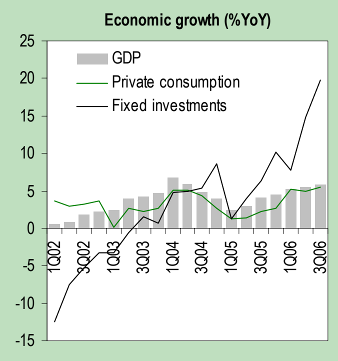
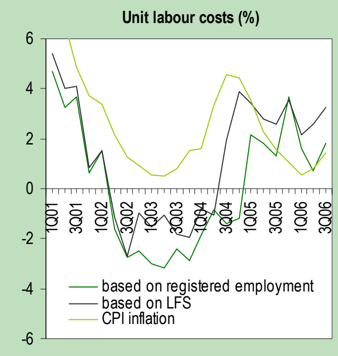
Bank Zachodni WBK

MACROscope

Polish Economy and Financial Markets

December 2006





Upbeat ending

- **In November's report we wrote about good mood on the Polish market and it seems that the end of 2006 brings a continuation of positive tendencies.** GDP growth was close to 6% and what is (at least) equally important this is very balanced economic expansion with substantial increase in domestic demand driven by both investments and consumption, which, however, does not lead to higher external imbalance. At the same time, after inflation reduction to 1.2% in October, it seems that the starting point for its increase in the following months (and thus the inflation peak in the first quarter of 2007) will be at the lower level than previously expected. This gives some comfort for the Monetary Policy Council and in our opinion the wait-and-see approach will be continued in the following months. The MPC will try to assess to what extent the upcoming macroeconomic data will create a risk of breaking the inflation target permanently in the medium-term. Certainly, the important factor for the Council is still a lack of excessive wage pressure in the economy and the fact that despite high employment growth we see a substantial acceleration in productivity growth. While rising unit labour costs create an important risk factor for inflation, it is worth to notice that their average increase this year is lower than in 2005.

- **Monetary policy perspectives are not changed by the nomination of Jan Sulmicki as the candidate for the NBP governor position.** The initial reaction of the markets to the nomination was neutral and later on investors will wait for his first public comments on issues related to interest rate policy, foreign exchange policy and Poland's road to the euro zone. Thus, the new governor's ability to communicate with markets will be a key issue in the coming weeks. In our opinion, paradoxically, the more dovish comments of the new NBP President, the more likely interest rate hike, in order to keep antiinflationary reputation and credibility of the MPC. However, the candidature of Sulmicki seems to limit a risk of such move from the MPC.

- **The Polish market remains under influence of global events.** The substantial increase of EURUSD rate on the international markets led to zloty strengthening, especially against the dollar, while expected interest rate cuts in the US maintained positive tendencies on the bond markets. At the same time, the Warsaw stock exchange saw another record-high levels. We do not think that until the end of the year something exciting will take place on the market, though the December's communiqué released by Fed (indicating substantial cooling of the housing market) as well as good mood towards the region may keep positive tendencies on the Polish market.

Financial market on 30 November 2006:

NBP deposit rate	2.50	WIBOR 3M	4.13	USDPLN	2.8911
NBP reference rate	4.00	Yield on 52-week T-bills	4.20	EURPLN	3.8166
NBP lombard rate	5.50	Yield on 5-year T-bonds	4.94	EURUSD	1.3201

This report is based on information available until 12.12.2006

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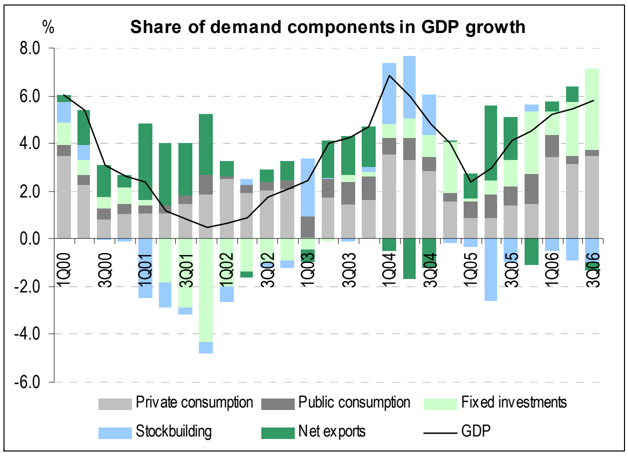
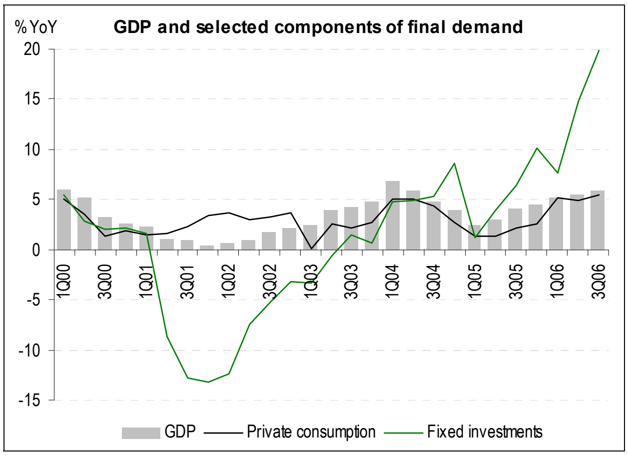
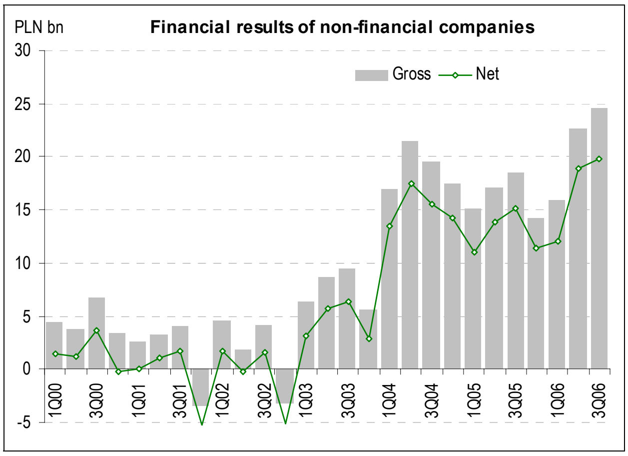
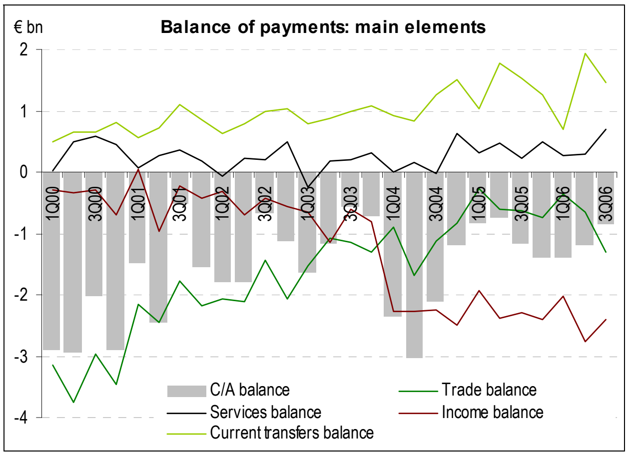
Economic update









Source: CSO, NBP, own calculations

GDP growth driven by domestic demand

- GDP growth in Q3 accelerated to 5.8%YoY, beating up market forecasts at 5.5%. It was possible thanks to strong rise in private consumption by 5.5% (the highest since 1999) and very strong revival in fixed investment that soared 19.8%YoY (the best rate of growth for nine years).
- Fast GDP growth was therefore driven mainly by domestic demand that advanced 6.1%YoY in Q3, against 4.8%YoY in two previous quarters. The impact of external trade on economic growth was slightly negative – net exports took away ca. 0.3 pp out of GDP growth.
- Very rapid growth in investment bodes well for GDP forecasts for subsequent quarters, but at the same time it allows for increase in the economy's potential output in the medium run, which may constrain effects of possible demand-pull pressure on prices.
- Pace of investment growth is likely to stay high in subsequent quarters, which will be supported by continuing inflow of sizeable foreign direct investments to Poland, realisation of programmes co-financed with EU funds, and the fact that the investment-GDP ratio has been quite low (below 20%, against ca. 24% in 1999-2000). Private consumption growth should also remain high due to wide stream of households' revenues (rising employment and wages) and high loans availability. At the same time, negative impact of net exports should stay moderate, as accelerating import growth should be, at least partly, offset by robust export performance.
- In effect, we predict that GDP growth in Q4 will remain high, probably slightly above 5.5%, which will imply that total 2006 GDP growth could be also close to 5.5%.

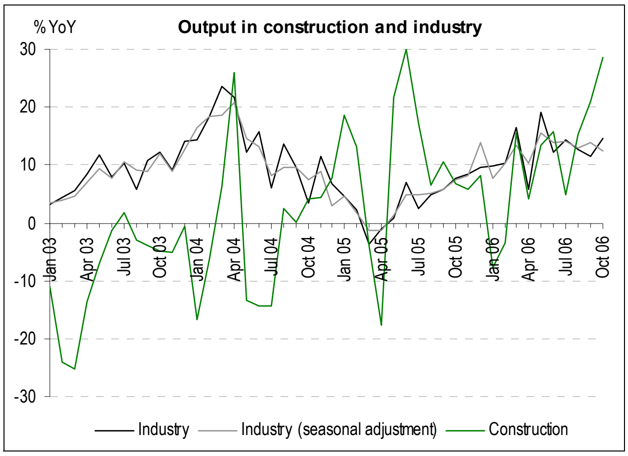
Record-high profits in enterprises

- Fast economic expansion finds its reflection in enterprises' financial situation. Companies' financial results improved once again in the third quarter.
- Gross financial result reached PLN63.1bn in January-September period, growing 24%YoY (in Q3 alone it was PLN24.5bn, up 33%YoY). Both firms' revenues and costs were in fast upward trend, rising 16.3%YoY and 15.4%YoY, respectively. Also, main economic and financial ratios improved (profitability and liquidity ratios up, cost ratio down).
- The data has shown that the share of exporting firms was still rising among Polish companies (49% in 3Q06 against 47% a year ago), and their financial results were better than average among all companies.

