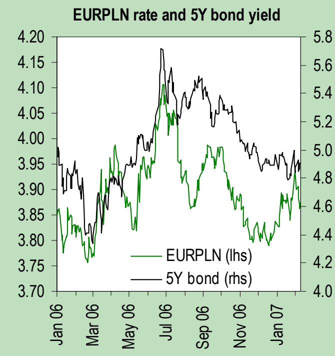
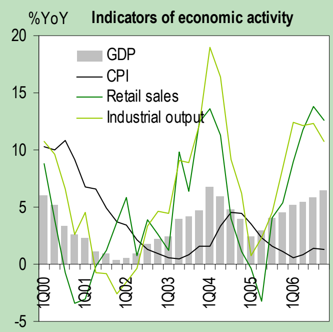
Bank Zachodni WBK

MACROscope

Polish Economy and Financial Markets

February 2007





GDP 4Q06 - BZ WBK forecast

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Changes for the better

- **In line with expectations during the first meeting of the Monetary Policy Council this year, and the first chaired by the new NBP governor, the MPC concluded with no change in rates. However, a change for the better as regards communication policy is worth noticing.** In the Council's opinion interest rates are appropriate for stabilisation of inflation close to the target and rate hike would be needed only if the forthcoming data (especially concerning the situation in the labour market) suggest worsening of inflation environment. We do not predict realisation of a negative scenario and we stick to our view that interest rates will be increased only at the beginning of 2008.

- **Change in communication policy of the Council should increase transparency of monetary policy decisions, as market participants should have better picture of deliberations during MPC meetings.** The January *Inflation Report* included minutes for the first time and since May such record of discussion during the MPC meeting will be released every month. The minutes showed that the main issues that were brought up during the discussion in the Council meetings in the fourth quarter, and simultaneously the problems on which MPC members' views differed were: prospects of zloty exchange rate, influence of the situation in the labour market and GDP growth structure on inflation prospects. The official statement released after the meeting will also change and it is worth to notice that it looked much better already in January.

- **At the same time, we are quite surprised that market consensus as regards official interest rates has recently changed.** Our view on stable interest rates through 2007, which we keep since the last change in rates in February 2006, meets more and more supporters. While a few months ago we were almost the only analysts expecting rate hike only at the beginning of 2008, this opinion was quite popular in Reuters' opinion poll. In our opinion, however, data published in recent months rather increased (and not decreased) the probability of rate hike this year. Although this is still not our base-case scenario, such a change in the balance of risks for future inflation was also reflected in the MPC statement, which informally introduced the restrictive bias.

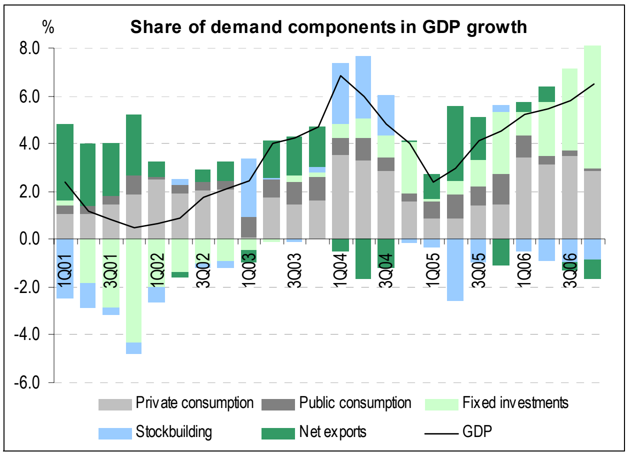
- **Again, some upward changes in forecasts as regards GDP growth took place.** This was the result of the publication of preliminary GDP growth figure for the 2006 as a whole, which amounted to 5.8%. This was slightly above forecasts, suggesting that GDP growth in 4Q06 considerably exceeded 6% (according to our calculations it was at ca. 6.5%). We predict that average GDP growth in 2007 will reach 5.5%, however the rate of growth should be gradually descending during the year in the subsequent quarters. Investment and consumption will remain the most important drivers of economic expansion.

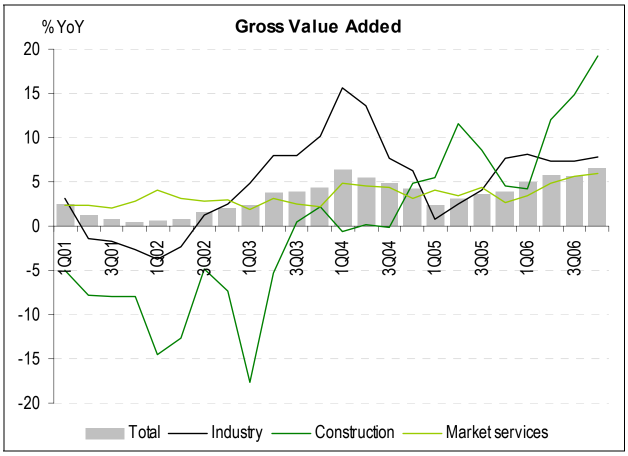
Financial market on 31 January 2007:

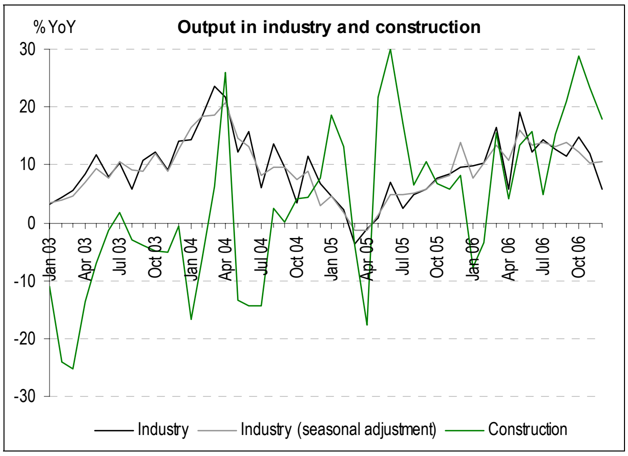
NBP deposit rate	2.50	WIBOR 3M	4.19	USDPLN	3.0400
NBP reference rate	4.00	Yield on 52-week T-bills	4.07	EURPLN	3.9320
NBP lombard rate	5.50	Yield on 5-year T-bonds	4.84	EURUSD	1.2934

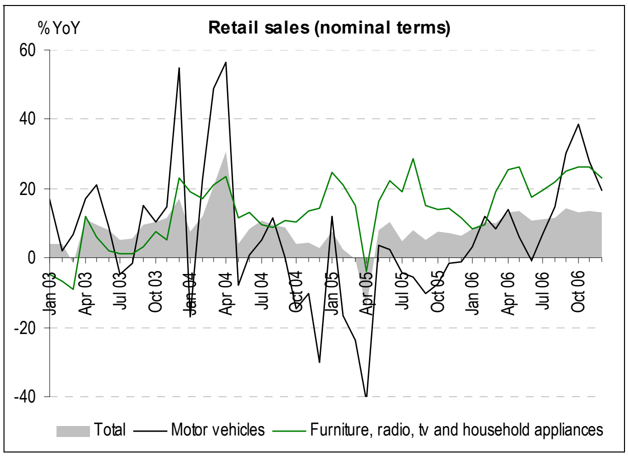
This report is based on information available until 09.02.2007

Economic update









Source: CSO, NBP, own calculations

GDP growth the highest for nine years

▪ GDP growth in 2006 reached 5.8%, slightly outperforming market forecasts, which was the best growth rate since 1997. Fixed investments saw 16.7% increase, the biggest jump in a decade, and private consumption rose 5.2%.

▪ According to our estimates, based on data for the entire year and the first three quarters, GDP growth in Q4 reached ca. 6.5%YoY, which was the highest rate since 1Q04 when Polish economy was experiencing sudden surge in economic activity in the eve of the EU accession. Private consumption growth slightly decelerated in Q4 to 5.2% from 5.5% in Q3, and investment growth remained very high, above 19%YoY.

▪ The data confirmed that economic growth in Poland is not only fast but also well balanced. Our estimates showed that negative contribution of foreign trade to GDP growth deepened in Q4 and reached –0.8 pp against –0.3 pp in Q3. But it was still relatively safe level, which was possible mostly due to excellent performance of Polish exporters.

▪ Domestic demand remains a major source of economic growth, but the main driver is not consumption but fixed investment. Strong investment rise, which is likely to continue in subsequent quarters, heralds an increase in potential output in the future that will soften potential inflationary pressure coming from demand growth in the medium run.

▪ We predict that average GDP growth in 2007 will reach 5.5% (which implies slight forecast upgrade after recent data), however the rate of growth should be gradually descending during the year in the subsequent quarters. Investment and consumption will remain the most important drivers of economic expansion.

Temporary slowdown in production growth

▪ Industrial output growth decelerated to 5.7%YoY in December amid lower number of working days. After a relevant correction, taking into account also seasonal effects, production increased 10.5%YoY against 10.2% in November, which shows continuation of upward trend in industry.

▪ At the same time, construction production was expanding fast, which was supported by warm weather, plus good economic climate and strong demand. Construction output soared almost 18%YoY (26% after seasonal correction).

▪ The companies are apparently planning further expansion in the subsequent months, which is suggested by the continuation of employment rise, rapid growth in corporate loans and very optimistic results of business climate surveys (see below).

Retail sales still strong

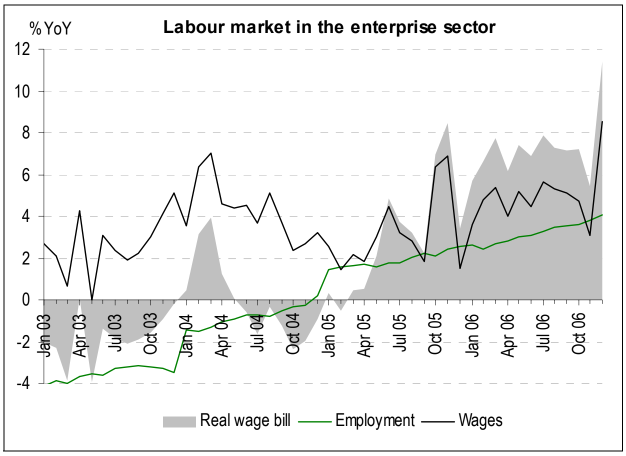
▪ Nominal growth of retail sales in December was similar as in previous months, reaching 13.3%YoY, roughly in line with market expectations.

