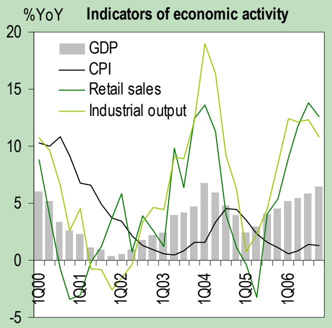
Bank Zachodni WBK

MACROscope

Polish Economy and Financial Markets

May 2007



GDP 4Q06 - BZ WBK forecast

In this issue:

Maciej Reluga
Chief economist
+48 22 586 8363

Piotr Bielski
+48 22 586 8333

Piotr Bujak
+48 22 586 8341

Cezary Chrapek
+48 22 586 8342

Email: ekonomia@bzwbk.pl

MPC springs into action

- **Currently many macroeconomic indices are at record high levels, which were last noted at the end of the past decade.** Is the development of the economic processes going to be similar to the one observed at the end of the 90s? Or maybe the high pace of economic growth will be sustained much longer? *Special focus* section in this edition of MACROscope concentrates on these issues. Despite the fact that at the first glance there are many parallels between the current growth stage and the one from 10 years ago, Polish economy changed so much that one may hope that the current expansion appears to be more balanced and maybe even more durable. This brings quite positive consequence for the monetary policy, which at present seems to have more comfort than in the previous decade. The biggest risk factors for the current recovery are the risk of global economic slowdown and excessive appreciation of the zloty.

- **As for now, the economic situation is excellent and keeps improving.** Economic activity indicators for March did not leave doubts that in 1Q07 economic growth accelerated again and reached at least 7%. The high economic growth is driven by fixed investment (boom in construction) and strengthening consumption demand (accelerating retail sales growth). Labour market statistics for March were impressive – there was record strong unemployment fall and employment increase, while wage growth strongly accelerated to the highest level in many years. Labour market performance bodes well for consumption, but at the same time pose a threat to inflation outlook. Inflation in March rose stronger than expected and reached 2.5%YoY, i.e. the level of the central bank's target. Inflation acceleration is driven mainly by food and fuel prices. Net inflation accelerated much less. PPI inflation unexpectedly slowed down in March, which suggested that firms have not decided yet for significant price hikes.

- **The interest rate hike by 25 bp was widely expected and did not lead to significant market reaction.** Given arguments put during discussions at MPC meetings in previous months, majority of MPC members are of the opinion that inflationary pressure in Poland is still constrained by several factors (among others by rising openness of the Polish economy and globalisation effects). Therefore, they may not hurry with further monetary tightening, unless new data deliver another surprise on the upside and suggest much stronger than expected GDP growth in the forthcoming quarters. It seems, therefore, that both financial markets and the MPC have some time for further analysis of economic situation and its impact on the inflation prospects.

Financial market on 30 April 2007:					
NBP deposit rate	2.75	WIBOR 3M	4.40	USDPLN	2.7859
NBP reference rate	4.25	Yield on 52-week T-bills	4.43	EURPLN	3.7879
NBP lombard rate	5.75	Yield on 5-year T-bonds	5.09	EURUSD	1.3597

This report is based on information available until 11.05.2007

Special focus

Return to the past?

What strikes the person analyzing data on the Polish economy standing is the fact that many indicators have now achieved levels not recorded since the end of the 90s. Some of them have been highlighted by us on many occasions in current macroeconomic commentaries.

It is not hard to point to a few most evident analogies. The rate of GDP growth in Q1 this year picked up, according to the latest estimates, to ca. 7%, the record high since 1997. Investments have seen the highest pace of growth in around ten years (in Q1 this year probably 25%YoY) and so has private consumption (ca. 6%YoY). Situation in the labour market is improving equally fast as towards the end of the last decade. The jobless rate declines by ca. 3 pct. point annually from the originally high level. Employment rate grows by over 4% in a year. The growth in salaries is clearly accelerating while the actual lending dynamics in the banking sector rose above 20%YoY, similarly to, e.g. 1996.

The economic cycle in Poland has made a full circle now, the first one since the outset of the economic transformation while the current phase of the speeding up economic activity, which commenced in 2004[1], can be compared to the phase of acceleration witnessed in the years 1995 – 1997. It does not mean, of course, that the situation over the subsequent few years will follow exactly the same pattern as towards the end of the previous decade (and maybe fortunately so because we should remember that the period of exceptional prosperity led, back then, to macroeconomic imbalance which represented a serious impediment to the continuation of growth trends in the following years). There is no certainty, however, that the length of the current economic cycle will be similar. Yet, it is worth taking a closer look at the similarities and differences between the current situation and the one recorded ten years ago. It should help us understand if and why the economic processes in the subsequent quarters and years may differ than those recorded in the late 90s.

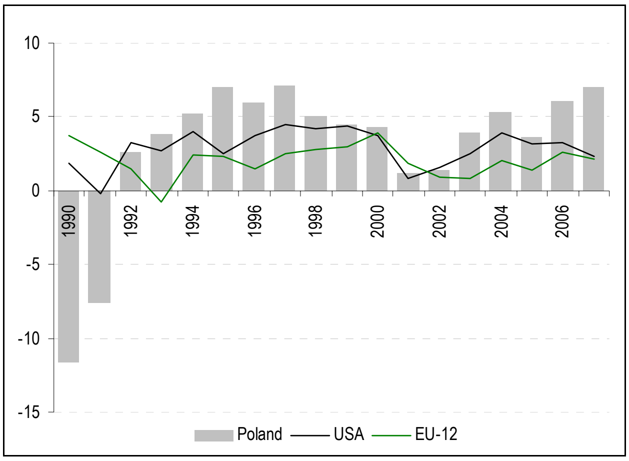
The background of growth

First of all, it is noteworthy that both in the 90s and now, the period of intensive economic rally was preceded by a release of supply forces and substantial labour force reserves.[2] In the initial phase, it was related to the political system transformation, activation of private entrepreneurship and transformation-related recession in the years 1990-91. On the other hand, in the years 2001-2002, changes were stimulated by economic downturn triggered, among others, by global economic decline and restrictive domestic monetary policy, as a result of which a profound restructuring of the business sector was enforced along with the increased competitiveness and efficiency of the Polish companies.

At the same time, both periods of rally were preceded by significant large-scale events which had a positive impact on the way international investors assessed the reliability of our country. In the early 90s, it was a restructuring of Poland's foreign debt completed with the agreement with the London Club in 1994. In 2004, Poland's accession to the European Union was such an event. Both these developments were vital stimuli for the growth in direct international investments while EU membership gave access to the EU subsidies and grants.

All this was accompanied by another positive factor, an external one, i.e. good economic climate all over the world (first, the period of world economy development from the early 90s to the end of the decade; the second period of stable development from 2003-end till now).

GDP growth in Poland and main economies (%YoY)



Demand up and … C/A deficit up

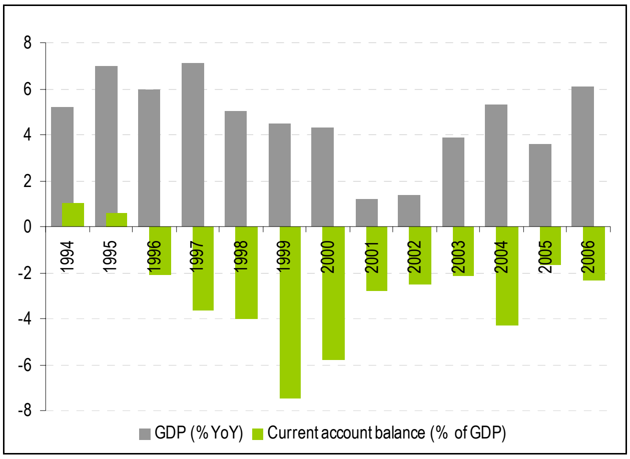
But what really determined the scale of economic rally in 1995-1997 was above all, next to the factors mentioned earlier, the start up of the primary economic motor – dynamic growth in domestic demand, particularly, an exceptionally high dynamics of investments in fixed assets (on average, ca. 20%YoY over 3 years) as well as strong acceleration of growth in private consumption (up to ca. 9%YoY in 1996, 7% in 1997).

[1] The year of 2004 must be treated specially given the one-off upset of the economic activity cycle related directly to Poland's EU accession.

[2] This similarity was pointed to among others by Stanisław Gomułka in monthly PZU economic report, January 2007

Unfortunately, such a structure of economic growth (increase in domestic demand clearly above the GDP dynamics) as well as its acceleration much above the potential increase, upset the overall macroeconomic equilibrium. Since, at the same time, the Polish zloty displayed strong appreciation, it was reflected primarily in the increase of external misbalance without interfering too much with the disinflation trend (drop in CPI dynamics from 33% in early 1995 to below 10% in 1998). Consequently, the increase of imports significantly accelerated and the international trade balance deteriorated. As a result, the current account balance deteriorated quickly – from the surplus at 1% of GDP in 1994 to the deficit at 4% of GDP in 1998 and over 7% of GDP in 1999 (which was additionally triggered by the Russian crisis and collapse of the Polish exports eastwards).

GDP growth vs. current account balance



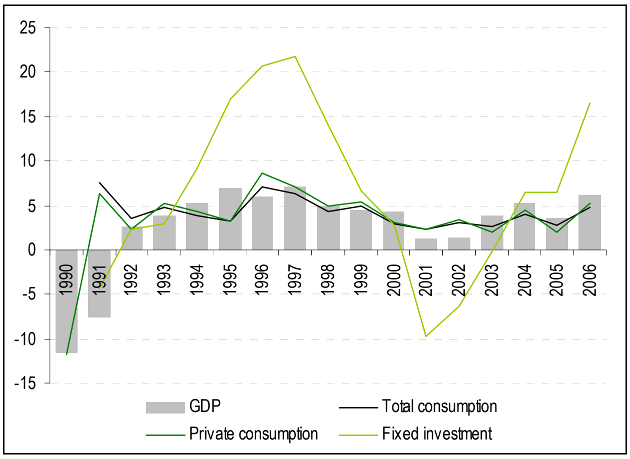
Similarly, yet not the same

Data for the past quarters show that trends similar to those from a decade ago can be tracked in the Polish economy at the moment. Similarly to that period, the GDP growth is accelerating quickly exceeding most likely the pace of the potential product growth while the domestic demand is clearly gaining in its importance. At the same time, import is reviving gradually while the balance of payments is deteriorating.

Yet, much as the direction of the observed trends resembles that from years ago, when we take a look at the details we will see that the processes in economy differ today from the ones from the previous decade. The scale and dynamics of changes seems to be more moderate than in the previous cycle. It applies primarily to consumption rally and the deterioration in the current account balance.

Increase in gross expenditure on fixed assets accelerated to nearly 17%YoY in 2006 and – according to our projections – to ca. 25% in Q1 2007. At the same time, private consumption grew in 2006 by 5.2% and picked up to nearly 6% at the beginning of this year as expected. It is, undoubtedly, a strong bounce off comparing to a mere 2% consumption growth in 2003 and below 3% on average in the years 2000-2002. Still, this is not yet a sufficiently strong growth to cause major tension in the balance of payments or inflation threats. It is reflected, among others, by a small change in the current account which grew in 2006 to merely 2.3% of GDP from 1.7% in the previous year as well as a low CPI which has stayed below the central bank's target for the eighth quarter in a row (if it had not been for the once-off price hike in 2004 due to the EU accession, this would be the 20th quarter in a row).

