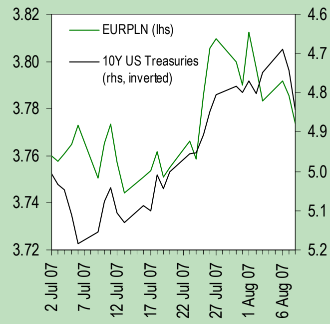
Bank Zachodni WBK

MACROscope

Polish Economy and Financial Markets

August 2007

EURPLN rate and 10Y US Treasuries



Stock indices in Poland and USA

In this issue:

Risk aversion again

- **At the beginning of August we saw another wave of risk aversion on the global markets (although we can say it is just a continuation of the trend started in February this year).** In line with our forecasts, the zloty exchange rate against the euro exceeded the level of 3.80 at the end of July and although we saw some stabilisation in the following weeks, we think that some short-term weakening of the zloty is well possible. As regards the bond market, it should be supported by lower yields in core markets, but domestic factors (the expected rate increase in August by the MPC) should work in the opposite direction.

- **A month ago we had wrote that the risk for our GDP growth forecast for the second quarter was on the downside and indeed, having all available monthly information, we revised it to 6%YoY.** Despite this, economic growth reached in the first half of the year was still higher as compared to our forecast presented at the beginning of the year, which was connected with excellent result in the first three months of the year. As compared to our forecasts, domestic demand is higher, which is driven by sharp employment creation, as well as higher wage pressure.

- **In the first half of the year, the situation in the Polish financial market was not much different from our forecasts, which had assumed positive trend for the zloty and negative in case of bonds.** What is interesting, despite higher-than-expected economic activity and significant labour market tightening, our forecasts of Polish yields were lower by a few basis points than the average yields recorded in the market in that period. This was probably partly connected with a bit stronger appreciation trend for the zloty (zloty rate lower by a few groszy as compared tour view). On the other hand, stronger zloty helped in stabilising inflation rate at the level slightly above 2% in the first half of the year (our forecast was at 2.2%), in spite of substantial increase in unit labour costs. Of course, this factor will remain the risk-factor for inflation in the following quarters, especially given the fact that zloty appreciation trend may be temporarily stopped by higher risk aversion on global markets. Nevertheless, our year-end forecast for the EURPLN rate (ca. 3.70) is still valid.

- **We also stick to our view (which was changed after the June's MPC meeting) that monetary policy will continue tightening cycle with the next rate hike already this month.** The members of Monetary Policy Council have repeated many times that a relation between labour productivity and wages will be important for their future decisions, and therefore data release on wage growth in the economy as a whole in 2Q07 will be probably an important argument. They accelerated to 8.9%YoY, which means strong growth in unit labour costs (by ca. 6%YoY) if one assumes that economic growth decelerated and employment accelerated in Q2.

Financial market on 31 July 2007:					
NBP deposit rate	3.00	WIBOR 3M	4.81	USDPLN	2.7653
NBP reference rate	4.50	Yield on 2-year T-bonds	5.11	EURPLN	3.7900
NBP lombard rate	6.00	Yield on 5-year T-bonds	5.51	EURUSD	1.3706

This report is based on information available until 09.08.2007

Maciej Reluga
Chief economist
+48 22 586 8363

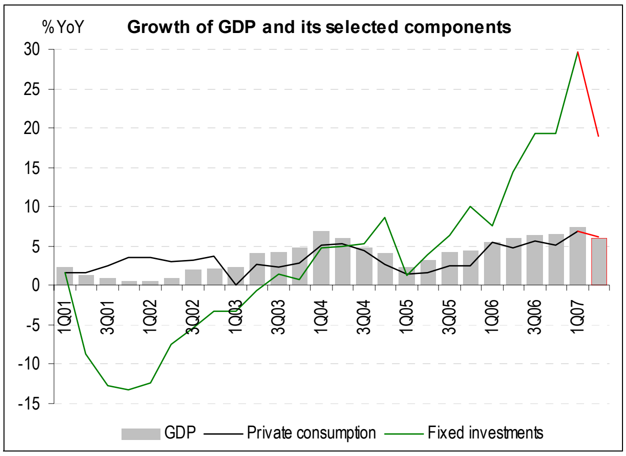
Piotr Bielski
+48 22 586 8333

Piotr Bujak
+48 22 586 8341

Cezary Chrapek
+48 22 586 8342

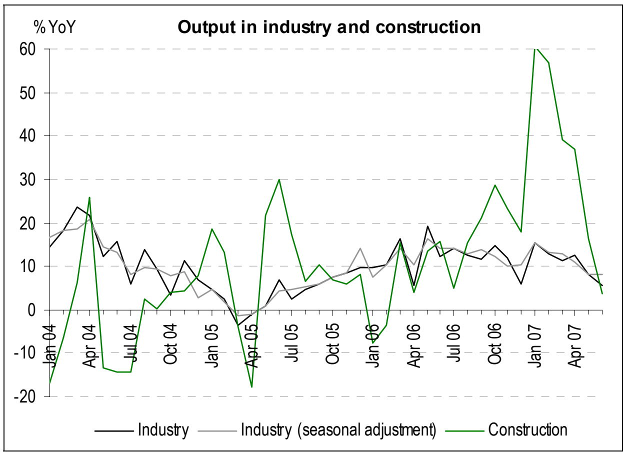
Email: ekonomia@bzwbk.pl

Economic update



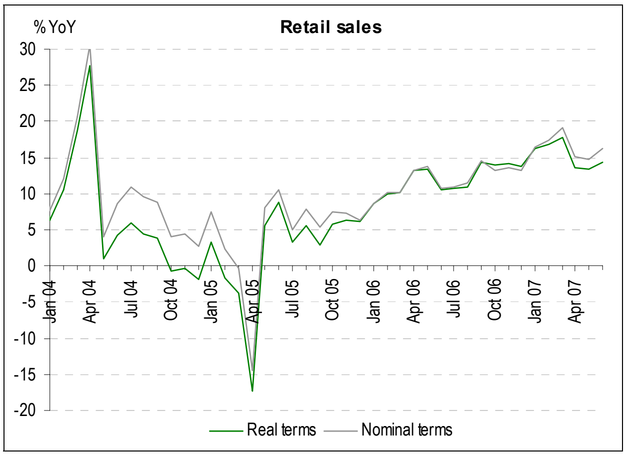
Growth slowdown to 6% in Q2

- In previous monthly report we had wrote that the risk to our GDP growth forecast for the second quarter was on the downside and indeed, having all available monthly information, we revised it to 6%YoY.
- This means substantial slowdown as compared to the rate of GDP growth achieved in 1Q07 (7.4%), however this does not mean that economic picture after monthly data for 2Q07 dramatically changed. It is not so pessimistic, as we perceive the slowdown in some sectors of the economy as a temporary .
- After exceptional first quarter, in the reminder of the year the economy should expand at the level closer to the potential growth rate, though the balance of growth will be biased towards higher influence of domestic demand, which will be connected with a continuation of improvement in the labour market.