▪ Interestingly, real sales growth was even higher than nominal growth and reached 13.7%YoY. Average nominal sales growth in 2006 was at the same level as real growth. It shows lack of pressure on price growth in retail trade.

▪ Retail sales growth in the entire 2006 reached 12%YoY, which was three times as high as in 2005 and reflected a revival in consumption demand.

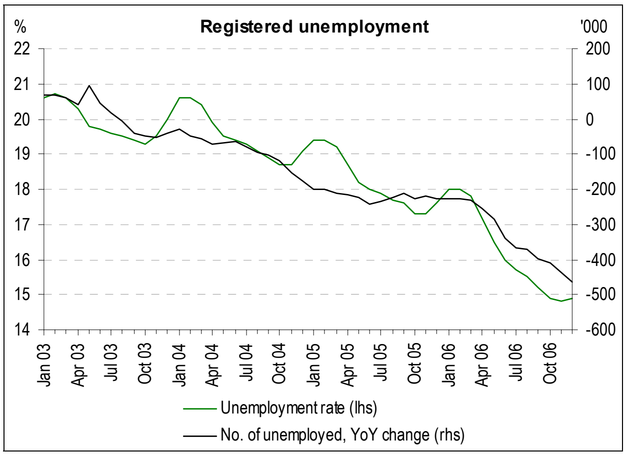
▪ Continuing rapid rise in wages and employment (see details on the next page) allow forecasting that high retail sales growth will persist in the following months of 2007, being a strong support for economic growth.

Economic update



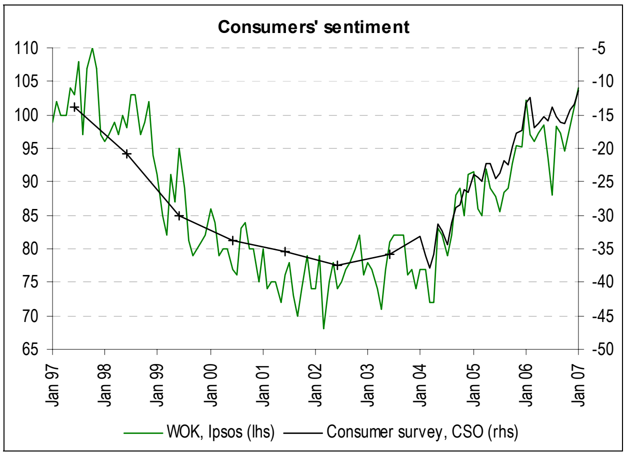
Wages and employment keep accelerating

- Employment growth has been strengthening consistently – in December it reached 4.1%YoY, another record high level, and the number of employed rose almost 200,000 during the year.
- Wages in enterprises sector increased as much as 8.5%YoY in December. The result was biased up because of irregular pattern of bonus payments in mining in 2005; therefore November 2006 saw wage growth below trend, and December was higher. But average growth in November-December (5.8%YoY) also indicated clear acceleration of pay rise at the end of the year.
- Wage bill in corporate sector rose 13%YoY in December in nominal terms and 11.4% in real terms, which was almost the best growth rate since 1989. It will deliver a strong support for private consumption growth in the following months.



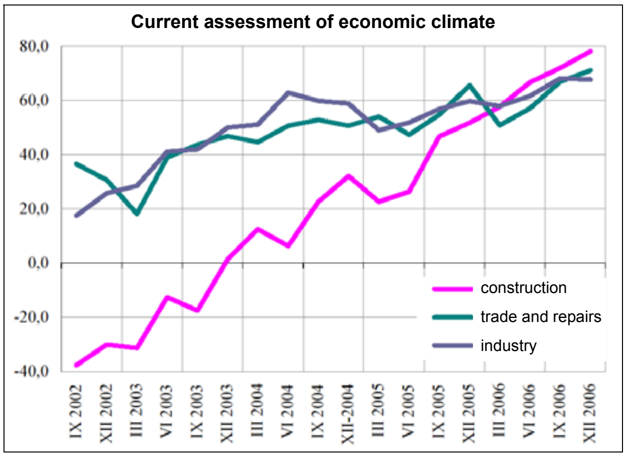
Slight, seasonal unemployment pickup

- Registered unemployment rate reached 14.9% in December, and was only 0.1 pp higher than in November.
- This was the only month in 2006 that saw an increase in unemployment. Moreover, it was not only a seasonal rise but it was much weaker than usually in the corresponding period of the year. In annual terms the jobless rate declined 2.7 pct. points, and the number of unemployed registered in labour offices dropped by 464,000, which is another record-good result (the best for almost a decade).
- Until the end of first quarter, unemployment is likely to grow slightly due to seasonal factors (to 15.2% in January according to estimations of labour ministry), but in subsequent months we predict a decline again, to ca. 13% in December 2007.



Consumers' optimism on the rise

- Systematic and solid improvement of the situation on the labour market, which boosts households' disposable income, favours improvement in consumers' sentiment.
- Although a pace of improvement weakened somehow in January, the results of available surveys showed that the level of households' optimism has been the highest since 1997.
- Interestingly, since December consumers' expectations regarding general economic situation have worsened, which could suggest a lack of faith in persistence of current recovery.
- On the other hand, the indicators showing propensity to spend money have been improving clearly, suggesting that the consumption demand should not weaken in the near term.

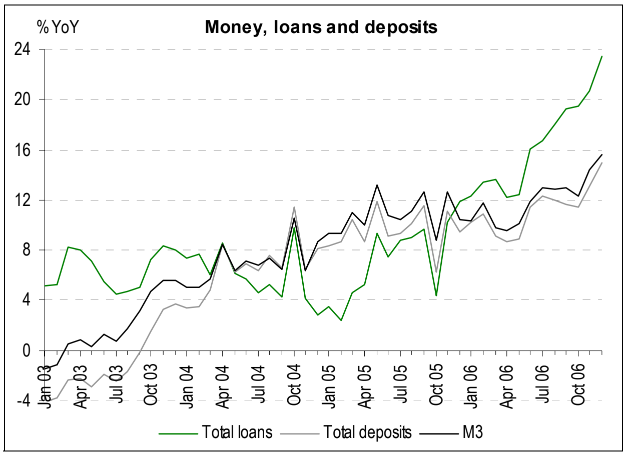


Source: CSO, own calculations

Business climate also keeps improving

- Business climate assessment of entrepreneurs also remains optimistic.
- According to quarterly business climate report made by the NBP, the assessment of current economic situation in Q4 2006 remained at one of the highest levels in the history of the survey.
- Assessment of demand obstacles were at record low level, while predictions of employment were record high and firms found it increasingly difficult to find capable workers. In effect, signals about building pressure on wage growth have strengthened.
- Entrepreneurs were planning further rapid increase in investment, financed more and more by bank credit.

Economic update

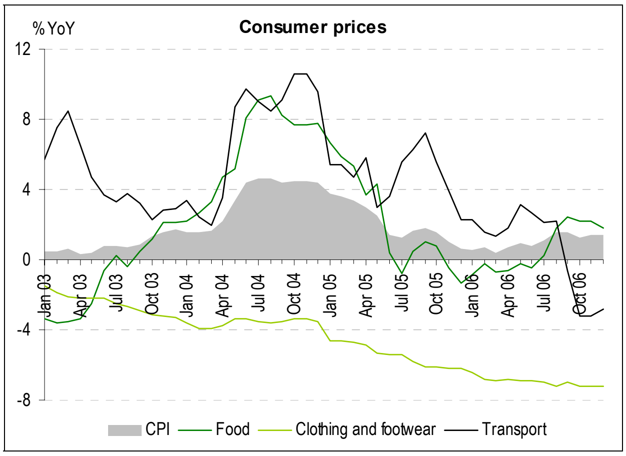


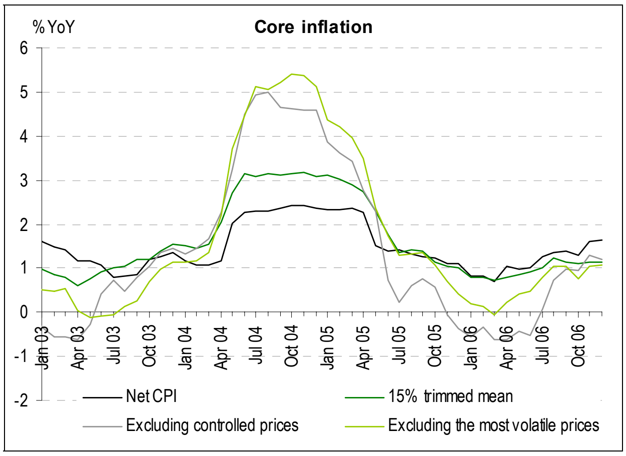
Credit market revival gets stronger

▪ Broad money M3 rose in December by 15.7%YoY, which was the fastest growth rate for 5.5 years. Households' deposits increased 9.7%YoY, and firms' deposits soared 25.6%YoY.

▪ Credit growth accelerated to 23.4%YoY, the highest since 2000. What is important, rapid credit growth is driven not only by households' debt (December was the last month to take mortgage loan and take advantage of special tax allowance), but also loans for enterprises started recovering – in December up 14.6%YoY.

▪ Fast growth of monetary aggregates will be probably carefully monitored by the Monetary Policy Council, but as far as it goes the threats for inflation coming from trends on the loans and deposits market are quite limited, as links between money and inflation are rather loose in modern economies.





Inflation rate still below target

▪ CPI growth in December remained and previous month's level and reached 1.4%YoY, despite widely expected acceleration.

▪ It was largely connected with fall in prices of food and fuels. Food prices dropped 0.3%MoM, which resulted in slowdown of its annual growth to 1.8% from 2.2%YoY in November; fuel prices declined 4%MoM and 6.3%YoY.

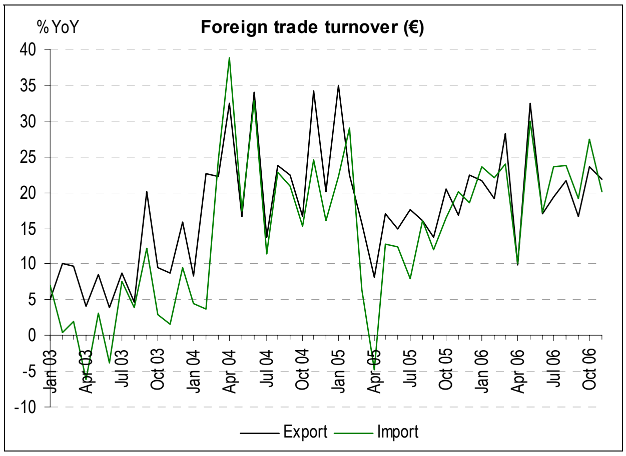
▪ However, prices of other goods and services also displayed no clear upward trend in the final part of the last year, which was reflected e.g. in stabilisation of core inflation measures, including net inflation that remained at 1.6%YoY.