Export still strong, but import speeding up

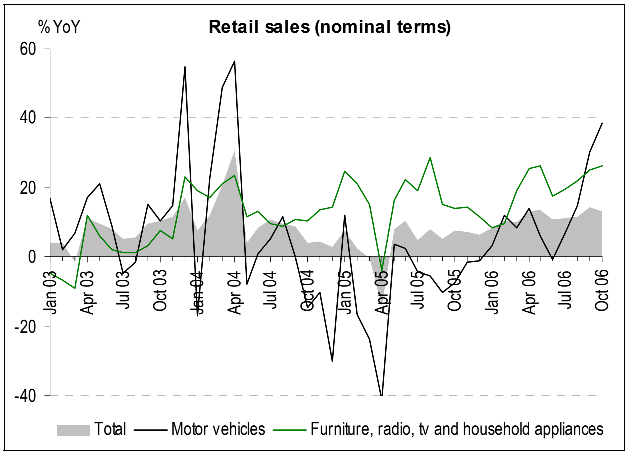
- Negative impact of foreign trade on GDP growth in Q3 was a result of deterioration in trade in goods balance. Export growth remained strong (19.5%YoY rise in euro terms in Q3), but import had accelerated even more (22.3%YoY in Q3) thanks to solid revival in domestic demand.
- Current account deficit remains rather low though (1.9% of GDP in September), mostly thanks to large surplus in current transfers – this is the effect of inflow of EU aide funds, and money transferred back home by Poles working abroad.
- In the subsequent quarters the trade balance may be deteriorating because of zloty appreciation and further strengthening in domestic demand. However, current account deficit should remain moderate.

Economic update



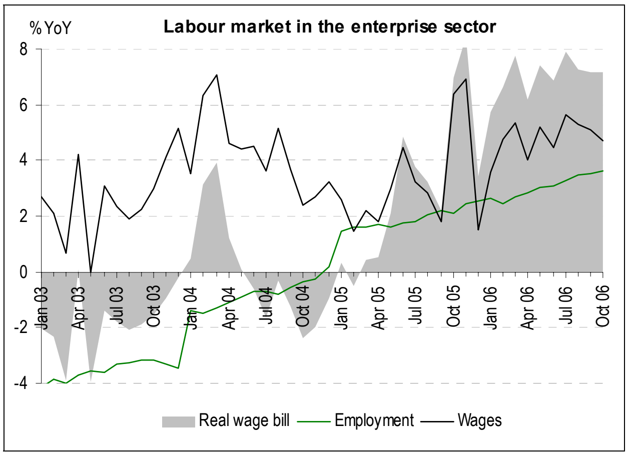
Strong start of fourth quarter in industry

- Industrial output soared 14.5%YoY in October, stronger than expected. To some extent, solid rise was triggered by higher number of working days, however even after eliminating this effect the result was very good (12.5%YoY).
- Except for non-competitive branches (mining and energy production, where production was in decline), the data indicated continuation of solid expansion in Polish industry, with output in manufacturing rising almost 17%YoY.
- Even more optimistic were the results of construction output that saw 28.8%YoY upsurge in October (28.2%YoY after seasonal adjustment), one of the best growth rates recorded ever. This suggests that strong revival in fixed investments observed in the first three quarters of the year carried on into the fourth quarter.



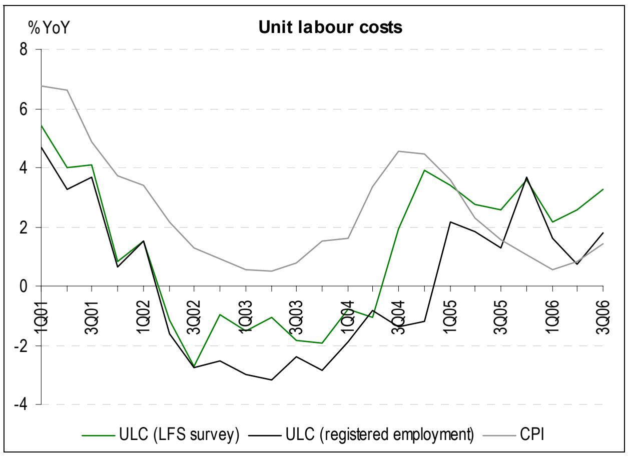
... and in retail trade

- Retail sales growth reached 13.3%YoY in October and even though it implies a slowdown in comparison with previous month (14.5%YoY), the result represented a decent rise in private consumption spending, one of the best this year.
- Real sales growth was even higher and reached 13.9%YoY, showing no sign of price pressure in retail trade.
- The sales growth was widespread, as almost all kinds of sales recorded solid, double-digit increases. The fastest growth was recorded in sales of motor vehicles (partly due to low base effect) and durable goods. Such data bode well for estimates of private consumption growth in the fourth quarter (it should rise by at least 5%YoY).



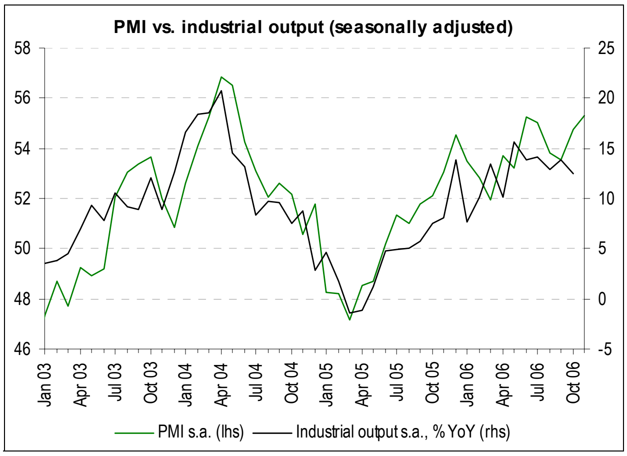
Record-fast improvement in the labour market

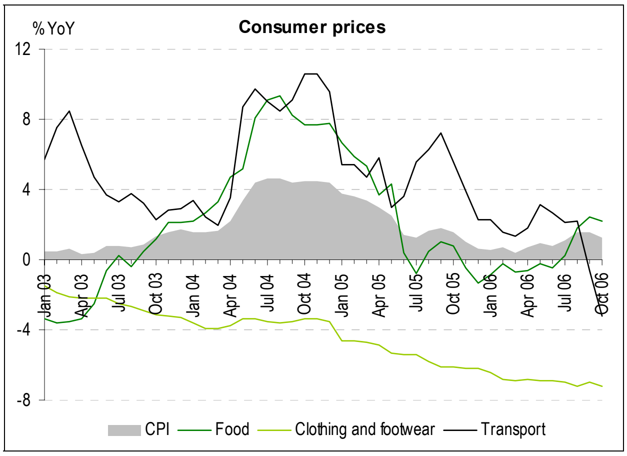
- Wage growth in enterprises sector slightly decelerated in October to 4.7%YoY from 5.1% in September, signalling that there is still no excessive pressure on salaries. At the same time, pay rise is high enough to sustain solid growth in consumption demand, as it is coupled with record-strong employment creation: 3.6%YoY in October. In effect, total wage bill in enterprises sector increased 8.5%YoY in nominal terms and 7.2%YoY in real terms in October, against 8% and 7%YoY, correspondingly, in January-September period.
- Registered unemployment rate declined to 14.9% in October, reaching the lowest level for six years. The number of unemployed reached 2.3 million, declining by 410,000 over a year (-15.1%YoY), while the number of job offers increased 30%YoY. According to Ministry of Labour's predictions, the fall in unemployment will be continued in November and December, to 14.8% and 14.7%, correspondingly, which would imply the fastest pace of labour market recovery since 1997.
- Even more optimistic were the preliminary data from Labour Force Survey, showing decline in jobless rate to 13% in Q3, fall in the number of unemployed by 780,000 during four quarters (26%YoY!) and increase in employment by 567,000 (3.9%YoY)
- On the one hand, the results are positive for GDP and consumption growth perspectives, but on the other hand they raise a question to what extent much faster and stronger tightening of labour market conditions would affect predicted inflation path. According to our estimates unit labour cost growth accelerated to 2%YoY in Q3 from 1.2%YoY on average in 1H06 (based on data on employment in the whole economy) and to 3.5%YoY from 2.4%YoY (based on LFS data).Still, average ULC rise this year is lower than in 2005, as fast rise in jobs and wages is coupled with very fast improvement in labour productivity.