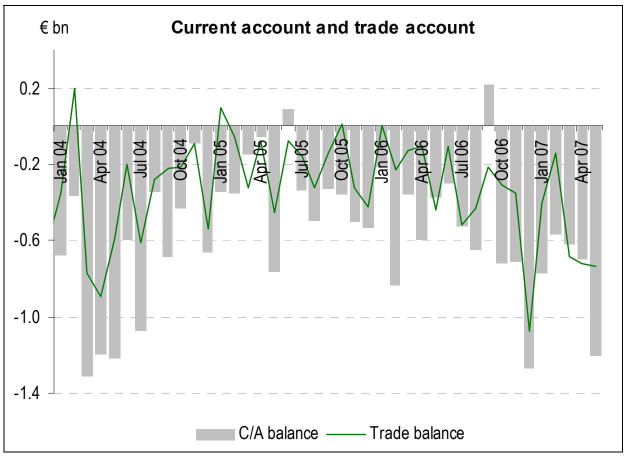
Low production growth in June

- Industrial production grew in June by 5.6%YoY and 0.2%MoM, which was the result weaker than market consensus of ca. 8%YoY and below our forecast of 6.2%YoY.
- To some extent the deterioration of production growth resulted from lower number of working days as compared to June 2006. The data released by the CSO on seasonally adjusted industrial output pointed to a rise by 8%, which also means weakening in comparison to previous months (8.3%YoY in May, 12% in first five months of this year).
- Traditionally, the highest growth was experienced in the manufacturing sector (6.2%YoY), especially in export-oriented branches. Growth of construction-assembly production decelerated to 3.7%YoY (seasonally adjusted growth was at 9.9%YoY).



... but retail sales surprised on the upside

- Retail sales accelerated in June to 16.2% YoY in nominal terms as compared to 14.8% recorded in May (in real terms from 13.4% to 14.3%).
- The result was higher than market forecasts, which should have been taken into account to some extent, after labour market statistics for June were better than expected.
- Disposable income of households is rising fast and this is the main factor keeping the growth rate in private consumption at high level. This should be also the case in the following months.
- Retail sales increase is broad-based, as all sectors of retail trade recorded very positive results and the highest growth was observed for motor vehicles, furniture and house appliances.

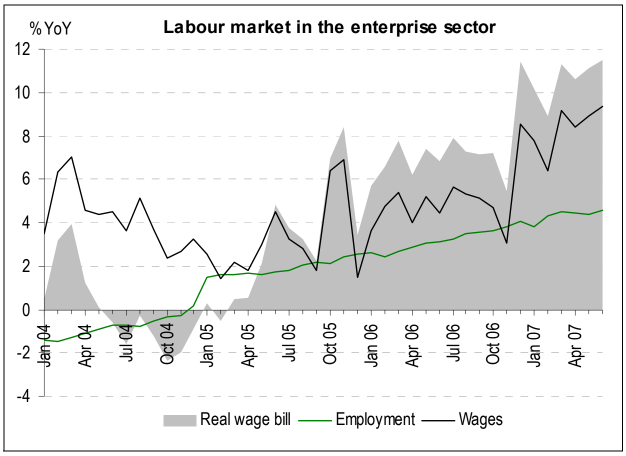


Source: CSO, NBP, own calculations

External balance more negative

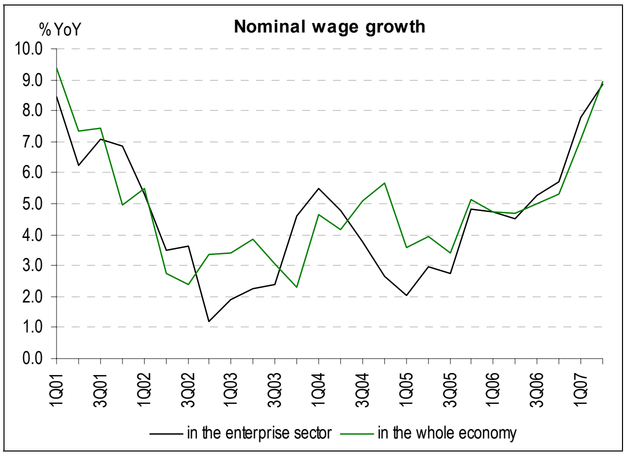
- Current account deficit reached €1.2bn in May, which was much above forecasts and resulted mainly from small surplus in current transfers that reached a mere €359m (average in the first four months of this year above €600m and the average in the last two months above €900m). This was the effect of lower transfers from the EU, but we do not expect this will be a permanent effect.
- There was no big surprise as regards trade deficit that reached €734m, Growth rates of exports and imports were slightly lower than forecasted, however they remained at double-digit levels, correspondingly 11.3%YoY and 14.3%YoY.
- According to our estimates, net exports contribution to GDP was much more negative in 2Q07 as compared to 1Q07 amid slowdown in export (low production) and higher imports.