▪ All measures of core inflation maintained at low levels in December, significantly below the 2.5% inflation target, and all but one measure were even below the lower end of acceptable fluctuations around target (1.5%).

▪ PPI growth accelerated from 2.5% to 2.8%YoY in December, but it was caused mainly by low base effect, as since August 2006 the prices of sold production in industry keep falling in month-on-month terms. Price growth in manufacturing was 1.7%YoY against 1.1%YoY in November.

▪ Undoubtedly, December data on inflation delivered no signals about strong inflationary pressure, in particular such that could create big threat of breaching inflation target persistently in the medium run.

▪ According to our predictions, both CPI and core inflation will be rising this year but the pace of this increase will be very moderate and during the year neither of those two measures should exceed 2.5%.



High current account gap despite strong exports

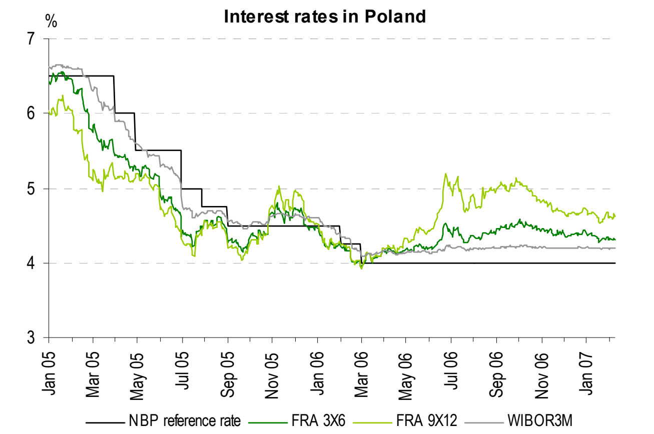
▪ November's current account appeared to be higher than expected, reaching €510m. Nevertheless, trade gap was lower than forecasted, reaching €246m, mostly thanks to excellent export growth that reached 21.9%YoY (almost €9bn). Import increased by 20%YoY to €9.2bn.

▪ It was negative income balance that was mainly responsible for higher than expected current account deficit, which resulted from payments of high dividends from record-high profits recorded by companies operating in Poland.

▪ 12-month cumulative current account deficit remained at low level 2% of GDP. Moreover, it was financed by increasing inflow of foreign direct investments. FDI inflow in November reached €1.4bn and it was the third straight month of inflow above €1bn.

Source: CSO, NBP, own calculations

Central bank watch



Fragments of MPC statement, 31 January 2007

In the MPC's assessment, in the short term inflation will be considerably lower than in the January projection, as the oil and food prices will most probably be lower then in the projection. The "net inflation may also be markedly lower than in the projection.

In the medium term, despite the fact that economic growth is expected to slow down somewhat, the growth of wages may gradually increase, thus leading to higher inflation. The Council believes that this increase in inflation will be probably moderate if the strong productivity growth and low growth of external prices associated with globalisation and the ensuing increased competition in the market of internationally traded goods and services continues.

The Council judged that the current level of NBP interest rates is conducive to keeping inflation close to the target of 2.5% in the medium term. However, maintaining inflation close to target and thus creating conditions for sustainable long-term economic growth may require monetary policy tightening. Future decisions of the Council will depend on the incoming information about economic developments in Poland and the world and also on their impact on the inflation outlook in Poland.

MPC's voting results

	Oct. 06, +25pb	Nov. 06, +25pb	Dec.06, +25pb*
Balcerowicz	+	+	+
Czekaj	–	–	–
Filar	+	+	+
Nieckarz	–	–	–
Noga	+	+	+
Owsiak	–	–	–
Pietrewicz	–	–	–
Sławiński	–	–	–
Wasilewska-Trenkner	+	+	+
Wojtyna	–	–	–

** results of December's voting are not known yet, but we assume that the hawkish faction was consistent*

Inflation projections (% YoY)

	Jan 06	Apr 06	Jul 06	Oct 06	Jan 07
Q4 2007	1.1-3.6	1.3-3.4	1.5-3.5	1.9-3.8	2.1-3.8
Q4 2008	0.8-3.9	1.2-3.9	1.7-4.3	2.2-4.6	2.2-4.5
Q4 2009	-	-	-	-	2.4-5.2

GDP growth rate projections (%)

	Jan 06	Apr 06	Jul 06	Oct 06	Jan 07
2007	3.4-5.2	3.4-5.8	3.6-5.9	4.1-6.2	4.9-6.7
2008	3.6-5.5	3.5-6.2	4.0-6.6	4.5-7.0	3.6-6.4
2009	-	-	-	-	3.5-6.5

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.

Source: NBP, Reuters

Restrictive bias does not mean rate hike

- At the first decisive meeting of the Monetary Policy Council in the new year, and also the first one chaired by the new NBP governor Sławomir Skrzypek, the NBP main reference rate has remained unchanged at 4.0%, in line with expectations.
- It seems to us that the opinion of the Monetary Policy Council included in the official communiqué shows the assessment of inflation perspectives and economic situation, which is still in line with our view. The Council expects a scenario that will favour keeping inflation at moderate level, what will create no necessity for interest rate hikes in the coming months. If the future data – especially with regards to the labour market – are different from the MPC's forecasts and show a rise of the importance of factors which are negative for inflation, than there may arise a possibility of monetary policy tightening.
- In our opinion, the most likely scenario of economic developments does not assume wage and inflation pressure to appear in 2007 to an extent, which could create a considerable risk for the NBP's target and thus we stick to our view that interest rate hike will take place only at the beginning of 2008.
- We very positively perceive changes in central bank's communication (already done as well as announced, especially with respect to the introduction of minutes). They appeared in the January *Inflation Report* and since May such record of discussion during the MPC meeting will be released every month. The official statement released after the meeting will also change and it is worth to notice that it looked much better already in January. Such modifications should give market participants better picture of deliberations during MPC meetings and improve monetary policy transparency.

Look who's talking

- It was not surprising that in October and in November motion to increase interest rates by 25 bp were made and that the proposals did not find support within the Council. We think that the same situation took place in December.
- The voting results (details in the table on the left) indicate quite clearly the views of which MPC members should be closely watched by financial markets' participants in assessment of chances for future rate moves.
- It is not only important who's talking but also on what subject. Namely, the main issues that were brought up during the discussion in the Council meetings, and simultaneously the problems on which MPC members' views differed, were: prospects of zloty exchange rate, influence of the situation in the labour market and GDP growth structure on inflation prospects.

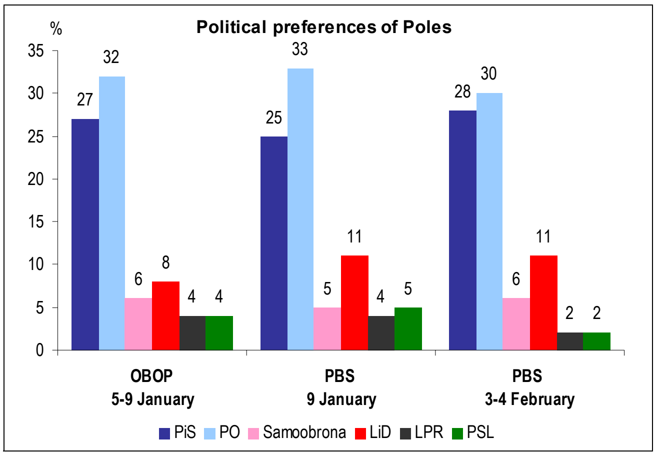
High inflation projection, but risks on the downside

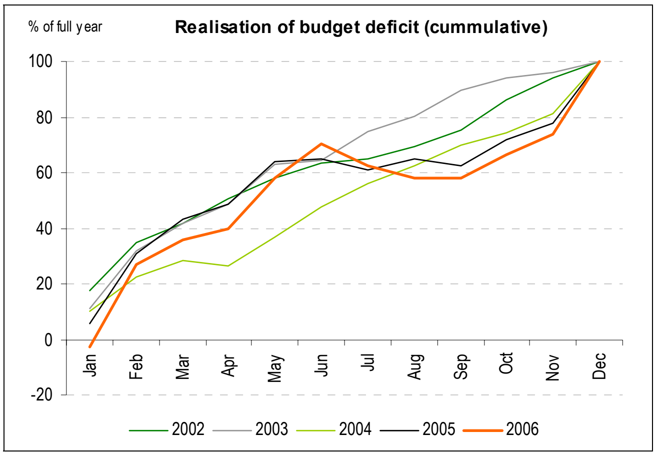
- The new inflation projection indicates slightly higher inflation in 4Q07, almost the same path for 2008 and the continuation of inflation acceleration above the central bank's target in 2009 (which was included in the projection for the first time).
- For the first time since a number of quarters, the risk for the projection is on the downside. This is because according to the authors, the actual cost pressure in the economy is currently lower than it is suggested by the model and the rise in unit labour costs may not be accompanied by pay increases but by profit drops. (e.g. due to rising global competition).
- This refers particularly to the short-term. In the longer run the direction of inflation deviation from the central projection is hard to predict, although stronger than assumed zloty exchange rate could result in downward inflation bias.

