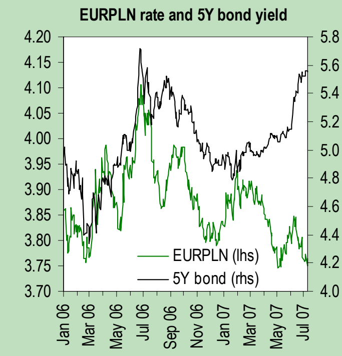
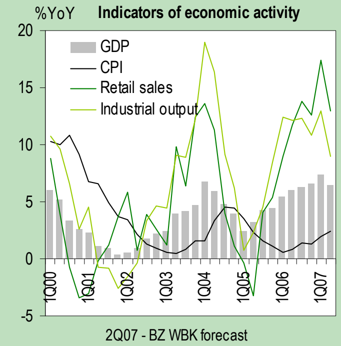
Bank Zachodni WBK

MACROscope

Polish Economy and Financial Markets

July 2007





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

Holiday surprises

- **Contrary to expectations of most market analysts, MPC raised main interest rates by 25 bp at its meeting in June.** The decision was to some extent anticipated by the financial market, but the market rates increased due to expectations scale of monetary tightening in the whole cycle will be larger than earlier predicted. FRA rates take into account to some extent a chance for another rate hike in July. Unfortunately, the MPC statement failed to deliver clear hints on timing of next moves, but the fact that the Council decided to act faster than expected resulted in a change of our forecasts. Now we predict that the reference rate could reach 5% at the end of this year (with next rate hike in August and another one in Q4), and 5.5% at the end of 2008. As regards MPC decisions in the near term, the key factors will be developments on the labour market, the scale of domestic demand growth (including degree to which fiscal policy is expansionary) and performance of the zloty exchange rate.

- **Although amid turmoil in the political stage the situation in the financial markets may be slightly influenced by this factor, we would not exaggerate with the significance of this factor.** The dismissal of the chief of one of the coalition parties from the post of deputy Prime Minister means that after a longer period of political stabilisation, an early election scenario returns to the foreground. As usual, it is quite difficult to anticipate further development of events on the political scene. It is worth noticing, however, that from the point of view of the financial market, a possible exit of Samoobrona from the government (and elections in autumn or spring) is not too negative news, taking into consideration its populist inclinations. Although the government crisis introduces uncertainty and additional risk connected with work on next year budget and public finance reform (the latter was not revolutionary anyway), the reaction of the markets should be rather moderate and last not to long. Consequently, we do not expect the current political situation to influence the prospects of monetary policy.

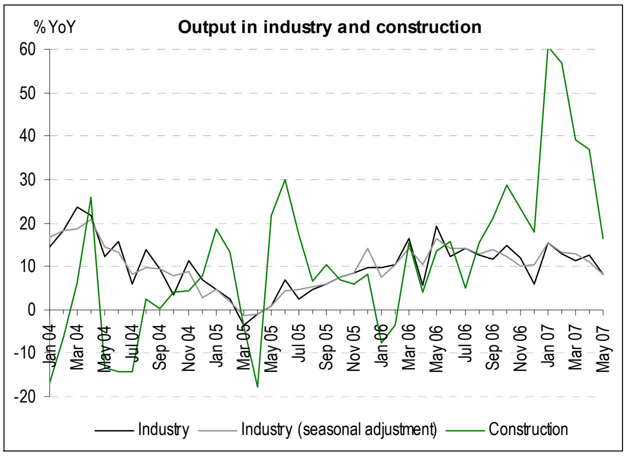
- **There was not as many surprises in the economy than in the politics last month. However, the data delivered some disappointment.** Indicators of economic activity for May – retail sales and industrial output – proved to be weaker than predicted, confirming that in the second quarter there was significant slowdown in economic growth from the record high 7.4% recorded in the first quarter, and a risk for our forecast of 6.5% GDP growth is currently asymmetric on the downside. However, this should be treated more like a correction after elevated growth in the first quarter than a herald of the end of fast economic expansion. Continuation of positive trends in the economy has been confirmed by strong data from the labour market, monetary statistics and results of surveys of sentiment among consumers and entrepreneurs. The problem is a gradual increase in the inflationary pressure, but despite higher than forecasted CPI, core inflation had been still relatively low.

Financial market on 29 June 2007:

NBP deposit rate	3.00	WIBOR 3M	4.71	USDPLN	2.7989
NBP reference rate	4.50	Yield on 2-year T-bonds	5.10	EURPLN	3.7658
NBP lombard rate	6.00	Yield on 5-year T-bonds	5.52	EURUSD	1.3455

This report is based on information available until 10.07.2007

Economic update

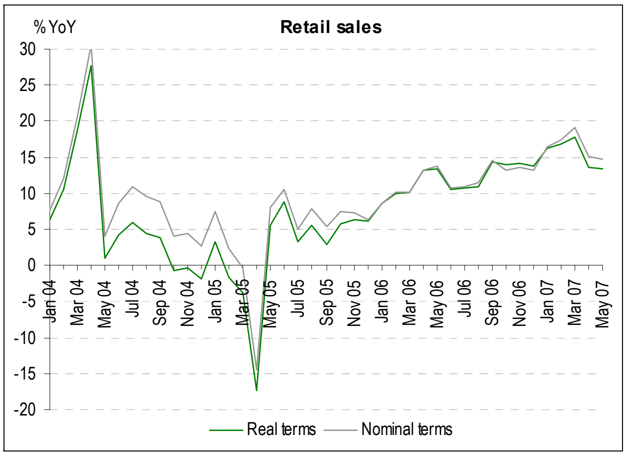


Output figures weaker than expected again

▪ Sold industrial output rose 8.1%YoY in May. Seasonally adjusted growth was 8.3%YoY. Construction output increased 16.3%YoY, i.e. significantly weaker than in April when it surged by nearly 37%YoY.

▪ Output rise in industry and construction in May (also in seasonally adjusted terms) was the weakest in a few months. This confirms a widely expected slowdown in economic growth in the second quarter of the year.

▪ Output figures in May could have been lowered by particularly long holiday season at the beginning of the month. The actual number of working days could have been lower than the nominal one, as many enterprises were not operating at all or were much less active for the whole week (holidays on Tuesday and Thursday and additional days-off for the rest of the week).

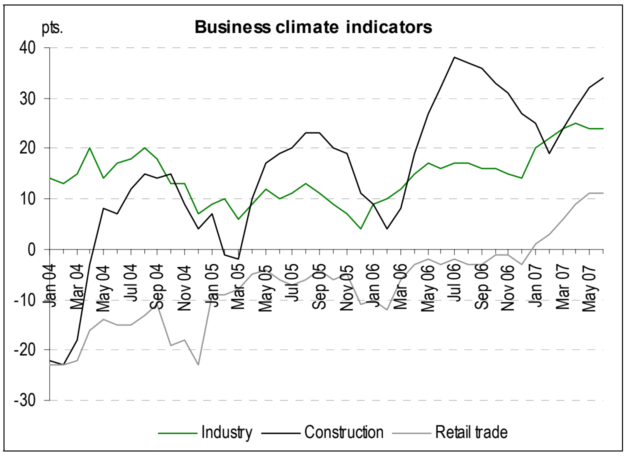


Retail sales disappointed as well

▪ Retail sales growth in May was 14.8%YoY, slightly decelerating from 15.1%YoY rise in April. The highest pace of growth was recorded in sales of durable goods such as motor vehicles and household appliances.

▪ In real terms, retail sales growth in May was 13.4%YoY. This means that retail sales' deflator was 1.4%YoY, i.e. similar as in the previous month.

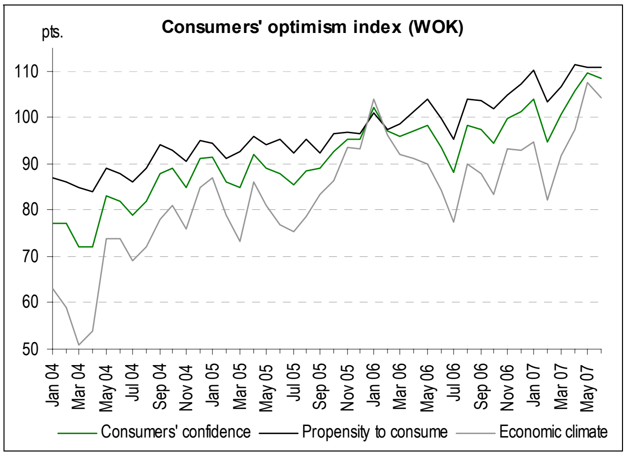
▪ Given both retail sales figures and output data for the first two months of the second quarter, we see that a risk for our forecast of GDP growth at 6.5% in 2Q07 is on the downside. Clear deceleration in the economic growth in 2Q07 from very high growth of 7.4% posted in 1Q07 was also suggested by President of the Central Statistical Office, who probably had some preliminary estimates.



...but enterprises are still optimistic

▪ In our opinion, the weakening of the economic growth in the second quarter should not be treated as a change in phase of economic cycle, yet a return to a trend after elevated pace of growth in the first quarter. Results of business climate survey for June indicated that enterprises remain optimistic about future, suggesting continuation of strong economic expansion in forthcoming quarters.

▪ A pace of expansion of the Polish industrial sector, measured by the PMI index, increased in June for the 25 straight month (to 54pts from 53.5 in May), among other due to a return of the export orders to higher levels after transitory fall in May (to 52.5 from 48.4), which indicates that the economy remains strong and the export sector recovered from a slowdown observed in a few previous months.