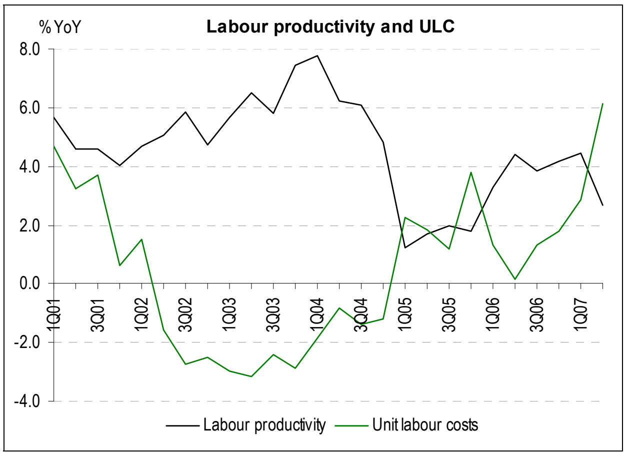
Economic update



Labour market trends unchanged

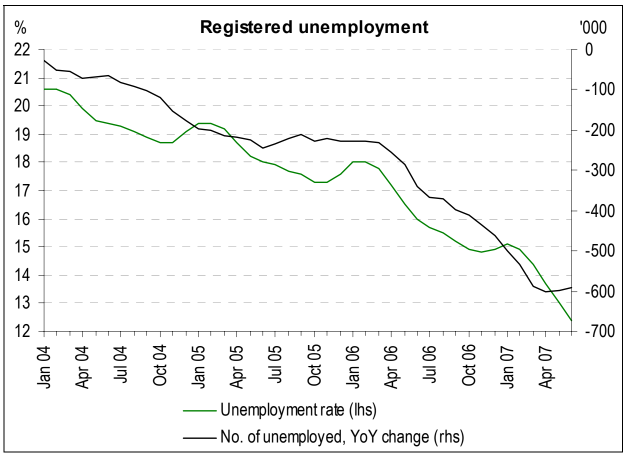
- Average wage growth in the enterprise sector rose by 3.3%MoM and 9.3%YoY. Employment data were also stronger than expected and rose by 0.6%MoM and 4.6%YoY against a market consensus of 4.3%YoY.
- The acceleration of nominal wages growth to the highest level since January 2001 and increase of employment growth to the highest level in the history of Polish economy after 1989 resulted in clear acceleration of wage bill growth in companies. It reached 14.4%YoY in nominal terms and 11.5%YoY in real terms.
- The data confirmed that due to increasing labour demand, tensions on the labour market keep growing, which finds its reflection in wage growth. It will be interesting to see whether and to what extent a reduction in tax wedge will influence wage pressure in the economy.





Sharp increase in unit labour costs

- After a several years of wage growth dynamics below the rate of growth in productivity, the situation has reversed, particularly in recent months.
- This was confirmed once again by statistics of average wage in the economy as a whole for the second quarter. According to the statement released by the Central Statistical Office, the average wage in the economy amounted to 2644.34 PLN in Q2. This means that after salaries increased by 7.1%YoY in the first quarter, an acceleration to 8.9% took place, which was higher than suggested by the trend observed for the enterprise sector (growth in Q2 also by 8.9%, but as compared to 7.8% in the first quarter).
- At the same time, a substantial revival in terms of labour demand was observed, as employment in the enterprise sector accelerated from 4.2% to 4.5%YoY. According to our estimates, the figure for the whole economy rose from 3.0% to 3.2%YoY. Together with a slowdown in economic activity to ca. 6%YoY (and productivity growth rate decrease from 4.5% to 2.7%YoY in 2Q07) this meant a substantial increase in unit labour costs - from almost 3% in Q1 to ca. 6%YoY in Q2. For comparison, ULC rose on average in 2006 by slightly more than 1%YoY.
- In the remainder of the year the economy should expand by ca. 6% and employment growth should not accelerate further, however with the wage pressure maintained at relatively high level, the unit labour costs may still rise quite fast.
- Although the influence of this effect is not so unambiguous for inflation prospects (amid high margins and excellent financial results of companies), we think this may be one of arguments for the Monetary Policy Council to continue the cycle of monetary tightening in the following months.

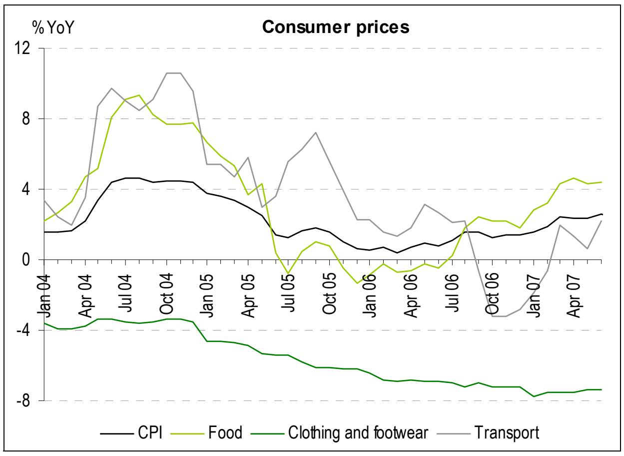


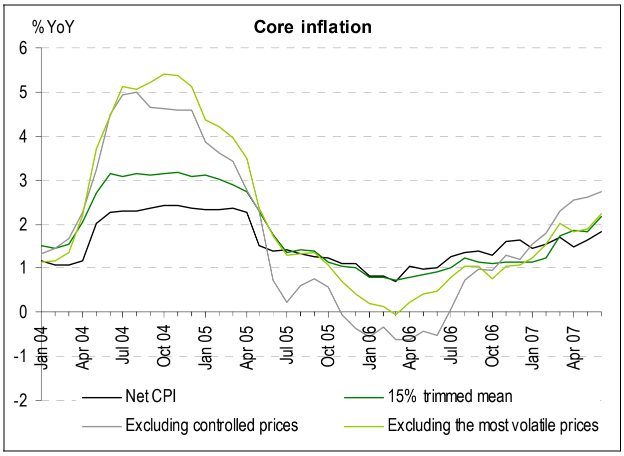
Source: CSO, NTC Research, own calculations

Unemployment rate sharply down

- The rate of registered unemployment fell in June to 12.4%, which was in line with our forecast and slightly below the market consensus (12.5%). It is expected the trend to be continued with the jobless rate at 12.2% in July.
- The number of registered unemployed amounted to 1.89m people and was lower than a year ago by 592m (almost 24%).
- Similar to higher retail sales growth, faster fall in unemployment is an effect of improvement in labour market conditions and one may expect this to be continued in the subsequent months. This will be one of factors fuelling further strong growth in private consumption.
- According to our forecast the unemployment rate will reach 11.5% at the end of this year, which would mean a drop by 3.5 pp (as compared to 2.7 pp reduction in 2006)