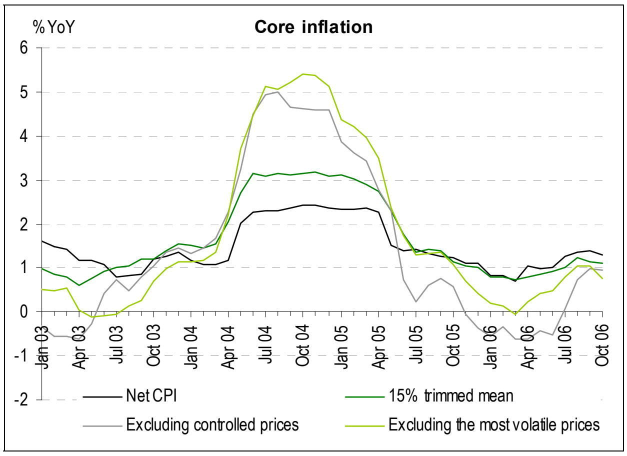


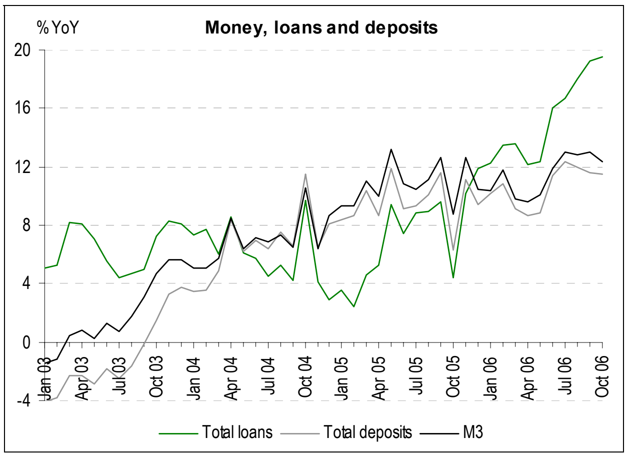
Source: CSO, NBP, own calculations

Economic update









Source: CSO, NBP, own calculations

Leading indicators herald further economic expansion

- Most of leading indicators show that economic situation in November was still very good.
- PMI activity index in manufacturing increased in November to the highest level for thirty months, thanks to strong rise in new orders and accelerating production growth. Employment index signalled further improvement in the labour market.
- CSO business climate survey also predicted further improvement in entrepreneurs' moods. In manufacturing and construction the indices of business climate in November were at the highest levels since 1992 and 1993, respectively. Firms expected further rise in production and orders, improvement in financial situation and increase in prices. In general, the survey signalled no signs of economic slowdown in the final quarter of the year.

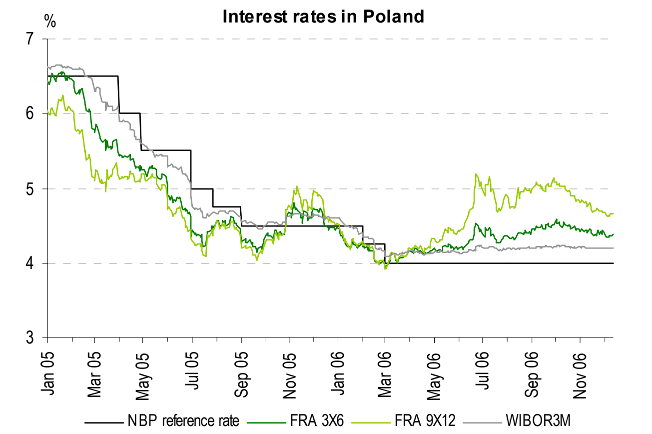
Lower inflation in October

- After two months of inflation stabilisation at 1.6%YoY, in October it fell again outside the tolerance band around the central bank target, to 1.2%YoY. What is important, low food and fuel inflation indicators (the former rose 0.8%MoM and the latter fell 5%MoM) were not the only factors bringing inflation down in October; other prices remained almost stable.
- It was confirmed by core inflation indices – three out of five measures fell by 0.1-0.2 pp, while two others remained unchanged. One of the most closely watched net inflation (CPI less fuel and food prices) fell to 1.3% from 1.4%YoY in September, and was the highest among five core rates; two others were at 1.1%, and two below 1.0%.
- In the subsequent months inflation rate will be gradually mounting up again. It is likely to approach 2% in December, in Q1 2007 it could reach 2.5%, and then it could stabilise slightly above 2% until the end of next year. However, all in all the latest data confirmed our belief that there is no convincing evidence that 2.5% inflation target is at risk in the medium run, as very fast economic growth rate and tightening labour market are not translating into excessive pressure on prices.
- Also, PPI data did not confirm concerns about future inflation path. Producer prices' growth slowed down to 3.4%YoY in October from 3.6% in the previous month, dragged down by descending prices of fuel and other commodities. Prices in manufacturing were growing only 1.7%YoY (the same pace as in September), showing that despite constant rise in demand, enterprises in competitive branches are still very cautious in passing any potential rise in costs (e.g. labour costs) on the wholesale prices.

Money supply and credit up

- Money supply growth slightly decelerated in October, to 12.3%YoY from 13% in September.
- Deposit growth was similar as in the previous month – total deposits up by 11.5%YoY, firms' deposits 19.4% and households' around 7%.
- Total credit growth accelerated moderately to 19.5%YoY (the fastest rate of growth since the end of 2000) driven mainly by households' credits (above 30%YoY growth), though loans for firms posted a double-digit growth (10.3%YoY) for the first time since the beginning of 2001.
- Fast credit rise is supportive for continuation of fast economic growth in the near future, while it is not particularly dangerous for inflation prospects.

Central bank watch



Fragments of MPC statement, 29 November 2006

Such a growth rate of corporate lending (10.1%YoY), combined with substantial enterprises' own funds resulting from their very good financial results in the three first quarters of 2006, may point to a further rise in investment growth.

According to preliminary estimates, the rise of unit labour costs (ULC) in the economy (excluding private farming) in 3Q06 accelerated to 6.2%YoY (as compared with 4.5%YoY in 2Q06 and 2.7%YoY in 1Q06). In industry, in January-October 2006, the growth of labour productivity (10.2%YoY) was still higher than the wage growth, which resulted in a drop of ULC in this sector by 4.7%YoY.

The latest data signal that in 4Q06 the annual CPI may prove lower than expected in the October projection, while the net inflation will be in line with the projection. Despite the fact that in 4Q CPI will most probably be lower than expected, in the Council's assessment, the medium term inflation outlook has not significantly changed as compared to that from October.

Biographical note of Jan Sulmicki

Graduated from Warsaw School of Economics. PhD dissertation on a role of foreign trade in the European integration. Postdoctoral degree on changes in the global economy.

Since 1968 lecturer at Warsaw School of Economics. Currently at the Institute of Foreign Trade and the European Studies.

Author of over 100 scientific works, grant holder of Fulbright Foundation.

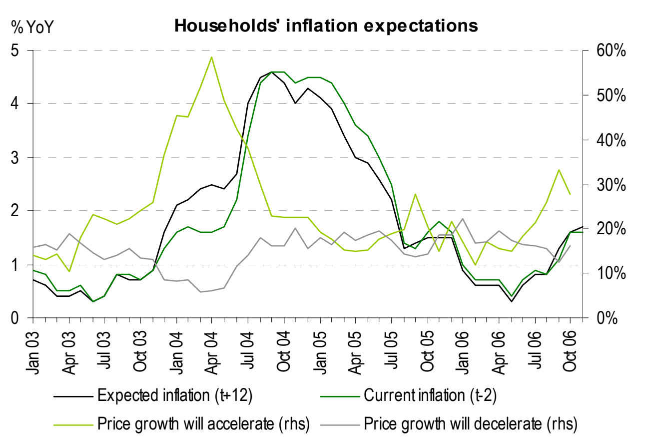
An aid to NBP governors in 1988-2002.

In 1990s Polish representative in the World Bank.

In late 90s. deputy minister in the Government's Centre for Strategic Studies – supervising work of seven departments.

Since October 2006 on a Supervisory Board of KGHM metal group.

In economic research focuses on currency crises, including the risk of their occurrence in Poland. Besides, concentrates on issues related to Poland's monetary integration with the EU.



Source: NBP, Reuters

The MPC still wait and see

- As widely expected, the MPC did not change monetary policy parameters at its November meeting. The reference rate still stands at 4%.
- Based on the tone of MPC statement, one can conclude that the Council's assessment of medium term inflation prospects has not changed significantly since the previous meeting.
- Unfortunately, the statement has not presented too many details regarding the Council's judgement on inflation prospects beyond 2007 (while such time horizon is crucial from a point of view of current policy decisions).
- Given the content of the statement, one can deduce that inflation predictions of majority in the Council are still lower than the last inflation projection that assumed inflation growth to 3.5% by the end of 2008. However, it is hard to say how much lower it is. As regards short-term inflation prospects, the Council is more optimistic than before because it wrote that inflation in 4Q06 should be lower than earlier expected.
- While different arguments arise (stronger demand and growth in ULC) which seem to gradually change the balance of risks towards a situation less friendly for low inflation, most of MPC members has apparently not agreed during the November meeting that such a situation is dangerous enough so that deliver a rate hike.
- We keep our view that interest rates will remain on hold, at least for the next few months, as the MPC will wait for clearer clues coming from data. If the new figures do not show that stronger demand growth and tightening of labour market conditions lead to considerably higher price growth, it may then turn out that in rate-setters' opinion interest rates are appropriate to stabilise inflation close to the target of 2.5%.

President named his candidate for NBP governor

- The President Lech Kaczyński finally named his candidate for new governor of the National Bank of Poland. The candidate is Jan Sulmicki, an economics professor from Warsaw School of Economics. The nomination surprised the markets, as he was not mentioned at all among possible candidates.
- His candidacy is positively evaluated by various economists. For instance, Jan Winiecki, who is seen as very liberal economist, said that Sulmicki's appointment would be a guarantee of no radical changes in monetary policy and good functioning of the central bank.
- An initial reaction of the markets to the nomination was neutral and now investors will wait for Sulmicki's comments on issues related to interest rate policy, FX policy and Poland's road to the euro zone.