Source: CSO, Ipsos, own calculations

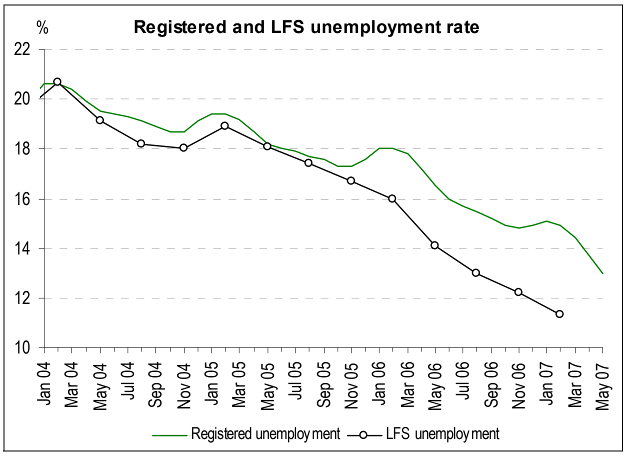
Consumers also remain upbeat

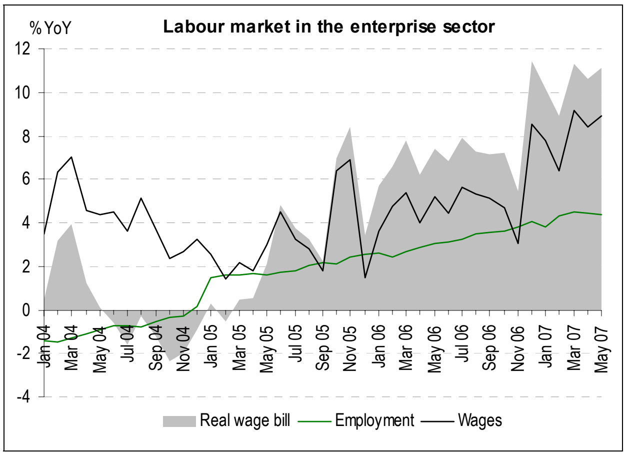
▪ According to June's result of survey conducted by Ipsos, consumers' moods slightly worsened. Overall index of consumers optimism (WOK) fell by 1pt.

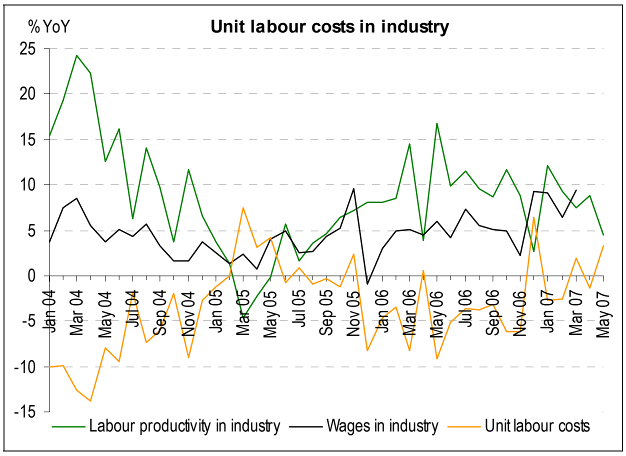
▪ This was caused by deterioration in opinions about economic climate (index fall of 3pts). According to authors of the survey, the result was caused by political developments, in particular by extending strike in the healthcare service.

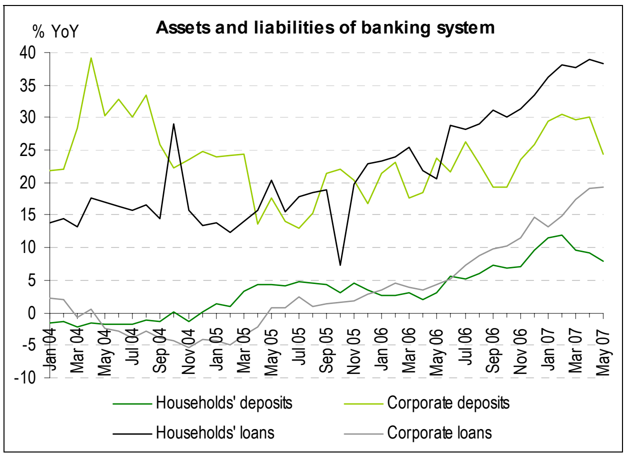
▪ However, index of propensity to consume remained at record high level of above 110pts for the third month in a row. This confirms that strong rise in average wages and employment, seen in CSO labour market statistics (see below), is experienced by large group of households. According to authors of the survey, consumers expect further improvement in their financial stance in future.

Economic update









Source: CSO, NTC Research, own calculations

Unemployment in Poland is not the highest in the EU anymore

- In line with our forecast, the registered unemployment rate fell to 13% at the end of May from 13.7% in April, below market expectations at 13.1%. This means another month of unemployment reduction at the fast pace of 3.5pp. According to our forecasts, similar pace of unemployment reduction should be maintained in the remainder of the year, which would mean a fall in the unemployment rate to 11.5% at year-end.
- According to preliminary estimates of the labour and social policy ministry, the registered unemployment rate at the end of June reached 12.4% which means a fall of 3.6pp in annual terms, i.e. an acceleration in the pace of unemployment reduction.
- According to the Eurostat, the unemployment rate in Poland fell to 10.5% in May, which means Poland has not the highest unemployment rate in the EU anymore (10.8% in Slovakia).

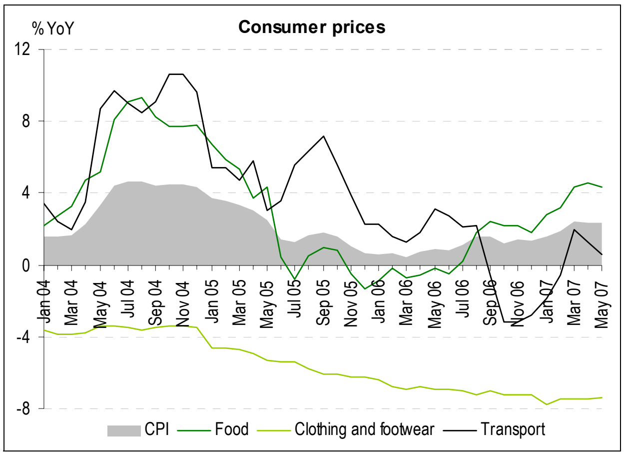
Wages and jobs keep growing robustly

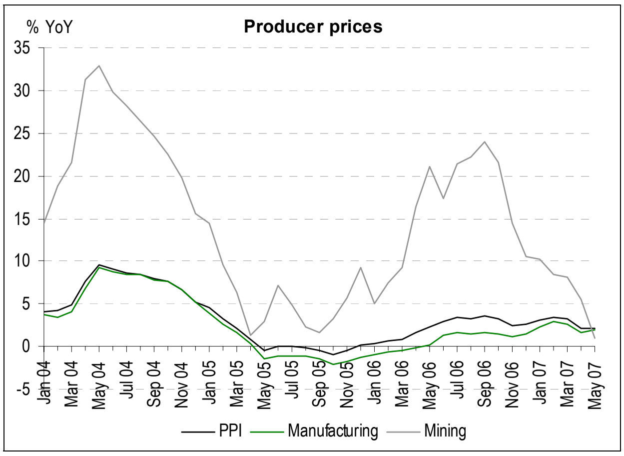
- Average wage in the enterprise sector fell 0.3%MoM in May driving the annual growth rate of average wage to 8.9% from 8.4% in April, instead of a slight slowdown in wage growth – depending on a source, median of market forecasts was at 8.1-8.3%.
- At the same time, employment in the enterprise sector increased weaker than market expected, by 0.2%MoM and 4.4%YoY, while the market consensus had pointed to an acceleration to 4.5%YoY (our forecast was 4.4%).
- Due to acceleration in wage growth and continuation of strong employment rise, wage bill in the enterprise sector increased in May by 13.7%YoY in nominal terms and by 11.2%YoY in real terms. This is not the highest growth rate of the wage bill this year, but it exceeds the average wage growth in January-April (not to mention average wage bill growth in real terms of 7.2% in 2006), indicating stronger growth in households income on the one side, but also faster growth in enterprises' costs on the other side.
- Growing pace of improvement in households' financial stance, with very upbeat moods among consumers and high propensity to consume, heralds that private consumption growth will remain strong in the forthcoming quarters, particularly that in July (and then in a second step in January) a reduction in disability pension contribution will take place.
- As regards an issue of consequences of tighter labour market conditions for enterprises' behaviour, at least in industry average wage growth still does not exceed significantly a pace of labour productivity gains. Of course, the current tendencies suggest that this may change in future (and outside the industry the relation between wage growth and productivity gains looks less favourable), which is one of the most important rise factor for the medium-term inflation prospects.

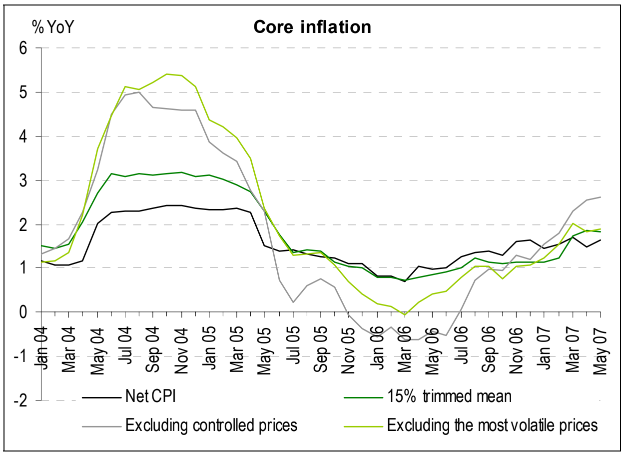
Stronger demand for money

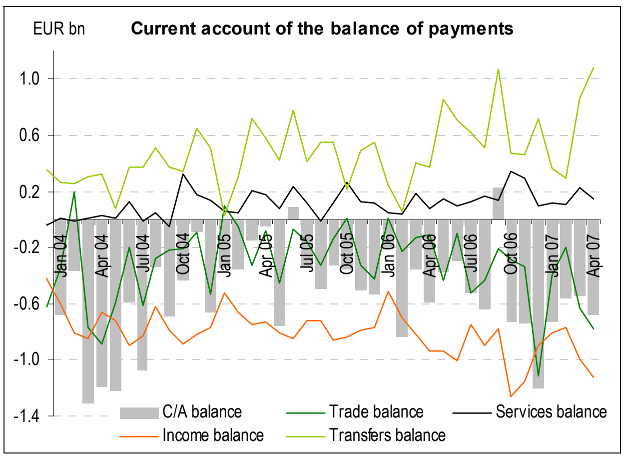
- Apart from situation on the labour market, a second factor which points to continuation of strong economic expansion but at the same time poses a threat to medium-term inflation prospects is accelerating loans growth.
- What is important, net credit in the banking system rose significantly in May not only to an acceleration in loans growth, but also due to much slower rise in deposits.
- Annual growth in corporate borrowing for the second month in a row reached nearly 20%YoY, which is a positive sign as regards enterprises' investment activity.
- There was slight slowdown in growth of households' borrowing, but it still reaches almost 40%YoY and is related to a growing extent with taking consumption loans. However, mortgages are still dominating.