GDP growth (%YoY)



....so far so good

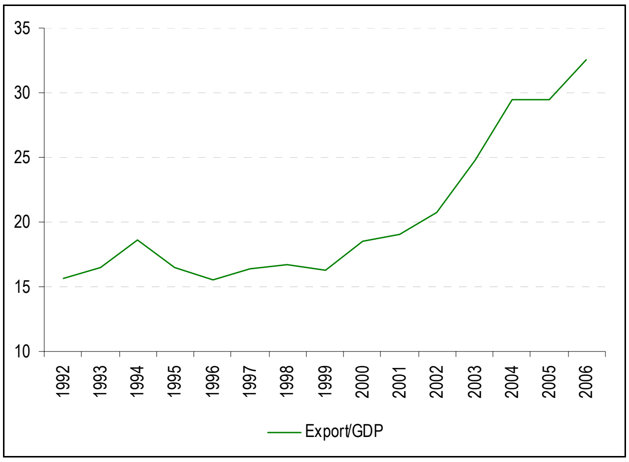
To make it clear, it is worth noting, that in the previous economic cycle, the strong growth in consumption demand as well as a substantial deterioration in Poland's payment situation did not happen immediately. They followed the GDP growth revival only after some period of time. Private consumption went full steam ahead only when the increasingly strong demand for work translated directly into a quick drop in the jobless rate and a quicker increase in salaries (1996-1997). Consequently, the imbalance in the current account materialised with some delay as well.

A question needs to be asked if in the situation of growing tension in the labour market over the following quarters (continued work demand increase with a concurrent exhaustion of free labour force intensified by job emigration in some industry branches) the salary dynamics will be as moderate as to date and if, in the event of its stronger growth, consumption will revive adequately and much more strongly than to date entailing potential negative implications for macroeconomic balance. An additional question is whether, if imbalance continues to deepen, it will materialise more in the internal market (in the form of a quicker CPI increase) or in international trading (current account deficit).

Beneficial changes for the balance of payments

It seems, however, that there are reasons to presume that at the current stage of the country's economic development, continued rally in domestic demand and high-paced GDP growth may be more balanced and safe and, thus, hopefully, more sustainable than in the 90s. It is due to both changes in the external environment that have taken place over the past a dozen or so years as well as effects of internal transformation that the Polish economy was subject to in that period. For the purpose of clarity, these factors can be split into two groups: those which have a stabilising effect on the current account balance as well as those which may impact the CPI rate.

Share of foreign trade in GDP (%)



As regards the factors from the first group, i.e. ones which have a potential influence on the international trade balance, changes in the Polish export structure and its role in economy should be mentioned first of all. We wrote about it in more detail, among others, in the *Special focus* section in MACROscope of August last year. Undoubtedly, export is now a much stronger branch of the Polish economy and over the past few years, it has become a much more important GDP growth driver than ten years ago. In the years 1992-2006, exports' share in the annual GDP grew over two times to ca. 33% while an even bigger pick up was recorded in the percentage of companies which export their production. Together with the increase in the importance of export, very positive changes were recorded in its structure as there was a growth in the share of trade in highly processed goods with a high added value. Of course, it was connected to similar changes of the country's production mix. Thanks to this, the balance of payments became more resistant to the domestic demand fluctuations. Much as in the previous decade, practically each stronger revival in consumption and/or investments which was related to a big increase in import demand had to lead a strong deficit growth in the current account, at the moment, the negative influence of such a situation on the balance of payments can be predominantly mitigated. On the one hand, acceleration of import dynamics does not necessarily have to be dangerous unless it is accompanied (as today) by the good business climate for the major business partners and a quick export expansion. On the other hand, pro-import impulse from the domestic demand can be weaker than in the previous decade as the domestic production is able to satisfy the consumption and investment needs more than in the past.

… also for the inflation prospects

Another matter are factors which stabilise domestic inflation. First of all, global factors related to the international competition are much stronger today than ten years ago. The almost double growth in the share of the international trade in GDP mentioned above reflects the scale of the increased openness of the Polish economy. As a result of this process, the role of local factors in the shaping of domestic inflation diminished. A much bigger share of import in GDP means, among others, that the better part of product prices are determined primarily by external factors. Yet, trends observed over the past few years in the global economy result in a situation where CPI stays at relatively low levels in the majority of developed economies. In parallel, Polish companies participate more than ever in the international trade in goods and services being subject to a strong competitive pressure which, e.g. limits the possibilities to increase prices and salary costs freely. Competitive pressure, among others, enforces, in the sectors producing tradable goods and services, continuation of a high pace of labour productivity growth and the salary/labour productivity proportion which does not carry a risk of losing market position. Thanks to this, even in the situation of a strong revival of domestic demand, domestic companies may show a limited propensity to increase prices. Similarly, in the context of growing salary demands, companies can be more inclined to reduce their own margin than to transfer higher salary costs onto the prices, especially when they hold substantial financial surpluses as today.

An additional phenomenon, noteworthy as it seems, is a smaller potential influence of households' additional income on consumption and its power to stimulate it. Currently, with a higher income per person and explicitly higher average quantity of consumer goods and durable goods in households, marginal propensity for consumption should naturally be lower than in the previous decade when there was still a big unsatisfied consumption hunger "inherited" from the times of the centrally planned economy. Thanks to this, potential impact of GDP growth revival, and consequently the growth in salaries and households' income, should now be milder both in terms of affecting the balance of payments and dynamics of prices (lower risk of excessive consumption growth).

More comfort in monetary policy

Given the factors mentioned above, the analogies between the current period of economic revival and the phase of comparably fast expansion in the 90s should not be taken too literally by the domestic monetary policy creators. At the moment, the central bank can afford a slightly bigger comfort in managing the policy the evidence of which is the fact that notwithstanding the explicit economic rally over a few quarters, inflation continues to be low while the current account deficit is moderate. What is more, it is all possible despite keeping interest rates at the lowest level since the outset of economic transformation.

More analogies in public finance

As we are talking about similarities between the current phase of economic acceleration and the situation in the 90s, it should also be mentioned that not much has changed over the past decade in the public finance area. The current fiscal landscape, as in the second half of the 90s, is not very bad while the performance against the budget is better than planned given the economic revival stronger than projected which stimulates income growth. Yet, at the same time, despite the conducive economic climate, no major actions are taken to profoundly reform public finance which would add flexibility to state expenses and thus enhance resistance of finance to economic climate fluctuations.

Therefore, much as the recommendations for the monetary policy are currently a bit different than those in the previous period of economic rally, in the case of fiscal policy the very same prescriptions proposed by economists over ten years ago can be repeated today: it is worth taking advantage of an exceptionally fast economic growth and unusually high budget income to reform the public expenditure area, enhance its flexibility and, thus, decrease the budget sensitivity to economic cycles.

Good outlook

"The year of 1997 proved to be a time of economic success, much bigger than projected. The GDP growth rate was nearly 7% (5.5%-6% was envisaged) while the industrial production grew at the rate of ca. 10%. The rate of unemployment declined to 10.5%. Even though the balance of international trade deteriorated further, it happened on a smaller scale than predicted while the budget deficit turned out to be 50% lower than the planned figure."

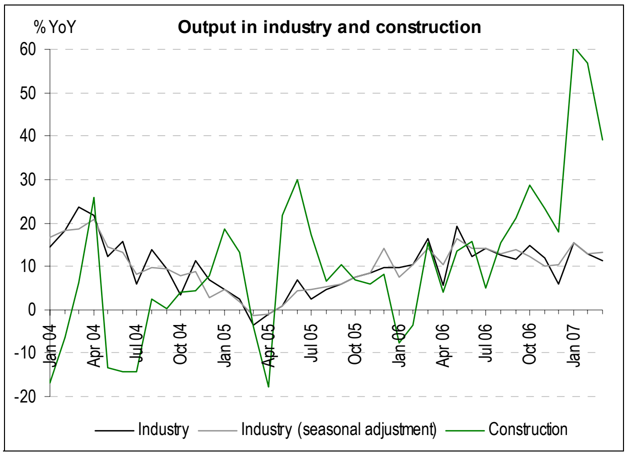
These were the first sentences of the analysis of Poland's macroeconomic situation published nearly ten years ago by the economists of Łódź University.[3] Is it possible that the 2007 summary will be equally optimistic? Much as the current projections suggest that Q1 of 2007 was a peak point in this phase of economic growth and in subsequent periods a gradual slow-down should be witnessed. Yet, it cannot be ruled out that once again reality will prove better than expected. It is difficult not to notice that each month, economic performance give rise to increasing optimism while the published statistical data prove that the dynamics of current economic changes in Poland is much bigger than one could predict not that long ago. With time, we are moving gradually upwards on the path of the projected GDP growth rate and much as just a few months ago only few thought that over the following years the GDP growth rate barrier of 5% would be broken through permanently, the last quarter of 2006 showed a growth much above 6% while the latest information explicitly shows that in Q1 2007, the GDP grew at least 7%. It cannot be ruled out that data from the subsequent months will bring new arguments to revise outlooks further up.

Can this growth rate continue without carrying a risk of macroeconomic imbalance which was actually witnessed ten years ago? Any conclusion on this today would be premature. Given the differences between the structure of the Polish economy now and in the previous period of economic rally, one can be hopeful that the current upwards trend will prove more balanced and perhaps even more sustainable.

It seems that there are fewer risk factors now which might jeopardise the positive scenario of economic development. It does not mean, however, that such factors do not exist. Among the biggest threats which put the continuation of well balanced GDP growth over the following years under a question mark is economic deceleration abroad and the risk of excessive zloty appreciation. These two factors might contribute to the destabilisation in the balance of payments slowing down, at the same time, the pace of GDP growth. It is worth noticing at the same time that in both these cases the threat may be posed primarily by external imbalance while the main risk for inflation prospects is the situation on the domestic labour market.

[3] W. Welfe, A. Welfe, W. Florczak, „Dobre perspektywy ale i zagrożenia", *Rzeczpospolita*, 14.04.1998

Economic update

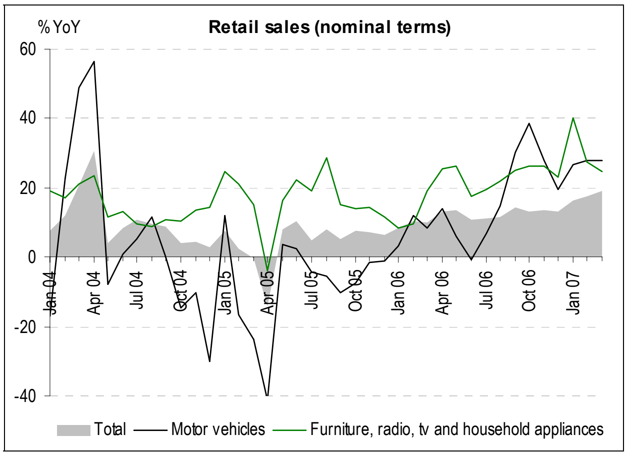


Solid output growth goes on

▪ Sold industrial output in March increased 11.3%YoY, decelerating from 13%YoY in February, but it resulted mainly from lower number of working days – in March 2007 there was one day fewer than in March 2006. Adjusted output growth reached 13.3%YoY and was higher than in February (13%).

▪ In manufacturing output grew 13.7%YoY. Construction output increased 39.1%YoY after record-high increases (ca. 60%) in January-February.

▪ In the entire first quarter industrial output rose ca. 13.2%YoY and construction output surged almost 52%YoY. The latter was possible largely due to very strong investment demand, but exports also plays a big role in economic growth, which is confirmed by very rapid expansion in industrial branches with high share of export production.

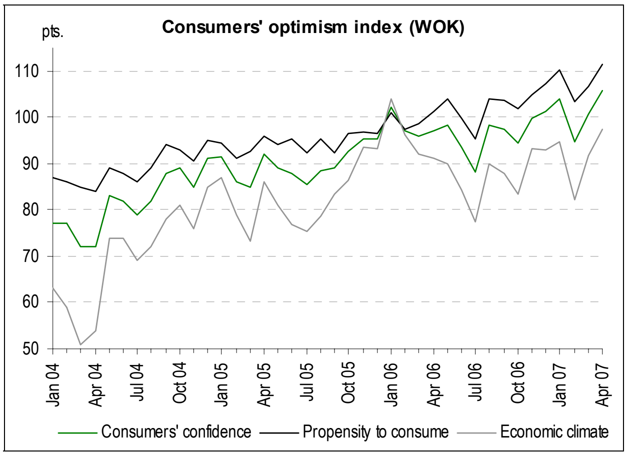


Clear acceleration in retail sales growth

▪ Nominal growth of retail sales in March was 19.2%YoY, higher than predicted (market consensus was at 18%). The real sales growth amounted to 17.7%YoY. Strong double-digit growth was recorded in most of the retail sales components, which suggests we are facing broad-based expansion of consumption demand.