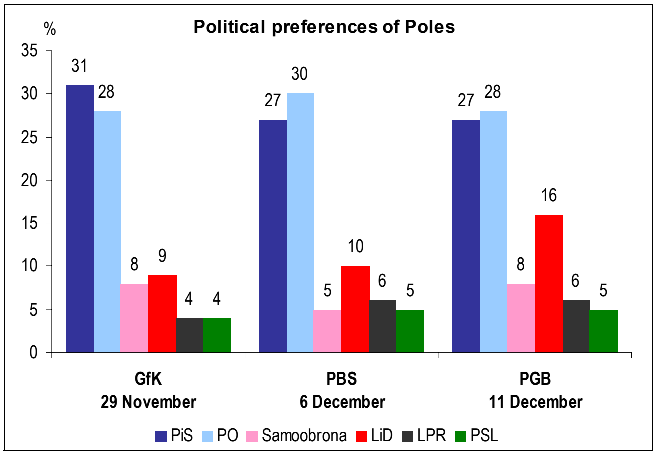
Inflation expectations remain under control

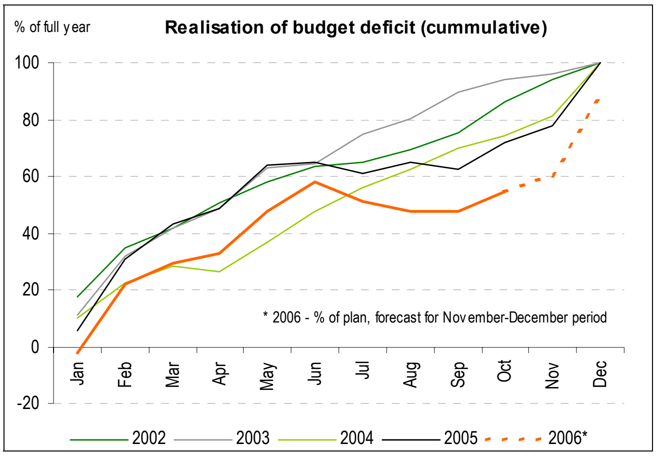
- A measure of households' inflation expectations for November showed a slight rise of inflation expected in 12 months to 1.7% from 1.6% in October. However, it is worth remembering that the measure used by the NBP has an adaptive character, as the measure is strongly influenced by current inflation (with a 2-months delay) that has been rising recently. Thus, it is hard to talk about substantial intensification of households' inflation expectations.
- What is more, the data showed that worsening of structure of respondents' answers concerning future price changes has been stopped in October (structure for November has not been published yet). Namely, the share of households expecting that price will grow faster in a 12 month time has diminished.

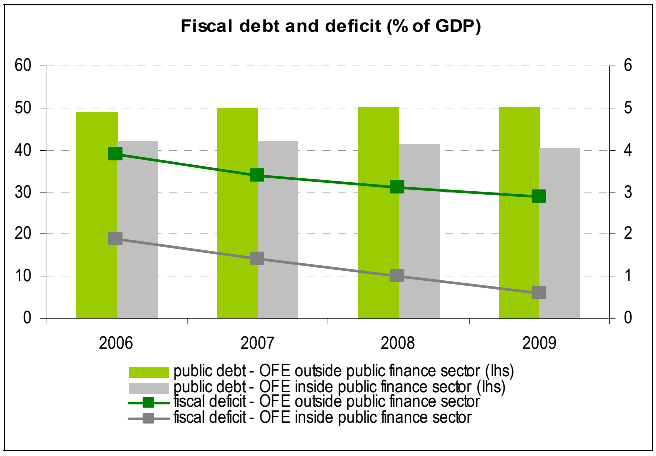
Central bank watch

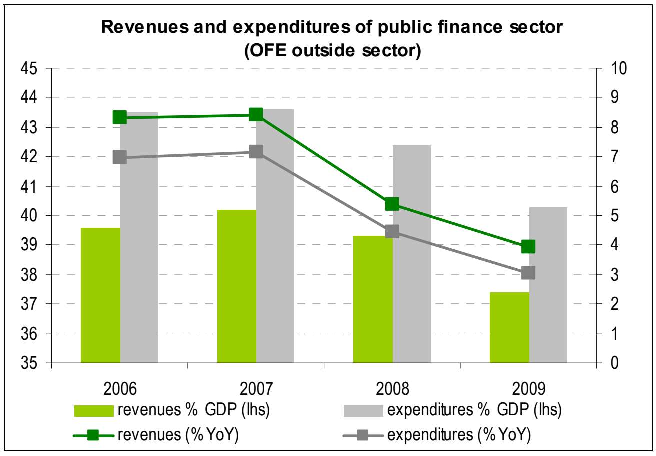
Comments of the central bank representatives	Our remarks
Jan Czekaj, MPC member **Reuters, 12 December** The economic situation is developing in such a way as to make rises in interest rates more likely than keeping them at their current level. But the issue of rate rises is not yet a done deal. (…) If the danger of a sustained overshoot of the (inflation) target appeared, then interest rate rises would be vital. However, if inflation temporarily rose, even above 2.5 percent, then reacting with a rise in rates would be irrational. **PAP, 8 December** Fast economic growth acts towards an increase in inflationary pressure, but this does not mean that the pressure is strong. Besides, one should remember that GDP growth has already been high for some time while inflation is still subdued.	Jan Czekaj's declarations show that MPC members considered as dovish are not deaf to appearing arguments, indicating a possible intensification of the inflationary pressure in future. However, due to very subdues inflation so far - despite a few quarters of stronger and stronger economic expansion (including potentially pro-inflationary developments on the labor market) - they do not have certainty, whether the awaited inflation growth will threaten the medium-term target of the central bank. In our view, Czekaj's comments reflect quite well the view of the majority of MPC members. Rate hikes are thus a likely option but it is not doomed they will occur. It will all depend on the development of the economic situation in the next months and how changes on the demand side and on the labour market will affect prices in the economy.
Dariusz Filar, MPC member **PAP, 30 November** In my opinion the data indicate a need for the first move to be done already now. We have already reached such a level of inflation stabilisation in Poland that we can move with basic steps, that is 25bps.	A representative of the hawkish faction within the MPC, maintains his view that one cannot wait with rate hikes and that they are necessary already now. Meanwhile, he considers that rate hikes should have a single scale of 25 bp maximum, which is agreed by the majority of the MPC members. Thus, opposite to other countries in the region, it is hard to expect eventual rate hikes to have a bigger scale than a quarter point.
Stanisław Nieckarz, MPC member **PAP, 20 November** After 1Q07 we will have to evaluate the economic situation and factors affecting inflation in 2008, especially in 2H08. On that basis, a decision on interest rates should be made. Current expectations of some market analysts, pointing to rate hikes in first months of 2007 are exaggerated.	While hawkish members are impatient to raise rates, representatives of the doveish camp give themselves more time to analyse the situation. One can deduce from Nieckarz's comments that the assessment of the situation should last at least until Q2 2007. According to us, the majority of MPC members do not determine a period for analyzing the situation, yet just analyse the situation with every piece of data. Thus, changes in opinions of MPC members can occur at any time, depending on "the power of the arguments", that is a character of economic data.
Marian Noga, MPC member **PAP, 11 December** If the MPC wants to be forward-looking, an immediate action is needed. I think we should not wait until inflation reached the target – it is too late. A good moment for a rate hike would be when inflation reaches 2%. Proper size of rate changes would be 25bps steps.	Professor Marian Noga who usually voted with the hawkish faction justifies the need for a rate hike by the necessity for forward-looking approach. However, his comment suggests that rate hikes should occur when current inflation reached a certain level (namely 2%). In our view, the Council should rather wonder if, to which extent, and how long the inflation will grow in the future instead of focusing on current inflation acceleration.
Stanisław Owsiak, MPC member **PAP, 16 November** Current condition of the economy is conducive to stabilisation of inflation and is consistent with current level of interest rates. (…) It is obvious that monetary policy should be forward-looking. I do not think that any central banker disregard the inflation target. However, too restrictive monetary policy could harm the economic growth. With such low level of economic development in Poland, cooling economic growth in a situation when inflation is much below the target would be undesirable. (…) If labour productivity gains remain strong, I am not sure whether there will be a need for rate hikes in 2007. One should remember that an early hike could negatively affect economic climate from a psychological point of view, especially if the first hike would herald further tightening.	Professor Stanisław Owsiak opposed to rate hikes in a very decided way. Because he can be considered as a moderate central banker, then his comments seem to be crucial for assessment of the balance of strength in the Council. Owsiak stressed that none of the MPC members disregard the inflation target and that all are focused on future inflation. This is how he answered to hawkish arguments that forward-looking policy is equal to rate hikes. The lack of need of interest rate hike by Owsiak is not due to the fact he does not represent a forward-looking approach but because, opposite to some of other MPC members, he does not see a threat for inflation in the medium-term. Moreover, Owsiak's comments suggest that GDP growth is a bigger concern to him than to the some of other MPC members and hence he is less likely to accept the costs of fighting inflation.
Andrzej Sławiński, MPC member **Reuters, 20 November** It is clear that what we are dealing with is a lasting economic upturn. A situation of this kind means that we should count on inflation steadily rising. On the other hand, as long as core inflation stays low the risk of inflation in the future staying substantially above the target for a long time is limited. However, one should not expect that there will be no adjustments in monetary policy to the state of the economy. Core inflation is only one of factors we take into account. All central banks closely watch wage growth, productivity changes and unit labour costs. We should take into consideration that the restrictiveness of monetary policy does not just depend on the current level of short-term rates, but also on long-term interest rates and changes in the exchange rate.	Andrzej Sławiński's intereview with Reuters showed that not every moderate member of the Council is as strongly against monetary policy tightening as Stanisław Owsiak. Professor Sławiński pointed out that inflation growth is unavoidable. Although at the same time he said that risk of excessive inflation acceleration is limited, he stated that it would be hard to expect no adjustment in monetary policy. However, it is worth noticing that in many of his comments, Sławiński was indicating that effective monetary policy tightening might occur through zloty appreciation. He also stressed an anti-inflationary effect of rate hikes abroad. We consider then that rate hikes still do not seem necessary in Sławiński's view.