Economic update









Source: CSO, NBP, own calculations

CPI close to the target, core inflation still much lower

- Prices of consumer goods and services rose by 0.5%MoM and 2.3%YoY in May. Thus, the headline inflation rate remained unchanged as compared to April while the market analysts and the FinMin predicted a decline to 2.1%YoY and our forecast was at 2.2%YoY.
- A main factor being responsible for higher inflation than forecasted were food prices that went up more than we had assumed, by 1.2%MoM and 4.3%YoY. Slightly higher than predicted was also a rise in transport prices (due to higher fuel prices) that reached 0.8%MoM and 0.6%YoY.
- Prices of other components of CPI basket were rising slightly slower than we had expected. In effect, May saw a slight increase in net inflation to 1.6%YoY from 1.5% in April, while our CPI forecast of 2.2% implied net inflation rise to 1.7%. Among other measures of core inflation, three measures of core inflation remained below 2% and only CPI excluding controlled prices was at 2.6%.
- The negative surprise in May inflation data resulted from exogenous factors, which are independent from monetary policy and have little in common with underlying price processes (despite faster than expected growth, in our view the impulse from food and fuel prices seems to weak to trigger off second round effects). This is why in our opinion the path of inflation in the medium-term has not changed significantly.
- We expect that in June CPI inflation has risen above the inflation target, but in the next summer months it should fall even below 2%, so as to increase and exceed the inflation target again at the end of this year. Meanwhile, underlying inflationary pressure is going to remain moderate and according to our forecasts the net inflation will not exceed 2% level during the whole year.

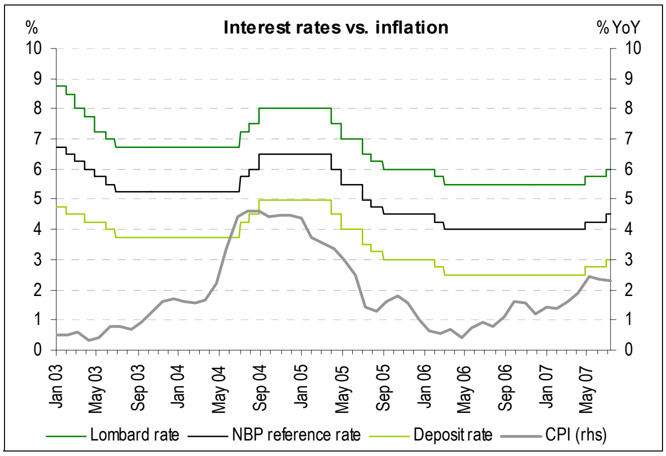
Stable PPI inflation

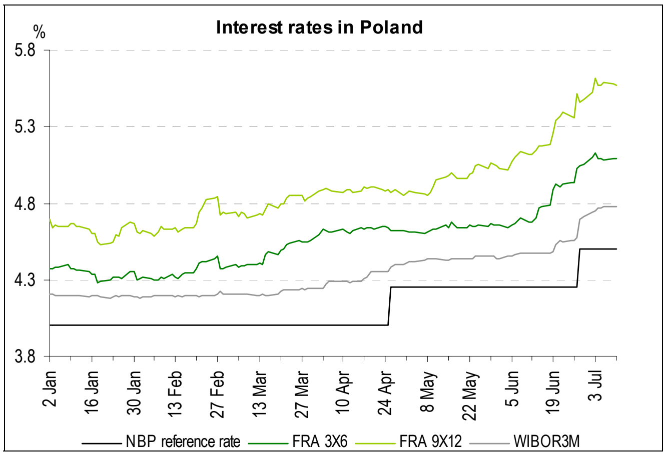
- Producer prices increased 2.2%YoY in May which means stabilisation of PPI inflation at the level noted in in April. It is noteworthy that the deceleration in PPI in the last months was caused mainly by significant slowdown in price growth in mining (from 5.5%YoY to 1%YoY), while in manufacturing we observe steady price increases on a monthly basis since the beginning of the year (in May by 0.5%MoM).
- Although the strongest price hikes (of above 3%MoM) were observed in such exogenous categories as tobacco products and refinery products, a rise in prices was also noted in other categories of producer prices, which may reflect a gradual strengthening of pass-through from higher costs to prices. However, annual growth rate in producer prices in manufacturing is still moderate and was 1.9% in May.

External imbalance still moderate

- Current account deficit reached €678m in April. This resulted mainly from high payment of profits and dividends for foreign direct investors that pushed income deficit to €1.13bn. There was also large trade gap of €779m due to acceleration in imports growth (to 25%YoY) with stable exports growth (15.7%YoY).
- Relation of 12-month cumulated current account to GDP remained in April at relatively low level of 2.4%. However, one has to take into account that a gradual deterioration of this relation should be expected, if the high imports growth rate lasts. Nevertheless, widening of the whole current account deficit should be slower than those of the trade gap, as the large inflow of funds from the EU and the surplus in services account are going to partly compensate for the shortage in the trade balance and income account.

Central bank watch





Key elements of MPC statement 27 June

In the Council's assessment, in the next quarters economic growth will most probably continue to exceed the growth of potential GDP. The latest information on labour market developments points to a continuation of high wage growth and a deterioration in the relation between wage and labour productivity growth. A further build-up of wage pressure and, consequently, inflationary pressure is possible. The Council assessed that in the medium term inflation increase may be constrained by a continuation of high productivity growth, very good financial results of enterprises and still low growth of external prices, related to globalisation and the ensuing intensified competition in the market of internationally traded goods and services. However, in the Council's assessment, the impact of those factors would be insufficient to keep inflation at the target level over the monetary policy transmission horizon. Therefore, the Council assessed the probability of inflation running above the inflation target in the medium term to be higher than the probability of inflation running below the target and decided to increase the NBP interest rates.

MPC voting results in 2007 (motions to hike rates by 25bp)

	February	March*	April	May*	June*
Skrzypek	-	-	-	-	-
Czekaj	–	–	+	-	+
Filar	+	+	+	+	+
Nieckarz	–	–	–	–	–
Noga	+	+	+	+	+
Owsiak	–	–	–	–	–
Pietrewicz	–	–	–	–	–
Sławiński	–	–	+	–	+
Wasilewska-Trenkner	+	+	+	+	+
Wojtyna	–	+	+	+	+

* BZ WBK forecasts of voting results

Source: NBP, Reuters

The MPC surprised in June

▪ The reference rate amounts to 4.5%. Majority of market analysts, including ourselves, had expected that the decision to tighten monetary policy again would take place during the next meeting in July.

▪ Though market rates had been taking a possibility of June's hike into account, the first reaction of the market was negative – significant rise in FRA rates, flattening of the yield curve plus zloty strengthening.

▪ It is hard to say whether the MPC intention was to show that the market had been pricing-in not enough monetary tightening and whether the MPC wanted to strengthen the zloty to limit inflationary pressure. It was not rather suggested by MPC members' comments (see next page).

▪ We think that data on corporate wages were the main factor convincing the majority of the Council to hike interest rates already in June.

▪ Also, the MPC probably did not want to synchronise second time in a row the decision to tighten with the timing of the publication of the new inflation projection of the central bank and with the increase of current inflation (June's 12M CPI figure, to be released in July, very likely to show a rise).

▪ The MPC did not give hints as regards the prospects of monetary policy, but the fact that it reacted already in June led us to change interest rates forecasts.

▪ We expect the reference rate to rise to 5% until year-end (next move by 25 pb probably in August and further 25 pb in 4Q07) and to 5.5% in 2008. At the same time forecast of interest rate peak at 6% has started to appear more and more often among financial markets' participants.

… and gave no suggestions as regards further moves

▪ Similarly as the MPC statement in May as well as MPC minutes of the May's meeting did not suggest a risk of interest rate increase in June, the June's statement showed no hints as regards further moves in monetary policy.

▪ The information released after the last meeting was more hawkish than a month ago, pointing to risks related to tightening labour market conditions and adding that there will be focus on pace of growth and structure of domestic demand as well as on how expansionary fiscal policy will be.

▪ The MPC wrote that the decision was made because probability of inflation running above the target in the medium-term was higher than probability of inflation running below the target (informal restrictive bias). Nevertheless, the assessment of balance of risks for future inflation was the same in May's communiqué with no rate hike then. What is more, the MPC did not say whether such assessment of probabilities was still on hold after the June's hike. Most likely, this is still the case.

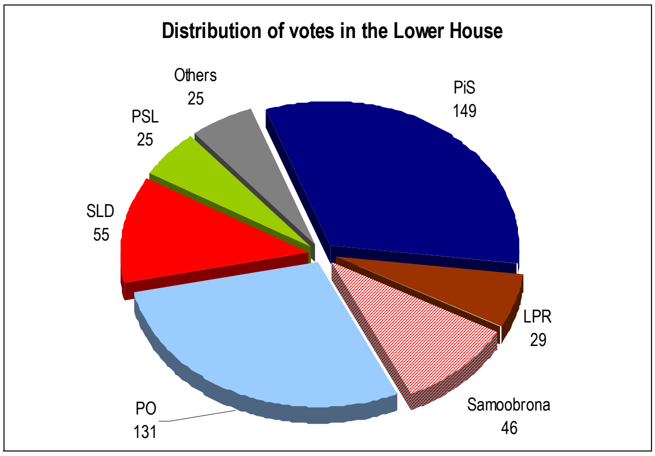
▪ It seems that earlier observations are confirmed that the strengths of different factions within the Council are well balanced (the result of June's voting was probably the same as in April). Therefore, it will be difficult to guess the exact timing of next rate hikes as this will depend on whether one or two members (of whom comments should be closely watched) will be convinced by the hawkish faction.