▪ After better than forecasted data for March (we expected a nominal growth of 16.5%YoY), the risk to our forecast of consumption growth in Q1 of 6% is definitely on the upside. This applies also to our estimates of GDP growth for Q1 at 7%.

▪ The difference between the nominal and real retail sales growth rate increased to 1.5 p.p., which suggests some strengthening of inflationary pressure, but retail sales deflator is still low, which shows that despite stronger demand, pressure on price growth in the economy is not so significant.



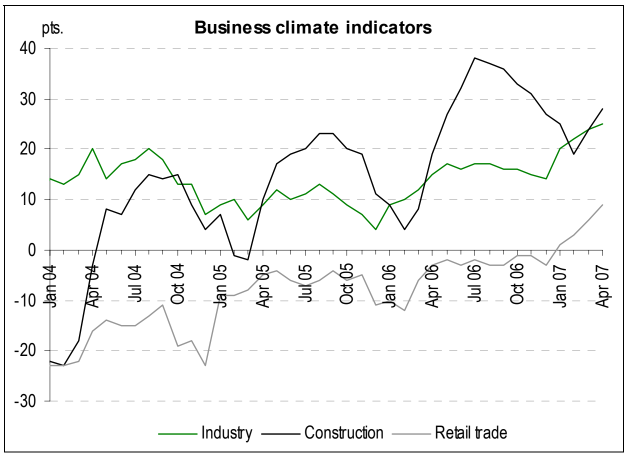
Consumers are in seventh heaven

▪ Strengthening consumption demand results from improvement in households' financial stance. Results of Ipsos survey for April indicate that consumers are in very good moods.

▪ The index of propensity to consume reached the highest level in history of the survey, indicating that the beginning of the second quarter saw further robust growth in private consumption.

▪ Overall index of consumer confidence and evaluation of general economic climate were also close to record high levels.

▪ The most important reason for improvement in household's moods is obviously a firming in labour market conditions and significantly decreased fear of unemployment. At the same time Poles are not afraid of stronger price growth. On the contrary, there was an increase in number of persons expecting price drops or at least a deceleration of price growth.



Source: CSO, Ipsos, own calculations

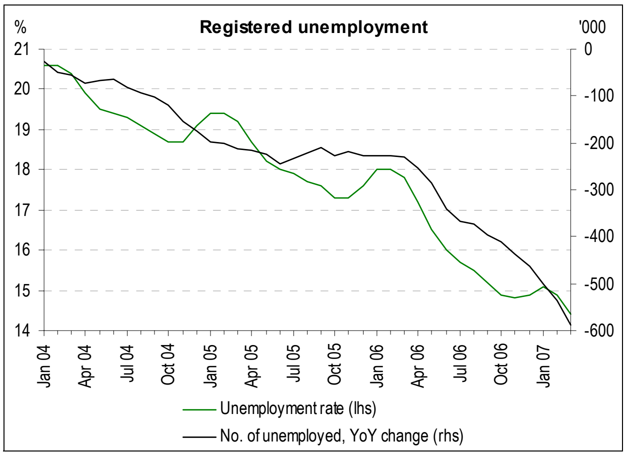
Enterprises remain optimistic

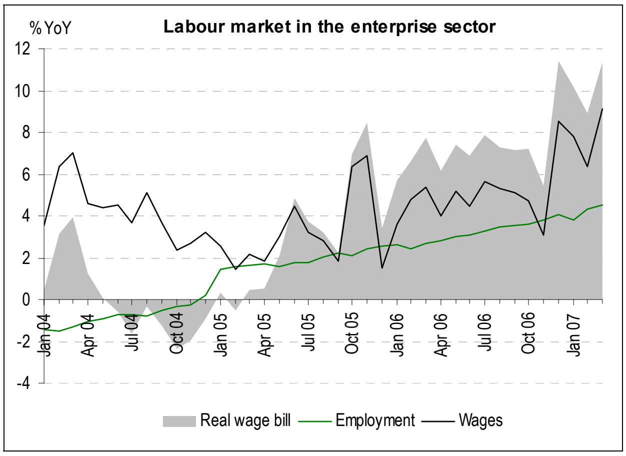
▪ Indicators reflecting enterprises' moods remained in upward trend in April.

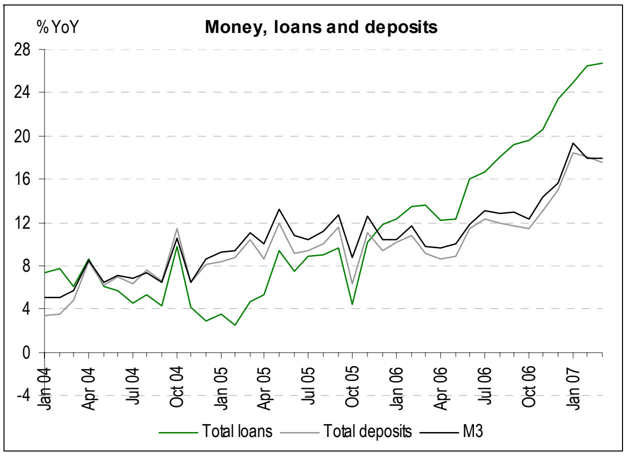
▪ Business climate in manufacturing and in retail trade were better than in analogous month of a dozen or so years while index for construction was the highest in 6 years.

▪ Enterprises from all the sectors reported an improvement in their financial stance and expect it to improve further in future. This is quite important news given that in context of inflation outlook there are growing concerns about cost pressure in enterprises. Improving financial stance of firms (already very strong in recent years) means that a rise in costs (e.g. resulting from wage increases) can be hardly seen as the most important factor for their price decisions. With tight competition, enterprises are more likely to narrow margins than increase prices.

Economic update







Source: CSO, NBP, own calculations

Free fall of unemployment

▪ A term used in physics concerning acceleration due to gravity may be applied to the unemployment rate in Poland. The registered unemployment rate at the end of March dropped to 14.4%, the lowest level in over 6 years. In annual terms the jobless rate dropped by 3.4 pct. points, which was stronger decline than the one recorded in 1997 when the previous economic boom in Poland was in climax.

▪ We predict that in forthcoming months the unemployment rate will keep falling at the pace seen in March. This is positive for households' financial situation, but at the same time raises some concerns over medium-term inflation prospects. Mounting tensions in the labour market could lead to strengthening of wage pressure. However, we think, as we wrote above, that this would not necessarily translate into significant price increases.

Growth of average wage and employment strongly up

▪ In March annual growth of average wage in firms accelerated to 9.1% from 6.4% in February. This result was much higher than market expectations of 6.5%YoY and our forecast of 6.6%. Average employment in firms increased 4.5%YoY, also beating market forecasts.

▪ As a result of simultaneous acceleration of wages and employment growth, the annual growth of wage bill in companies significantly accelerated to 14% in nominal terms and to 11.3% in real terms. On average in 1Q07 the real growth of wage bill amounted to 10.1%YoY and was the highest in history of comparable data. This points to a strong growth of consumption in 1Q07 and confirms forecasts that GDP grew by at least 7% in the first three months of the year.

▪ Detailed information from the labour market included in the monthly Statistical Bulletin of the CSO showed that significant acceleration of wage growth in March was recorded in most of sectors and does not seem to be an accidental phenomenon. Moreover, information about employment growth in the entire economy in 4Q06 included in the Bulletin (3.8%YoY rise after 3.4%YoY in 3Q06) imply, according to our estimates, that 4Q06 saw acceleration in unit labour costs growth to 2.1%YoY from 1.8% in 3Q06 while rarlier estimates based on LFS results indicated a slow down in ULC growth in this period from 3.1%YoY to 2.4%YoY.

▪ All in all, labour market data published in April, as well as stronger than predicted retail sales figures, speak in favour of more cautious assessment of the medium-term inflation outlook. The numbers were very important argument for the MPC in favour of a pre-emptive rate hike that was delivered by central bankers at their meeting in April, in a move that had been widely expected by the market.

Money and loans growth stabilises at high level

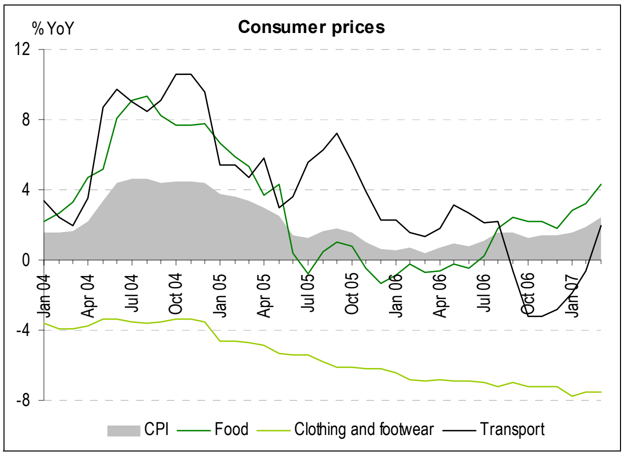
▪ Monetary statistics for March confirmed the positive picture of the Polish economy in the first quarter showing continuation of strong growth in loans and deposits in the banking sector.

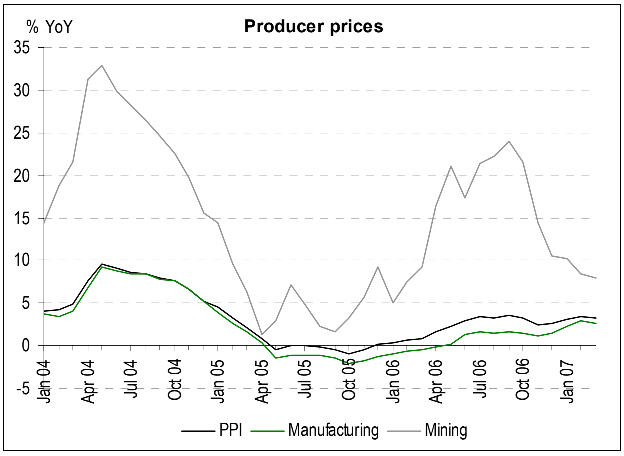
▪ Money supply M3 rose by 18%YoY, which was moderately below market expectations and our forecast, but the growth rate is consistent with upward trend of money supply growth.

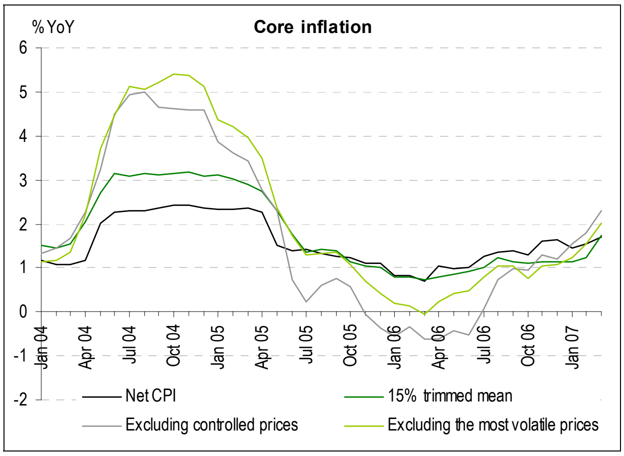
▪ Loans growth accelerated to 26.8%YoY from 26.5%YoY in the previous month, which was driven by a stabilisation in segment of households (growth of 38%YoY maintained) and acceleration in growth of corporate borrowing from 15% in February to 17.5% in February.

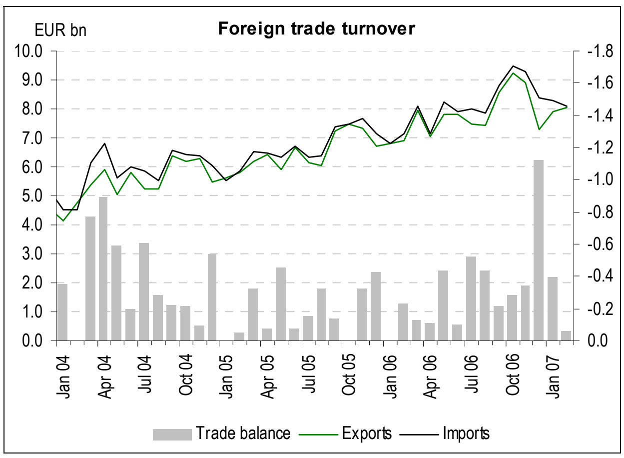
▪ High growth of money aggregates and loans is one of arguments for cautiousness in monetary policy, but structure of loans remains quite favourable from inflation's point of view.