Government and politics









Source: BZWBK, Ministry of Finance, opinion polls

No changes in politics – permanent confusion

▪ Another political turmoil among coalition partners renew questions about future of the ruling majority in the parliament. However, the influence of these events on financial markets was rather limited. This is not surprising given that a possibility of early election would not be necessarily negatively perceived by investors.

▪ Parliamentary opposition is not without difficulties either. After a moderate victory in local governments elections, the Civic Platform faced some internal problems.

▪ Therefore, future of the Polish political scene is uncertain (for some time already), but in the meantime there were no substantial changes in Poles' political preferences with Law and Justice (PiS) and Civic Platform (PO) leading the polls and populist parties recording fall in public support.

Deficit below the plan this (and next?) year

▪ Budgetary data for October were positive despite the fact that after a couple of months of surplus this time there was a deficit of above PLN2bn.

▪ The realisation of some expenditures was postponed until the 4Q06, which was visible in October's data. At the same time, however, economic growth means higher budgetary revenues – in the first ten months they showed increase by 9.2%YoY (against the plan of 8.6%) and by 16%YoY in October alone.

▪ In the remainder of the year expenditures are likely to accelerate, but still the deficit in 2006 should be much lower than planned - recent comments suggest that by PLN3.5bn.

▪ What is more, there is a chance that budget incomes will be as high as to allow moving a part of them into 2007, making realisation of next year's budget easier.

Convergence programme – no progress in deficit reduction

▪ The update of the Polish convergence programme assumed reduction of the country's general government deficit to 2.9% of GDP in 2009 from 3.4% of GDP in 2007. Stabilisation of public debt at around 50% of GDP is also expected.

▪ This means that Poland would be able to fulfil the required Maastricht convergence criteria in 2009. It is worth to remember, however, that the European Commission recommended faster fiscal adjustment (deficit below 3% of GDP by 2007).

▪ The government claims that the outlined path of deficit reduction should be sufficient to convince the EU to close the excessive deficit procedure for Poland. It remains to be seen whether Poland's arguments will be strong enough to convince the European Commission.

▪ The presented fiscal path brings no significant implications for the market, as it is consistent with earlier declarations of the Ministry of Finance's officials and with market expectations. As long as the Polish economy shows high growth, fiscal problems recede in the background from the market point of view.

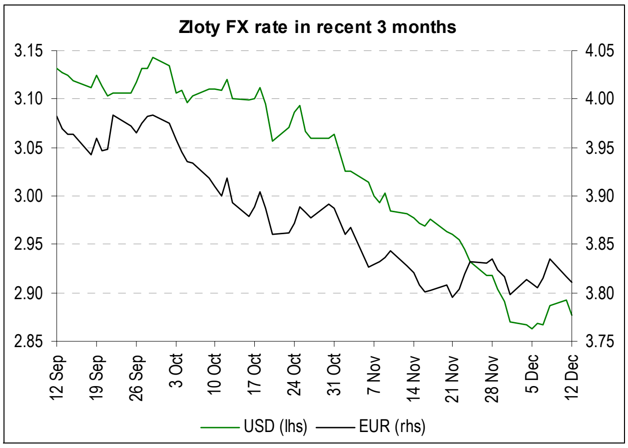
▪ According to the Programme the revenue side takes into account lower labour costs (disability pension contribution down by 3 pp in 2008 and 2009) and introduction of two rates of PIT (18 and 32% in 2009). That is why the ministry assumed deceleration in fiscal revenues in this period despite high GDP growth forecasts of above 5%.

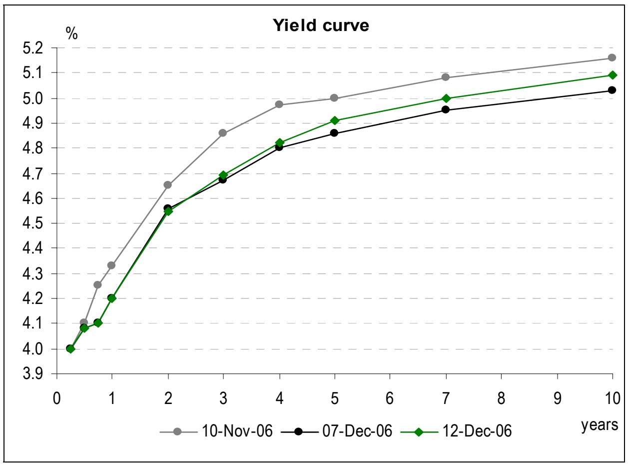
▪ To achieve the target of lower deficit even if pension funds are excluded from public sector, the ministry had to lower the rate of growth of budgetary expenditures. The question is, however, whether the assumption of the ministry that spending will rise by a mere 3%YoY (only moderately above inflation level) in election year (2009) is realistic?

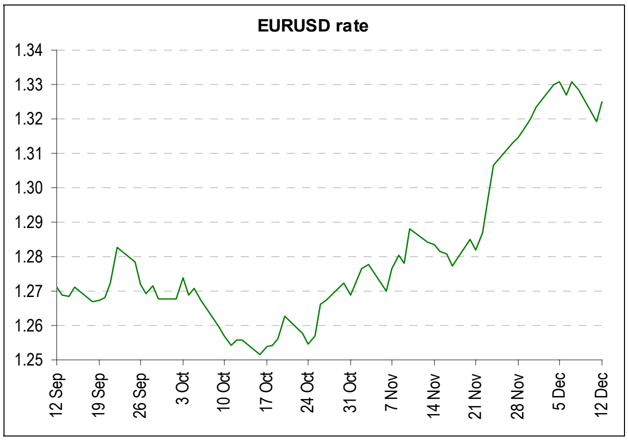
Government and politics

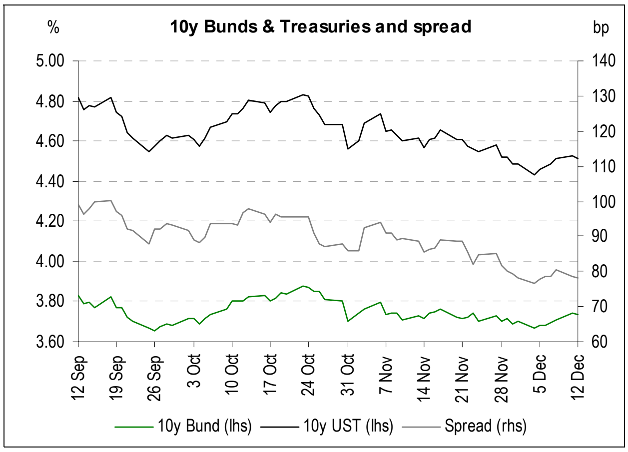
Comments of government representatives and politicians	Our remarks
Jarosław Kaczyński, Prime Minister **PAP, 5 December** I expect that while reorganizing the government, some personal changes will occur. And in this context, I see Kazimierz Marcinkiewicz's government future. We have already deputy PM responsible for economic affairs. I am talking about Zyta Gilowska. And I do not see reasons to change this.	Jarosław Kaczynski confirmed that he offered a position in the government to Kazimierz Marcinkiewicz though it has still not been specified in which ministry. However, he suggested that he does not want to change the finance minister. Information flowing from the political world is not unequivocal at the moment, and media's speculations concerning probable scenarios are often divergent. We should wait then for official decisions on those issues. We expect the markets to react neutrally to an eventual government reshuffle.
Jarosław Kaczyński, Prime Minister **PAP, 29 November** I believe that hurry concerning this issue (joining the euro zone) may be harmful. Introducing euro right now means removal of protection for Polish exporters. (…) Zloty is currently undervalued. Euro is not worth 4.0 zloty, it is worth less. **Piotr Soroczyński, deputy finance minister** **Rzeczpospolita, 1 December** Until the end of February, zloty will keep strengthening. Euro may cost less than 3.70. Then, the zloty may start to weaken.	Arguments that the Prime Minister used to justify his position should be considered as in favour of fast euro introduction. While it is hard to disagree that there are many fundamental reasons for zloty strengthening in the long run, one has to admit that apparently keeping floating exchange rate in such situation would not be the best solution to protect exporters from loosing international competitiveness. In any case, this kind of statements (both PM's one as deputy MF's one two days after) may lead to faster trend of zloty appreciation. We are not convinced that this would have positive consequences on condition of the Polish economy state, as lowered exporters' financial results can mean some slowdown, also in the domestic demand.
Zyta Gilowska, deputy PM, finance minister **Reuters, 4 December** We will enter the euro zone forever, in practice. Why, shouldn't we ask our citizens – informing them what we are talking about – if they think that we are ready to join by the year 2000 plus x, since representatives say that, technically, it will be OK?	There is one simple answer to Zyta Gilowska'a question „why should not we ask Poles about Polish entrance to the euro zone – the Poles were already asked about that in the 2003 referendum. Though the condition mentioned by the MF has maybe not been fulfilled that the Poles have not been precisely informed that joining the EU means compulsory joining to the euro zone. We fear that this topic will turn out to be a hot political issue when the accession date will get closer (though this process has been delayed recently).
Piotr Soroczyński, deputy finance minister **PAP, 1 December** Typically, prices in November grow by 0.2-0.3%MoM. As a consequence, the annual inflation rate should be above 1.5%. Especially, that we have a quite strange base from the last year. In November 2005, due to meat export postponement to Russia, prices did not grow, as they should, they even fell periodically. One can even expect the annual inflation to rise to 1.6-1.7%. The second round of strange base effect will be visible in December. We will be likely to reach 1.9% YoY. This is how the year should end. It seems this will be a decent result. The statistical base effect will last until March. "Strange" situation – concerning inflation – remained since November 2005 until March 2006. Now, assuming that we have a "normal" setup, we should have the annual indicator in upward trend. It can be the highest around March in 2007, as it can reach the inflation target at 2.5% in March. Afterwards, inflation will stabilize and in the summer – when we will enter the range of higher base due to drought – we should have a fall to a level below 2%. We have the time to analyse what is going on with inflation. The situation does not seem to be very worrying. Interest rate hikes does not seem necessary at the moment. We can start thinking about it by March of the next year, when inflation figures for February will be published and January figure will be calibrated using new weighting system. We will then know precisely how 2006 ended and how 2007 started.	The Ministry of Finance informed that it expects inflation increase to 1.5% in November from 1.2% in the previous month. This is in line with our estimates. Ministry's expectations presented by head of the analysis department assume that inflation will continue its growth in the coming months, to 1.8%YoY in December and 2.2-2.3% by March 2007. Deputy finance minister, Piotr Soroczyński, was slightly less optimistic. On the same day he said that inflation can reach 1.9% by December and 2.5% in the first quarter of 2007. According to our forecasts, inflation can even temporary exceed central bank's inflation target in the first quarter, though it is worth noticing that not so long ago, the risk was that inflation could reach even 3% Similarly to the Ministry of Finance's view, we believe that inflation in the following months of 2007 should stabilise. Ministry's forecasts in the last months turned out to be true, thus the above mentioned declarations strengthened the debt market, supporting the view that rate hikes in Poland can occur not so fast. If this inflation forecasts materialise, positive moods on the bond market, influenced also by good moods on the core markets, can be maintained. It helps the ministry to sell its treasury papers on following auctions, despite lower yields (higher prices). It is worth reminding that in the budgetary guidelines for the next year the Ministry of Finance assumed two rate hikes by 25 bp. This is nearly the same amount of monetary tightening as it is priced in by the market at the moment.
Marek Kuchciński, head of PiS' parliamentary club **PAP, 12 December** There should be no problem to find support for this candidature, but if such a problem occurs, we will see, this is a president's proposition. No major changes in the governor's activity are to be expected. However, I think that the head of NBP position will not be considered as so political. **Zbigniew Chlebowski, one of PO's leaders** **PAP, 12 December** For the moment, we can say it is, undoubtedly, a competent candidate; he was an advisor of former NBP governors. But we need time to get to know him and to, possibly, support this candidature.	There were no ends to speculations about the name of the new head of the NBP. However, it turned out that any of the persons presented in the media as potential candidates has not been named. It seems that politicians insist on the fastest possible nomination of Jan Sulmicki on this position. Sejm's speaker suggested this could happen even before Christmas (current governor's tenure ends on January, 10). In the first hours after proposing the candidature by the President to the Sejm, PiS's coalition partners were careful and did not express support for this candidature yet, saying the result of the vote will depend on more detailed analysis of Sulmicki's views. On the other hand, representative of PO gave quite positive declaration concerning this candidature. It seems then that a majority in the parliament supporting Jan Sulmicki for the position of the NBP governor should be found with no problem.