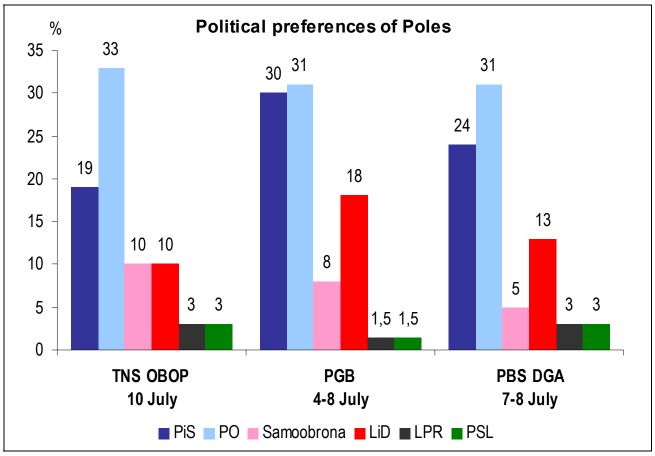
▪ As regards future moves, the MPC still suggests decisions will be data-dependant - the growth and the structure of domestic demand, including the degree of the expansionary fiscal policy stance, the relation between wage and labour productivity growth, zloty exchange rate and the impact of globalisation on the economy.

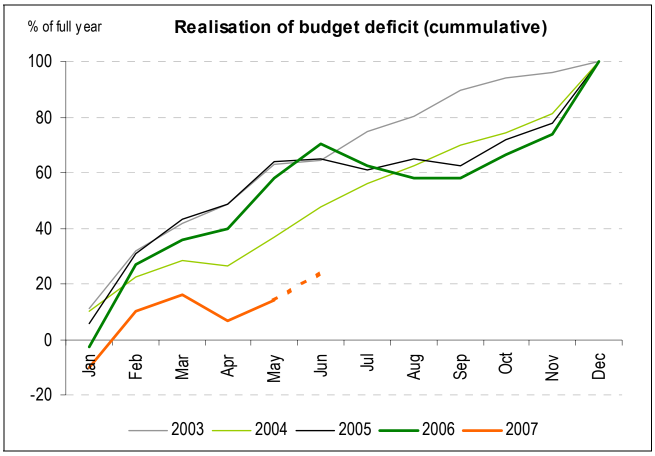
Central bank watch

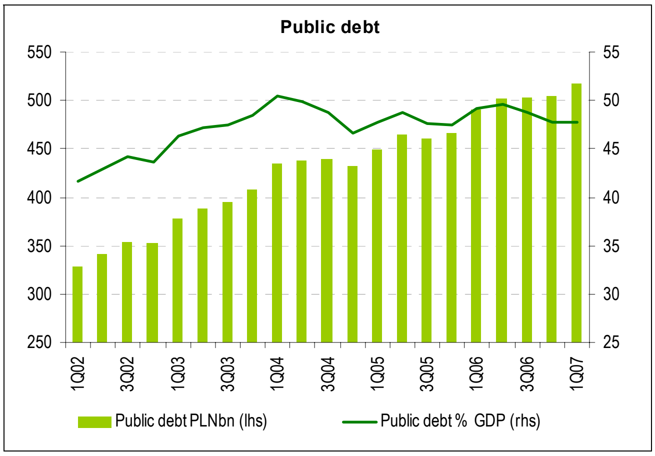
Comments of the central bank representatives	Our remarks
Andrzej Wojtyna, MPC member **Reuters, PAP, 27 June** The Council was convinced about a need for hike by combination of old and new factors, including organisation of the Euro 2012 and reduction in disability pension contribution. We must to look at effect of the Euro 2012, on the distribution of supply and demand factors. The timing of the tournament organisation seems unfortunate as we have already had investment boom while such a gift would be desirable to boost the economy. (…) I would not link the order of factors listed in the statement, as crucial for the MPC decisions, with their importance. Each of MPC members has its own hierarchy as regards the balance of risks. The MPC made the communiqué shorter and thus the number of listed factors is lower. **Stanisław Nieckarz, MPC member** **MPC press conference 27 June** The comments of the CSO's president (that the wages growth is not inflationary) apply to corporate sector (…) though there is second dimension of this situation (...) wages are part of demand and there is a question how it affects the consumer prices growth (...) There is no linear dependence, as it to some extent leads to higher imports.	During the press conference after June's meeting of the MPC, besides the chairman Sławomir Skrzypek, Stanisław Nieckarz and Andrzej Wojtyna were present. Unfortunately, NBP governor denied to answer a question on whether after rate hike in June the probability of inflation running above the target is still higher than probability of inflation running below the target. He said that the MPC do not present suggestions as regards future moves in monetary policy. Indeed, no information concerning rates prospects were included in the statement. Professor Wojtyna presented arguments behind interest rate hike already in June, though it is hard to say that information about co-hosting the Euro2012 or lowering tax wedge were new for the Council as compared to the May's meeting. Well, probably Wojtyna wanted to hike rates already one month before. Other member, Stanisław Nieckarz, concentrated on domestic demand increase connected with higher wage pressure, although he stressed at the same time that pass-through effect from higher salaries to higher inflation was not so obvious and immediate. Emphasising this factor (which is not necessarily far from reality) by the member, who represents rather dovish views within the Council and used to vote against rate hike in April (also most likely in June).
Marian Noga, MPC member **PAP, 4 July** This year probably only one decision to tighten monetary policy will be needed, because I would expect some positive effects of decisions from April and June, through the foreign exchange changes, which is fastest monetary transmission mechanism channel. Timing as regards future moves in monetary policy will depend on relation between wage growth and productivity, as well as on the inflation path in August-September i.e. how much the effect of high statistical base, food prices and fiscal stimulus will be responsible for inflation decrease in this period. (…) The continuation of monetary tightening cycle in 2008 will of course depend on macroeconomic data, but also on external inflation environment and on interest rates in the euro zone, the US and in our neighbouring countries. (…) The external environment should be closely watched, as changes in interest rates directly affect the exchange rate channel. Currently, I think that in 2008 we will see more than just one hike in rates. I still favour moves by 25 basis points.	Justification of June's decision presented by professor Noga is rather not controversial – unfavourable balance of risk factors for future inflation, which is currently close to the target, and rising unit labour costs. What is interesting, Noga said that in practice there is no such force, which could stop rising salaries. Well, monetary policy tightening is probably not the instrument, which could influence wage demand. Therefore, by hiking rates the MPC wanted to influence inflation expectations (by if they are adaptive, they will rise anyway when inflation accelerates) and zloty exchange rate (if this was the aim, it was realised). However, comments as regards future monetary policy were more interesting. Noga, perceived by the market as a hawk, said that only one more hike might be needed in 2007. This may limit somehow expectations for swift rate hikes, though it is worth to notice that at the same time he suggested a necessity to tighten monetary policy further next year and most likely in a few steps. This will also depend on situation on global markets, which is one of factors influencing the Polish foreign exchange market.
Halina Wasilewska-Trenkner, MPC member **Radio PiN, 28 June** If we do not face further unpleasant surprises, for example sudden rise in wages and at the same time drop in production, which was the case in May, i.e. it there is no deterioration in relations between production and salaries, if nothing worse happens to food prices than what we already know and anticipate, if world oil prices remain at predictable levels, if the zloty will continue performing as it was until now, then the rate hike (in June) was sufficient. But I tell you, this is possible, but it is not certain. I cannot tell right now whether we will have to use this arsenal (...). It cannot be ruled out.	Other MPC member, who supported rate hikes since October 2006, Halina Wasilewska-Trenkner, also spoke in quit dovish way. According to her, in order to stop inflationary pressure (connected with higher wages and higher disposable income as a result of decrease in disability pension contribution, among others), it is better to start rate hikes earlier and this way the cumulative tightening may be of lower scale. She added that assuming some conditions are met, the two hikes from April and June may be sufficient to keep inflation close to the target. This is similar quote to the one presented a couple of weeks ago. Of course it will hard to met all conditions listed by Wasilewska-Trenkner, and thus she would probably support another hike(s). However, answering the journalist's question she said that the chances are fifty-fifty.
Andrzej Wojtyna, MPC member **Rzeczpospolita, 29 June** Dilemmas in Polish monetary policy are well placed in the discussion on new uncertainty factors and flattening of the Philips curve, which is conducted in central banks. Since quite a long time, the employment has been on the permanent rise, the unemployment has been falling, economic growth has been accelerating, and inflation has been very little sensitive to these changes. Although at the same time, there are more and more signals suggesting inflationary pressure is mounting. As compared to the situation in the United Kingdom, in Poland we observe a couple of factors, which could additionally make the inflation return to the target (if it accelerates) more difficult: 1) inflation expectations are strongly adaptive and anchored to the inflation target very weakly; 2) emigration tightens labour market conditions and increases wage pressure; 3) empirical knowledge about relationship between wages, profits, productivity, especially on the micro level, is still very limited.	According to Wojtyna, threats for monetary policy conducting, which are the result of flattening of the Philips curve, speaks for some monetary tightening in order to limit possible higher costs of later adjustments. He noticed some risk factors for future inflation, and in his opinion "conclusions from the discussion as regards globalisation's influence on inflation requires more conservatism from the central bank". The remaining question is whether the latest hikes in interest rates will have an influence on inflation expectations, and on the situation in the labour market, which seems to be driven by other factors. What is interesting, Wojtyna added that because of uncertainty, "it may turn out, of course, that inflation will not accelerate". Therefore, it seems that rate hikes are in some sense 'just in case" or, as it was stated by other MPC member, they are a kind of "insurance policy". In our opinion, the transmission channel, which can limit pressure on consumer price growth and thus limit the scale of further hikes is the exchange rate. The problem is that in this case, the adjustment will be taken largely by exporting sector.