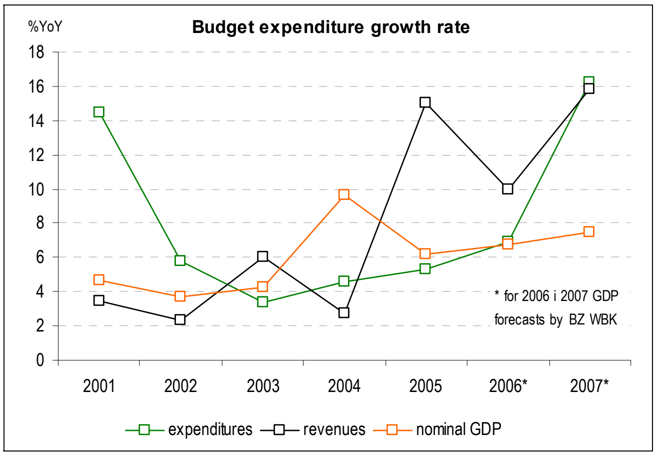
Central bank watch

Comments of the central bank representatives	Our remarks
Sławomir Skrzypek, NBP governor, MPC chairman **press conference, PAP, 31 January** We can say that current inflation level is too low, but at the same time we can also say that there is a kind of safety cushion. In the case of inflation increase it still should within the inflation target. The recent period in the foreign exchange market is a stabilisation (…) and such level should be maintained, though one may expect appreciation rather than depreciation. The MPC equipped the board of the NBP with this instrument [FX interventions], but I am against using it. However, there might be situations, in which interventions might be required. I would like to strengthen considerably the position of research department in the NBP. I would like it to expand and reinforce by adding new units.. this will be one of my priorities. My ambition is the NBP analysis to play more important role in the central banking in Europe.	One can say that the first press conference of the new NBP governor was a success. Especially given the expectations based on his (quite weak) interview with the Public Finance Committee before his appointment, which we described in the previous edition of MACROscope. Actually his comments on inflation perspective, exchange rate and interest rate policy were well balanced, although it is quite apparent that the new President does not have clear view on many aspects important in the central banker's job. This is most likely connected with the fact that he has not got any experience in central banking before his nomination. We positively perceive his approach to research conducted in the central bank, as well as planned improvement in the bank's communication (the January meeting brought some progress). At the same time, it is worth to notice his interview with *Wprost* weekly magazine. Skrzypek rejected any possibility of using foreign exchange reserves, the idea supported by some politicians not so long ago.
Marian Noga, MPC member **PAP, 1 February** I treat the projection cautiously, but I agree with conclusions to large extent. In relation to risks for inflation in 2008, in the foreseeable future the MPC will have to think about monetary policy tightening and that's why possibility of interest rate hikes cannot be excluded this year. In my opinion, inflation will reach the target at the end of 2007 and there is a risk of exceeding it in 2008. **Halina Wasilewska-Trenkner, MPC member** **Radio PiN, 1 February** [The scale of tightening] will depend on the results of inflation forecasts and on the difference between the scenario outlined by the forecast and the MPC's assessment. At the moment the MPC as a whole is not sure when the process of tightening should start and how long this should last. In my opinion this should start as soon as possible. This is the first quarter of this year, and certainly the first half, (…) to avoid a situation of necessity hiking rates too much in future. (…) 25 basis points would be probably enough to send a signal that if inflation pressure intensifies we would take next steps.	After ex-governor of the central bank left the office, the so-called hawkish faction within the MPC maintains the view on monetary policy. Although Dariusz Filar did not show up in the media after the press conference of the MPC, the other two members expressed their views quite clearly. They called for swift interest rate hikes, though it is worth noticing that even in their opinion there should be only a slight tightening. The opt for hikes in rates, which would help to avoid more visible tightening in future. However, we have some reservations as regards such way of reasoning. If the negative scenario concerning inflation perspective (e.g. the outlook presented in the new inflation projection) was to materialise, the required increase in official rates would be higher than 25-50 bp, while pre-emptive signal would not be enough to stop excessive increase in unit labour costs. At the same time, the MPC may keep sending the clear signal about possibility of tightening by maintaining informal restrictive bias. And in our opinion this was the aim of more hawkish statements of the Council in recent months. As we wrote many times in the past, comments of MPC members being in minority are not relevant for the assessment of future moves in rates and market participants should concentrate on statements of other members. It seems to us that new NBP governor will not change the balance of strengths within the Council.
Stanisław Nieckarz, MPC member **PAP, 1 February** The possibility of balance of risks for inflation changing in future in the direction of higher inflation is connected with the influence of labour migration on wage growth. This element is not really well known. Thus, the rate of growth in labour costs in the enterprise sector, as well as in the public sector, will require a special attention. However, pre-emptive interest rate hike when probability of such scenario is not too high, would not be a right decision, especially as inflation is low right now. As if such risk of much higher inflation requiring monetary policy tightening materialised, a cumulative rate hikes could lead over-restrictive policy. The experience of previous years confirms such a possibility. **Stanisław Owsiak, MPC member** **Gazeta Prawna, 1 February** It turned out that October's inflation projection was too pessimistic and inflation in 1Q07 will not exceed 2.5%. We can think about a hike in rates when inflation exceeds 2.5% and there is a risk of breaking 3.5%. That's why I believe that if a hike will be necessary at all this year, it will only be at the end of the year. I think 25-50 basis points will suffice as a signal that the MPC is vigilant about future inflation. **Andrzej Wojtyna, MPC member** **PAP, 31 January** The balance of risks presented in today's statement can be compared to a restrictive bias, but with some reservations. The reservation is that decision on rates are not automatically connected with the bias. Such comparison may be treated as a substitution of communication tool.	It is obvious that the majority of MPC members do not share the opinion about a necessity of pre-emptive rate hike in the near future. The comment by MPC's Stanisław Owsiak is interesting , as he said suggested possibility of rate hike only at the end of the year, if any. This is not much different from our base-case scenario assuming rate increase at the beginning of 2008. We also do not expect CPI inflation to rise above the target in 2008 nor above 3.5% within the next six quarters. Comments by Andrzej Wojtyna were also important for financial market participants. Talking about restrictive bias in monetary policy, he emphasised no automatic rate changes. The restrictive bias means only higher probability of rate hike than probability of rate cut, which is quite clear for market participants since a couple of months. What is more, Wojtyna paid attention to the fact that inflation projection is only one of research materials taken into account by the Council when deciding on monetary policy. Though during the press conference MPC members said that it is hard to say that the MPC "dissociate from the projection", the fact that MPC compare the results with other forecasts and at the same time keep rates on hold means that they not entirely share the conclusions of the inflation projection. Of course the remaining crucial question concerns factors, which the majority of the Council will take into account the most, when deciding on future inflation prospects and interest rates. For the first time since many months we found the answer in the official statement (and in MPC members' comments e.g. of Stanisław Nieckarz). The labour market situation is the first element (rise in unit labour costs), while changes in external prices (globalisation, competition, exchange rate) is the second. We still think that while the importance of the former may be increased in the following months, this would not be to an extent creating a risk for the inflation target. As for now, majority of the Council share such a view.

Government and politics







***Convergence Programme* (November 2006 update)**

Fiscal parameters (% GDP)

	2006	2007	2008	2009
Total revenues	39.6	40.2	39.3	37.4
Total expenditures	43.5	43.6	42.4	40.3
Deficit	-3.9	-3.4	-3.1	-2.9

Note: The numbers concern general government sector with open pension funds classified outside the sector.

Macroeconomic assumptions

	2006	2007	2008	2009
GDP growth (%)	5.4	5.1	5.1	5.6
Inflation (annual average, %)	1.4	2.1	2.5	2.5

Source: BZWBK, Ministry of Finance, opinion polls

Coalition lasts, despite some conflicts

- In the recent weeks there was another conflict in the ruling coalition. After political clash regarding appointment of the new NBP governor, this time the reason for a dispute within the coalition was an issue of low prices of livestock and a need for intervention on the pork market. However, as in previous cases the conflict did not lead to collapse of the ruling coalition.
- Stability of the coalition is supported by results of public opinion polls. They show that the opposition Civic Platform is still slightly ahead of the ruling Law and Justice (PiS), but the most important is that popularity of junior coalition partners, i.e. the Self-defence and League of Polish Families is still oscillating around the minimum threshold. This is the factor which stabilises the coalition, because it constrains propensity of junior coalition partners to risk a rough conflict with PiS.

The 2006 budget deficit much lower than planned

- Budget deficit in the whole 2006 amounted to PLN25.08bn, i.e. 82% of the full year plan. Revenues increased 9.9% against the planned rise of 8.6% (which initially was perceived as too optimistic target). Expenditures rose 6.9% versus the planned growth of 8.4%.
- Such a good performance of the 2006 budget was possible thanks to stronger than expected economic expansion.
- Unfortunately, while the deficit proved lower than planned, the state's borrowing needs were much higher than planned due to low privatisation revenues and a necessity to increase subsidy to the Social Security Fund related to contributions transferred to open pension funds. The contributions turned out to be PLN2.2bn higher than planned because of higher increase in wage bill in the economy.

The 2007 budget finally approved

- The Sejm has finally approved the 2007 budget, accepting a majority of 76 amendments introduced by the Senate.
- The main change, is an increase in spending for teachers salaries and it is worth PLN0.5bn. This was financed by an increase in the planned transfer of NBP profit for 2006 to the budget. In total, revenues and spending were increased by PLN1bn as compared to the earlier version.
- The approved amendments are not significant, so they do not change general assessment of the budget. Revenue growth target is ambitious, but realistic and we do not expect major problems with execution of this year's budget.
- It is a pity, however, that the planned spending increase is going to be much higher than GDP growth which will make it impossible to reduce budget gap faster.

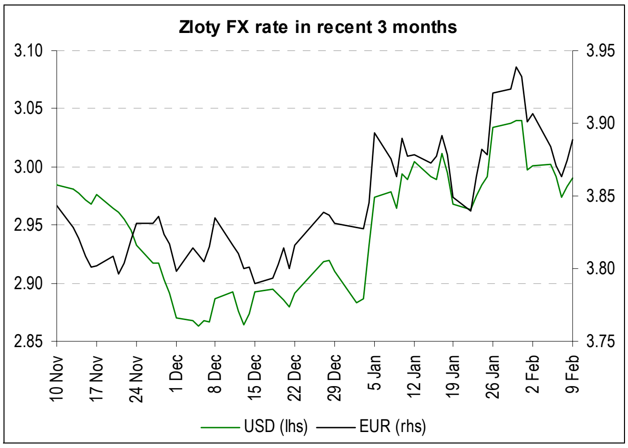
Brussels call on Warsaw to reduce budget gap deeper

- The European Commission said that Poland should reduce fiscal gap below 3% of GDP this year and not in 2009 as the Polish government assumed in the country's Convergence Program. According to the Commission, spending limitation is particularly needed. Poland will be given 6 months from the ECOFIN meeting on February 27 to prove that proper actions will be taken.
- While the Commission criticises Poland's fiscal plans, Poland counts on making use of a clause enabling for preferential treatment of countries which "persistently" reduce budget gap and at the same time "insignificantly" exceed the limit of 3% due to pension reform costs. The problem is that assessment of the deficit level is based on the Commission's forecasts which currently points to fiscal gap of 3.7% of GDP in 2007.

