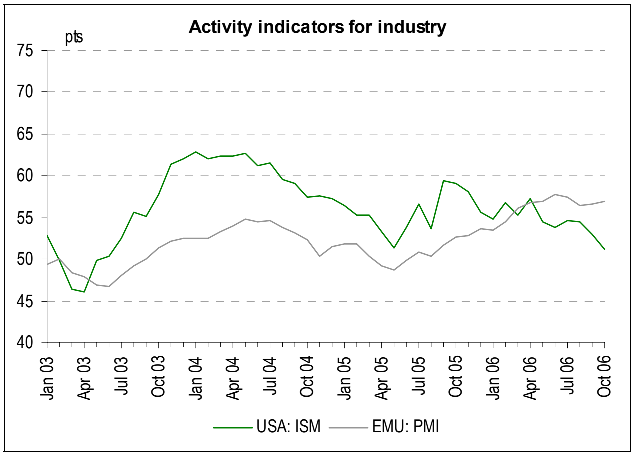
* with supplementary auction

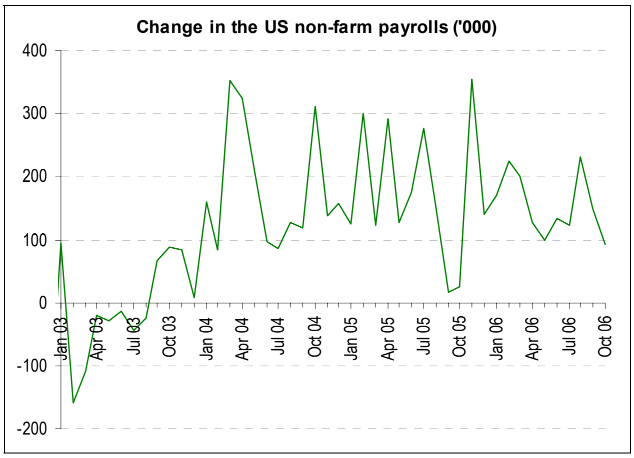
Source: Ministry of Finance, Reuters, BZ WBK

International review









Source: Reuters, ECB, Federal Reserve

Expected rate hike in December in the euro zone

▪ Fed as expected kept interest rates on hold at 5.25% yesterday. The statement said that the economy was cooling down, but at the same time advised that the pressure on inflation will be still closely monitored, which could be interpreted as a tightening bias in Fed's policy. Nevertheless, the statement was interpreted as less hawkish than some market participants predicted.

▪ The ECB left the main interest rate unchanged at 3.25% but signalled that borrowing costs will rise again in December to keep inflation pressures in check. ECB President Jean-Claude Trichet stated that the rates were still low, while the monetary policy in the EU-12 remained accommodative and confirmed market expectations that credit costs will increase to 3.5% next month as further withdrawal of this stimulus would be needed.

Falling consumer prices, high core CPI

▪ US CPI went down in September by 0.5%MoM (+2.1%YoY) deeper than expected (-0.3%MoM) as effect of falling energy (-7.2%MoM), gasoline (-13.5%MoM). The core CPI rose by 0.2%MoM (2.9%YoY) with rising rents and medical care prices. PPI fell by 1.3%MoM (largest since April 2003), which resulted from energy prices decline, record high slump of gasoline prices, and fall of heating oil prices. The core PPI rose by 0,6%MoM.

▪ The HICP inflation in the euro zone declined to 1.7%YoY (0.0%MoM) from 2.3%YoY in August as compared to preliminary estimates of 1.8%YoY. The core figure, excluding food and energy prices, amounted to 1.5%YoY and 0.3%MoM. Flash HICP data for the euro zone indicated a decrease in inflation rate to 1.6%YoY, while market analysts expected no change. Producer prices fell by 0.5%MoM (+4.6%YoY).

Unexpected size of US GDP dynamics fall

▪ The US manufacturing ISM fell to 51.2 in October (the lowest level since June 2003) from 52.9 in September. All in all, the Fed is unlikely to judge the data as unwelcome as the Fed hopes to see reduced inflation pressures from a moderately higher degree of slack than currently prevails in the economy. The U.S. ISM services index rose to 57.1 in October from 52.9 in September.

▪ The euro zone's PMI for manufacturing sector rose to 57.0 in October from 56.6 in September. The reading was higher than expected 56.7. The increase in the index was driven by strong exports and domestic demand. In the euro zone the growth in the services sector eased to the weakest level for 11 months as the PMI index declined to 56.5 from 56.7, below the forecasted 57.0.