Market monitor









Source: Reuters, BZ WBK

EURPLN rate stabilisation, strong appreciation vs. dollar

- After the release of our last report zloty strengthened below 3.8 vs. euro. Afterwards there was a correction ahead of long weekend in US. The EURPLN stabilized slightly above 3.8, while USDPLN rate fell by ca. 3% to 2.88 on global dollar falls. Recent political turmoil contributed to a slight correction though good data in the region and Fed's communiqué are fine support.
- Zloty may be positively influenced by positive sentiment In the region supported by stronger economic growth and softer rise of inflation pressures. If the scenario of US soft landing confirms zloty may firm further. 3.78, 3.75 are going to be next resistance levels for the EURPLN rate, while the USDPLN rate is likely to fall again. The market may experience a slight correction though this may happen rather at the start of the year 2007. The end of this year should be rather stable amid lower investors' activity.

Bonds at slightly stronger levels

- Polish government bonds strengthened since start of October by over 40 bp. It was mainly connected with the economic slowdown in US and the CPI realisation below the NBP's projection and market forecasts. The domestic bond market was fuelled also by MPC members' comments. A slight correction occurred after recent political jitters.
- Falling inflation in US, the euro zone as well as positive macroeconomic data in the region support the foreign investors moods toward Poland. In our view interest rates may stay unchanged for a next few quarters without visible risk of breaking the CPI target level in the medium term. Despite substantial gains in the bond market Polish debt may strengthen further amid realisation of inflation path in line with our forecast amid economic slowdown in United States. The labour market data pose an upside risk for this official interest rate scenario.

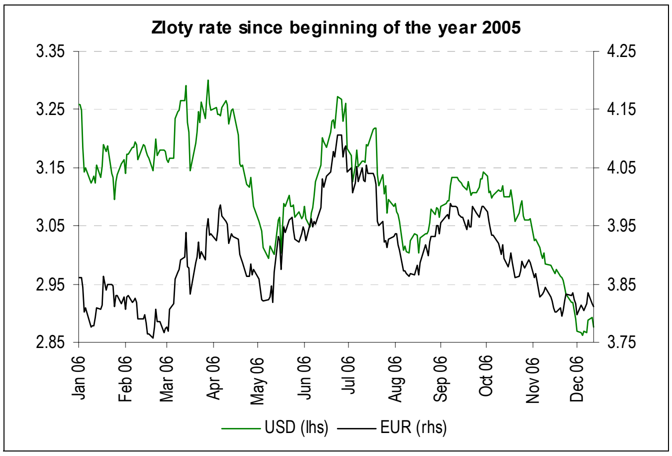
The retreat from the dollar in the world markets

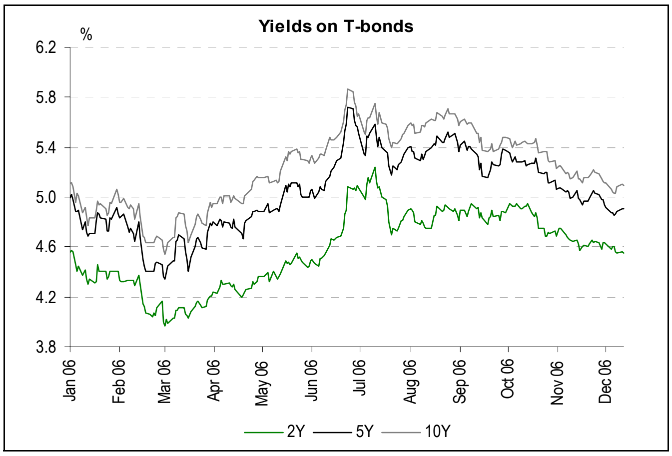
- The dollar depreciation was continued also at the beginning of December and was connected with further data suggesting the economic slowdown in US (activity indices, housing market), amid falling headline CPI. The EURUSD rate significantly broke 1.33, though lately there was a slight correction, with regards to better figures from the services sector and labour market. Fed's communiqué contributed to further the dollar's weakening.
- We expected a fall of the dollar though it occurred sooner than we forecasted. In our view there may be a stabilisation phase of the EURUSD rate at the current levels of 1.32-1.33 throughout next several months with the risk going upside to 1.35-1.36. US data are going to be a key factor especially from the manufacturing sector and the housing market. ECB's comments on further ECB's rates moves will be also in focus.

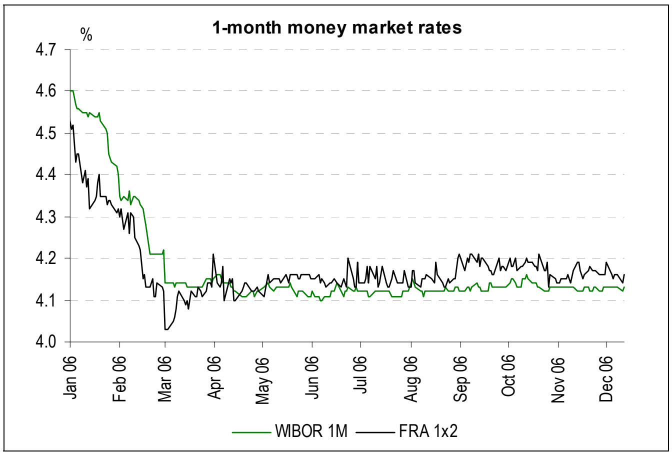
Yields in US weaker with regards to weaker data

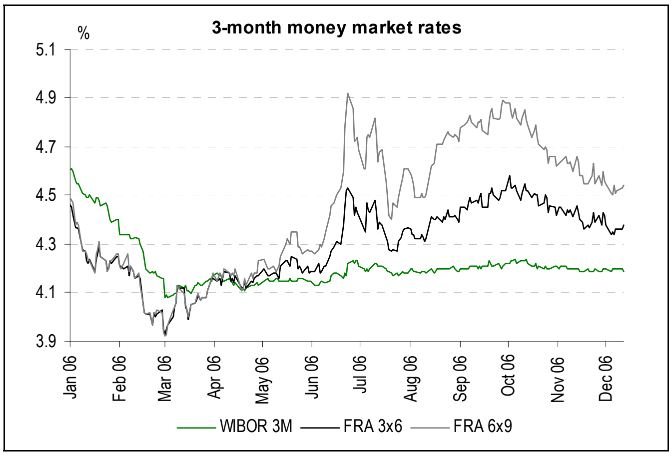
- Since the release of our previous report 10Y Treasuries yields fell by over 8 bp to 4.49%. In the meantime they reached even 4.42% level after the publication of Chicago PMI and manufacturing ISM, though the services sectors and labour market data contributed to a correction and rise of yields. 10Y Bunds followed the US market trends though eventually their yields did not change (3.73%).
- Despite not explicit Trichet's comments from the ECB we still expect another 25 bp rate hike in the euro zone to 3.75%. We forecast that the US GDP growth my fall below the last years trend, which may eventually result in the rise of unemployment rate and fall of core inflation supporting our view of rate cuts in Q2 2007. The moment when the services sector and labour market sees the weakening may be important.