Economic update









Source: CSO, NBP, own calculations

CPI inflation reached the target level

- In March CPI inflation rose to 2.5%YoY from 1.9% in February. Thus, inflation reached the central bank target for the first time since May 2005 (when 12-month index was still under influence of one-off price hikes connected with the EU accession). The inflation rise was connected mostly with increase in prices of food and fuels. The former rose by 0.8%MoM and 4.3%YoY, while the latter by 4.9%MoM and 4.0%YoY. Changes in prices of other consumer goods and services were moderate and according to our estimates net inflation rose slightly to 1.7%YoY from 1.6% in February.
- As regards short-term inflation prospects, we forecast CPI inflation to fall to 2.3%YoY in April (our forecast is consistent with estimate of the Ministry of Finance that is based on the assumption of 0.8%MoM rise in food prices and 6%MoM rise in fuel prices), stabilise above 2% until July, decrease below 2% in August and September and then to gradually increase to slightly above 2.5% at the end of the year.
- Risk for short-term inflation forecasts is connected mainly with food prices, On the one hand, it is preliminary estimated that supply of cereals will be very high this year, but on the other hand there are information about significant damages to fruits caused by spring frosts.
- Net inflation should be more stable - at ca. 2% for the whole second and third quarter and a moderately above this level in the fourth quarter.
- In our opinion, inflation return to the target does not change the prospects of monetary policy. Future monetary policy decisions will not depend on current inflation indicators, but on the entire set of macro data which will enable the MPC to better assess medium-term inflation outlook.

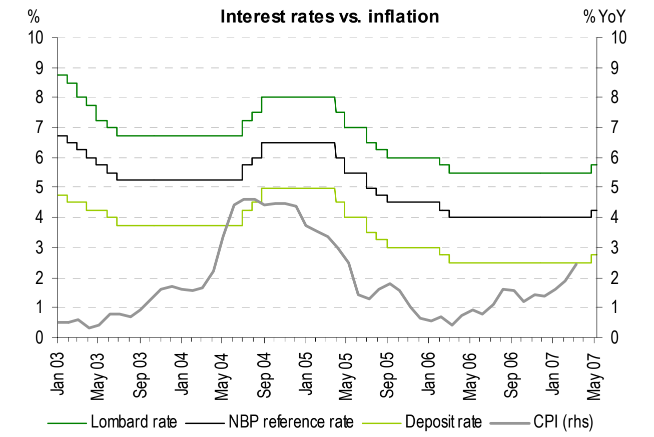
Lower than predicted PPI inflation

- Despite fast rise in sold industrial output, price growth in industry remains moderate. In March PPI inflation slowed down to 3.3%YoY from 2.5%YoY in February below market forecasts.
- Producer price growth in manufacturing decelerated to 2.6%YoY from 2.9% in February. It is an optimistic news, especially as it took place despite significant rise in prices of fuel, metals and commodities and despite significant wage increase.
- Clearly, domestic entrepreneurs are still reluctant to pass rising costs into their prices, being constrained by tough competitive pressure; it is also possible because companies still have large financial reserves. However, situation in construction sector was somewhat different, as prices in this sector started rising vigorously, going up 6.5%YoY in March against 5.6%YoY rise in February and 4.3%YoY in December 2006.

Improvement in balance of payments, export still strong

- Current account deficit amounted to €424m in February, which was much below market expectations. This was connected with very low trade deficit at a mere €60m, while market consensus pointed to a gap of €475m.
- Exports growth accelerated again reaching 16.3%YoY (15.5%YoY in January), confirming once again that December's weaker result was a one-off phenomenon.
- Additionally, import rate of growth decelerated from 21.5% in January to 13.4% in February, though it has to be stressed that such two-digit growth still represents a solid domestic demand.
- The cumulative 12-month C/A deficit fell to 2.3% of GDP from 2.5% in January. Other elements of current account showed no major changes. On the capital side, outflow from the bond market of above €1bn is worth noticing.

Central bank watch



Key elements of MPC statement 25 April
In the Council's assessment, in the second half of 2007 CPI inflation will temporarily decrease markedly below the inflation target of 2.5%, which is also indicated by the April inflation projection.
In the Council's assessment, in the medium term, the probability of inflation running above the target is larger than the probability of its running below the target, which persuaded the Council to tighten the monetary policy. The Council assessed that the high growth of domestic demand, which most probably outpaces the growth of potential GDP, will be sustained in the next quarters, which should be conducive to a gradual increase in wage and inflationary pressures.
In the coming months, the Council will be closely observing the relation between wage growth and the growth of labour productivity, zloty exchange rate, the impact of globalisation on the economy and other factors.

Inflation projections (% YoY)

	Apr 06	Jul 06	Oct 06	Jan 07	Apr 07
Q4 2007	1.3-3.4	1.5-3.5	1.9-3.8	2.1-3.8	1.3-2.6
Q4 2008	1.2-3.9	1.7-4.3	2.2-4.6	2.2-4.5	1.6-3.8
Q4 2009	-	-	-	2.4-5.2	2.1-4.6

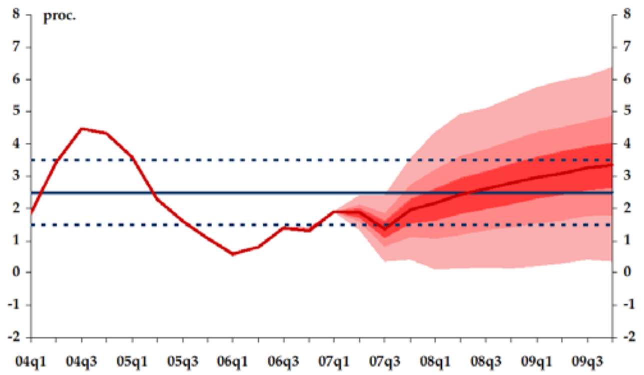
GDP growth projections (%)

	Apr 06	Jul 06	Oct 06	Jan 07	Apr 07
2007	3.4-5.8	3.6-5.9	4.1-6.2	4.9-6.7	6.0-7.0
2008	3.5-6.2	4.0-6.6	4.5-7.0	3.6-6.4	4.0-6.3
2009	-	-	-	3.5-6.5	4.0-7.0

Source: NBP, Inflation Report - April 2007

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

Inflation projection's fan chart vs. inflation target



Source: NBP, Reuters

Rates up in April, next hike not so soon

- The Monetary Policy Council raised main interest rates in April by 25 bp, which was the first change since February 2005. Reference rate rose to 4.25%.
- The decision came as no surprise, as the Council has clearly signalled such possibility by tightening a tone of its statements and public comments of its members.
- The official communiqué released in April gave no clear answer what will happen to interest rates in the following months. It suggested that next MPC decisions will depend on the coming macroeconomic data, particularly regarding the situation on the labour market, as well as the zloty strength. It leaves the MPC a large manoeuvre field.
- Undoubtedly, rate hikes are still more likely than cuts, which is signalled by maintenance of rather hawkish rhetoric in the communiqué and informal confirmation of restrictive policy bias (in a form of a statement that likelihood of inflation going above the target is in the medium term higher than likelihood of inflation below the target).
- The Council will need at least several months to reassess economic situation and its potential impact on inflationary pressure. We do not change expectations that monetary tightening will be continued, although not in the nearest months – next 25 bp rate hike is possible in Q3 and another 25 bp on the turn of the year.
- In the MPC assessment, short term inflation prospects are favourable. The Council admitted that "in the second half of 2007 CPI inflation will temporarily decrease markedly below the inflation target of 2.5%", agreeing with conclusions of the new inflation projection. Unfortunately, there was no information in the statement regarding the MPC's view on the projection results for longer horizon (2008-2009).

Inflation projection lower, GDP higher than in January

- The new projection prepared by the NBP staff showed higher GDP growth as compared to results obtained in January, but despite this the new central projection of inflation was lower over the entire projection horizon, as compared to January's report.
- According to the authors of the projection, in January risk factors pointed to higher likelihood of CPI inflation running below the central scenario and taking this into account, differences between the two projections were less considerable than suggested by the central inflation path.
- The MPC re-emphasised in the statement that the NBP's projection is only one of the inputs in decision-making process on main interest rates.

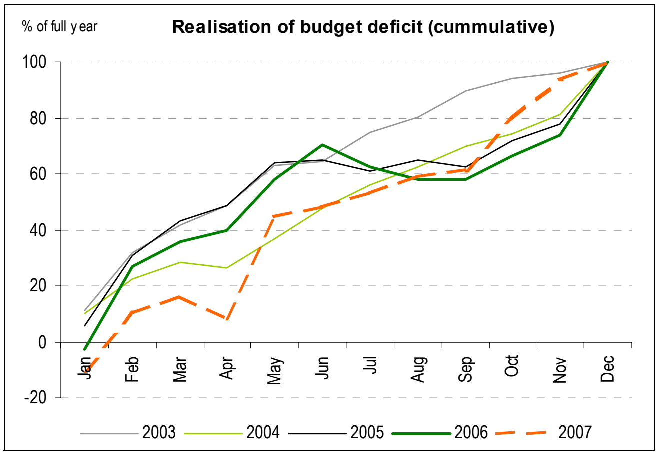
Look who's talking 2

- Minutes from the Monetary Policy Council's meetings in the first quarter, included in the new *Inflation report*, showed that views of the most balanced group of MPC members were gradually evolving in the subsequent months, affected by macroeconomic data that showed building risks for inflation.
- In April, the usual group of rate hikes supporters was joined by at least two other members - as far as the NBP governor was one of them - or, what seems more probable, at least three people (given the governor's casting vote). It seems that the decision to raise interest rates could have been backed by Andrzej Sławiński, Andrzej Wojtyna and Jan Czekaj, and possibly also by Stanisław Owsiak. It is their comments that are going to be important hints for the market on possible future decisions of the Council in the following months.