Government and politics

Comments of government representatives and politicians	Our remarks
Jarosław Kaczyński, Prime Minister **PAP, 7 February** There is still a possibility of changes in the government, for content-related reasons. (…) However, those who are pleased with a “crisis” in the government, do it too early, because everything is under control. It [resignation of Internal Affairs Minister Ludwik Dorn] was a matter of a difference in views on some issues, which concerns not only the Internal Affairs Ministry, but also other state’s services. This is only a content-related issue. **PAP, 16 January** I would strongly insist on coalition partners so that they would not bring about another crises, so that every nomination, every occasion is used for causing a confusion. Otherwise, possibilities of continuing the coalition will wear thin. I do admit that things which happened when new NBP governor was chosen were at the limit of my patience. (…) I am sure that such situation cannot be continued. (…) One cannot govern from a crisis to a crisis. (…) I think that we are close to the limit of crises in this coalition. **PAP, 11 January** I’d rather not learning from the media that for example finance minister is going to be dismissed. (…) One can talk how large a relief in excise tax should be, but this is not a reason for dismissing anyone.	So far, a review of the government’s performance carried out by some ministries has resulted in a replacement of only two ministers. It did not concern any of the economic ministries. Therefore, announcement of the government’s reshuffle had no impact on the market. However, some comments appeared suggesting that resignation of Internal Affairs Minister Ludwik Dorn is a sign of serious tensions within the ruling party and a reason for concerns for the market. In our opinion such thesis are inconsistent with the fact that Dorn remained in the government. Moreover, he is still deputy PM. This suggests that his resignation was actually a result of content-related issues and not a result of serious personal conflict that could mean a political crisis. However, the political situation is still far from stability. Prime Minister’s comment from January 16 indicates that his patience for junior coalition partners’ demand is wearing thin. The problem is that despite very low results in public opinion polls (meaning a risk of falling out from the political scene in case of early elections), junior coalition partners still behave in a unpredictable manner. We believe, however, that a hard line will be presented by them only in the media while in real political negotiations they should be seriously afraid of an argument of early elections. A frequent target of junior coalition partners’ attacks is finance minister Zyta Gilowska, but Prime Minister signals that he will not dismiss her under pressure from coalition partners.
Zyta Gilowska, deputy PM, finance minister **PAP, 5 February** We are able to find in the existing budget an amount of around PLN700m [for financing necessary changes in the healthcare system]. **PAP, 25 January** One should definitely carry out reforms. (…) I treat my public activity as a task. I am not interested in just being the finance minister. There are many good universities which are interested in cooperation with me, because I am economics professor. I am here [in the ministry] due to the tasks. (…) If it is not possible to reduce disability pension contribution, I will do what I am doing anymore. Let someone else do it.	Prime Minister supports deputy PM and finance minister, but it is not sure whether she is supported also by parliamentary majority. As for now, fiscal reforms are still only plans, and instead of constraining expenditures growth we observe acceleration in their growth. For instance, the government will have to guarantee additional PLN700m for counteracting a crisis in the healthcare system. This shows that even if it is possible to collect higher than planned budget revenues, the additional money will be quickly spent and it is hard to expect that this year’s budget gap (or state’s borrowing needs) will be much lower than planned. However, more emotions will concern implementation of fiscal reforms planned by Zyta Gilowska. If the reforms again fail to be implemented, finance minister probably resigns and this could negatively affect market participants.
Elżbieta Suchocka-Roguska, deputy finance minister **PAP, 25 January** I think that there will be no budget surplus in January, because we have spending related to agriculture policy, but not only. I am not able right not to say how spending side will look like.	Comments from deputy finance minister show that performance of the budget in the first month of this year is not as good as in January 2006, but this does not mean that one should be concerned about execution of this year’s budget. The revenues target is ambitious, but it is possible to achieve it thanks to better than assumed performance of the economy.
Katarzyna Zajdel-Kurowska, deputy finance minister **PAP, 1 February** Inflation increase in January is an effect of food price increase. We estimate that food prices grew 0.8%MoM in January, mainly due to prices of poultry and vegetables. The second element is higher prices of energy and natural gas. We expect that in the category of housing and energy prices grew by over 1%MoM. These two elements brought about inflation acceleration in January. We estimate that on a monthly basis CPI grew 0.5% and in annual terms increased 1.7%. **PAP, 25 January** We are glad of that decision [upgrade in Poland’s rating to A- from BBB+ by Fitch Ratings]. This is justified by very strong macroeconomic fundamentals and solid budget stance. We are glad. We think that maybe it will encourage other rating agencies to improve Poland’s ratings. Our economic situation is very good. Strong fundamentals of the Polish economy still support the zloty. This is surely an argument for further appreciation of the domestic currency. (…) There is not very likely so that the zloty strengthen to 3.7 against the euro in the forthcoming weeks. On the other hand, if there is still fast pace of GDP growth, large inflow of FDIs, increase in transfers of EU funds to Poland and labour productivity keeps growing, one cannot exclude that the zloty will continue to appreciate.	Our inflation forecast for January is the same as the one of the Ministry of Finance. Similarly as the ministry we assumed that the beginning of the year saw an increase in food and fuel prices. In case of fuel there was a one-off effect of a return to a higher level of excise tax, the one before a cut in September 2005. As these are exogenous factors and they are not related to underlying inflationary pressure, the expected rise in inflation in January does not affect assessment of medium-term inflation prospects. According to our estimates, net inflation increased very slightly in January and amounted to 1.7%YoY against 1.6%YoY at the end of 2006. This is still very low level and net inflation is not predicted to exceed 2.5% throughout 2007. An upgrade in Poland’s rating by Fitch Ratings to A- from BBB+ positively affected the market, constraining the scale of zloty weakening connected with deteriorated sentiment in the emerging markets in January. The upgrade in Poland’s rating is a result of very good economic situation and one may expect that if it maintains, other rating agencies will follow Fitch Ratings. One should agree with deputy finance minister than expected continuation of very good economic condition and possible upgrade of the country’s rating by other agencies will support the zloty. However, further appreciation of the domestic currency will be limited by growing risk aversion on the global markets. Therefore, we predict that the zloty will only slightly strengthen against majors during this year.

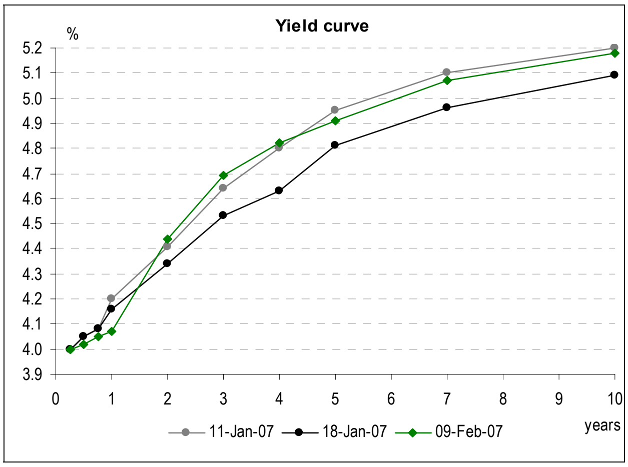
Market monitor



Zloty stronger after another sell-off

▪ The sell-off in the Polish FX market continued throughout most part of January. There was a slight recovery after Fitch agency upgraded Poland's rating, however soon afterwards another weakening wave followed. After the Bank of Japan did not change the interest rates and Fed's statement appeared to be more optimistic than expected (better economic data, lower CPI) zloty significantly strengthened again. Some careful comments of new NBP's chief might also limit investors' uncertainty.

▪ Despite zloty strengthening the sentiment toward the emerging markets is not too positive. The main factor influencing zloty and the region will still be economic data from US. However good figures showing high economic growth and low inflation will work in favour of zloty in medium and long term. Politics should rather have limited impact.

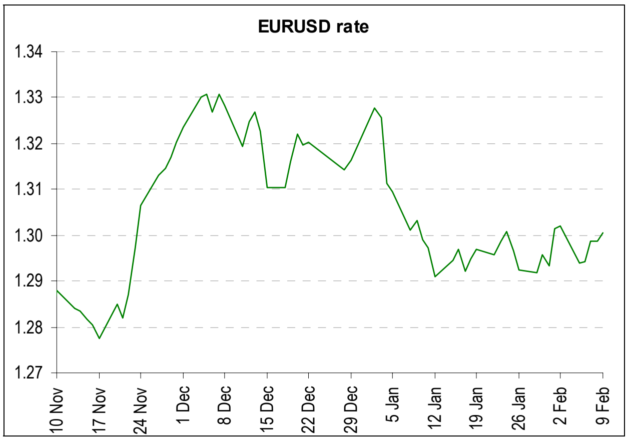


Slight changed of bond prices

▪ Since the release of our previous report the yield curve slightly flattened mainly with regards to the fall of yields in the long end of the curve. The 2-10 spread fell from 78 bp to 75 and 2-5 spread fell from 54 to 46. The short end of the curve strengthened due to low inflation data and MPC members' comments, while longer end was supported by rating upgrade amid some temporary rise of yields in the core markets.

▪ We reiterate our view that interest rate may stay unchanged this year, especially taking into consideration the comments of central bankers on the economic situation in Poland and our forecast of inflation forecast.

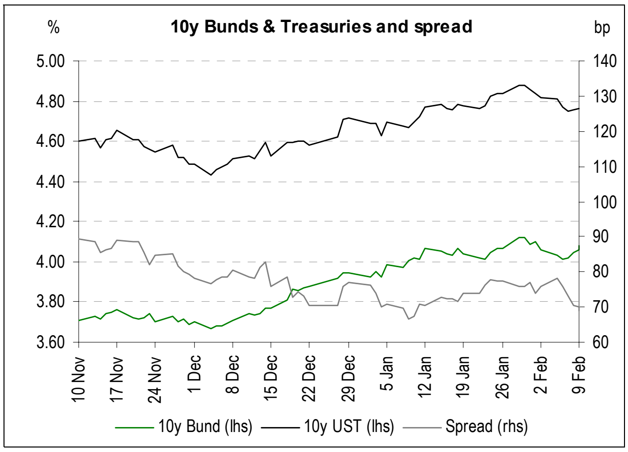
▪ Core markets behaviour (possible stabilisation at stronger levels) as well as sentiment toward the emerging markets and especially region may be still important for Polish bonds.