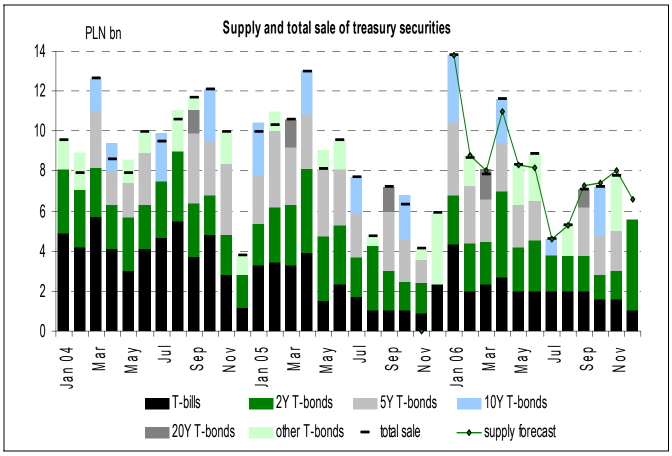
Market monitor











Treasury bill auctions (PLN m)

Date of auction	OFFER / SALE 52-week	OFFER / SALE Total
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 / 800	800 / 800
Total November	**1 600 / 1 600**	**1 600 / 1 600**
04.11.2006	1 000 / 1 000	1 000 / 1 000
18.11.2006	900 - 1 100	900 – 1 100
Total December*	**1 900 - 2 100**	**1 900 - 2 100**

* estimations based on Ministry of Finance preliminary information

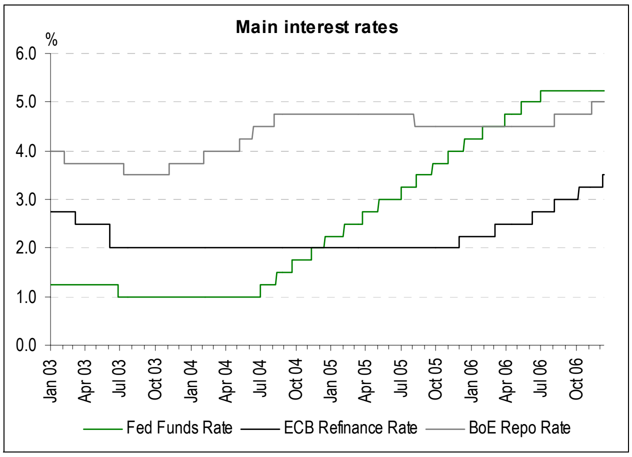
Treasury bond auctions in 2006 (PLN m)

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	2 000
December	06.12*	OK1208	4 560	4 560	-	-	-	-	-	-	-	-

* with supplementary auction

Source: Ministry of Finance, Reuters, BZ WBK

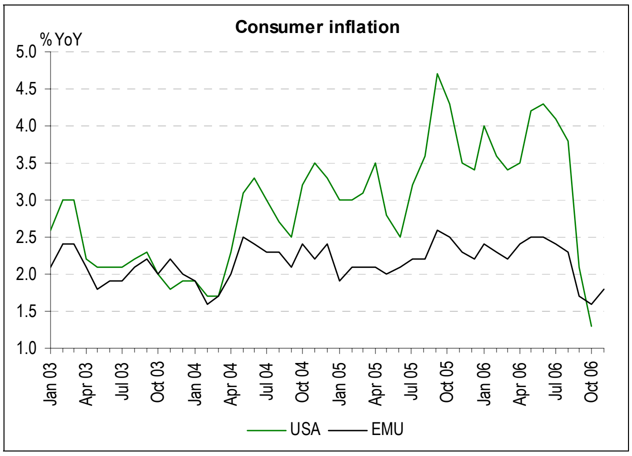
International review



Further rate hikes expected in the euro zone

▪ In the FOMC's September meeting minutes the central bankers expressed their fears on inflation reduction and expectations of price pressures. In December Fed left the main interest rate at the 5.25% level as expected. In its communiqué US central bank reiterated the core inflation was on elevated levels, while inflation pressures would rather moderate over time. The statement included also additional wording emphasising the size of US economic slowdown.

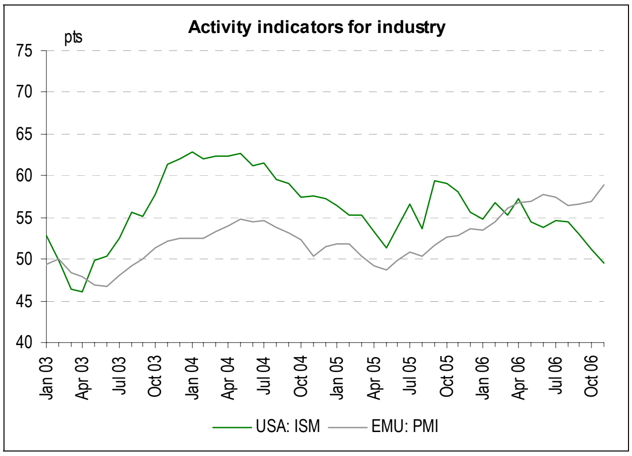
▪ In December the ECB raised the main interest rate in the euro zone by 25 bp to 3.5%, what was expected. The comments of Jean Claude Trichet were not explicit. The ECB's president said the interest rate in the euro zone were still low, the monetary policy was accommodative, though he also added that next hike may not come as soon as market expected (i.e. February)



Headline CPI falls further, core figure still high

▪ US CPI in October showed a fall in US consumer prices by 0.5%MoM similar as in the previous month as compared to analyst's forecasts of a +0,2%MoM. The core CPI rose by 0.1%MoM (+0.2%MoM previously), though in the annual terms stayed at elevated level of 2.7%YoY, with economists expectations 2.9%YoY.

▪ According to Eurostat data inflation in the euro zone in October measured by the HICP index increased by 0.1%MoM and 1.6%YoY. PPI in the euro zone in October was unchanged on monthly basis and rose by 4.0%YoY, below the market consensus of 0.2%MoM and 4.1% r/r. With reference to preliminary estimates the HICP inflation amounted in November to 1.8%YoY.



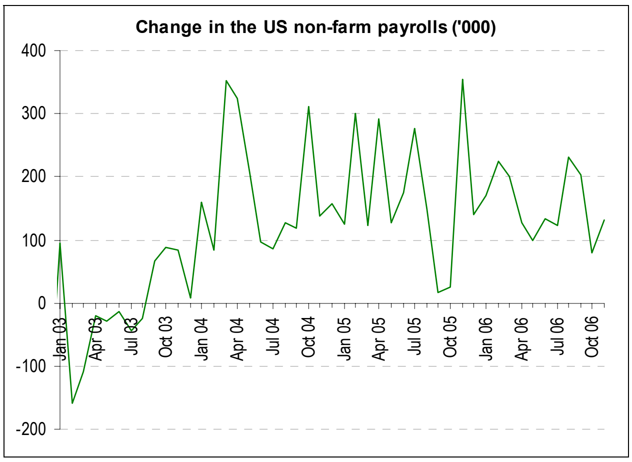
US economic slowdown confirmed by data

▪ US ISM activity index for the manufacturing sector fell in November to 49.5 (below 50 for the first time in 3.5 years) from 51.2 and was below expectations of 51.5. ISM for the non-manufacturing sector rose to 58.9 from 57.1 (expected 56.0).

▪ The PMI index for the manufacturing sector in the euro zone fell in November to 56.6 from 57.0 in the previous month (below median forecast: 57.1). PMI in the services sector amounted to 57.6, against forecasted no-change from 56,5.

▪ US GDP rose in Q3 by 2,2% (previous estimates: 1.6%; expected: 1.8%; 2.6% in Q2). The core PCE prices index was revised downwards to 2,2% from 2.3%.

▪ Q3 GDP in the EU-12 increased to 2.7%YoY, while the market expected a fall of GDP growth rate to 2.6%YoY. European Commission raised the GDP forecasts for next 2 quarters.



Source: Reuters, ECB, Federal Reserve

Labour market data - better than expected

▪ According to US Labour Department the labour productivity rise outside the non-farm sector in the third quarter was upwardly revised to 0.2% from no change in the pervious estimates and below the economists' expectations of 0.4% rise. Unit labour costs were also downwardly revised to 2.3% from 3.8% and were lower than the market consensus at 3.3% level.

▪ Non-farm payrolls were better than expected in November and they amounted to 132k as compared to downwardly revised 79k in October. Wall Street economists forecasted a rise to 110k from 92k before revision. The September value was also revised from 158k to 203k. The unemployment rate rose from 4.4% to 4.5% as expected.