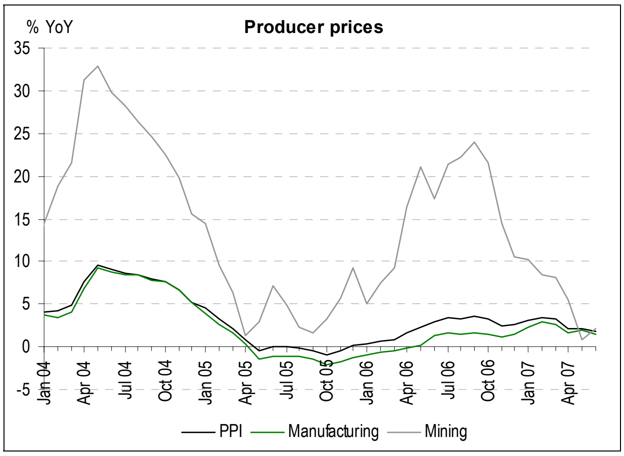
Economic update





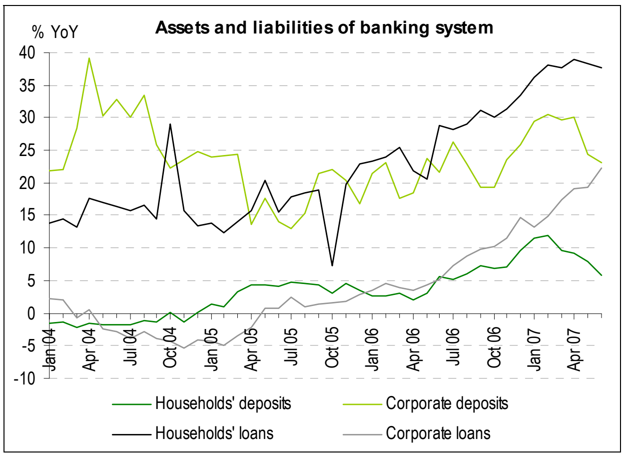
Inflation prospects did not change

- Since March 2007 consumer inflation maintains near the inflation target of the central bank of 2.5% and we expect this will be the case also in the reminder of the year with the exception in August-September period, when inflation may fall even below 2% amid low statistical base effect.
- CPI inflation in June increased to 2.6%YoY from 2.3% in May after no change in consumer prices on a monthly basis. The result exactly matched our forecast and was below the market consensus and the FinMin's estimate of 2.7%YoY.
- As one could have expected, one of main reasons for inflation increase were food and fuel prices that grew 4.4%YoY and 4.1%YoY, respectively (against 4.3%YoY and 0.8%YoY in the previous month). However, one should note that on a monthly basis food prices fell over 1% (stronger than we assumed), which means that concerns about effects of spring frosts on food prices were exaggerated. In the following months we will see to what extent domestic food prices will be affected by rising trend of food prices globally and by the fact that crops in Western Europe were much worse than in Poland.
- Core inflation data for June showed an increase in all measures calculated by the NBP. In line with expectations, net inflation accelerated to 1.8%YoY from 1.65%YoY in May.
- An increase of the remaining four measures ranged from 0.12 p.p. to 0.36 p.p. This confirms that the underlying inflationary pressure, which is a matter of concern for the MPC to a much larger extent than transitory shocks in the food and fuel prices, gradually strengthens. However, it still remains relatively weak, which is illustrated in the fact that only one core inflation measure exceeds the inflation target. The data have not changed the picture of medium term inflation prospects.



Producer prices influenced by commodities market

- PPI inflation amounted to 1.8%YoY in June. Although the annual growth rate declined versus May (2.1%YoY after downward revision), this mainly resulted from the high base effect.
- In monthly terms the PPI index rose by 0.6%, mainly with regards to price increases in manufacturing (0.7%MoM).
- Prices in industry have been rising moderately since the start of the year and this may signal that companies are able to larger extent to transfer higher labour costs to prices of their products.
- On the other hand, the highest price growth in the last months resulted from rising prices in the oil manufacturing and its derivatives, which was connected with higher prices of commodities and in June also in the tobacco sector, which might suggest, that the factor of rising wage costs was not a predominant one.

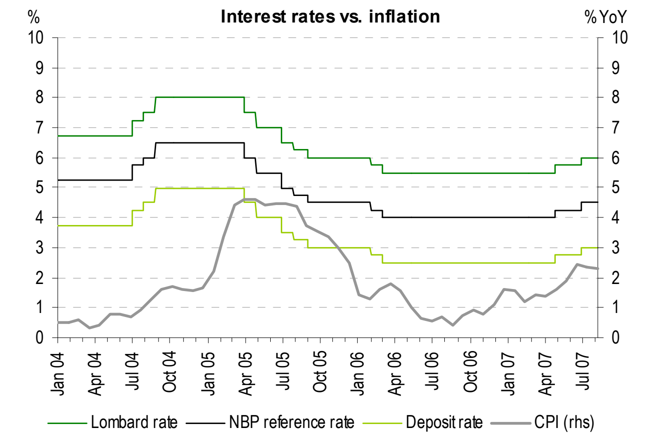


Source: CSO, NBP, own calculations

Money supply decelerated, contrary to credits

- In June increase in money supply amounted to a mere 0.1%MoM and 14.9%YoY. The market expectations pointed to a rise by 16%YoY and our forecast was at 16.3%.
- Nevertheless, as one might have expected the growth rate of loans accelerated to 29.2%YoY from 28.6%YoY in May. With regard to households loans their growth amounted to 37.6%YoY, which was a slight deceleration as compared to previous month, while loans to enterprises rose by 22.2%YoY (19.3% in May).
- The level of deposits in the banking sector remained unchanged as compared to May and their growth rate declined to 15.1%YoY from 16.3%YoY. The main factor responsible for this situation were households' deposits, which rose by only 5.9%YoY (the smallest increase in a year). Deposits of companies rose by 23%YoY.