EURUSD rate stabilisation

▪ Since mid-January the dollar fluctuated in a narrow range against the euro (1.288-1.30). The dollar strengthened after higher PPI and housing market data, while the euro recorded some gains after ECB officials' comments on further rate hikes. The EURUSD rate rose above 1.3 despite better than expected GDP data from US with regards to PCE, Chicago PMI, ISM and non-farm payrolls.

▪ Amid mixed US data we still assume that there is higher potential for dollar weakening. The EURUSD rate may rise till the years end. After rate cuts and expected slight improvement in economic situation at the end of this year there may be some dollar recovery. We still assume that the key problem for the US economy is the weakening in the US housing market, and the scale of influence on other sectors of US economy.



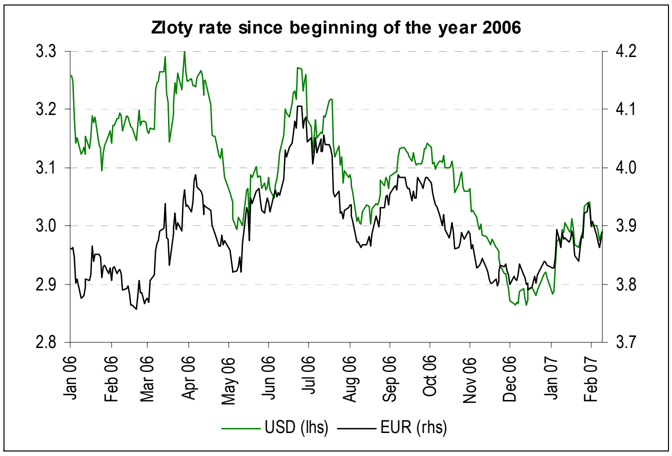
Yields fall after substantial weakening

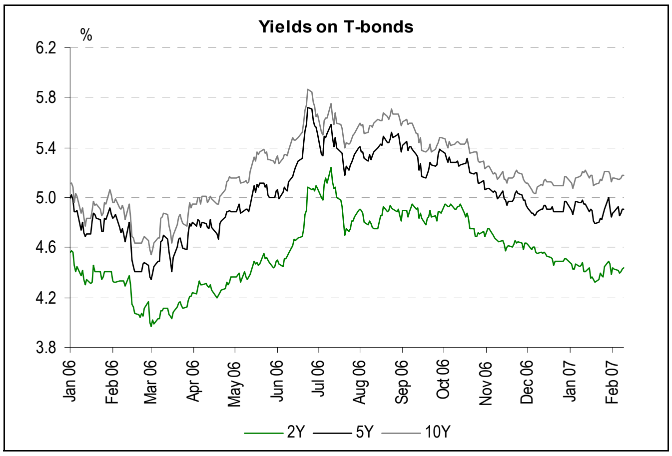
▪ After better than expected December data from US there was a significant sell-off in the core bonds markets, that was continued after PPI, housing market data and GDP figure in Q4 amid high supply of bonds on auction in US. Eurozone bonds were additionally weakened by the comments of ECB's central bankers on further rate hikes. Since the end of January after the release of Chicago PMI, ISM and after Fed's statement there was quite substantial strengthening. In the result yields of 10Y Treasuries and Bunds remained almost unchanged.

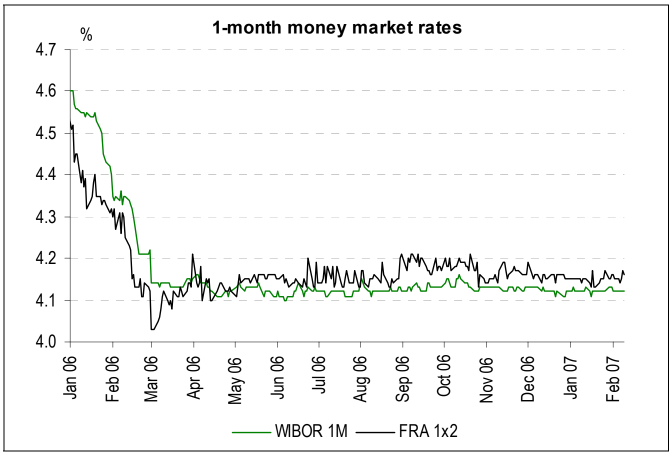
▪ Taking into consideration recently released data our scenario of rate cuts in US starting from the Q3 down to 4.5% at the end of the year is unchanged. We hold our view that after the interest rate rise in March further rate hikes in EU13 may follow with main rate going up at least to 4.0% (or even to 4.25% at the year's end).

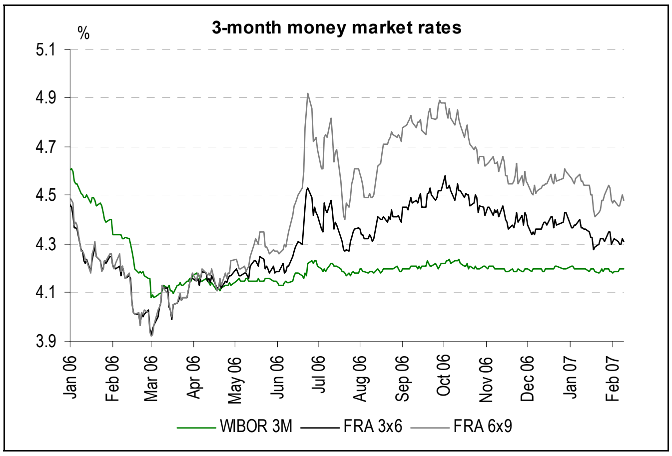
Source: Reuters, BZ WBK

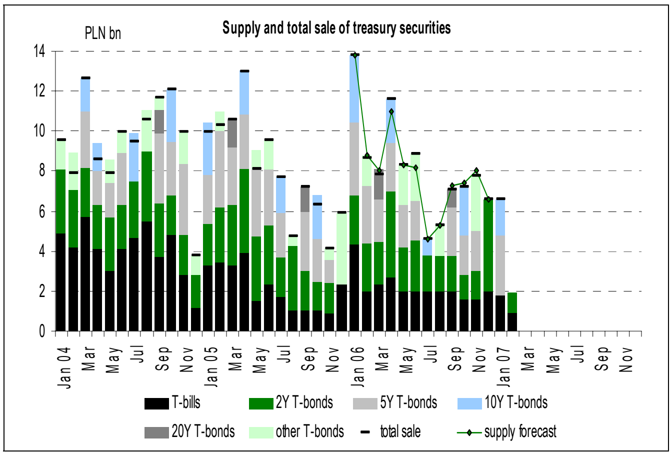
Market monitor











Treasury bill auctions (PLN m)

Date of auction	OFFER / SALE 52-week	Total
04.12.2006	1 000 / 1 000	1 000 / 1 000
18.12.2006	1 000 / 1 000	1 000 / 1 000
Total December	**2 000 / 2 000**	**2 000 / 2 000**
08.01.2007	900 / 900	900 / 900
22.01.2007	900 / 900	900 / 900
Total January	**1 800 / 1 800**	**1 800 / 1 800**
05.02.2007	900 / 900	900 / 900
19.02.2007	900 - 1 100	900 – 1 100
Total February*	**1 800 - 2 000**	**1 800 - 2 000**

* estimations based on Ministry of Finance preliminary information

Treasury bond auctions in 2007 (PLN m)

<table>
<tr><th rowspan="2">month</th><th colspan="4">First auction</th><th colspan="4">Second auction</th><th colspan="4">Third auction</th></tr>
<tr><th>date</th><th>T-bonds</th><th>offer</th><th>sale</th><th>date</th><th>T-bonds</th><th>offer</th><th>sale</th><th>date</th><th>T-bonds</th><th>offer</th><th>sale</th></tr>
<tr><td>January</td><td>-</td><td>-</td><td>-</td><td>-</td><td>10.01</td><td>DS1017</td><td>1 800</td><td>1 800</td><td>17.01</td><td>PS0412</td><td>3 000</td><td>3 000</td></tr>
<tr><td>February</td><td>07.02</td><td>OK0709</td><td>1 000</td><td>1 000</td><td>14.02</td><td>WZ0118 | IZ0816</td><td>1500–2500 | 0-500</td><td>-</td><td>21.02</td><td>PS0412</td><td>1 000 – 2 000</td><td></td></tr>
<tr><td>March</td><td>07.03</td><td>2Y</td><td>-</td><td>-</td><td>14.03</td><td>20Y</td><td>-</td><td>-</td><td>21.03</td><td>5Y</td><td>-</td><td>-</td></tr>
<tr><td>April</td><td>04.04</td><td>2Y</td><td>-</td><td>-</td><td>11.04</td><td>10Y</td><td>-</td><td>-</td><td>18.04</td><td>5Y</td><td>-</td><td>-</td></tr>
<tr><td>May</td><td>-</td><td>-</td><td>-</td><td>-</td><td>09.05</td><td>10Y WIBOR | 12Y CPI</td><td>-</td><td>-</td><td>16.05</td><td>5Y</td><td>-</td><td>-</td></tr>
<tr><td>June</td><td>06.06</td><td>2Y</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td>20.06</td><td>5Y</td><td>-</td><td>-</td></tr>
<tr><td>July</td><td>04.07</td><td>2Y</td><td>-</td><td>-</td><td>11.07</td><td>10Y</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td></tr>
<tr><td>August</td><td>01.08</td><td>2Y</td><td>-</td><td>-</td><td>08.08</td><td>10Y WIBOR | 12Y CPI</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td></tr>
<tr><td>September</td><td>05.09</td><td>2Y</td><td>-</td><td>-</td><td>12.09</td><td>20Y</td><td>-</td><td>-</td><td>19.09</td><td>5Y</td><td>-</td><td>-</td></tr>
<tr><td>October</td><td>03.10</td><td>2Y</td><td>-</td><td>-</td><td>10.10</td><td>10Y</td><td>-</td><td>-</td><td>17.10</td><td>5Y</td><td>-</td><td>-</td></tr>
<tr><td>November</td><td>07.11</td><td>2Y</td><td>-</td><td>-</td><td>14.11</td><td>10Y WIBOR | 12Y CPI</td><td>-</td><td>-</td><td>21.11</td><td>5Y</td><td>-</td><td>-</td></tr>
<tr><td>December</td><td>05.12</td><td>2Y</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td></tr>
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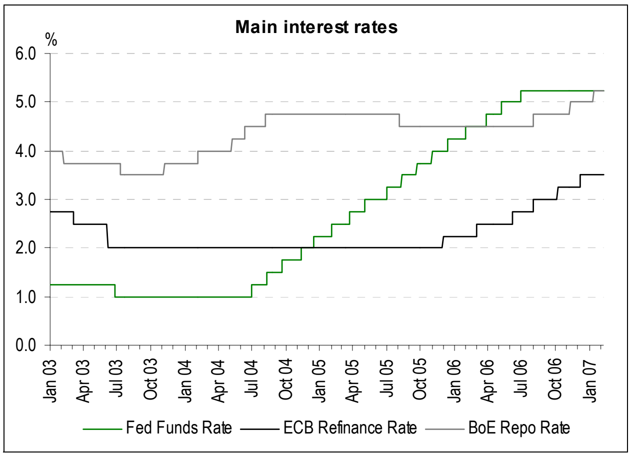
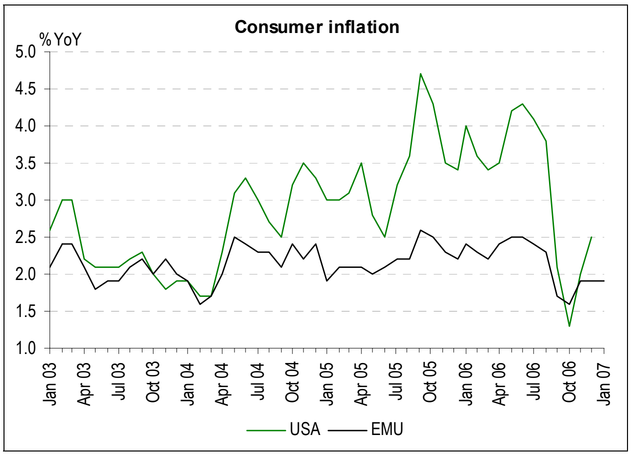
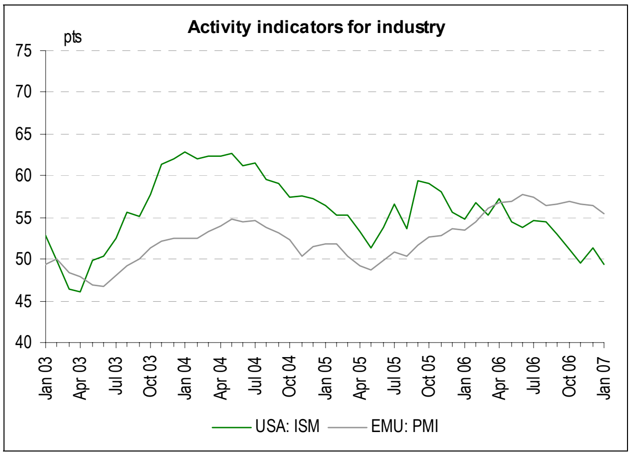
* with supplementary auction