Central bank watch

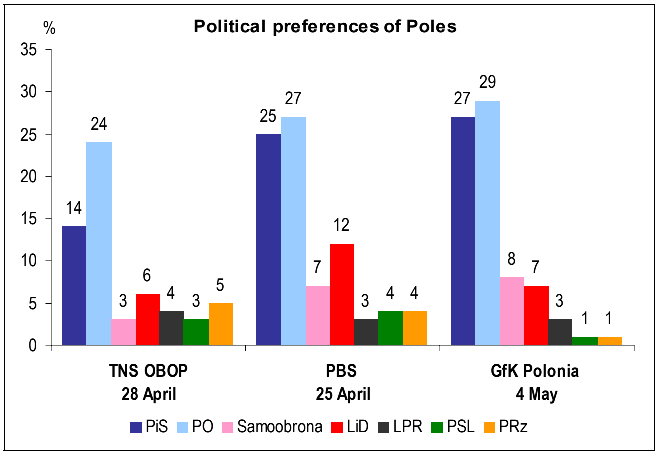
Comments of the central bank representatives	Our remarks
Sławomir Skrzypek, NBP governor **PAP, 25 April** The statement should not be read as an announcement of a series of interest rate hikes **Halina Wasilewska-Trenkner, MPC member** **PAP, 26 April** Yesterday's decision was a signal that economic situation, which is very favourable, may lead to higher inflation pressure. That's why we decided to assure we remain vigilant. The President of NBP wanted to say that there is no reason as for now to assume this is the beginning of a series of rate hikes. **Dariusz Filar, MPC member** **PAP, 26 April** In the nearest months we will be watching whether in the period of 5-7 quarters a threat is rising or stabilising. If the upcoming data will be indicating that some processes that begun in 2006 as accelerating, then the number of months (for reaction) will be lower. (...) The near term seems to be quite favourable, we expect good harvest, summer food price deflation; perspective of two quarters seems rather safe. We have a chance to be close to target. But we must look at Q4 of this year and end of the next year, which is changing the perspective a little. Most of all we wanted to affect expectations and show that the bank is determined to keep inflation in curbs.	In our opinion, after the first rate hike delivered in April, the Monetary Policy Council will need some time to mature to next change in interest rates. This was confirmed not only by words of the NBP chief, who said just after the MPC meeting that the decision does not herald a series of hikes, but also by comments by MPC members from the hawkish faction that suggested that several months of break in decisions may be needed for observation of new data and analysis of economic situation. Especially that in the nearest months a delay in rate hikes will be facilitated by lower inflation (predicted to go back below 2.5%) and strong zloty, acting towards fall in import prices. Therefore, we do expect main interest rates to remain unchanged until the third quarter. In order to convince the MPC members to another rate hike sooner than that, one could need a truly strong argument, e.g. in a form of further strong surprises in macroeconomic data. Information from the labour market will be particularly important as the relations between labour productivity and wage growth were strongly emphasised by the Monetary Policy Council as key indicators of inflationary pressure in the medium run. A scenario assuming sooner interest rate hikes than in Q3 would have to assume e.g. further strong acceleration in pay rise (above 10%YoY) that would lead to increase in unit labour costs, and clear depreciation of the zloty.
Krzysztof Rybiński, deputy NBP governor **PAP, 26 April** Wage growth has recently accelerated. From the point of view of keeping inflation at the target level it could be a threat. If such growth persists, it could pass into growth of costs in companies that may increase prices in order to preserve margins. But will it happen this way? This is a missing chain in reasoning from wages to inflation. I am not convinced about it for many reasons. Enterprises have high margins and very high profits. They could decide to reduce margins. Especially that in global scale there has been recently a fall in wages share in GDP. Possibly, we have slight upturn in this trend that need not necessarily lead to inflation increase. Although wage growth is of course a serious factor of inflationary risk.	Krzysztof Rybiński's reasoning seems to be close to the mainstream views among Monetary Policy Council's members. On one hand, quickly rising economic activity creates some pressure on rising costs in enterprises, but on the other hand very strong competition and effects of factors connected with economic globalisation will be weakening impact of this pressure on prices, especially in situation when domestic enterprises can afford some decrease in margins and profits. Therefore, as long as economic data do not show clear signs that firms have started to raise prices more quickly, the MPC will be not particularly eager to tighten monetary policy in excess, and a scale of possible rate hikes will be small (2 x 25 bp within a year).
Mirosław Pietrewicz, MPC member **PAP, 7 May** If information about disaster in fruit-growing are confirmed, this will have negative impact on inflation, but I think it will not be significant, as the weight of fruits in consumption basket is not too large. As for now we have to wait for more complete information about possible damages from different regions of the country.	If information about huge losses in orchards get confirmed, inflation rate could go up by some fraction of a percentage point. Nevertheless, one should remember that negative shocks of this kind usually have direct impact on inflation only for 12 consecutive months, which is not very serious argument for the MPC to raise interest rates. The most important factor for the Council will be situation on the labour market, regardless of whether food prices will be rising or falling.
Andrzej Wojtyna, MPC member **Gazeta Wyborcza, 16 April** I think that more and more factors are calling for interest rate hike. The key factor for the MPC is a relation between wage growth and labour productivity. If labour keeps growing faster than productivity, then the only way to preserve profits and allow for company development would be to raise prices.	MPC members have been underscoring many times recently a key significance of relation between wages and labour productivity for the inflation perspectives and decisions in monetary policy. Thus, after the data for March showed big surprise in terms of much higher than forecasted wage growth, the MPC had practically no choice but to deliver interest rate hike. On the other hand, a scale of hike was small and the Council does not seem to be convinced about a need for strong policy tightening.
Mirosław Pietrewicz, MPC member **PAP, 13 April** If the inflation projection shows that inflation will exceed the target in a year or two by more than a one percentage point, it would call for change in monetary policy parameters.	Pietrewicz is one of those MPC members who almost certainly will not support motion to raise interest rates in the nearest months. It is highly likely that Stanisław Nieckarz is also in this caucus, while the bigger question mark concerns the new NBP chief Sławomir Skrzypek, although his comments show no belief that monetary tightening is necessary.

Government and politics



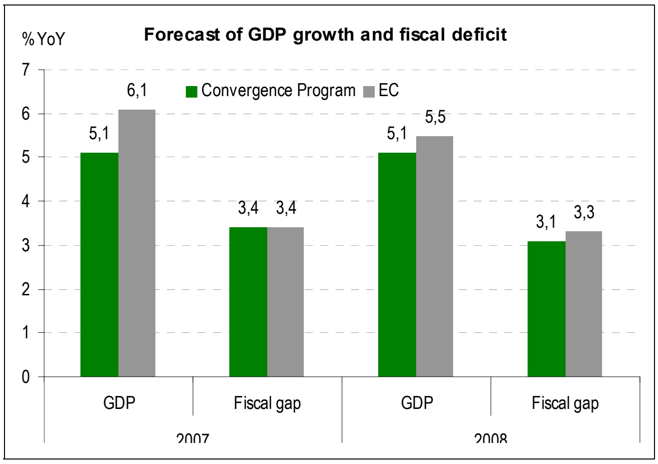
Budget gap much lower than predicted

- Budget gap at the end of March reached 16.1% of the full-year plan. The result is much lower than the original assumptions of the Ministry of Finance.
- Good budget performance is a result of much higher than predicted tax revenues, especially from VAT (high consumption spending) and PIT (robust employment rise and accelerating wage growth).
- According to the latest estimates of the finance ministry, budget result after April was even more impressive – the gap reached a mere 7-8% of the full year plan.
- This means that in April alone a solid surplus was recorded, which according to the ministry stemmed from much better than assumed inflows from PIT and CIT and slightly higher than predicted revenues from indirect taxes.



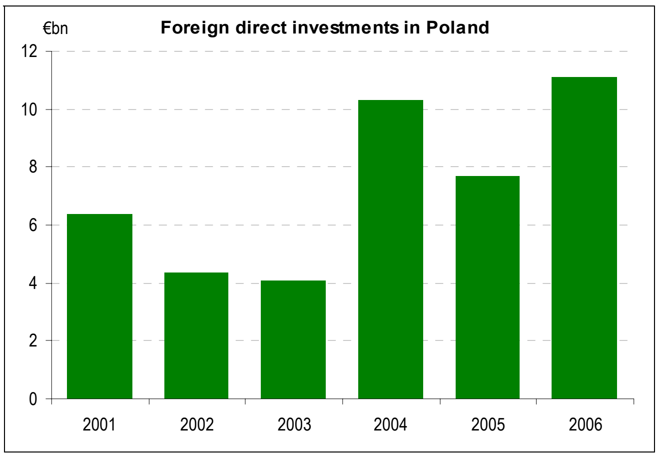
Another political turmoil without impact on the market

- Resignation of Sejm's speaker Marek Jurek and his departure from the PiS did not lead to the breakdown of the ruling party. Jurek was not followed by sufficient number of deputies for establishing new parliamentary caucus (Right Wing of the Republic – PRz). This increases their propensity to co-operate with the PiS and become an element of ruling coalition.
- Junior coalition partners of the PiS did not take a risk of submitting demands in exchange for support for the new Sejm's speaker, as they are aware that with very low results in public opinion polls (this concerns also Jurek's group) it would be not reasonable to lead to a serious political crisis that could end up with premature elections.
- One can expect further tensions within the coalition, but the same as the previous ones they should not affect the market.



New forecasts of the European Commission

- The European Commission published its new economic forecasts for the EU countries.
- GDP growth for Poland is forecasted to reach 6.1% this year and 5.5% in 2008.
- General government deficit is predicted to reach 3.4% of GDP this year (downward revision from 3.7%). General government deficit for 2008 is forecasted to slightly narrow to 3.3% of GDP. The improvement of the forecasts reflects growing chances that Poland will be able to exit the excessive deficit procedure, as countries with deficit "slightly" above 3% of GDP are allowed to take into account a part of costs of pension system reform.
- According to the EC, Poland's public debt will reach 48.4% of GDP at the end fof 2007 and 49.1% at the end of 2008.



Rising tide of FDIs

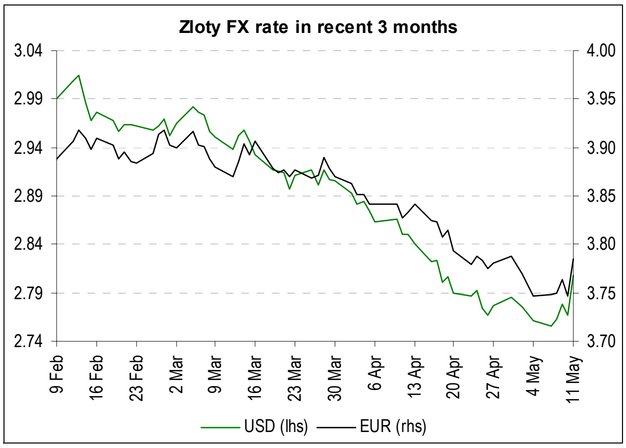
- According to official data on FDIs inflow, in 2006 it was the strongest in this decade and the highest among all new member states of the EU (more than double of that to Hungary and Czech Republic).
- Rising tide of FDIs inflow to Poland, together with increasing inflow of EU funds, is an important factor increasing potential of the Polish economy and driving economic growth.
- Additional factor supporting business climate, although not a crucial one in our opinion, is the UEFA's decision that Poland and Ukraine will host the European Championships in 2012. Contrary to some comments, we do not believe that this could change the government's attitude towards the euro zone's entry.