Economic calendar

Monday	Tuesday	Wednesday	Thursday	Friday
11 November US: Wholesale inventories (Oct)	**12** GER: ZEW Index (Dec) US: Trade balance (Oct) US: Federal Budget (Nov) US: Fed meeting – decision	**13** ***POL: Balance of payments (Oct)*** ***POL: Switch auction*** US: Retail sales (Nov)	**14** ***POL: CPI (Nov)*** ***POL: Money supply (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)
18 ***POL: Treasury bills auction*** EMU :Foreign trade (Oct) JP: BOJ meeting	**19** ***POL: Industrial Output (Nov)*** ***POL: PPI (Nov)*** ***POL: MPC meeting*** JP: BOJ – decision – report GER: Ifo Index (Dec) US: House starts (Nov) US: PPI (XI)	**20** ***POL: MPC meeting – decision***	**21** ***POL: Retail sales (Nov)*** ***POL: Unemployment (Nov)*** US: Core PCE (Q3) US: Final GDP (Q3) US: Philadelphia Fed index (Dec)	**22** ***POL: Core inflation (Nov)*** ***POL: Business climate (Dec)*** JP: BOJ minutes US: Core PCE (Nov) US: Durable goods orders (Nov) US: Final Michigan (Dec)
25 ***Christmas***	**26** ***Christmas*** USA: Richmond Fed services index	**27** US: New homes sales (Nov)	**28** US: Consumers confidence (Dec) US: Home sales (Nov)	**29** EMU: M3 money supply (Nov) US: Chicago PMI (Dec)
1 December **New year' day**	**2** ***POL: Balance of payments (Q3)*** US: Manufacturing ISM (Dec) US: FOMC minutes	**3** ***POL: Auction of 2Y bonds***	**4** EMU: Preliminary HICP (Dec) US: Factory orders (Nov)	**5** EMU: Business climate (Dec) EMU: PPI (Nov) EMU: Retail Sales (Nov) US: Non-farm payrolls (Dec) US: Unemployment (Dec)
8 ***POL: Treasury bills auction***	**9**	**10** ***POL: Auction of 10Y bonds*** US: Wholesale inventories (Nov)	**11** EMU: EBC meeting – decision US: Federal Budget (Dec)	**12** ***POL: Money supply (Dec)*** US: Foreign trade prices (Dec) US: Retail Sales (Dec)

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	21
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	21
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	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

		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	Dec 06
Industrial production	%YoY	8.5	9.6	9.8	10.2	16.4	5.7	19.1	12.2	14.3	12.6	11.6	14.6	13.9	10.8
Retail sales [c]	%YoY	7.3	6.3	8.6	10.2	10.1	13.2	13.7	10.7	11.0	11.5	14.5	13.3	12.7	13.3
Unemployment rate	%	17.3	17.6	18.0	18.0	17.8	17.2	16.5	16.0	15.7	15.5	15.2	14.9	14.8	15.0
Gross wages [b c]	%YoY	6.9	1.5	3.6	4.8	5.4	4.0	5.2	4.5	5.6	5.3	5.1	4.7	4.2	6.1
Employment [b]	%YoY	2.5	2.6	2.6	2.4	2.7	2.8	3.0	3.1	3.3	3.5	3.5	3.6	3.5	3.4
Export (€) [d]	%YoY	16.8	22.5	21.7	19.2	28.2	10.6	32.2	16.4	18.0	23.1	17.3	12.5	14.6	16.0
Import (€) [d]	%YoY	20.1	18.6	23.7	22.0	23.9	10.7	30.4	16.2	24.0	23.7	19.1	15.3	13.7	16.8
Trade balance [d]	EURm	-322	-425	6	-229	-130	-92	-483	-75	-568	-438	-299	-200	-300	-550
Current account balance [d]	EURm	-502	-530	-211	-839	-356	-570	-404	-215	-474	-584	195	-300	-380	-620
Current account balance [d]	% GDP	-1.8	-1.7	-1.6	-1.8	-1.9	-2.1	-1.9	-2.0	-2.0	-2.1	-1.9	-1.8	-1.8	-1.8
Budget deficit (cumulative)	PLNbn	-22.2	-28.6	0.7	-6.7	-9.0	-10.0	-14.6	-17.7	-15.6	-14.5	-14.5	-16.6	-22.0	-27.0
Budget deficit (cumulative) [e]	% realisation	77.7	100.0	-2.3	21.9	29.4	32.8	47.8	57.8	51.1	47.5	47.4	54.4	72.0	88.4
CPI	%YoY	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	1.8
PPI	%YoY	-0.4	0.2	0.3	0.7	0.9	1.7	2.3	3.0	3.5	3.3	3.6	3.4	3.4	4.1
Broad money (M3)	%YoY	12.6	10.5	10.4	11.7	9.8	9.6	10.1	11.9	13.0	12.9	13.0	12.3	12.1	12.2
Deposits	%YoY	11.1	9.4	10.2	10.8	9.1	8.6	8.9	11.4	12.3	12.0	11.6	11.5	10.5	10.6
Loans	%YoY	10.2	11.8	12.3	13.5	13.6	12.2	12.4	16.0	16.7	18.0	19.2	19.5	19.2	18.9
USD/PLN	PLN	3.37	3.25	3.16	3.18	3.23	3.20	3.05	3.17	3.15	3.05	3.12	3.09	2.97	2.85
EUR/PLN	PLN	3.97	3.85	3.82	3.79	3.88	3.92	3.90	4.02	4.00	3.90	3.97	3.90	3.82	3.79
Reference rate [a]	%	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	4.00
Lombard rate [a]	%	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	5.50
WIBOR 3M	%	4.64	4.62	4.49	4.26	4.12	4.14	4.15	4.17	4.19	4.19	4.21	4.22	4.20	4.20
Yield on 52-week T-bills	%	4.35	4.38	4.22	3.97	3.87	3.95	4.02	4.20	4.30	4.35	4.44	4.35	4.29	4.25
Yield on 2-year T-bonds	%	4.75	4.64	4.40	4.20	4.10	4.28	4.44	4.75	4.95	4.85	4.87	4.84	4.65	4.80
Yield on 5-year T-bonds	%	5.23	5.04	4.82	4.60	4.59	4.80	5.00	5.33	5.37	5.41	5.31	5.24	5.01	5.15
Yield on 10-year T-bonds	%	5.36	5.14	4.94	4.78	4.78	5.02	5.26	5.54	5.55	5.61	5.48	5.39	5.18	5.35

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	980.7	1,044.9	1,122.2	228.8	237.3	241.0	273.6	240.9	251.7	258.6	293.6
GDP	%YoY	5.3	3.5	5.6	5.1	2.4	3.0	4.1	4.5	5.2	5.5	5.8	5.7
Domestic demand	%YoY	5.9	3.6	5.6	5.1	1.4	-0.1	2.3	5.6	4.8	4.8	6.1	6.5
Private consumption	%YoY	4.0	2.6	5.1	4.2	1.3	1.4	2.2	2.6	5.2	4.9	5.5	5.0
Fixed investments	%YoY	6.3	0.8	14.9	10.0	1.2	3.9	6.4	10.1	7.7	14.8	19.8	15.0
Industrial production	%YoY	12.3	4.0	12.5	8.0	0.7	2.3	4.5	8.4	12.4	12.1	12.3	13.1
Retail sales (real terms)	%YoY	7.1	1.5	11.7	9.0	-0.4	-3.2	4.1	5.4	9.0	11.8	13.8	12.0
Unemployment rate [a]	%	19.1	17.6	15.0	13.5	19.2	18.0	17.6	17.6	17.8	16.0	15.2	15.0
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	3.4
Employment [c]	%YoY	-0.8	1.9	3.1	3.3	1.5	1.7	2.0	2.4	2.6	3.0	3.4	3.5
Export (€) [b]	%YoY	22.3	17.8	18.9	15.0	23.4	13.1	15.6	19.8	23.3	19.5	19.5	14.2
Import (€) [b]	%YoY	19.5	13.4	19.7	17.0	17.8	6.1	11.8	18.4	23.3	19.0	22.3	15.2
Trade balance [b]	EURm	-4 552	-2,242	-3,353	-5,767	-277	-612	-619	-734	-352	-646	-1,305	-1,050
Current account balance [b]	EURm	-8 670	-4,130	-4,743	-8,158	-842	-743	-1,161	-1,384	-1,396	-1,184	-863	-1,300
Current account balance [b]	% GDP	-4.3	-1.7	-1.8	-2.8	-3.3	-2.2	-1.7	-1.7	-1.9	-2.0	-1.8	-1.8
Budget deficit (cumulative) [a]	PLNbn	-41.5	-28.6	-27.0	-30.0	-12.3	-18.5	-17.8	-28.6	-9.0	-17.7	-14.5	-27.0
Budget deficit (cumulative) [a]	% GDP	-4.5	-2.9	-2.6	-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	2.9	2.0	3.3	0.1	-0.2	-0.4	0.9	3.0	3.6	4.1
Broad money (M3) [a]	%YoY	8.7	10.5	12.2	10.6	11.0	10.8	12.7	10.5	9.8	11.9	13.0	12.2
Deposits [a]	%YoY	8.1	9.4	10.6	10.6	10.4	9.2	11.6	9.4	9.1	11.4	11.6	10.6
Loans [a]	%YoY	2.9	11.8	18.9	15.5	4.6	7.4	9.6	11.8	13.6	16.0	19.2	18.9
USD/PLN	PLN	3.65	3.23	3.10	2.91	3.07	3.28	3.30	3.29	3.19	3.14	3.10	2.97
EUR/PLN	PLN	4.53	4.02	3.89	3.85	4.03	4.13	4.02	3.91	3.83	3.95	3.96	3.84
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	4.20
Yield on 52-week T-bills	%	6.50	4.92	4.18	4.35	5.91	5.21	4.26	4.31	4.02	4.06	4.37	4.30
Yield on 2-year T-bonds	%	6.89	5.04	4.58	4.90	5.83	5.27	4.44	4.60	4.23	4.49	4.89	4.70
Yield on 5-year T-bonds	%	7.02	5.25	5.03	5.25	5.89	5.38	4.68	5.04	4.67	5.04	5.36	5.06
Yield on 10-year T-bonds	%	6.84	5.24	5.22	5.45	5.76	5.37	4.72	5.13	4.83	5.27	5.55	5.22

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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