Central bank watch



Element of July MPC statement (changes in different font)

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. **Nevertheless,** the Council assessed that in the medium term inflation growth may be curbed by **increase in productivity** ~~a continuation of high productivity growth,~~ and very good financial standing of enterprises. **Inflation growth may be also constrained by** low growth of external prices, related to **the monetary policy pursued by major central banks as well as the** globalisation **process** and the ensuing ~~intensified~~ **rise in** 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.~~

Inflation projections (% YoY)

	Jul 06	Oct 06	Jan 07	Apr 07	Jul 07
4Q 2007	1.5-3.5	1.9-3.8	2.1-3.8	1.3-2.6	2.3-3.3
4Q 2008	1.7-4.3	2.2-4.6	2.2-4.5	1.6-3.8	2.1-4.1
4Q 2009	-	-	2.4-5.2	2.1-4.6	2.1-4.5

GDP growth projections (%)

	Jul 06	Oct 06	Jan 07	Apr 07	Jul 07
2007	3.6-5.9	4.1-6.2	4.9-6.7	6.0-7.0	6.2-6.8
2008	4.0-6.6	4.5-7.0	3.6-6.4	4.0-6.3	4.3-6.7
2009	-	-	3.5-6.5	4.0-7.0	4.0-7.2

Source: NBP, Inflation Report – July 2007

Note: there is a 50% probability that the annual growth of GDP and inflation will be within the indicated ranges

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 forecast of voting results

Source: NBP, Reuters

Expected pause in tightening cycle

▪ At July's meeting the Monetary Policy Council decided to leave interest rates unchanged with reference rate at 4.50% level. After the comments of some of the MPC members (usually the "hawkish" ones), it was commonly expected by the market participants and did not result in a significant reaction of the FX and fixed income markets. This also confirmed that the rate hike in the previous month was to some extent a matter of a choice of the timing between June and July, and the Council does not feel substantial concerns about inflation, in order to deliver swift monetary tightening.

▪ The statement released after the meeting did not determine the next rate hike (third this year) will take place in August, so a chance appeared that July's break will prolong into the next month. This was reflected in a reaction of the interest rate market, i.e. some weakening of expectations of hike in August.

▪ However, one should remember that the Council does not exclude next hikes, as informal restrictive bias in monetary policy remained intact and probability of next hikes will depend on upcoming macroeconomic data.

▪ Besides, market participants surely remember that official statement in May also had not prepared the market for the hike, which took place in June.

▪ According to our forecasts, data for July, which will be published before the MPC meeting in August, will show clear rebound in economic activity indicators and continuation of tightening in labour market conditions. Therefore, we keep our view that the Council will hike rates in August (and one more time in the fourth quarter). We expect the NBP reference rate to increase to 5.50% next year, which is roughly consistent with the scenario priced-in by the market.

New projection shows higher inflation in 2007-08

▪ The level of inflation at the end of 2009 did not change as compared to the April projection, but path of CPI approaching to this level was increased. This is connected with higher food prices growth (trends in global food market, new assessment of crops, VAT increase in 2Q08, which probably will not take place) and stronger labour market recovery, which, according to authors of the projection, may not be balanced by the anti-inflationary influence of the reduction of disability pension contribution.

▪ The projection results and conclusions from the *Report* did not change monetary policy prospects. It is uncertain whether the MPC's members agree with the view that the effect of reduction of the disability pension contribution is anti-inflationary (it was one of the arguments in favour of the rate hike already in June), they may be sceptical also against other elements of the projection (e.g. weaker zloty in nominal terms).

Sławiński supported hike in March, Czekaj decides

▪ The voting result for March was slightly different from our prediction (in previous MACROscope), as we had assumed that Andrzej Sławiński was against rate hike during that meeting (we were right as regards other members and voting in May).

▪ Nevertheless, this does not change the fact that Jan Czekaj is the key member to form majority to increase interest rates. Also, voting results for May showed that two members, Andrzej Sławiński and Andrzej Wojtyna, who were perceived by some market participants as "inseparable duo", have sometimes different view on monetary policy. Taking into account voting result, it seems that Wojtyna may be treated as more conservative central banker or his views on medium-term inflation prospects are more pessimistic.