Source: BZWBK, Ministry of Finance, NBP, opinion polls

Government and politics

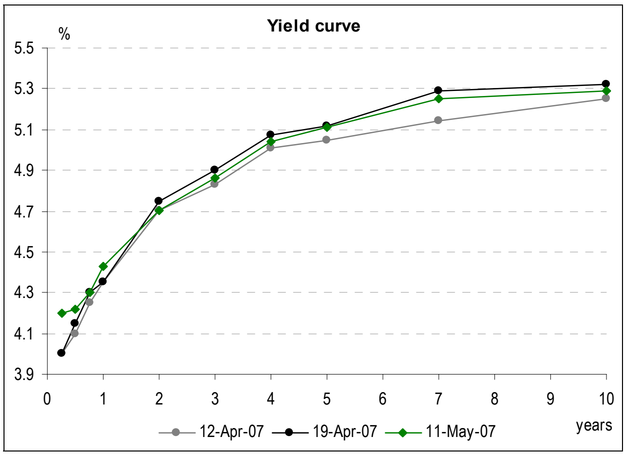
Comments of government representatives and politicians	Our remarks
Zyta Gilowska, deputy PM, finance minister **PAP, 25 May** Poland should do everything it can to join the euro zone as soon as possible, assuming they will believe us (that fulfilling convergence criteria is persistent), and we do not harm ourselves. If Poland enters the euro zone, the safety of business will increase significantly, it is obvious. **Reuters, 23 April** If we will boost spending then definitely we will not be able to achieve technical readiness to join the euro zone in 2009. We will also not realise the convergence programme. Poland has made a commitment. I believe that from the point of view of technical conditions that Poland must fulfil, we will be ready for talks in 2009. If the talks start off and conclude with a success, the earliest date of euro adoption is 2012. Theoretically there could be a coincidence (between euro zone entry and organisation of EURO 2012 football cup). **Andrzej Lepper, deputy PM, agriculture minister** **Reuters, 27 April** I think 2012 is too early for euro adoption. If we continue growing at the speed we do now, then it would be possible some time around 2018-2020, at the earliest. This is not the goal for its own. I think 2009 is too early for meeting convergence criteria.	Minister Gilowska has recently got enthusiastic about fast Poland's entry to the euro zone. It is quite surprising, as until now the government was – roughly speaking – rather sceptical as regards this issue, and the minister herself was also very cautious in her comments and making any declarations. Obviously, such change in view is positive, as in our opinion fast euro zone entry would be favourable for Poland from the macroeconomic point of view. On the other hand, one should not get too excited after the recent Gilowska's comments, as it seems that chances for finding broad support for this proposition among ruling politicians are scarce. Comments of coalition parties' representatives leave no doubt they are not interested in abandoning the domestic currency quickly. A separate issue is a need to fulfil all convergence criteria, including e.g. reduction in fiscal deficit. Although current government's proposals do very little to reduce the country's fiscal imbalance in the medium run, it seems likely that reduction of deficit below 3% of GDP until 2009 is realistic assuming that fast economic growth maintains in the following years. The National Bank of Poland has just appointed a special team working on Poland's integration with the euro zone. The group is expected to prepare the new comprehensive report about costs and benefits of euro adoption in Poland. The report is meant to deliver help in making critical decisions on the issue.
Andrzej Lepper, deputy PM, agriculture minister **Reuters, 27 April** It is obvious that we will not back a reduction in taxes, even the firststage of it. The finance minister says it will cost the budget PLN19bn (...) Where will we get the money for science and health ... what will happen to our pensioners? We are ready to talk, but not for unconditional support for all Gilowska's proposals. (...) We will not agree for cuts in budget spending if it worsens the situation of the poorest people, which is hard anyway. Never ever. We have to learn details of the public finance reform draft, which has not been completed until now. It is difficult to talk about something that is still under preparation.	Deputy PM Andrzej Lepper can change his mind even more often than Zyta Gilowska. While at the beginning of April, talking about so-called public finance reform, Lepper ensured about Samoobrona's unconditional support even without knowing the details of the proposal, his support suddenly evaporated when a proposal to decrease tax wedge appeared. One should remember though that the government has approved this proposal even despite Lepper's objections. The question is whether the Samoobrona will be more successful in the parliament than in the government and whether it will be ready to put a coalition at risk. The recent history proved that in the face of threat of imminent election, the tone of coalition parties' demands usually gets softer very quickly.
Elżbieta Suchocka-Roguska, deputy finance minister **PAP, 7 May** Deficit in April may be at 7-8% (of the plan). This is the effect of very high revenues in April, much above forecasts. Revenues exceeded forecasts in almost all kinds of taxes. Most of all, it is the annual settlement of PIT and CIT. In the case of CIT, there was also some delay in payment, PLN1bn came to budget in April instead of 30 March. Excise tax is close to predicted level, revenue from indirect taxes is slightly higher, but it could result from higher prices.	Excellent budget results in April were partly resulting from settlement of annual tax payments for 2006. According to *Rzeczpospolita* daily, revenue from capital income tax alone was higher than planned by ca. PLN3bn, thanks to very high profits attained by private investors on the stock exchange. Partly, good budget numbers resulted also from shifting some payments from March. But overall, such high growth rate of taxes reflects still very good business climate at the start of Q2. It is a good promise for forecasts of economic activity in the following months.
Katarzyna Zajdel-Kurowska, deputy finance minister **PAP, 8 May** If information about damages to fruit-growing are confirmed, we may have higher inflation in 2H07, but not significantly. According to our estimates, impact on annual average inflation will not be larger than 0.1pp. **PAP, 2 May** Inflation forecast at 2.3%YoY and 0.5%MoM in April results mostly from supply-side factors. Situation from two previous months repeats: prices of food and fuels are rising. Food prices went up 0.8%MoM and fuel prices increased by more than 6%.	After reaching target level in March, inflation rate is expected to come down again in the following months, returning below 2.5%. The scale of a drop will be dependent on the situation on fruit market and the scale of losses in orchards caused by May frosty nights. A positive factor that will be limiting a scale of food price increase, especially in the summer period, is that crops of cereals are estimated at very high levels this year.

Market monitor



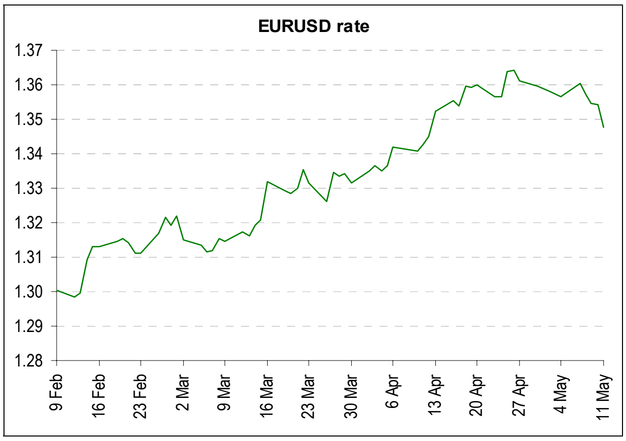
Zloty strengthening was continued

- In the last weeks the appreciation trend of the zloty against the main currencies that was started after Poland rating upgrade by S&P was continued amid very good sentiment toward the emerging currencies. The domestic currency was also positively affected by news on organisation of Euro2012 in Poland in Ukraine. Zloty strengthened as well in reaction to further data from the Polish economy and interest rate hike. In the result Polish currency appreciated to the strongest level in 5 years.
- The technical analysis points to the fact the zloty is overbought, which may be a signal to a correction in the near time. However this may need an essential negative catalyst, e.g. from the US. For now, positive sentiment of investors toward the emerging markets and very good data from the domestic market keep the zloty at very strong levels.



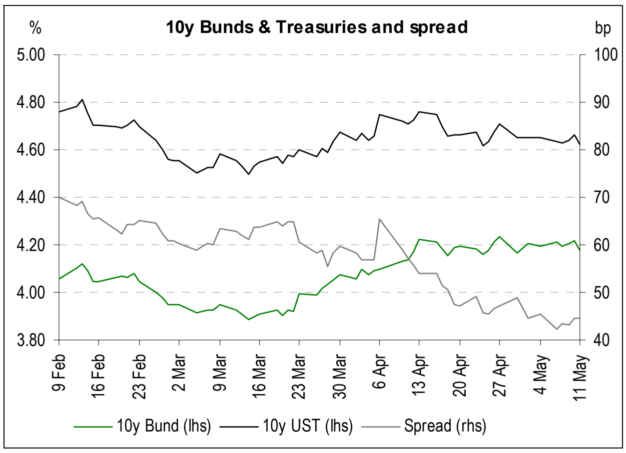
Market stable after MPC raises interest rates

- After the release of our previous report the debt market slightly weakened among others in reaction to rising yields in the core markets and further data releases from the economy. Expectations of an interest rate hike and the same 25 bp rates rise might also have had some negative impact. The Council communiqué after the April meeting was quite hawkish, and the MPC suggested, it was going to wait with further moves for the new data. Since than the yield curve slightly declined.
- We maintain our view that further monetary policy tightening are going to be determined by the next economic data and strength of the economy and may follow in the second part of the year and at the beginning of the next year provided the expansion of Polish economy holds. The bond yield curve may stabilise in the short term and in the medium term we expect rates to increase.



EURUSD at the highest level since 2.5 years

- Since the mid-April the dollar continued to weaken against the single currency, while the EURUSD rate rose almost to 1.37 faster than we expected. This resulted among others from further good data from the European economy and weaker statistics from the United States amid softer inflationary data. In the last weeks the dollar recovered on better than expected ISM indices and amid major central bank meetings.
- In our opinion, after significant dollar's weakening the US currency may depreciate again in case further weak data from the US economy are released amid declining US inflation as well as with regards to better than expected data from the euro zone. However it may be quite difficult for investors to break the important technical level of 1.368.

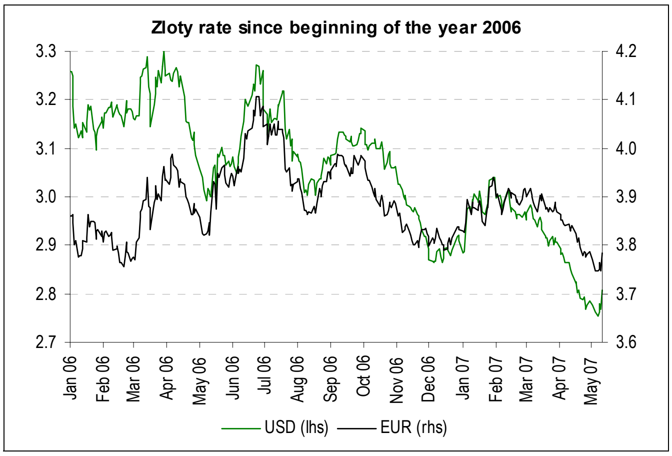


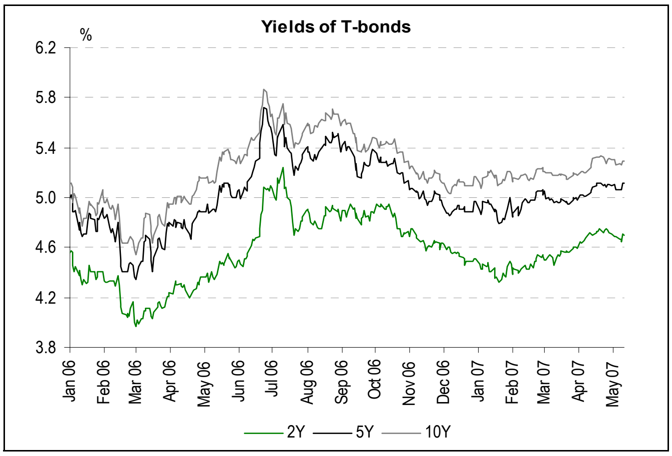
Small changes in the core markets

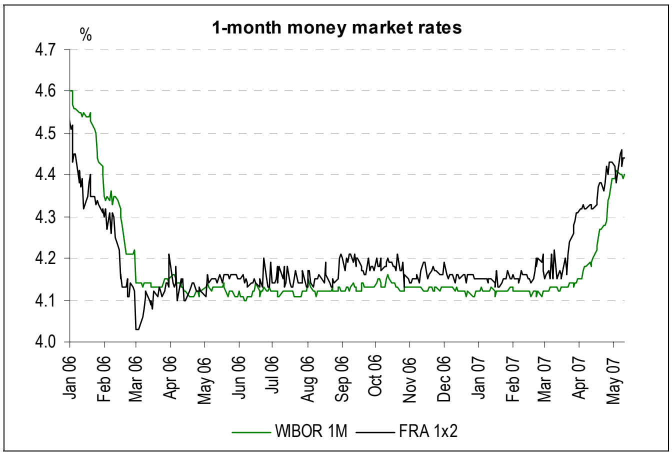
- In the last weeks the US bond market was positively influenced by lower than expected CPI and PCE indices, weak data from the housing market and lower than expected Q1 GDP growth in the United States. GDP deflator had a negative effect as well as better than expected ISM indices. Bonds prices in the euro zone fluctuated in the narrow range and partly followed the US market. Yields of 10Y Treasuries declined since the mid April to 4.65% from 4.73%, and of Bunds rose to 4.20% from 4.17%.
- We expect Fed may cut interest rates even by 50 bp, while further rate hikes may follow in the euro zone. Amid slightly better inflationary and activity data in the US Fed is going to concentrate on next releases. In the EMU after tightening expected in June further rate hikes may follow amid positive economic situation and medium-term upside inflation risks.