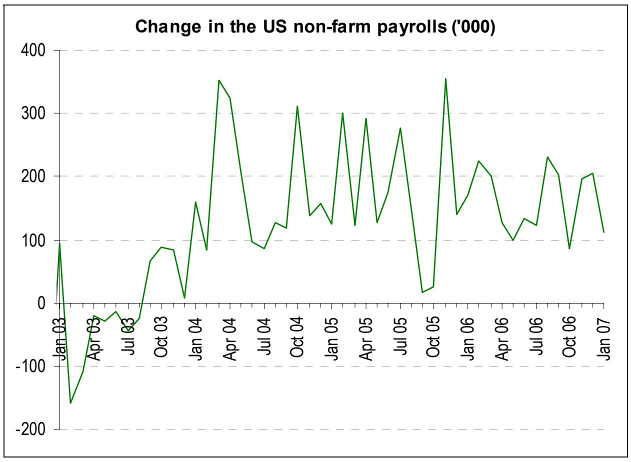
Source: Ministry of Finance, Reuters, BZ WBK

International review









Source: Reuters, ECB, Federal Reserve

Rate hike expected in March

- On its January meeting Fed left the Fed Funds rate again unchanged at 5.25% level. The statement noticed slightly better data from US economy and some stabilisation in the US housing market. Moreover it did not include certain expressions on elevated level of core inflation, while it confirmed the scenario of falling inflation.
- In February the ECB decided that the main interest rate in the euro zone stays at 3.5% level. There were some expressions in the ECB's statement on strong vigilance and it suggested that next interest rate hike may follow in March, what would be in line with market expectations. The ECB stated again that interest rates in the euro zone were still at low level, while monetary policy was accommodative with the upside risk for inflation and downside risk for economic growth.

Higher US inflation, stabilisation of core CPI

- The US CPI rose in December by 0.5%MoM, slightly above the downwardly revised expectations of 0.4%MoM. In annual terms CPI increased by 2.5% against 2.6% in the previous month. The core index rose respectively by 0.2%MoM and 2.6%YoY, what was in line with expectations. The PPI index rose by 0.9%MoM (1.1%YoY) against market consensus of 0.2%MoM and 2.0%MoM in November. The core figure rose by 0.2%MoM (2.0%YoY) against a market forecast of 0.1%MoM.
- The December data of euro zone inflation showed stabilisation of HICP index at unchanged level of 1.9%YoY. Preliminary data for January showed a HICP unchanged against December at 1.9%YoY, what was below expectations of 2.1%YoY. The PPI index remained flat in the monthly basis and rose by 4.1%YoY (4.3% in November).

Manufacturing ISM below 50 again

- The manufacturing ISM index fell in January to 49.3 from 51.4, while the analysts expected a rise to 51.9. The ISM for the services sector increased much above the forecasts to 59 from 56.7. The prices index fell from 59.7 to 55.2, while employment index declined from 53.2 to 51.7. The PMI index for the euro zone decreased in January to 55.5 z 56.5 in the previous month. The PMI index showing economic activity in the services sector in the euro zone rose in January to 57.9, the highest level in 6 months, from 57.2 in December against the expected fall to 56.9.
- According to the preliminary data the US GDP growth amounted in Q4 to 3.5% and 3.4%YoY in the whole 2006 and was higher than 3.1%YoY in 2005, despite the slowdown in the housing market. The core PCE index rose in Q4 by 2.1% against 2.2% in Q3 and expected 2.3%.

Mixed data from the labour market

- The ADP report showed a rise of new non-farm jobs in the US private sector by 152k against the expected 122k after a fall by 40k in the previous month.
- US labour market statistics showed a rise of non-farm payrolls by 111k against 149k expected. The figures for the two previous months were upwardly revised. The December statistics were revised from 167k to 206k, while the November figures were revised from 154k to 196k. The unemployment rate rose to 4.6% against expected no change from 4.5% in the previous month.
- The US labour productivity rose in Q4 by 3.0% against market consensus of 1.8% as compared to downwardly revised -0.1% in Q3 (0.2% before revision). The unit labour costs rose to the smaller extent than the market expected, by only 1.7% against forecasts of 2.3%. The Q3 data were upwardly revised to 3.2% from 2.3%.

Economic calendar

Monday	Tuesday	Wednesday	Thursday	Friday
12 February ***POL: Balance of payments (Dec)*** US: Federal budget (Jan)	**13** GER: ZEW Index (Feb) EMU: Preliminary GDP (Q4) US: Trade balance (Dec)	**14** ***POL: Auction of 10Y floating rate and 12Y CPI linked bonds*** ***POL: Money supply (Jan)*** US: Retail Sales (Jan)	**15** **POL: Preliminary CPI (Jan)** **POL: Wages and Employment (Jan)** US: Foreign trade prices (Jan) US: Net capital flows (Dec) US: Capacity utilization (Jan) US: Industrial output (Jan) US: Philadelphia Fed index (Feb)	**16** US: House starts (Jan) US: PPI (Jan) US: Preliminary Michigan (Feb)
19 ***POL: Treasury bills auction*** ***POL: Industrial Output (Jan)*** ***POL: PPI (Jan)*** USA: Market holiday	**20**	**21** ***POL: Auction of 5Y bonds*** US: CPI (Jan) JP: BOJ meeting – decision US: FOMC minutes	**22** ***POL: Business climate (Feb)***	**23** ***POL: Retail sales (Jan)*** ***POL: Unemployment (Jan)*** GER: Ifo Index (Feb)
26 JP: BOJ minutes EMU: Industrial production(Nov)	**27** ***POL: MPC meeting*** EMU: M3 money supply (Jan) US: Durable goods orders (Jan) US: Home sales (Jan)	**28** ***POL: MPC meeting – decision*** EMU: Business climate (Feb) EMU: Final HICP (Jan) US: Preliminary GDP (Q4) US: Core PCE (Q4) US: New homes sales (Jan)	**1 March** ***POL: Switch auction*** EMU: Manufacturing PMI (Feb) EMU: Preliminary HICP (Feb) USA: Core PCE (Jan) US: Manufacturing ISM (Feb)	**2** US: Final Michigan (Feb)
5 ***POL: Treasury bills auction*** EMU: Non-manufacturing PMI (Feb) US: Non-manufacturing ISM (Feb)	**6** EMU: GDP (Q4) EMU: Retail sales (Jan) US: Unit labour costs & labour productivity (Q4) US: Factory orders (Jan)	**7** ***POL: Auction of 2Y bonds*** USA: ADP report (Feb)	**8** EMU: EBC meeting - decision	**9** US: Trade balance (Jan) US: Non-farm payrolls (Feb) US: Unemployment (Feb) US: Wholesale inventories (Jan)
12 US: Federal budget (Feb)	**13** GER: ZEW Index (Mar) US: Retail Sales (Feb) US: Foreign trade prices (Feb)	**14** ***POL: Auction of 20Y bonds*** ***POL: CPI (Jan & Feb)*** ***POL: Money supply (Feb)*** ***POL: Balance of payments (Jan)***	**15** **POL: Wages and Employment (Feb)** EMU: Final HICP (Feb) US: PPI (Feb) US: Philadelphia Fed index (Mar)	**16** US: CPI (Feb) US: Capacity utilization (Feb) US: Industrial output (Feb) US: Preliminary Michigan (Mar)