Government and politics









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

It's July, time for dismissals in the government

▪ After a period of political stabilisation, a ruling coalition went into a crisis again. The deputy PM and agriculture minister Andrzej Lepper has been dismissed by the president Lech Kaczyński after a motion of Prime Minister. The PM Jarosław Kaczyński said it was connected with investigation regarding corruption deal in the Ministry of Agriculture.

▪ It confirmed an old rule saying that one should expect a major change in the government in July (although in the past it used to be mostly a finance minister's dismissal).

▪ Samoobrona decided to stay in the coalition under several conditions, but the crisis in the coalition triggered speculations about possibility of early elections.

▪ So far, the elections scenario is not certain and even if it confirms, it will probably take place not earlier than after the next three months, among others due to holiday beak in Sejm's proceedings that will last until end of August. Until then, it should become clear whether the government can still count on the support of majority of deputies in the parliament. A factor cementing the coalition will be undoubtedly a fear of loosing mandates among politicians from minor caucuses (see the latest opinion poll results).

▪ From the point of view of financial market, the scenario of snap elections is not that bad, as it creates some chances for establishing a ruling coalition with more market-oriented economic policy. However, the government crisis introduced some short-term uncertainty and additional risk connected with work on 2008 budget and public finance reform (although the latter was not expected to be a ground-breaking improvement anyway). Thus, the market reaction to the turmoil in government should be quite moderate and short-lived.

Budget deficit still much below plans

▪ After five months of the year budget deficit reached PLN4.26bn, i.e. 14.2% of the plan for the entire year. Although it implies the gap was more than twice bigger than after April, it was still much better than in corresponding periods of previous years.

▪ Thanks to economic expansion the revenues keep growing fast (15.2%YoY in May), particularly those from income taxes and indirect taxes.

▪ In the entire year, the deficit will be clearly lower than planned PLN30bn.

▪ Good information keep coming also from local budgets. In Q1 local governments achieved surplus of PLN8bn against deficit PLN11bn planned for the entire year.

Public debt rising slightly more slowly than GDP

▪ According to tentative data from the Ministry of Finance, the debt of public finance sector reached PLN515.1bn after the first quarter, and so it was 2.4% higher than in Q4 2006 and 5.4% higher than in corresponding period of the previous year.

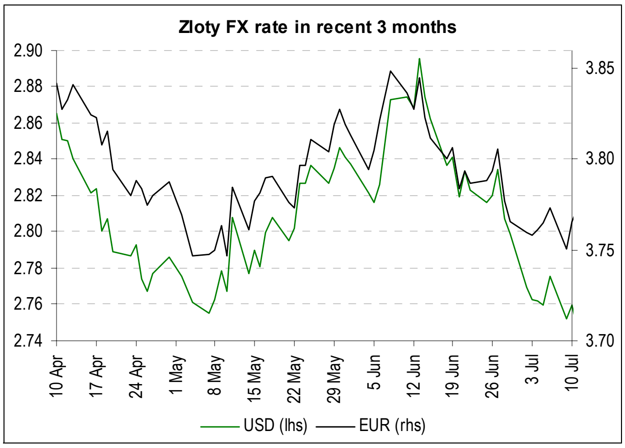
▪ At the same time, public debt in relation to GDP remained almost unchanged in comparison to the end of 2006, at 47.8%, while it was lower as compared to Q1 2006 (49.2%).

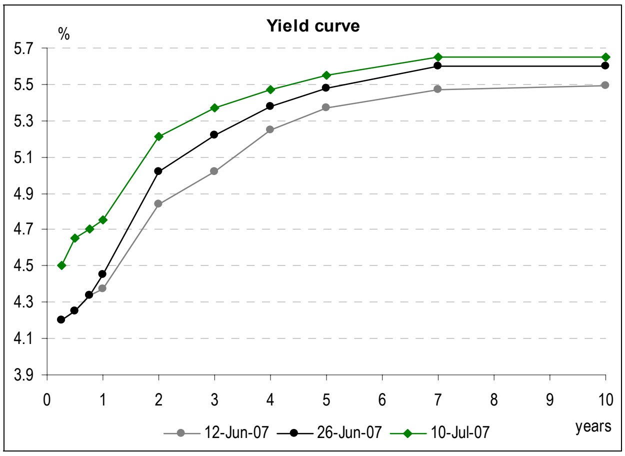
▪ As long as fast economic growth maintains, the level of public debt will not be a reason for concern neither for the government nor for the financial markets, similarly to public finance deficit.

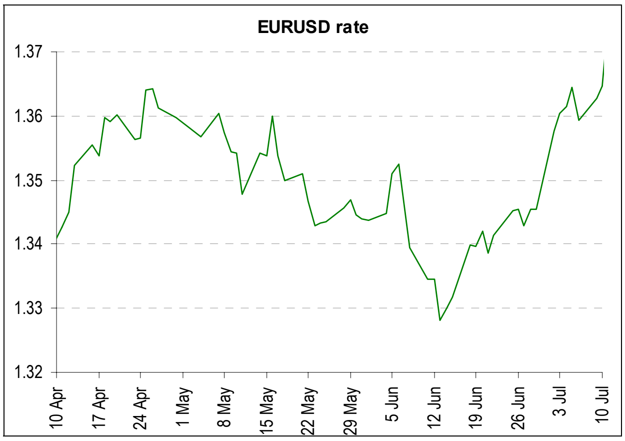
Government and politics

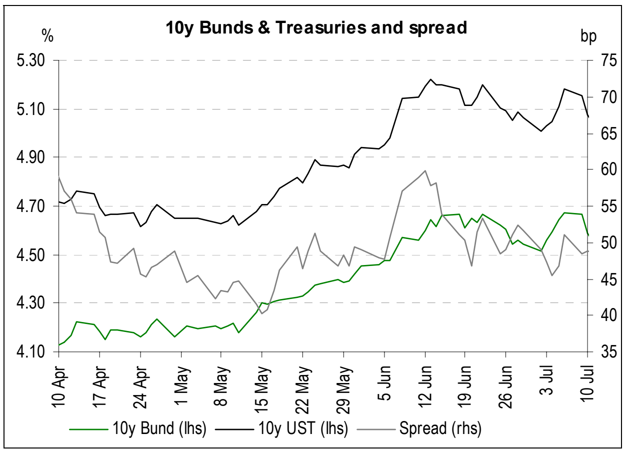
Comments of government representatives and politicians	Our remarks
Jarosław Kaczyński, Prime Minister **PAP, 11 July** Today, many factors suggest that Samoobrona will remain in the coalition, which means that the solution I had proposed in talk with Andrzej Lepper has been accepted. I believe it is the best solution right now. We will see whether it proves long-lasting. **Polskie Radio 3, 10 July** Such motion [about Sejm's dissolution] obviously can be submitted and perhaps we will consider it, but not instantly. [...] In Poland the election campaign cannot be carried out in the middle of the summer, and elections at the end of August. [...] I believe that in the end there will be elections, but it is hard to say when. I think we will return to this issue after holidays. [September] it is a time for making decision. **Reuters, 9 July** If it appears that there is no possibility to have majority government, the only way will be election. With such aggressive opposition, minority government would be completely ineffective. **Andrzej Lepper, deputy PM, agriculture minister** **PAP, 10 July** The club unanimously supported exit from the coalition, but delegated execution of this decision to the board of the party. Thus, I declare that at this moment we are conditionally staying in the coalition. [...] Samoobrona remains in the coalition at the same conditions as previously, and at the same time we expect that the Law and Justice will fulfil all obligations to Samoobrona, it concerns among others securing money for healthcare system, agriculture, social area, teachers' wages, indexation. I will definitely not return to the Ministry of Agriculture.	Despite initial concerns that Andrzej Lepper's dismissal would imply premature elections, it turned out that it was not a straightforward consequence, as Samoobrona's deputies proved not to be too enthusiastic about leaving the coalition and abandoning their current posts, being afraid of serious problems with re-election for the next parliament's tenure in case of the parliament's dissolution. A scenario of early elections still cannot be ruled out completely, however key decisions in this regard will probably wait until end of holidays. It implies that elections, if they happen, would be possible late in the autumn or in the spring next year (after vote on the budget). Until the end of summer, the shape of political scene is not likely to change substantially, and in relation to break in parliament's proceedings, the government will not be under pressure of missing majority of votes in the Sejm. Such scenario implies no significant changes so far for the economy and financial market, as compared to current situation. Probably, the situation will remain little changed from this point of view also if the ruling Law and Justice decides to run minority government for a couple of months after loosing majority in the parliament after the holidays. Such option would imply more difficulties in making critical decisions (it was underscored by the Prime Minister, which suggests it is not a very likely scenario), however, on the other hand, opposition's fear of election could be enough to secure support for the government's most important initiatives. The case of premature election seems not that bad, as it creates some chance for establishing government running more efficient and market-oriented economic policy. However, there is a risk that during the election campaign politicians may be lured by the option to introduce changes to 2008 budget, increasing a scale of fiscal expansion.
Katarzyna Zajdel-Kurowska, deputy finance minister **PAP, Reuters, 6 July** Judging by the data for first two months of the second quarter, we can say the economic growth will surely not reach the same level as in the first quarter. According to tentative forecast, GDP growth in Q2 will be in range 6.0-6.5% We maintain forecast for entire year at 6.5%. Inflation rise in June results first of all from a rise in fuel prices, and also from rise in prices of construction materials. A factor that contributed to increase in annual inflation index was also lower food price deflation than last year.	Taking into account monthly data from April and May about retail sales and production in industry and construction, it seems not very likely that GDP growth rate could exceed 6.5% in the second quarter of this year. However, although the rate of economic growth in the remaining quarters will be slower than at the beginning of the year, it is still much too early to talk about serious deterioration in business climate in Poland. Short-term fluctuations of CPI index will be determined by behaviour of food prices that are especially hard to forecast this year due to irregular weather conditions. Inflation in June will surely exceed 2.5% level, being the inflation target, but probably not for long as expected low food prices in the second year-half should bring it back towards 2% or below.
Katarzyna Zajdel-Kurowska, deputy finance minister **PAP, 6 July** We have better situation in finances than we had predicted. This year definitely there is a chance for lower deficit, but it is hard to predict a scale of reduction. There is high uncertainty concerning EU funds. **Elżbieta Suchocka-Roguska, deputy finance minister** **PAP, 7 July** There is some risk that we will not realise part of revenues from the European Union, but I still think it is a small danger. Budget deficit will surely not exceed PLN30bn. Use of resources from structural funds is still little, in 3-4 percent range. But it does not imply that the use will remain the same in the entire year.	Comments of two deputy finance ministers at the beginning of July signalled that inflow of funds from EU could be lower than planned, which could be a burden for the final outcome of the state budget this year. Probably, this concerns the fact that until receiving flows from the EU, the investments carried out under certain projects are financed by the government, and transfer of EU funds may be delayed for some reasons. However, notwithstanding this, and also despite decrease in budget revenues in the second half of the year caused by a reduction in pension contribution, there is still a chance for achieving budget deficit below PLN30bn level planned in the budget bill.
Piotr Woźniak, economy minister **PAP, 4 July** Last year the level of foreign investments reached almost €12bn. This implies than every month one billion of euros was coming to Poland in a form of FDI. This year the amount of new investments will be probably the same or even slightly higher.	Broad stream of foreign investments coming to Poland is one of the factors fuelling fast economic growth, and also creating an additional pressure on the zloty appreciation. In the long run, it will also contribute to a rise in potential growth of the economy and should be supportive for expansion of Poland's exports.