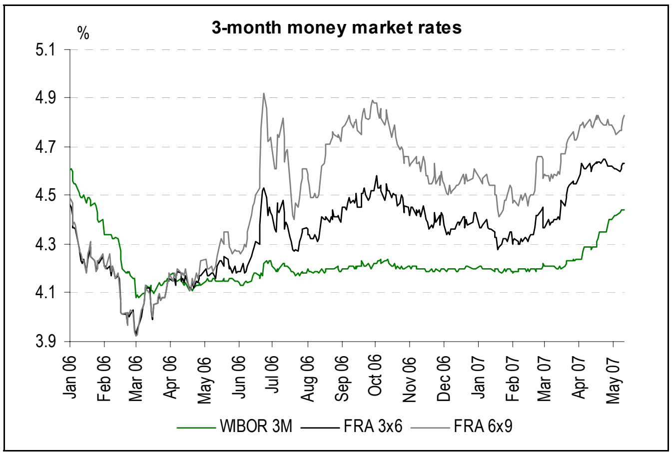
Source: Reuters, BZ WBK

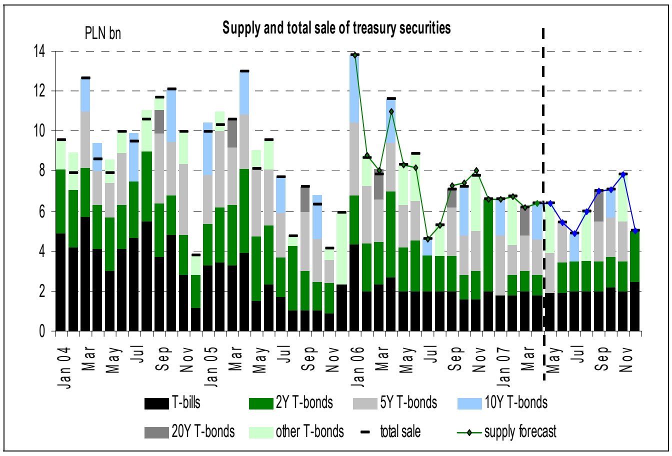
Market monitor











Treasury bill auctions (PLN m)

Date of auction	OFFER / SALE 52-week	OFFER / SALE Total
05.03.2007	1 000 / 1 000	1 000 / 1 000
19.03.2007	1 000 / 1 000	1 000 / 1 000
Total March	**2 000 / 2 000**	**2 000 / 2 000**
02.04.2007	900 / 900	900 / 900
23.04.2007	900 / 900	900 / 900
Total April	**1 800 / 1 800**	**1 800 / 1 800**
07.05.2007	900 / 900	900 / 900
21.05.2007	900 - 1 100	900 - 1 100
Total May*	**1 800 - 2 000**	**1 800 - 2 000**

* estimations based on Ministry of Finance preliminary information

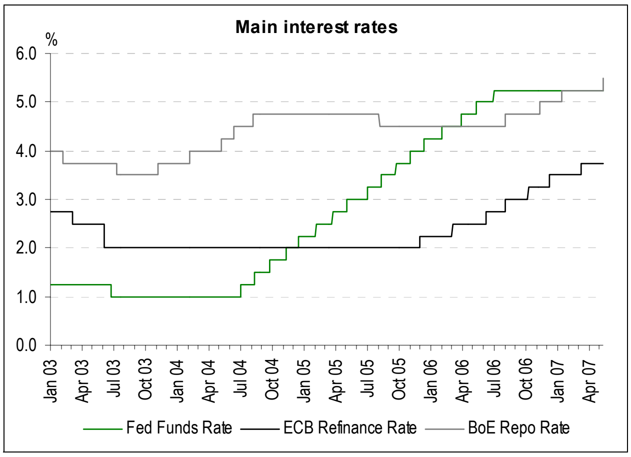
Treasury bond auctions in 2007 (PLN m)

month	First auction				Second auction				Third auction			
	date	T-bonds	offer	sale	date	T-bonds	offer	sale	date	T-bonds	offer	sale
January	-	-	-	-	10.01	DS1017	1 800	1 800	17.01	PS0412	3 000	3 000
February	07.02	OK0709	1 000	1 000	14.02	WZ0118 | IZ0816	2400 | 0	2400 | 0	21.02	PS0412	1 500	1 500
March	07.03	OK0709	1 000	1 000	14.03	WS0922	1 400	1 400	21.03	PS0412	1 800	1 800
April	04.04	OK0709	1 000	1 000	11.04	DS1017	1 800	1 800	18.04	PS0412	1 800	1 800
May	-	-	-	-	09.05	WZ0118 | IZ0816	2000 | 500	2000 | 498	16.05	PS0412	1 500 - 2 500	-
June	06.06	2Y	-	-	-	-	-	-	20.06	5Y	-	-
July	04.07	2Y	-	-	11.07	10Y	-	-	-	-	-	-
August	01.08	2Y	-	-	08.08	10Y WIBOR | 12Y CPI	-	-	-	-	-	-
September	05.09	2Y	-	-	12.09	20Y	-	-	19.09	5Y	-	-
October	03.10	2Y	-	-	10.10	10Y	-	-	17.10	5Y	-	-
November	07.11	2Y	-	-	14.11	10Y WIBOR | 12Y CPI	-	-	21.11	5Y	-	-
December	05.12	2Y	-	-	-	-	-	-	-	-	-	-

* with supplementary auction

Source: Ministry of Finance, Reuters, BZ WBK

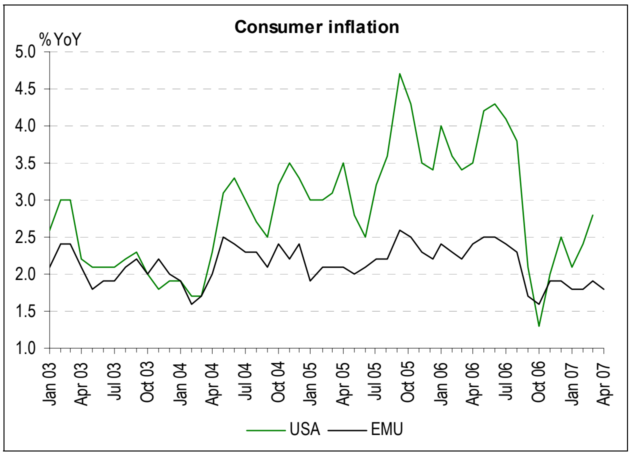
International review



ECB is going to raise rates in June

▪ In April Fed left the main US interest rate unchanged at 5.25%. The statement of the US central bank was hardly changed as compared to March one and confirmed that inflation was still the biggest concern for Fed. It said that despite the slowdown in the first part of the year the economy was going to expand at moderate pace in the next several quarters. Fed is going to wait with further moves in monetary policy for further data.

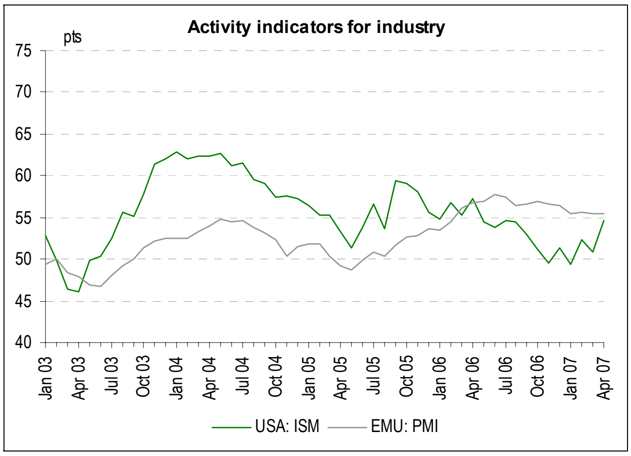
▪ In April the ECB left the main interest rate at 3.75% again. In its statement, the bank repeated that monetary policy remains accommodative and interest rates are at moderate level. Also, an expected term about vigilance against inflation was added, which confirmed market expectations of next rate hike in June. According to the ECB's estimates there are upside risks for inflation in the medium term.



Fall of core inflation in United States

▪ CPI index rose in March by 0.6%MoM, which was in line with expectations and above a 0.4% rise in February. The increase of energy and gasoline prices was the highest since September 2005. The core index rose by 0.1%MoM as compared with market consensus of 0.2%MoM recorded also in February. In annual terms the CPI rise amounted to 2.8%YoY and core CPI rose by 2.5%YoY (2.7% in February). The PPI index in US rose in March by 1.0%MoM (3.2%YoY), while the market expected 0.7%%MoM. Core inflation remained unchanged in March MoM (1.7%YoY), while the market expected an increase by 0.2%MoM.

▪ In March inflation in the euro zone, which is measured with HICP index amounted to 1.9%YoY, which was in line with expectations. According to the Eurostat estimates inflation in the euro zone amounted in April to 1.8%YoY.

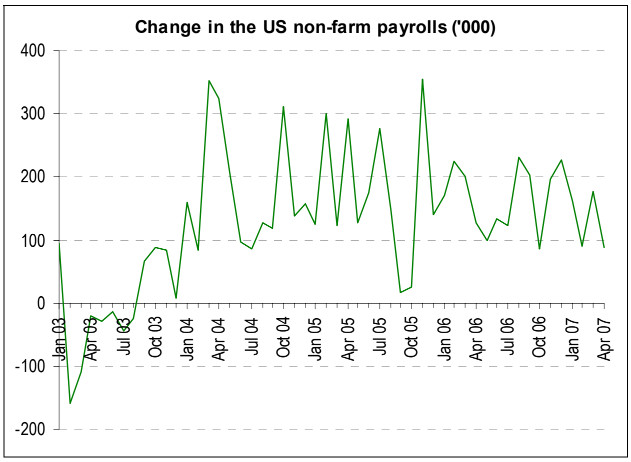


Better ISM indices in the United States

▪ The ISM index for the manufacturing sector in the United States amounted in April to 54.7 against 50.9 in March. The ISM index in the services sector rose in April to 56 from 52.4 in March against a forecast of 53.

▪ The PMI index that reflects the activity in the manufacturing sector in the euro zone amounted in April to 55.4 similar as in March, while analysts expected a rise to 55.7. The index for the services sector in the euro zone remained at 55.4 against a forecasted rise to 55.7.

▪ A Q1 GDP growth in United States amounted to 1.3%, which was much below market forecasts of 1.8% and 2.5% in Q4. Such weak data resulted most of all from weakening in exports and in the housing market.



Source: Reuters, ECB, Federal Reserve

Weaker non-farm payrolls, lower ULC in Q1.

▪ US labour productivity rose in Q1 by 1.7% against expectations of 0.7%, and unit labour costs increased by 0.6%, while analysts forecasted a 3,8%.

▪ The ADP report in April showed an increase of jobs in United States outside farming in the private sector by 64k against a downwardly revised 98k in March. Analysts from Wall Street expected a decline from 106k to 100k.

▪ The actual non-farm payrolls amounted in April to 88k as compared to expectations of 100k, which were already lowered after ADP report was released. The March data were revised from 180k to 177k, while February data were also downwardly revised from 113k to 90k. The unemployment rate rose in April in line with forecast of analysts from 4.4% to 4.5%.

Economic calendar

Monday	Tuesday	Wednesday	Thursday	Friday
14 May ***POL: Money supply (Apr)***	**15** ***POL: CPI (Apr)*** EMU: Preliminary GDP (Q1) US: CPI (Apr) US: Net capital flows (Mar)	**16** ***POL: Auction of 5Y bonds*** EMU: Final HICP (Apr) US: House starts (Apr) US: Industrial output (Apr) US: Capacity utilization (Apr)	**17** ***POL: Wages and Employment (Apr)*** JP: BOJ meeting – report after decision US: Philadelphia Fed index (May)	**18** ***POL: Balance of payments (Mar)*** US: Preliminary Michigan (May)
21 ***POL: Treasury bills auction*** ***POL: PPI (Apr)*** ***POL: Industrial Output (Apr)***	**22** GER: ZEW Index (May) US: Trade balance (Mar)	**23** ***POL: Core inflation (Apr)*** ***POL: Business climate (May)***	**24** GER: Ifo Index (May) US: Durable goods orders (Apr) US: New homes sales (Apr)	**25** ***POL: Retail sales (Apr)*** ***POL: Unemployment (Apr)*** US: Home sales (Apr)
28 US, DE, GB: Market holiday	**29** ***POL: MPC meeting*** USA: Consumer confidence (May)	**30** ***POL: MPC meeting – decision*** EMU: M3 money supply (Apr) US: ADP report (Apr) US: FOMC minutes	**31** ***POL: GDP (Q1)*** EMU: Business climate (May) EMU: Preliminary HICP (May) US: Preliminary GDP (Q1) US: Core PCE (Q1) US: GDP deflator (Q1) US: Chicago PMI (May)	**1 June** EMU: Manufacturing PMI (May) EMU: GDP (Q1) US: Core PCE (Apr) US: Non-farm payrolls (May) US: Unemployment (May) US: Manufacturing ISM (May) US: Final Michigan (May)
4 ***POL: Treasury bills auction*** EMU:PPI (April) US: Factory orders (Apr)	**5** US: Non-manufacturing ISM (May)	**6** ***POL: Auction of 2Y bonds*** EMU: Non-manufacturing PMI (May) EMU: EBC meeting - decision US: Unit labour costs & labour productivity (Q1)	**7** ***POL: Corpus Christi*** US: Wholesale inventories (Apr)	**8** US: Trade balance (Apr) US: Federal budget (Apr) US: Foreign trade prices (May)
11	**12**	**13** ***POL: CPI*** US: Retail Sales (May)	**14** ***POL: Money supply (May)*** EMU: Final HICP (May) US: PPI (May)	**15** ***POL: Balance of payments (Apr)*** JP: BOJ meeting – report after decision US: CPI (May) US: NY Fed index (Jun) US: Industrial output (May) US: Capacity utilization (May) US: Preliminary Michigan (Jun)