Source: CSO, NBP, Finance Ministry, Reuters

MPC meetings and data release calendar for 2007

	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
MPC meeting	30-31	27-28	27-28	24-25	29-30	26-27	24-25	28-29	25-26	30-31	27-28	18-19
GDP*	-	-	2	-	31	-	-	30	-	-	30	-
CPI	15	15[a]	14[b]	13	15	13	13	14	13	15	14	13
Core inflation	22		23[b]	23	23	22	23	23	24	22	23	21
PPI	19	19	19	20	21	20	19	20	19	18	20	19
Industrial output	19	19	19	20	21	20	19	20	19	18	20	19
Retail sales	29	23	-	-	-	-	-	-	-	-	-	-
Gross wages, employment	16	15	15	18	17	19	17	16	15	16	16	15
Unemployment	29	23	-	-	-	-	-	-	-	-	-	-
Foreign trade	about 50 working days after reported period											
Balance of payments*	2	-	30	-	-	-	-	-	-	-	-	-
Balance of payments	16[c]	12	14	13	18	-	-	-	-	-	-	-
Money supply	12	14	14	13	14	-	-	-	-	-	-	-
NBP balance sheet	5	7	7	6	7	-	-	-	-	-	-	-
Business climate indices	23	22	22	23	23	22	23	23	24	23	23	21

* quarterly data, [a] preliminary data, January, [b] January and February, [c] November 2006, [d] January, [e] February

Source: CSO, NBP

Economic data and forecasts

Monthly economic indicators

		Jan 06	Feb 06	Mar 06	Apr 06	May 06	Jun 06	Jul 06	Aug 06	Sep 06	Oct 06	Nov 06	Dec 06	Jan 07	Feb 07
Industrial production	%YoY	9.8	10.2	16.4	5.7	19.1	12.2	14.3	12.6	11.6	14.8	12.0	5.7	12.9	11.6
Retail sales [c]	%YoY	8.6	10.2	10.1	13.2	13.7	10.7	11.0	11.5	14.5	13.3	13.6	13.3	13.0	14.2
Unemployment rate	%	18.0	18.0	17.8	17.2	16.5	16.0	15.7	15.5	15.2	14.9	14.8	14.9	15.2	15.2
Gross wages [b c]	%YoY	3.6	4.8	5.4	4.0	5.2	4.5	5.6	5.3	5.1	4.7	3.1	8.5	6.6	6.3
Employment [b]	%YoY	2.6	2.4	2.7	2.8	3.0	3.1	3.3	3.5	3.5	3.6	3.8	4.1	4.2	4.2
Export (€) [d]	%YoY	21.7	19.2	28.2	9.8	32.5	16.9	19.4	21.8	16.6	23.6	21.9	18.9	16.0	15.7
Import (€) [d]	%YoY	23.7	22.0	23.9	10.1	29.9	17.2	23.6	23.7	19.2	27.5	20.0	20.2	19.8	19.5
Trade balance [d]	EURm	6	-229	-130	-108	-439	-103	-450	-518	-356	-283	-246	-600	-250	-535
Current account balance [d]	EURm	-211	-839	-356	-597	-374	-300	-387	-668	143	-587	-510	-640	-355	-875
Current account balance [d]	% GDP	-1.6	-1.8	-1.9	-2.1	-1.9	-2.0	-2.0	-2.1	-1.9	-2.0	-2.0	-2.0	-2.0	-2.0
Budget deficit (cumulative)	PLNbn	0.7	-6.7	-9.0	-10.0	-14.6	-17.7	-15.6	-14.5	-14.5	-16.6	-18.5	-25.1	-1.5	-7.5
Budget deficit (cumulative) [e]	% realisation	-2.8	26.7	35.8	40.0	58.2	70.4	62.3	57.9	57.8	66.3	73.9	100.0	5.0	25.0
CPI	%YoY	0.6	0.7	0.4	0.7	0.9	0.8	1.1	1.6	1.6	1.2	1.4	1.4	1.7	1.9
PPI	%YoY	0.3	0.7	0.9	1.7	2.3	3.0	3.5	3.3	3.6	3.2	2.5	2.8	2.8	3.1
Broad money (M3)	%YoY	10.4	11.7	9.8	9.6	10.1	11.9	13.0	12.9	13.0	12.3	14.4	15.7	15.6	15.1
Deposits	%YoY	10.2	10.8	9.1	8.6	8.9	11.4	12.3	12.0	11.6	11.4	13.1	15.0	14.0	13.8
Loans	%YoY	12.3	13.5	13.6	12.2	12.4	16.0	16.7	18.0	19.2	19.5	20.7	23.4	23.2	23.1
USD/PLN	PLN	3.16	3.18	3.23	3.20	3.05	3.17	3.15	3.05	3.12	3.09	2.97	2.88	2.98	2.95
EUR/PLN	PLN	3.82	3.79	3.88	3.92	3.90	4.02	4.00	3.90	3.97	3.90	3.82	3.81	3.88	3.84
Reference rate [a]	%	4.50	4.25	4.00	4.00	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	5.75	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50
WIBOR 3M	%	4.49	4.26	4.12	4.14	4.15	4.17	4.19	4.19	4.21	4.22	4.20	4.20	4.20	4.20
Yield on 52-week T-bills	%	4.22	3.97	3.87	3.95	4.02	4.20	4.30	4.35	4.44	4.35	4.29	4.20	4.14	4.12
Yield on 2-year T-bonds	%	4.40	4.20	4.10	4.28	4.44	4.75	4.95	4.85	4.87	4.84	4.65	4.54	4.41	4.50
Yield on 5-year T-bonds	%	4.82	4.60	4.59	4.80	5.00	5.33	5.37	5.41	5.31	5.24	5.01	4.91	4.90	4.90
Yield on 10-year T-bonds	%	4.94	4.78	4.78	5.02	5.26	5.54	5.55	5.61	5.48	5.39	5.18	5.10	5.16	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	1Q06	2Q06	3Q06	4Q06	1Q07	2Q07	3Q07	4Q07
GDP	PLNbn	923.2	980.7	1 046.5	1 124.8	240.9	251.7	258.6	295.3	260.2	271.6	276.3	316.8
GDP	%YoY	5.3	3.5	5.8	5.4	5.2	5.5	5.8	6.5	6.0	5.7	5.0	4.9
Domestic demand	%YoY	5.9	2.4	5.8	6.1	4.8	4.8	6.1	7.2	6.4	6.5	5.6	5.9
Private consumption	%YoY	4.0	1.9	5.2	5.2	5.2	4.9	5.5	5.1	5.8	5.1	5.0	5.0
Fixed investments	%YoY	6.3	6.5	16.7	12.8	7.7	14.8	19.8	19.4	20.5	14.0	12.0	10.0
Industrial production	%YoY	12.3	4.0	12.5	9.2	12.4	12.1	12.3	10.7	11.3	10.1	8.0	7.6
Retail sales (real terms)	%YoY	7.1	1.5	11.9	11.6	9.0	11.8	13.8	12.6	13.6	13.2	10.6	9.2
Unemployment rate [a]	%	19.1	17.6	14.9	13.0	17.8	16.0	15.2	14.9	15.2	13.7	13.0	13.0
Gross wages (real terms) [c]	%YoY	0.8	1.2	4.2	4.3	4.3	3.9	4.1	4.5	4.3	4.6	4.8	3.4
Employment [c]	%YoY	-0.8	1.9	3.2	3.8	2.6	3.0	3.4	3.8	4.2	4.0	3.7	3.5
Export (€) [b]	%YoY	22.3	17.8	20.9	14.8	23.3	19.5	19.3	21.5	16.0	15.5	14.5	13.5
Import (€) [b]	%YoY	19.5	13.4	21.8	16.6	23.3	19.0	22.2	22.6	17.8	17.5	15.5	16.0
Trade balance [b]	EURm	-4 552	-2 242	-3 449	-5 740	-352	-646	-1 322	-1 129	-806	-1 212	-1 759	-1 964
Current account balance [b]	EURm	-8 670	-4 130	-5 306	-6 377	-1 396	-1 266	-907	-1 737	-1 545	-1 527	-1 039	-2 267
Current account balance [b]	% GDP	-4.3	-1.7	-2.0	-2.2	-1.9	-2.0	-1.9	-2.0	-2.0	-2.0	-2.0	-2.2
Budget deficit (cumulative) [a]	PLNbn	-41.5	-28.6	-25.1	-30.0	-9.0	-17.7	-14.5	-25.1	-11.1	-18.0	-21.0	-30.0
Budget deficit (cumulative) [a]	% GDP	-4.5	-2.9	-2.4	-2.7	-	-	-	-	-	-	-	-
CPI	%YoY	3.5	2.1	1.0	2.0	0.6	0.8	1.4	1.3	1.9	2.0	1.7	2.2
CPI [a]	%YoY	4.4	0.7	1.4	2.5	0.4	0.8	1.6	1.4	2.2	2.2	1.7	2.5
PPI	%YoY	7.0	0.7	2.6	2.3	0.9	3.0	3.6	2.8	3.0	2.0	1.6	2.7
Broad money (M3) [a]	%YoY	8.7	10.5	15.7	12.1	9.8	11.9	13.0	15.7	15.4	13.9	13.5	12.1
Deposits [a]	%YoY	8.1	9.4	15.0	10.8	9.1	11.4	11.6	15.0	13.7	13.2	12.8	10.8
Loans [a]	%YoY	2.9	11.8	23.4	18.2	13.6	16.0	19.2	23.4	22.6	21.4	20.2	18.2
USD/PLN	PLN	3.65	3.23	3.10	2.94	3.19	3.14	3.10	2.98	2.98	2.89	2.96	2.94
EUR/PLN	PLN	4.53	4.02	3.90	3.85	3.83	3.95	3.96	3.85	3.87	3.84	3.88	3.80
Reference rate [a]	%	6.50	4.50	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00
Lombard rate [a]	%	8.00	6.00	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50
WIBOR 3M	%	6.21	5.29	4.21	4.30	4.29	4.15	4.20	4.20	4.20	4.20	4.20	4.20
Yield on 52-week T-bills	%	6.50	4.92	4.18	4.21	4.02	4.06	4.37	4.28	4.14	4.15	4.20	4.30
Yield on 2-year T-bonds	%	6.89	5.04	4.57	4.63	4.23	4.49	4.89	4.67	4.47	4.60	4.60	4.85
Yield on 5-year T-bonds	%	7.02	5.25	5.03	5.06	4.67	5.04	5.36	5.05	4.93	5.00	5.00	5.30
Yield on 10-year T-bonds	%	6.84	5.24	5.22	5.28	4.83	5.27	5.55	5.22	5.20	5.20	5.20	5.50

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

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