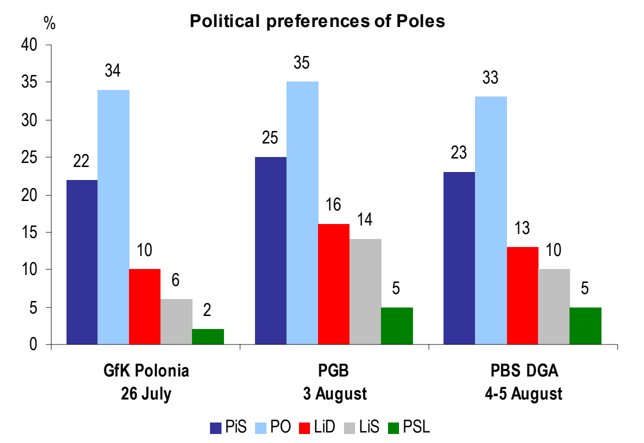
Central bank watch

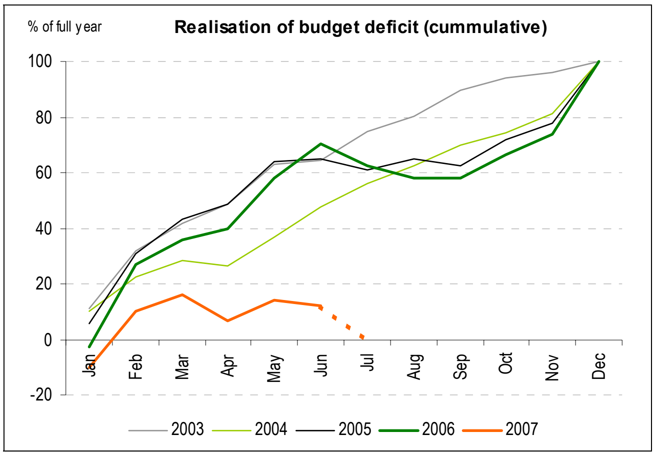
Comments of the central bank representatives	Our remarks
Sławomir Skrzypek, NBP President **Gazeta Prawna, 6 August** I would not hesitate to support interest rate hikes if in my judgment there will be a risk for stability of prices. If the current data and expectations as regards future development of economic situation show the risk of inflation exceeding 3.5% in the monetary policy transmission horizon, I would vote for a hike. (…) In this moment inflation risks are balanced and it does not seem, that CPI index growth exceeds the 3.5% level within the next two years. (…) Although our projection based on ECMOD model shows a possibility of inflation approaching 3.5%, other models prepared in the central bank show quite opposite trends.	Basing on another interview of NBP governor and MPC chairman, we maintain our opinion that most probably his voting pattern will not change in the nearest time. As majority of members in the MPC see the risk of inflation to exceed the 3.5% level and some of them can even react when 2.5% is endangered, they will propose motions to increase interest rate in the following months. Therefore, the President of the NBP will be still in minority and the timing of next hike will be determined again by other MPC members, particularly Czekaj and Sławiński. The interview showed that Skrzypek's opinion as regards inflation prospects, is supported by econometrics models produced in the central bank, which show different results as compared to the one used for calculations of the official projection. It seems to us that Skrzypek meant NSA model, which shows a stabilisation of CPI inflation around the target in the medium-term.
Jan Czekaj MPC member **Gazeta Prawna, 31 July** Q: What was missing to hike rates in July? A: One cannot state that something lacked [to hike rates]. Some role was played by tactical reasons. We did not want to fuel expectations for next hikes, raising rates month by month. Q: But further hikes are inevitable? A: I doubt whether there will be no need for further hikes (…) If firms are rising wages and prices, we will have to react with rates. Increase in ULC does not have to automatically lead to price increases. Firms have limited ability to increase prices, for instance due to competition of imported goods, especially with strong zloty.	This year's voting result showed that Jan Czekaj is the key member to form majority in the Council. His comments for *Gazeta Prawna* daily indicate that he is not going to be passive to a threat of possible pass-through from higher unit labour costs to retail prices, but he is not convinced whether such a threat would materialise. Also, he would like to avoid excessive tightening of monetary policy. At the same time, MPC member expressed his doubts whether rate hikes delivered so far will be sufficient and suggested that no rate hike in July was only due to tactical reasons, as the MPC wanted to avoid creating expectations for excessive tightening in monetary policy. All in all, Czekaj's comments seem to confirm our view that he will vote for a rate hike in August and this will determine decision of the whole Council, although it will of course depend on another set of data for the economy.
Jan Czekaj MPC member **PAP, 27 July** If June's situation repeats in July [further wage growth and low growth in output maintained], the probability of interest rate hike in August would increase. **Mirosław Pietrewicz, MPC member** **Thomson Financial News, 26 July** Interest rate rises to date have, to a certain extent, slowed inflationary pressure but we are not sure if they have done enough. For this reason in the statement yesterday, we said that there exists the likelihood of a rise in rates. (…) We will pay close attention to the development of the economic situation, concentrating on the data on industrial production, retail sales, wages and unemployment. **Halina Wasilewska-Trenkner, MPC member** **PAP, 26 July** We still face uncertainty. If we were certain the hike would take place in July. There is no certainty and we will know more after data set, to be released in August.	After the July's MPC meeting several interviews with MPC members were released and all of them have agreed that future decisions are going to be highly dependant on incoming data. Already during the press conference after the meeting, the NBP President Sławomir Skrzypek said: "August is a very interesting month as far as data inflow is concerned". Dariusz Filar emphasized the importance of the wages and net inflation data, Mirosław Pietrewicz pointed to data about industrial production, retail sales and unemployment, while Jan Czekaj emphasised the relation of wages and productivity and GDP data, Halina Wasilewska-Trenkner mentioned wages and employment in the whole economy, as well as investments. She also indicated that though GDP data for the second quarter would be available only after the August meeting, the assessment of the situation might be based on the monthly data. What is interesting, almost all members of the MPC (including Mirosław Pietrewicz, who is perceived by market players as one of the "doves") admitted that further interest rate hikes may be needed. Such comments support our base scenario presuming interest rate hike this month.
Marian Noga, MPC member **PAP, 1 August** The process of monetary policy tightening did not finish yet. The MPC will act in a moderate way in order to anchor inflation expectations close to the inflation target in the medium-term. **Halina Wasilewska-Trenkner, MPC member** **PAP, 26 July** Most likely, it won't be sufficient to act only in 2007 to bring inflation to the target in 2009. (…) There is still higher likelihood that further monetary tightening will be needed.	In the last couple of weeks MPC members did not talk much about monetary policy prospects in the medium-term. It seems they concentrate on managing expectations for the next month. On the other hand, they probably do not necessarily have (certainly, not all of them) a clear view on how long the monetary tightening process may last and in what time intervals they will deliver interest rate hikes. Possibly, they do not want to change much market expectations as regards the scale of cumulative hikes within the next 12 months. Nevertheless, it is worth to notice comments by two MPC members, who used to support motio0ns to hike interest rates in the past. What is interesting, a couple of months ago they suggested that one or two hikes should be enough to keep inflation within the target and it seems they have appetite for more today.
Stanisław Nieckarz, MPC member **Gazeta Prawna, 3 August** Two interest rate hikes in 2007in a total scale of 50 bp may be perceived as significant given the low inflation level. One expects that such pre-emptive activity will lead to more effective limiting of inflationary pressure, which comes from rising domestic demand.	Stanisław Nieckarz is on the other side of the MPC in terms of view on interest rates. Clearly, it was not enough for him that publication of voting results showed he was against any monetary tightening. In the text in *Gazeta Prawna* daily he suggested MPC's decisions in April and June were a mistake. What is more, he mentioned the level of inflation at 2.5% as "the middle of inflation target", and not just a target, as it is in reality.