▪ US GDP growth came in at a 1.6% in the third quarter, compared with the 2.6% in the second quarter, making this the weakest reading in over three years, while expectations were at 2.2% (the biggest decline of spending on new housing since 1991). In the third quarter core PCE prices were up 2.3% and 2.4% on an annual basis, which was the strongest growth rate since 1995.

Good data from the labour market

▪ The U.S. Labour Department said that the unemployment rate dropped to its lowest in nearly 5 and half years in October to 4.4% from 4.6% in September. It was the lowest unemployment rate since May 2001 (4.3%) and was likely to fan concerns that labour markets are growing tight and could contribute to inflation pressures.

▪ In US there were 92k more jobs added outside the farming sector with expectations at 125k. The hiring in each of the two prior months was revised up by total of 139k (148k in September and 230k in August.

Economic calendar

Monday	Tuesday	Wednesday	Thursday	Friday
13 November US: Federal Budget (Oct)	**14** ***POL: Balance of payments (Sep)*** ***POL: Money Supply (Oct)*** GER: ZEW (XI) EMU: Advanced GDP (Q3) EMU: PPI (Oct) US: Retail Sales (Oct)	**15** ***POL: Auction of 5Y bonds*** ***POL: CPI (Oct)*** US: FOMC minutes	**16** ***POL: Wages and employment (Oct)*** EMU: Final HICP (Oct) US: CPI (Oct) US: Net capital flow (Sep) US: Capacity use (Sep) US: Industrial Output (Sep) US: Philadelphia Fed index (Nov	**17** EMU: Industrial output (Sep) US: House starts (Oct)
20 ***POL: Treasury bills auction*** ***POL: Industrial Output (Oct)*** ***POL: PPI (Oct)***	**21**	**22** ***POL: Switch auction*** US: Final Michigan (Nov)	**23** ***POL: Core inflation (Oct)*** ***POL: Business climate (Nov)*** GER: Ifo Index (Nov) EMU: Current account (Sep)	**24** ***POL: Retail sales (Oct)*** ***POL: Unemployment (Oct)***
27	**28** ***POL: MPC meeting*** EMU: M3 money supply (Oct) US: Durable goods orders (Oct) US: Consumers confidence (Nov) US: House sales (X)	**29** ***POL: MPC meeting – decision*** US: Core PCE (Q3) US: New homes sales (Oct)	**30** ***POL: GDP (Q3)*** EMU: Business climate (Nov) EMU: Revised GDP (Q3) EMU: Preliminary HICP (Nov) US: Chicago PMI (Nov)	**1 December** EMU: Manufacturing PMI (Nov) US: Manufacturing ISM (Nov)
4 ***POL: Treasury bills auction*** EMU: PPI (Oct)	**5** EMU: Non-manufacturing PMI (Nov) US: Unit labour cost and labour productivity (Q3) US: Factory orders (Oct) US: Non-manufacturing ISM (Nov)	**6** ***POL: Auction of 2Y bonds***	**7** EMU: EBC meeting – decision	**8** US: Non-farm payrolls (Nov US: Unemployment (Nov
11 US: Wholesale inventories (Oct)	**12** GER: ZEW Index (XII) USA: Trade balance (X) USA: Federal Budget (XI) USA: Fed meeting – decision	**13** US: Retail sales (Nov)	**14** ***POL: CPI (Nov)*** US: Foreign trade prices (Nov)	**15** ***POL: Wages and employment (Nov)*** EMU: Final HICP (Nov) US: CPI (Nov) US: Net capital flow (Oct) US: Capacity use (Oct) US: Industrial output (Nov)

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	16	14	13	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	24	25	24	24	-
Gross wages, employment	16	15	15	18	17	19	17	16	15	16	16	15
Unemployment	24	23	23	26	24	23	25	24	25	24	24	-
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	14	13
Money supply	13	14	14	14	12	14	14	14	14	13	14	14
NBP balance sheet	6	7	7	7	5	7	7	7	7	6	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