Market monitor









Source: Reuters, BZ WBK

Another wave of zloty strengthening

- After a correction, which we observed in May, since the start of June there was another wave of zloty appreciation, which was connected with expectations for interest rate hikes. The MPC surprised analysts with its move in June, which contributed to higher expectations of faster monetary policy tightening of larger scale and resulted in significant strengthening of the domestic currency. This was also accompanied by dollar weakening.
- The political turmoil, which has been recently observed, should not result in substantial zloty depreciation. If the early elections scenario realises, there may be a temporary increase of uncertainty and depreciation of the domestic currency, which may be perceived as opportunity to buy zloty. Good data from the economy still support Polish currency, similar to expectations of further monetary policy tightening by the MPC.

Rate hike weakens interest rate market

- Since the mid-June yields of domestic bonds has risen most of all in reaction to higher expectations of rate hike in June. The MPC raised rate by 25 bp, which differed from market consensus, which assumed rate hike in July, and market rates rose stronger amid increased expectations of more and faster monetary policy tightening. Later comments of some MPC members softened these expectations.
- After changing the scenario on official rates, we presume next interest hike may follow in August and another one in the fourth quarter. The June inflation, which most probably will slightly exceed the target, is going to support high rates. The political crisis should not result in significant weakening. After lowering expectations for rate cuts in the United States situation in the core markets is still going to be essential.

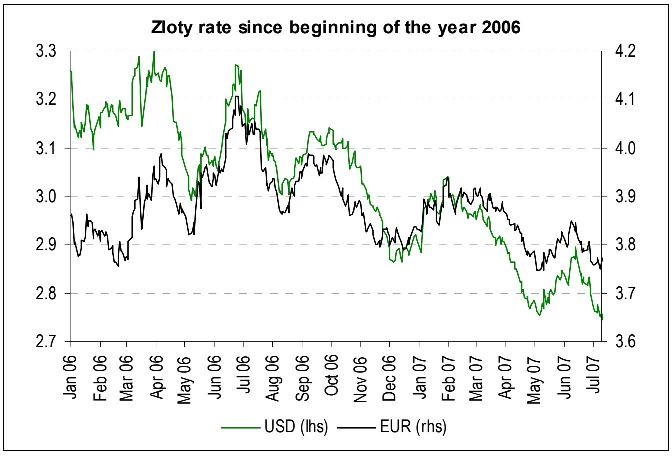
The dollar weakens again

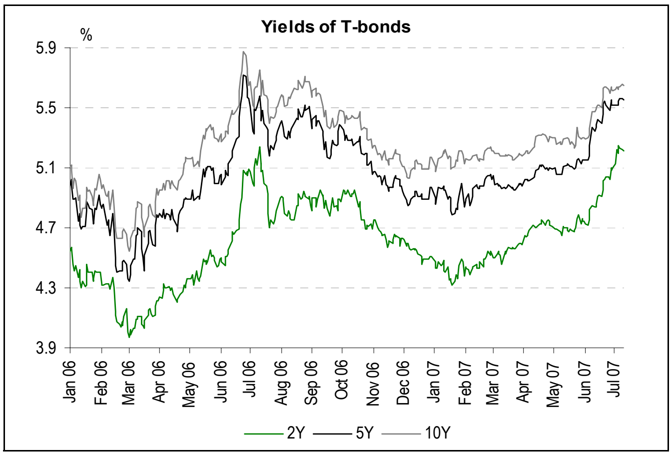
- After decline and further stabilisation of expectations for interest rate cuts in the United States and strengthening of expectations on continuation of monetary policy tightening by the major central bank in the world, the EURUSD rate increased. Another negative factor, which affected the dollar was the news on problems of hedge funds operating in the US sub-prime mortgage market. Since the release of our last report the EURUSD rate has risen by 2.5% to 1.374.
- We still presume that situation in the US housing market will have a substantial influence on the dollar rate, though most probably the expectations on interest rate moves in the United States and in the euro zone are going to be more important. In the medium term we expect stabilisation of the EURUSD rate, and in the longer-term dollar recovery.

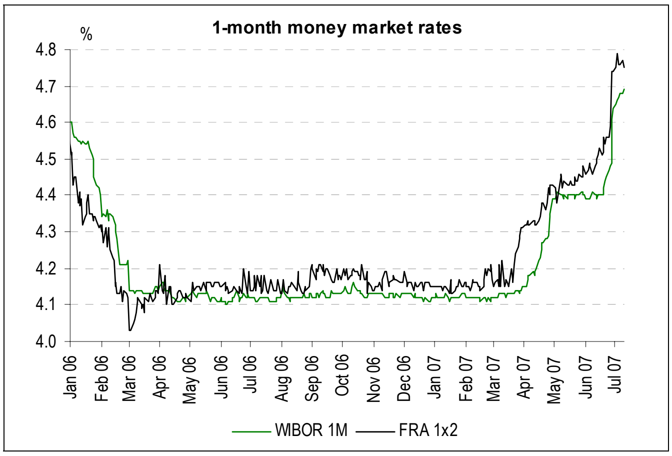
Strengthening in the core debt markets

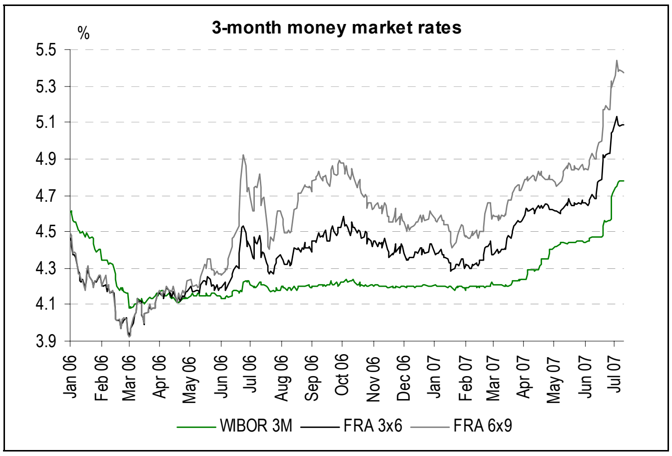
- After the release of our previous report there was some recovery in the core debt markets after the previous substantial weakening. Temporary rise in yields, which was recently experienced, was connected with the release of the US labour market. Another strengthening was a result of another increase of fears over US housing market. Yields of 10Y US government bonds fell from 5.20% to 5.00% and of Bunds from 4.60% to 4.55%.
- Fed emphasized in its communiqué the importance of the taking care of inflation and these data together with news from the housing market will still be crucial for the US debt market, and will determine the moment of possible rate cuts. We also expect another rate hike in the euro zone in September or October and another one at the beginning of 2008, which may be influenced by more positive data from the euro zone.