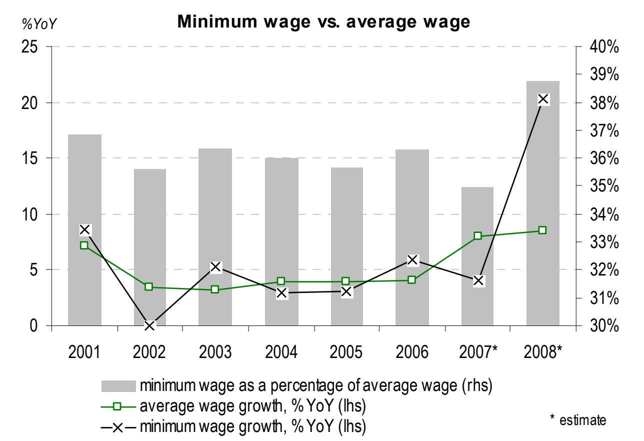
Government and politics

Key events in the political agenda

Date	Event
22-24 August	first Sejm session after holiday break (among others, vote of approval for the government regarding budget realisation in 2006)
5-7 September	second Sejm session after holiday break (possible confidence vote for the government, constructive no confidence, Sejm's self-dissolution and no confidence for particular ministers)
30 September	deadline for sending 2008 budget draft to the parliament







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

Virtual coalition?

▪ Since publication of our previous report, that took place just after dismissal of Andrzej Lepper from the post of deputy PM and agriculture minister, the situation on the political scene in Poland has not changed much, although the coalition crisis has remained among the main topics in the headlines. The LPR and Samoobrona parties decided to merge into one organization named League and Self-defence (LiS). There was no formal breakdown of the ruling coalition, however recent events suggest that a return to previous arrangements after the holiday break is very unlikely.

▪ Probability of snap election seems to be rising, as the conflict between coalition partners gets stronger. However, many political scenarios are still available,

▪ In line with what we wrote last month, one should not expect the key decisions and solutions to be made before the end of vacations. Events on the political scene may accelerate only at the end of August.

▪ It is worth repeating that a scenario of early elections would not be a bad news for the financial market in the medium run, although it could temporarily weaken the zloty amid increased uncertainty.

▪ In September, the work on 2008 budget and update of the Convergence Programme will gather momentum, so the market attention will shift a bit more towards fiscal policy.

▪ Public opinion polls did not show revolutionary changes in the recent period. The PO maintains a lead ahead of PiS, while support declared for LiS is more or less the same as the sum of earlier scores of two parties it consists: LPR and Samoobrona.

Budget in surplus after July?

▪ The first half of the year was exceptionally favourable in terms of situation in the state budget. After June, the deficit stood at merely PLN3.7bn, i.e. 12.3% of the level planned for the entire year. In the previous years, budget realisation in the middle of the year was far above 60% of the annual plan.

▪ The situation was possible thanks to increasingly fast rise in tax revenues and delays in some expenditures.

▪ According to tentative estimates of the Ministry of Finance, after seven months of the year the budget could reach surplus of ca. PLN100m. It would be an unprecedented event, confirming that at the end of the year the true deficit should be significantly lower than planned. Still, the next months will see faster rise in deficit because of realisation of overdue spending (among others connected with EU programmes).

Government proposals may speed up wage growth

▪ The Ministry of Labour and Social Policy proposed increasing the level of minimum wage in Poland since 1 January 2008 by PLN190, from current level PLN936, which implies ca. 20% nominal rise. The new minimum wage would represent ca. 40% of average wage in the economy, as compared to 36.3% recorded in 2006.

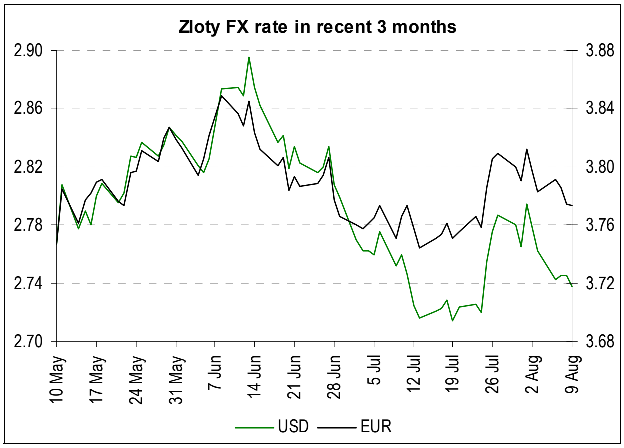
▪ The government also plans some changes in the system of early retirement that may encourage people from privileged groups to leave the labour market before retirement age (additionally creating some costs for the state budget).

▪ If the motions are implemented, they would join a group of factors causing further tightening of situation on the labour market. This could be important, among others, for inflation perspectives and future decisions of the MPC.