		Oct 05	Nov 05	Dec 05	Jan 06	Feb 06	Mar 06	Apr 06	May 06	Jun 06	Jul 06	Aug 06	Sep 06	Oct 06	Nov 06
Industrial production	%YoY	7.6	8.5	9.6	9.8	10.2	16.4	5.7	19.1	12.2	14.3	12.6	11.7	17.0	16.1
Retail sales [c]	%YoY	7.5	7.3	6.3	8.6	10.2	10.1	13.2	13.7	10.7	11.0	11.5	14.5	13.1	12.5
Unemployment rate	%	17.3	17.3	17.6	18.0	18.0	17.8	17.2	16.5	16.0	15.7	15.5	15.2	14.9	14.9
Gross wages [b c]	%YoY	6.4	6.9	1.5	3.6	4.8	5.4	4.0	5.2	4.5	5.6	5.3	5.1	4.9	4.4
Employment [b]	%YoY	2.1	2.5	2.6	2.6	2.4	2.7	2.8	3.0	3.1	3.3	3.5	3.5	3.5	3.3
Export (€) [d]	%YoY	20.6	16.8	22.5	21.7	19.2	28.2	10.6	32.2	16.4	18.0	23.4	20.1	12.5	14.6
Import (€) [d]	%YoY	16.4	20.1	18.6	23.7	22.0	23.9	10.7	30.4	16.2	24.0	24.3	19.9	15.3	13.7
Trade balance [d]	EURm	9	-322	-425	6	-229	-130	-92	-483	-75	-568	-453	-150	-200	-300
Current account balance [d]	EURm	-357	-502	-530	-211	-839	-356	-570	-404	-215	-475	-610	-300	-300	-380
Current account balance [d]	% GDP	-1.6	-1.8	-1.7	-1.6	-1.8	-1.9	-2.1	-1.9	-2.0	-2.0	-2.1	-2.1	-2.0	-2.0
Budget deficit (cumulative)	PLNbn	-20.6	-22.2	-28.6	0.7	-6.7	-9.0	-10.0	-14.6	-17.7	-15.6	-14.5	-14.5	-18.5	-22.0
Budget deficit (cumulative) [e]	% realisation	72.1	77.7	100.0	-2.3	21.9	29.4	32.8	47.8	57.8	51.1	47.5	47.4	60.6	72.0
CPI	%YoY	1.6	1.0	0.7	0.6	0.7	0.4	0.7	0.9	0.8	1.1	1.6	1.6	1.2	1.5
PPI	%YoY	-0.9	-0.4	0.2	0.3	0.7	0.9	1.7	2.3	3.0	3.5	3.3	3.6	3.7	3.8
Broad money (M3)	%YoY	8.7	12.6	10.5	10.4	11.7	9.8	9.6	10.1	11.9	13.0	12.9	13.0	12.6	12.3
Deposits	%YoY	6.3	11.1	9.4	10.2	10.8	9.1	8.6	8.9	11.4	12.3	12.0	11.6	11.9	10.7
Loans	%YoY	4.4	10.2	11.8	12.3	13.5	13.6	12.2	12.4	16.0	16.7	18.0	19.2	19.3	19.0
USD/PLN	PLN	3.26	3.37	3.25	3.16	3.18	3.23	3.20	3.05	3.17	3.15	3.05	3.12	3.09	2.99
EUR/PLN	PLN	3.92	3.97	3.85	3.82	3.79	3.88	3.92	3.90	4.02	4.00	3.90	3.97	3.90	3.83
Reference rate [a]	%	4.50	4.50	4.50	4.50	4.25	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00
Lombard rate [a]	%	6.00	6.00	6.00	6.00	5.75	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50
WIBOR 3M	%	4.50	4.64	4.62	4.49	4.26	4.12	4.14	4.15	4.17	4.19	4.19	4.21	4.22	4.15
Yield on 52-week T-bills	%	4.19	4.35	4.38	4.22	3.97	3.87	3.95	4.02	4.20	4.30	4.35	4.44	4.35	4.35
Yield on 2-year T-bonds	%	4.42	4.75	4.64	4.40	4.20	4.10	4.28	4.44	4.75	4.95	4.85	4.87	4.84	4.70
Yield on 5-year T-bonds	%	4.85	5.23	5.04	4.82	4.60	4.59	4.80	5.00	5.33	5.37	5.41	5.31	5.24	5.05
Yield on 10-year T-bonds	%	4.90	5.36	5.14	4.94	4.78	4.78	5.02	5.26	5.54	5.55	5.61	5.48	5.39	5.20

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

[a] at the end of period [b] in corporate sector [c] in nominal terms [d] balance of payments data on transaction basis [e] 2005 - % of Dec, 2006 - % of plan