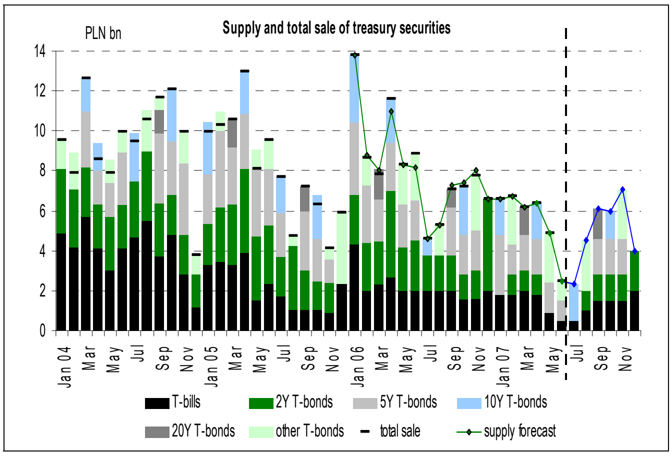
Market monitor











Treasury bill auctions (PLN m)

	OFFER / SALE	
Date of auction	**52-week**	**Total**
07.05.2007	900 / 900	900 / 900
21.05.2007	-	-
Total May	**900 / 900**	**900 / 900**
04.06.2007	500 / 500	500 / 500
18.06.2007	-	-
Total June	**500 / 500**	**500 / 500**
09.07.2007	500 / 500	500 / 500
23.07.2007	-	-
Total July	**500 / 500**	**500 / 500**

* estimations based on Ministry of Finance preliminary information

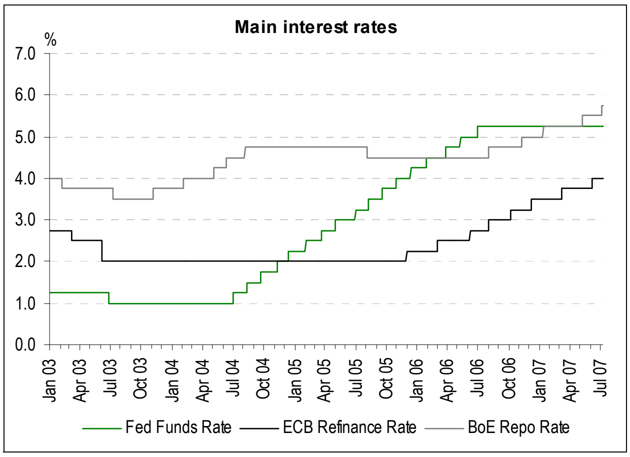
Treasury bond auctions in 2007 (PLN m)

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	1 500
June	06.06	-	-	-	13.06	WS0437	1 000	1 000	20.06	PS0412	1 000	1 002
July	04.07	-	-	-	11.07	DS1017	1 800	-	-	-	-	-
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

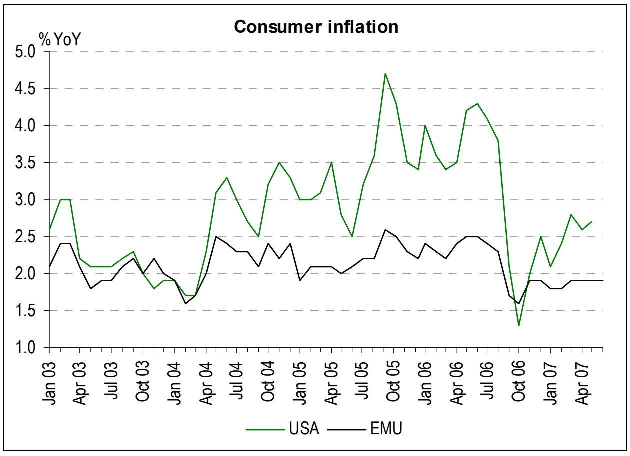
International review



More rate hikes expected in the euro zone

▪ The US central bank left interest rates unchanged at June meeting at 5.25%. It is worth noticing that the word "elevated" with regards to core inflation was dropped from the communiqué. However, Fed emphasized that his main concern was still the fact that inflation may not decelerate. It means that rate cuts in the United States is so far little probable, which is line with the view of most of the analysts.

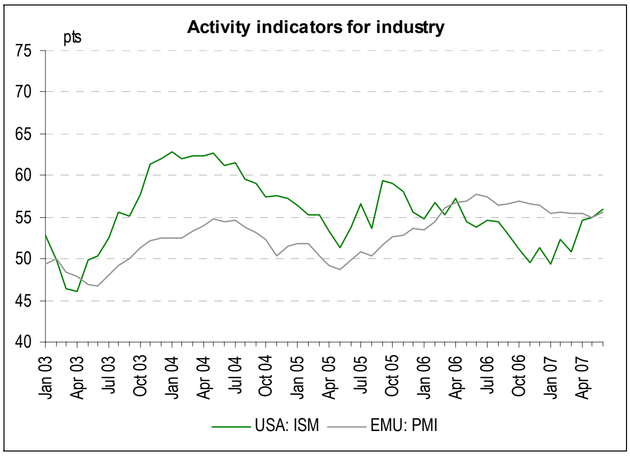
▪ The ECB's president comments indicate that the interest rate in the EMU did not reach the maximum level in this cycle of the monetary policy tightening cycle, which is still considered as accommodative by the ECB. Another rate hike may be pursued in September or October and amid continuation of economic expansion and possible inflations rise another rate hike is probable to 4.5% at the start of the 2008.



CPI is still above the Fed's target, stable HICP

▪ Inflation in the United States amounted in May to 0.7%MoM against a consensus of 0.6%, and in annual term to 2,7%YoY against a forecast of 2.6%. The core CPI rose by 0.1%MoM and 2.2%YoY against expectations of 0.2% and 2.3% respectively. The PPI index rose in May by 0.9% amid market consensus of 0.6% against 0.7% in April. After excluding the energy and food the prices rose in line with consensus by 0.2%. In annual term the PPI increased by 4.1% and core PPI by 1.6%.

▪ According to final data from the Eurostat inflation in the euro zone, which is measured by the HICP index amounted in May to 1.9%YoY. Producer prices in the euro zone rose in May by 0.3%MoM and 2.3%YoY against expected increase of 0.3% and 2.4%. The early estimates for June pointed to no change in YoY inflation as compared to the May figure.

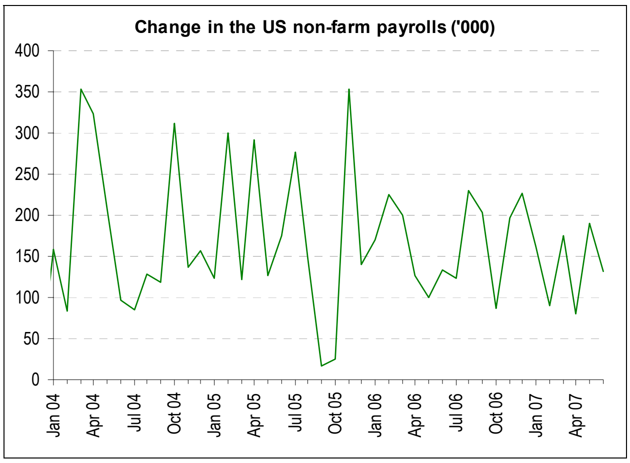


Optimistic US activity data …

▪ In June the ISM index reflecting the activity in the manufacturing sector in the United States rose to 56 pts against 55.0 pts in May, while analysts did not expect any change of the index. The ISM index for the non-manufacturing sector rose at the same time to 60.7 pts from 59.7 pts in May, while market consensus pointed to a slight decline to 58.0. Data suggested that US economy may expand at faster pace than it was previously assumed.

▪ The PMI index for the euro zone for the manufacturing sector rose in June to the highest level in 4 months, i.e. 55.6 pts against 55.0 pts in May. The PMI index for the services sector rose in line with forecasts to 58.3 pts from 57.3 pts in May.

▪ Final GDP data from the United States for the Q1 were revised to 0.7% as compared to previous estimates of 0.6% and expectations of 0.8%. GDP deflator rose by 4.2% in Q1 against a consensus and previous estimates at 4.0%. The core PCE index was revised to 2.4% from 2.2%.



Source: Reuters, ECB, Federal Reserve

... and labour market figures

▪ According to official data from the Labour Department the number of new jobs crated in June in the United States outside the farming sector amounted to 132k against upwardly revised 190k in the previous month. Analysts expected a drop to 120k from 157k in May before the revision. The rate of unemployment stayed at 4.5% as in May, which was in line with analysts' expectations.

▪ The ADP report from the US labour market for June showing number of employed in non-farm private sector pointed to an increase to 150k against 98k in June.

Economic calendar

Monday	Tuesday	Wednesday	Thursday	Friday
9 July ***POL: Treasury bills auction***	**10** US: Wholesale inventories (May)	**11** ***POL: Auction of 10Y bonds***	**12** EMU: GDP (Q1) EMU: Industrial production (May) US: Trade balance (May) US: Federal budget (May)	**13** ***POL: Money supply (Jun)*** ***POL: CPI (Jun)*** ***POL: Balance of payments (May)*** US: Foreign trade prices (Jun) US: Retail sales (Jun) US: Preliminary Michigan (Jul)
16 ***POL: Wages and Employment (Jun)*** JP: Market holiday EMU: Final HICP (Jun) US: NY Fed index (Jul)	**17** GER: ZEW Index (Jul) US: PPI (Jun) US: Net capital flows (May) US: Industrial output (Jun) US: Capacity utilization (Jun)	**18** ***POL: Switch auction*** US: CPI (Jun) US: House starts (Jun)	**19** ***POL: MPC minutes (Jun)*** ***POL: PPI (Jun)*** ***POL: Industrial Output (Jun)*** US: Philadelphia Fed index (Jul) US: FOMC minutes	**20**
23 ***POL: Core inflation (Jun)*** ***POL: Business climate (Jul)***	**24** ***POL: Retail sales (Jun)*** ***POL: Unemployment (Jun)*** ***POL: MPC meeting***	**25** ***POL: MPC meeting – decision*** US: Home sales (May)	**26** GER: Ifo Index (Jul) EMU: M3 money supply (Jun) US: Durable goods orders (Jun) US: New homes sales (Jun)	**27** US: Preliminary GDP (Q2) US: Core PCE (Q2) US: GDP deflator (Q2) US: Final Michigan (Jul)
30	**31** EMU: Business climate (Jul) EMU: Preliminary HICP (Jul) US: Core PCE (Jun) US: Chicago PMI (Jul)	**1 August** ***POL: Auction of 2Y bonds*** EMU: Manufacturing PMI (Jul) US: ADP report (Jul) US: Manufacturing ISM (Jul)	**2** US: Factory orders (Jun)	**3** EMU: Non-manufacturing PMI (Jul) EMU: Retail Sales (Jun) US: Non-farm payrolls (Jul) US: Unemployment (Jul) US: Non-manufacturing ISM (Jul)
6 ***POL: Treasury bills auction***	**7** US: Unit labour costs & labour productivity (Q2) US: Fed meeting – decision	**8** ***POL: Auction of floating rate and CPI linked bonds*** US: Wholesale inventories (Jun)	**9** EMU: ECB meeting - decision	**10** US: Foreign trade prices (Jul)