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	23	25	25	-	-	-	-	-	-	-
Gross wages, employment	16	15	15	17	17	19	16	16	17	15	16	17
Unemployment	29	23	23	25	25	-	-	-	-	-	-	-
Foreign trade	about 50 working days after reported period											
Balance of payments*	2	-	30	-	-	29	-	-	-	-	-	-
Balance of payments	16[c]	12	14	13	18	15	13	13	-	-	-	-
Money supply	12	14	14	13	14	14	13	14	-	-	-	-
NBP balance sheet	5	7	7	6	7	6	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

		Apr 06	May 06	Jun 06	Jul 06	Aug 06	Sep 06	Oct 06	Nov 06	Dec 06	Jan 07	Feb 07	Mar 07	Apr 07	May 07
Industrial production	%YoY	5.7	19.1	12.2	14.3	12.6	11.6	14.8	12.0	5.9	15.4	13.0	11.3	16.1	10.9
Retail sales [c]	%YoY	13.2	13.7	10.7	11.0	11.5	14.5	13.3	13.6	13.3	16.5	17.5	16.5	16.4	15.1
Unemployment rate	%	17.2	16.5	16.0	15.7	15.5	15.2	14.9	14.8	14.9	15.1	14.9	14.4	13.7	13.0
Gross wages [b c]	%YoY	4.0	5.2	4.5	5.6	5.3	5.1	4.7	3.1	8.5	7.8	6.4	9.1	7.9	8.0
Employment [b]	%YoY	2.8	3.0	3.1	3.3	3.5	3.5	3.6	3.8	4.1	3.8	4.3	4.5	4.4	4.3
Export (€) [d]	%YoY	9.8	32.5	16.9	21.0	22.3	18.6	23.4	21.7	8.0	15.5	16.3	13.7	21.7	13.3
Import (€) [d]	%YoY	10.1	29.9	17.2	26.2	22.9	19.2	27.4	21.0	17.2	21.5	13.4	17.6	23.3	19.0
Trade balance [d]	EURm	-108	-439	-103	-519	-434	-212	-283	-339	-1119	-398	-60	-469	-246	-972
Current account balance [d]	EURm	-597	-374	-300	-527	-646	222	-728	-738	-1201	-733	-424	-469	-306	-972
Current account balance [d]	% GDP	-2.1	-1.9	-2.0	-2.1	-2.1	-1.9	-2.0	-2.1	-2.3	-2.5	-2.3	-2.4	-2.2	-2.4
Budget deficit (cumulative)	PLNbn	-10.0	-14.6	-17.7	-15.6	-14.5	-14.5	-16.6	-18.5	-25.1	3.1	-3.0	-4.8	-2.3	-8.1
Budget deficit (cumulative) [e]	% realisation	40.0	58.2	70.4	62.3	57.9	57.8	66.3	73.9	100.0	-10.3	10.1	16.1	7.5	26.9
CPI	%YoY	0.7	0.9	0.8	1.1	1.6	1.6	1.2	1.4	1.4	1.6	1.9	2.5	2.3	2.2
PPI	%YoY	1.7	2.3	3.0	3.5	3.3	3.6	3.2	2.5	2.6	3.1	3.5	3.3	2.5	2.3
Broad money (M3)	%YoY	9.6	10.1	11.9	13.0	12.9	13.0	12.3	14.4	15.6	19.3	17.9	18.0	17.1	17.8
Deposits	%YoY	8.6	8.9	11.4	12.3	12.0	11.6	11.4	13.1	15.0	18.4	18.1	17.5	18.5	17.8
Loans	%YoY	12.2	12.4	16.0	16.7	18.0	19.2	19.5	20.7	23.4	25.0	26.5	26.8	26.2	25.9
USD/PLN	PLN	3.20	3.05	3.17	3.15	3.05	3.12	3.09	2.97	2.88	2.98	2.98	2.94	2.83	2.81
EUR/PLN	PLN	3.92	3.90	4.02	4.00	3.90	3.97	3.90	3.82	3.81	3.88	3.90	3.89	3.82	3.79
Reference rate [a]	%	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.25	4.25
Lombard rate [a]	%	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.75	5.75
WIBOR 3M	%	4.14	4.15	4.17	4.19	4.19	4.21	4.22	4.20	4.20	4.20	4.20	4.22	4.32	4.45
Yield on 52-week T-bills	%	3.95	4.02	4.20	4.30	4.35	4.44	4.35	4.29	4.20	4.14	4.07	4.23	4.36	4.30
Yield on 2-year T-bonds	%	4.28	4.44	4.75	4.95	4.85	4.87	4.84	4.65	4.54	4.41	4.46	4.55	4.71	4.75
Yield on 5-year T-bonds	%	4.80	5.00	5.33	5.37	5.41	5.31	5.24	5.01	4.91	4.90	4.97	4.98	5.07	5.10
Yield on 10-year T-bonds	%	5.02	5.26	5.54	5.55	5.61	5.48	5.39	5.18	5.10	5.16	5.18	5.18	5.27	5.25

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] 2006 - % of Dec, 2007 - % of plan

Quarterly and annual economic indicators

		2004	2005	2006	2007	1Q06	2Q06	3Q06	4Q06	1Q07	2Q07	3Q07	4Q07
GDP	PLNbn	924.5	982.6	1 057.7	1 147.2	242.3	253.6	260.8	300.9	264.3	276.3	281.5	325.2
GDP	%YoY	5.3	3.6	6.1	6.2	5.5	5.9	6.2	6.7	7.0	6.5	5.9	5.5
Domestic demand	%YoY	6.0	2.4	6.6	6.9	5.3	5.3	6.8	8.7	7.2	7.2	6.5	6.7
Private consumption	%YoY	4.4	2.0	5.2	5.6	5.3	4.7	5.5	5.1	6.0	5.5	5.5	5.5
Fixed investments	%YoY	6.4	6.5	16.5	16.6	7.6	14.5	19.3	19.3	25.0	18.0	15.0	14.0
Industrial production	%YoY	12.3	4.0	12.5	12.8	12.4	12.1	12.3	10.8	13.0	11.7	12.7	13.7
Retail sales (real terms)	%YoY	7.1	1.5	11.9	15.4	9.0	11.8	13.8	12.6	17.4	14.6	14.6	14.8
Unemployment rate [a]	%	19.1	17.6	14.9	11.5	17.8	16.0	15.2	14.9	14.4	12.6	11.8	11.5
Gross wages (real terms) [c]	%YoY	0.8	1.2	4.2	5.4	4.3	3.9	4.1	4.5	5.9	5.4	5.7	4.7
Employment [c]	%YoY	-0.8	1.9	3.2	4.1	2.6	3.0	3.4	3.8	4.2	4.3	4.1	3.8
Export (€) [b]	%YoY	22.3	17.8	20.2	13.7	23.3	19.5	20.7	18.0	15.1	14.0	13.0	13.0
Import (€) [b]	%YoY	19.5	13.4	21.8	16.6	23.3	19.0	22.8	21.9	17.4	17.5	15.5	16.0
Trade balance [b]	EURm	-4 552	-2 242	-3 896	-7 184	-352	-646	-1 165	-1 733	-927	-1 552	-1 932	-2 773
Current account balance [b]	EURm	-8 670	-4 130	-6 273	-7 791	-1 396	-1 266	-949	-2 662	-1 626	-1 697	-1 241	-3 227
Current account balance [b]	% GDP	-4.3	-1.7	-2.3	-2.6	-1.9	-2.0	-1.9	-2.3	-2.4	-2.4	-2.5	-2.6
Budget deficit (cumulative) [a]	PLNbn	-41.5	-28.6	-25.1	-30.0	-9.0	-17.7	-14.5	-25.1	-4.8	-9.0	-13.1	-24.5
Budget deficit (cumulative) [a]	% GDP	-4.5	-2.9	-2.4	-2.6	-	-	-	-	-	-	-	-
CPI	%YoY	3.5	2.1	1.0	2.2	0.6	0.8	1.4	1.3	2.0	2.3	1.9	2.4
CPI [a]	%YoY	4.4	0.7	1.4	2.6	0.4	0.8	1.6	1.4	2.5	2.4	1.9	2.6
PPI	%YoY	7.0	0.7	2.5	2.6	0.9	3.0	3.6	2.6	3.3	2.1	1.8	3.0
Broad money (M3) [a]	%YoY	8.7	10.5	15.6	14.4	9.8	11.9	13.0	15.6	18.0	16.9	15.9	14.4
Deposits [a]	%YoY	8.1	9.4	15.0	15.0	9.1	11.4	11.6	15.0	17.5	17.4	17.1	15.0
Loans [a]	%YoY	2.9	11.8	23.4	22.3	13.6	16.0	19.2	23.4	26.8	25.4	24.3	22.3
USD/PLN	PLN	3.65	3.23	3.10	2.86	3.19	3.14	3.10	2.98	2.97	2.82	2.84	2.82
EUR/PLN	PLN	4.53	4.02	3.90	3.82	3.83	3.95	3.96	3.85	3.89	3.81	3.84	3.76
Reference rate [a]	%	6.50	4.50	4.00	4.50	4.00	4.00	4.00	4.00	4.00	4.25	4.50	4.50
Lombard rate [a]	%	8.00	6.00	5.50	6.00	5.50	5.50	5.50	5.50	5.50	5.75	6.00	6.00
WIBOR 3M	%	6.21	5.29	4.21	4.49	4.29	4.15	4.20	4.20	4.20	4.41	4.63	4.70
Yield on 52-week T-bills	%	6.50	4.92	4.18	4.40	4.02	4.06	4.37	4.28	4.14	4.34	4.52	4.60
Yield on 2-year T-bonds	%	6.89	5.04	4.57	4.75	4.23	4.49	4.89	4.67	4.47	4.74	4.85	4.95
Yield on 5-year T-bonds	%	7.02	5.25	5.03	5.13	4.67	5.04	5.36	5.05	4.95	5.09	5.20	5.30
Yield on 10-year T-bonds	%	6.84	5.24	5.22	5.31	4.83	5.27	5.55	5.22	5.17	5.26	5.30	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

Bank Zachodni WBK

This analysis is based on information available until 11.05.2007 has been prepared by:

ECONOMIC ANALYSIS UNIT

TREASURY DIVISION

ul. Marszałkowska 142, 00-061 Warszawa, fax +48 022 586 83 40

Email: ekonomia@bzwbk.pl Web site (including Economic Service page): http://www.bzwbk.pl

Maciej Reluga – Chief Economist

tel. +48 022 586 83 63, Email: maciej.reluga@bzwbk.pl

Piotr Bielski	+48 022 586 83 33
Piotr Bujak	+48 022 586 83 41
Cezary Chrapek	+48 022 586 83 42

TREASURY SERVICES DEPARTMENT

Gdańsk

Długie Ogrody 10
80-765 Gdańsk
tel. +48 058 326 26 40
fax +48 058 326 26 42

Kraków

Rynek Główny 30/8
31-010 Kraków
tel. +48 012 424 95 01
fax +48 012 424 21 41

Poznań

pl. Gen. W. Andersa 5
61-894 Poznań
tel. +48 061 856 58 14
fax +48 061 856 55 65

Warszawa

ul. Marszałkowska 142
00-061 Warszawa
tel. +48 022 586 83 20
fax +48 022 586 83 40

Wrocław

ul. Rynek 9/11
50-950 Wrocław
tel. +48 071 370 25 87
fax +48 071 370 26 22