Quarterly and annual economic indicators

		2004	2005	2006	2007	1Q05	2Q05	3Q05	4Q05	1Q06	2Q06	3Q06	4Q06
GDP	PLNbn	923.2	980.9	1 042.2	1 119.1	228.7	238.2	241.0	273.0	240.3	251.9	258.0	292.1
GDP	%YoY	5.3	3.5	5.4	5.0	2.4	3.0	4.1	4.5	5.2	5.5	5.5	5.4
Domestic demand	%YoY	5.9	3.6	5.4	5.0	1.4	-0.1	2.3	5.6	4.8	4.8	5.9	5.9
Private consumption	%YoY	4.0	2.6	4.9	4.2	1.3	1.4	2.2	2.6	5.2	4.9	5.0	4.5
Fixed investments	%YoY	6.3	0.8	12.6	10.0	1.2	3.9	6.4	10.1	7.7	14.8	15.0	12.0
Industrial production	%YoY	12.3	4.0	12.3	8.0	0.7	2.3	4.5	8.4	12.4	12.1	12.3	12.6
Retail sales (real terms)	%YoY	7.1	1.5	11.4	9.0	-0.4	-3.2	4.1	5.4	9.0	11.8	13.8	11.1
Unemployment rate [a]	%	19.1	17.6	15.2	13.5	19.2	18.0	17.6	17.6	17.8	16.0	15.2	15.2
Gross wages (real terms) [c]	%YoY	0.8	1.2	3.8	3.2	-1.3	0.8	1.1	3.8	4.3	3.9	4.1	3.6
Employment [c]	%YoY	-0.8	1.9	3.1	3.2	1.5	1.7	2.0	2.4	2.6	3.0	3.4	3.3
Export (€) [b]	%YoY	22.3	17.8	19.2	15.0	23.4	13.1	15.6	19.8	23.3	19.5	20.7	14.2
Import (€) [b]	%YoY	19.5	13.4	19.9	17.0	17.8	6.1	11.8	18.4	23.3	19.0	22.8	15.2
Trade balance [b]	EURm	-4 552	-2 242	-3 219	-5 615	-277	-612	-619	-734	-352	-646	-1 171	-1 050
Current account balance [b]	EURm	-8 670	-4 130	-5 265	-9 184	-842	-743	-1 161	-1 384	-1 396	-1 184	-1 385	-1 300
Current account balance [b]	% GDP	-4.3	-1.7	-2.0	-3.2	-3.3	-2.2	-1.7	-1.7	-1.9	-2.0	-2.0	-2.0
Budget deficit (cumulative) [a]	PLNbn	-41.5	-28.6	-28.5	-30.0	-12.3	-18.5	-17.8	-28.6	-9.0	-17.7	-14.5	-28.5
Budget deficit (cumulative) [a]	% GDP	-4.5	-2.9	-2.7	-2.7	-	-	-	-	-	-	-	-
CPI	%YoY	3.5	2.1	1.1	2.2	3.6	2.3	1.6	1.1	0.6	0.8	1.4	1.5
CPI [a]	%YoY	4.4	0.7	1.8	2.5	3.4	1.4	1.8	0.7	0.4	0.8	1.6	1.8
PPI	%YoY	7.0	0.7	3.0	2.0	3.3	0.1	-0.2	-0.4	0.9	3.0	3.6	4.6
Broad money (M3) [a]	%YoY	8.7	10.5	11.9	10.5	11.0	10.8	12.7	10.5	9.8	11.9	13.0	11.9
Deposits [a]	%YoY	8.1	9.4	10.3	10.5	10.4	9.2	11.6	9.4	9.1	11.4	11.6	10.3
Loans [a]	%YoY	2.9	11.8	18.9	13.0	4.6	7.4	9.6	11.8	13.6	16.0	19.2	18.9
USD/PLN	PLN	3.65	3.23	3.11	2.98	3.07	3.28	3.30	3.29	3.19	3.14	3.10	3.02
EUR/PLN	PLN	4.53	4.02	3.90	3.89	4.03	4.13	4.02	3.91	3.83	3.95	3.96	3.86
Reference rate [a]	%	6.50	4.50	4.00	4.00	6.00	5.00	4.50	4.50	4.00	4.00	4.00	4.00
Lombard rate [a]	%	8.00	6.00	5.50	5.50	7.50	6.50	6.00	6.00	5.50	5.50	5.50	5.50
WIBOR 3M	%	6.21	5.29	4.21	4.30	6.44	5.49	4.63	4.59	4.29	4.15	4.20	4.19
Yield on 52-week T-bills	%	6.50	4.92	4.20	4.35	5.91	5.21	4.26	4.31	4.02	4.06	4.37	4.37
Yield on 2-year T-bonds	%	6.89	5.04	4.61	4.90	5.83	5.27	4.44	4.60	4.23	4.49	4.89	4.81
Yield on 5-year T-bonds	%	7.02	5.25	5.07	5.25	5.89	5.38	4.68	5.04	4.67	5.04	5.36	5.20
Yield on 10-year T-bonds	%	6.84	5.24	5.25	5.45	5.76	5.37	4.72	5.13	4.83	5.27	5.55	5.36

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

This analysis is based on information available until 10.11.2006 has been prepared by:

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