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
MPC minutes	-	-	-	-	24	21	19	23	20	25	22	13
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	26	24	-	-	-	-	-
Gross wages, employment	16	15	15	17	17	19	16	16	17	15	16	17
Unemployment	29	23	23	25	25	26	24	-	-	-	-	-
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	12	-	-	-
Money supply	12	14	14	13	14	14	13	14	14	-	-	-
NBP balance sheet	5	7	7	6	7	6	6	7	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

		Jun 06	Jul 06	Aug 06	Sep 06	Oct 06	Nov 06	Dec 06	Jan 07	Feb 07	Mar 07	Apr 07	May 07	Jun 07	Jul 07
Industrial production	%YoY	12.2	14.3	12.6	11.6	14.8	12.0	5.9	15.4	13.0	11.3	12.6	8.1	6.2	13.0
Retail sales [c]	%YoY	10.7	11.0	11.5	14.5	13.3	13.6	13.3	16.5	17.5	19.2	15.1	14.8	13.9	16.5
Unemployment rate	%	16.0	15.7	15.5	15.2	14.9	14.8	14.9	15.1	14.9	14.4	13.7	13.0	12.4	12.2
Gross wages [b c]	%YoY	4.5	5.6	5.3	5.1	4.7	3.1	8.5	7.8	6.4	9.1	8.4	8.9	8.2	8.3
Employment [b]	%YoY	3.1	3.3	3.5	3.5	3.6	3.8	4.1	3.8	4.3	4.5	4.4	4.4	4.3	4.3
Export (€) [d]	%YoY	16.9	21.0	22.3	18.6	23.4	21.7	8.0	15.5	13.1	15.8	15.7	10.6	9.2	16.7
Import (€) [d]	%YoY	17.2	26.2	22.9	19.2	27.4	21.0	17.2	21.5	12.3	21.7	24.9	14.7	18.8	21.5
Trade balance [d]	EURm	-103	-519	-434	-212	-283	-339	-1119	-398	-201	-627	-779	-822	-868	-986
Current account balance [d]	EURm	-300	-527	-646	222	-728	-738	-1201	-733	-561	-539	-678	-972	-988	-1056
Current account balance [d]	% GDP	-2.0	-2.1	-2.1	-1.9	-2.0	-2.1	-2.3	-2.5	-2.4	-2.4	-2.4	-2.6	-2.8	-3.0
Budget deficit (cumulative)	PLNbn	-17.7	-15.6	-14.5	-14.5	-16.6	-18.5	-25.1	3.1	-3.0	-4.8	-2.1	-4.3	-7.3	0.0
Budget deficit (cumulative) [e]	% of FY plan	70.4	62.3	57.9	57.8	66.3	73.9	100.0	-10.3	10.1	16.1	6.9	14.2	24.2	0.0
CPI	%YoY	0.8	1.1	1.6	1.6	1.2	1.4	1.4	1.6	1.9	2.5	2.3	2.3	2.6	2.3
PPI	%YoY	3.0	3.5	3.3	3.6	3.2	2.5	2.6	3.1	3.5	3.3	2.2	2.2	1.7	1.5
Broad money (M3)	%YoY	11.9	13.0	12.9	13.0	12.3	14.4	15.6	19.3	17.9	18.0	17.8	16.1	16.3	17.3
Deposits	%YoY	11.4	12.3	12.0	11.6	11.4	13.1	15.0	18.4	18.1	17.5	17.9	16.3	17.4	17.8
Loans	%YoY	16.0	16.7	18.0	19.2	19.5	20.7	23.4	25.0	26.5	26.8	28.4	28.6	28.4	28.4
USD/PLN	PLN	3.17	3.15	3.05	3.12	3.09	2.97	2.88	2.98	2.98	2.94	2.83	2.80	2.84	2.84
EUR/PLN	PLN	4.02	4.00	3.90	3.97	3.90	3.82	3.81	3.88	3.90	3.89	3.82	3.78	3.81	3.78
Reference rate [a]	%	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.25	4.25	4.50	4.50
Lombard rate [a]	%	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.75	5.75	6.00	6.00
WIBOR 3M	%	4.17	4.19	4.19	4.21	4.22	4.20	4.20	4.20	4.20	4.22	4.32	4.44	4.52	4.65
Yield on 52-week T-bills	%	4.20	4.30	4.35	4.44	4.35	4.29	4.20	4.14	4.07	4.23	4.36	4.43	4.42	4.65
Yield on 2-year T-bonds	%	4.75	4.95	4.85	4.87	4.84	4.65	4.54	4.41	4.46	4.55	4.71	4.70	4.93	5.20
Yield on 5-year T-bonds	%	5.33	5.37	5.41	5.31	5.24	5.01	4.91	4.90	4.97	4.98	5.07	5.11	5.40	5.55
Yield on 10-year T-bonds	%	5.54	5.55	5.61	5.48	5.39	5.18	5.10	5.16	5.18	5.18	5.27	5.28	5.52	5.65

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

		2005	2006	2007	2008	1Q06	2Q06	3Q06	4Q06	1Q07	2Q07	3Q07	4Q07
GDP	PLNbn	983.3	1 057.9	1 150.6	1 248.0	242.4	253.9	261.4	300.1	267.1	277.0	282.5	324.0
GDP	%YoY	3.6	6.1	6.2	5.5	5.5	6.0	6.3	6.6	7.4	6.5	5.9	5.4
Domestic demand	%YoY	2.4	6.6	7.2	6.5	5.3	5.4	6.9	8.6	8.6	7.3	6.5	6.6
Private consumption	%YoY	2.0	5.2	5.8	5.5	5.4	4.8	5.6	5.1	6.9	5.5	5.5	5.5
Fixed investments	%YoY	6.5	16.5	17.3	13.0	7.6	14.5	19.3	19.3	29.6	18.0	15.0	14.0
Industrial production	%YoY	4.0	12.5	11.0	10.0	12.4	12.1	12.3	10.8	13.0	9.0	10.8	11.4
Retail sales (real terms)	%YoY	1.5	11.9	14.6	11.0	9.0	11.8	13.8	12.6	17.4	13.0	13.7	14.2
Unemployment rate [a]	%	17.6	14.9	11.5	10.0	17.8	16.0	15.2	14.9	14.4	12.4	11.8	11.5
Gross wages (real terms) [c]	%YoY	1.2	4.2	5.8	5.5	4.3	3.9	4.1	4.5	5.9	5.9	6.3	5.4
Employment [c]	%YoY	1.9	3.2	4.2	4.3	2.6	3.0	3.4	3.8	4.2	4.4	4.2	4.0
Export (€) [b]	%YoY	17.8	20.2	13.1	15.0	23.3	19.5	20.7	18.0	14.8	11.7	13.0	13.0
Import (€) [b]	%YoY	13.4	21.8	17.2	17.0	23.3	19.0	22.8	21.9	18.5	19.2	15.5	16.0
Trade balance [b]	EURm	-2 242	-3 896	-8 401	-11 939	-352	-646	-1 165	-1 733	-1 226	-2 470	-1 932	-2 773
Current account balance [b]	EURm	-4 130	-6 312	-9 096	-10 639	-1 396	-1 266	-949	-2 701	-1 950	-2 639	-1 241	-3 266
Current account balance [b]	% GDP	-1.7	-2.3	-3.0	-3.1	-1.9	-2.0	-1.9	-2.3	-2.5	-2.9	-2.9	-3.0
Budget deficit (cumulative) [a]	PLNbn	-28.6	-25.1	-26.0	-30.0	-9.0	-17.7	-14.5	-25.1	-4.8	-7.3	-16.6	-26.0
Budget deficit (cumulative) [a]	% GDP	-2.9	-2.4	-2.3	-2.4	-	-	-	-	-	-	-	-
CPI	%YoY	2.1	1.0	2.2	2.8	0.6	0.8	1.4	1.3	2.0	2.4	2.0	2.4
CPI [a]	%YoY	0.7	1.4	2.7	2.8	0.4	0.8	1.6	1.4	2.5	2.6	2.0	2.7
PPI	%YoY	0.7	2.5	2.5	3.0	0.9	3.0	3.6	2.6	3.3	2.0	1.8	3.0
Broad money (M3) [a]	%YoY	10.5	15.6	14.4	14.3	9.8	11.9	13.0	15.6	18.0	16.3	15.9	14.4
Deposits [a]	%YoY	9.4	15.0	15.0	12.3	9.1	11.4	11.6	15.0	17.5	17.4	17.1	15.0
Loans [a]	%YoY	11.8	23.4	25.0	18.0	13.6	16.0	19.2	23.4	26.8	28.4	27.2	25.0
USD/PLN	PLN	3.23	3.10	2.85	2.80	3.19	3.14	3.10	2.98	2.97	2.82	2.85	2.75
EUR/PLN	PLN	4.02	3.90	3.80	3.68	3.83	3.95	3.96	3.85	3.89	3.80	3.79	3.71
Reference rate [a]	%	4.50	4.00	5.00	5.50	4.00	4.00	4.00	4.00	4.00	4.50	4.75	5.00
Lombard rate [a]	%	6.00	5.50	6.50	7.00	5.50	5.50	5.50	5.50	5.50	6.00	6.25	6.50
WIBOR 3M	%	5.29	4.21	4.68	5.50	4.29	4.15	4.20	4.20	4.20	4.42	4.83	5.20
Yield on 52-week T-bills	%	4.92	4.18	4.61	4.75	4.02	4.06	4.37	4.28	4.14	4.40	4.78	5.12
Yield on 2-year T-bonds	%	5.04	4.57	4.98	5.20	4.23	4.49	4.89	4.67	4.47	4.78	5.20	5.45
Yield on 5-year T-bonds	%	5.25	5.03	5.39	5.55	4.67	5.04	5.36	5.05	4.95	5.19	5.60	5.80
Yield on 10-year T-bonds	%	5.24	5.22	5.53	5.75	4.83	5.27	5.55	5.22	5.17	5.36	5.70	5.90

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

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

This analysis is based on information available until 10.07.2007 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