Government and politics

Comments of government representatives and politicians	Our remarks
Jarosław Kaczyński, Prime Minister **PAP, 8 August** If there is no majority, the elections are inevitable. The question is when, whether a bit earlier or later. The PiS' Political Council will debate on this and it will make decisions as regards the party. (...) Without PiS consent, earlier elections are not possible. I am an advocate of snap election date with such destructive opposition. (...) There is no sense in keeping it long.	Although chances for premature elections has been rising as the time goes by, it is still very hard to specify the most likely timing of the election. If the motion about parliament's self-dissolution is passed at one of the first sessions after holiday break, the election would take place in October. However, it the vote is unsuccessful, the decisions will be still in the hands of the ruling PiS. Also, it cannot be excluded that often repeating about a need to hold elections is just a tool to convince deputies from minor parties with little chances to get re-elected to support the government.
Katarzyna Zajdel-Kurowska, deputy finance minister **Rzeczpospolita, 8 August** Analysis of the fundamental macroeconomic assumptions is currently taking place. Near the end of the month, we will present new ones, based on the newest inflation, industrial production and economic growth data. I do not rule out that previous assumptions will be changed. (...) Next year we can expect a slowdown in economic growth so one cannot count on any extra revenues for the budget.	Planned revision to budget macroeconomic assumption may suggest there is a search for additional revenues that could finance extra spending incurred by the government's latest proposals (e.g. tax deductions for every child, rise in minimum pay). The initial assumptions included GDP growth at 5.7% and inflation at 2.3%. While increasing inflation projection seems to be fully justified (our own prediction is 2.8%), the adoption of higher predicted GDP growth seems to be a risky step, and at least at odds with a rule of conservative budget planning. However, the minister's comment that "one cannot count on extra budget revenues" seems to calm down concerns slightly.
Elżbieta Suchocka-Roguska, deputy finance minister **Rzeczpospolita, 8 August** Budget anchor at PLN30bn is a holy thing. The fact that currently we have a budget surplus reaching PLN10.4bn does not mean that the many will not be spent until the end of the year. Besides, there are new investments in infrastructure waiting for us connected with Euro 2012, so I do not see any possibility to reduce the deficit. **PAP, Reuters, 30 July** Most likely there will be no deficit (in the January-July period). It looks like there will even be a surplus of about 100 million zlotys. It is possible thanks to higher revenues as compared to the schedule, as well as lower level of spending.	After June the budget deficit amounted to PLN3.68bn, so the surplus achieved after seven months implies that in July the budget ran surplus of around PLN3.8bn. Partly, this was possible thanks to transfer of NBP profit (ca. PLN2.5bn), however even after taking this effect into account, the July's result was a big positive surprise. First of all, it is a good hint regarding realisation of the full-year deficit. The budget deficit at the end of this year could eventually reach ca. PLN25bn, i.e. PLN5bn less than assumed in the budget bill. Secondly, news from the state budget suggest that at the start of the second year-half the economy is still in excellent shape, which is represented by fast rise in tax revenues.
Jacek Krzyślak, head of FinMin's research department **PAP, 1 August** In July, the inflation rate declined to 2.4% (from 2.6% in June). It seems that in August it will decline below 2%. It is a seasonal drop, and it will be deeper than in July. In case of food (in July), the most important was an increase in meat prices, including poultry, by ca. 8% and decline in vegetable prices by 23%. In the other group, there was an increase in tobacco prices by 2.4%. In total, those changes caused that the deflation was not as deep as usually (in the summer period).	Our forecast of CPI inflation in July stands at 2.3%YoY with an assumption that food prices fell by around 1.5%MoM and transport prices slightly increased. Although our inflation forecasts for the last two months were more accurate than FinMin's estimates, historically good record of FinMin's forecasts accuracy is likely to affect the market expectations and the consensus is likely to be at 2.4%YoY. From the MPC's point of view, stabilisation of inflation close to the target for a few months is helpful in anchoring inflation expectations. Similarly to the FinMin, we predict inflation to fall below 2% in August.
Ministry of Agriculture **www.minrol.gov.pl, 3 August** The crops in Poland are already beyond the half-way point. (...) A big interest in buying of cereals is observed among purchasing entities, while there is little interest in selling amongst suppliers. The situation on the demand side on the Polish cereals market is shaped most of all under the influence of changes on the European and world markets. Currently, prices at those markets are the highest for many years, which is connected with increased demand, mainly for industrial purposes. In the EU the season is characterised with unfavourable weather conditions in many regions – the drought in the south and excessive rains in the north of Europe, which is constraining the level and the quality of the harvest.	Food prices are one of the risk factors for inflation forecasts. Very optimistic predictions regarding this year's cereals harvest in Poland had suggested that in the summer period food prices could go down sharply, which would strongly reduce the annual inflation rate because of high base caused by weak crops in 2006. The most recent information suggested however that the deflation in the holiday months may not be as deep as anticipated, because positive effect of very good crops in Poland may be offset, at least partly, by weak supply, high demand (among others, due to biofuel production) and record-high prices on foreign food markets.
Anonymous government official **PAP, 8 August** According to plans of the Treasury Ministry, the gross privatisation inflows in 2008 will be in range PLN2.5-3.0bn. In general, there should be no big deviation from this year's plans.	Next year, similarly to few previous years, revenues from privatisation played rather not very important role in financing the state budget. However, as long as the economic climate in Poland is good and fluctuations on world financial markets do not get dramatic, the Ministry of Finance should have no problems with securing liquidity for the budget.

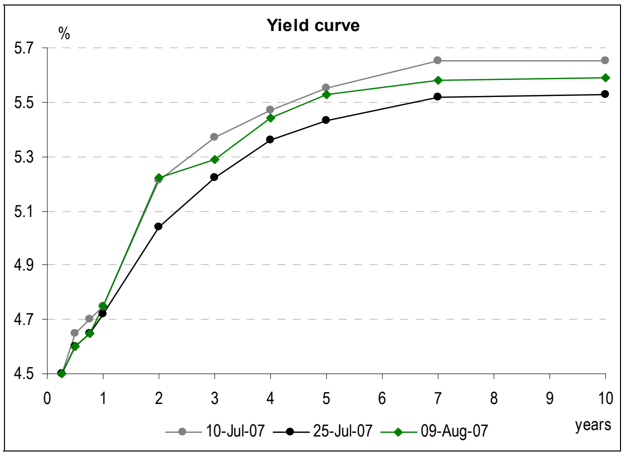
Market monitor



Zloty subject to correction

▪ According to what we wrote in our recent weekly reports there was significant weakening experienced in the FX market and the EURPLN rate reached 3.82 level. Afterwards zloty stabilised slightly below 3.80 against the euro. The zloty depreciation was connected most of all with higher risk aversion in the international financial markets, which was followed by weakening of currencies of emerging economies.

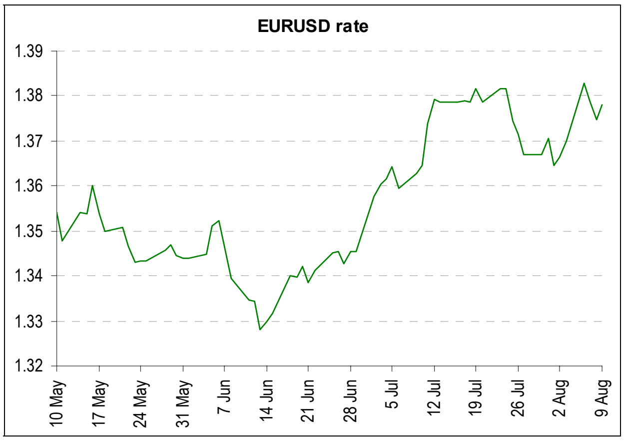
▪ We presume that in August zloty is going to be weaker on average as compared to July, which to large extent would depend on moods in the global markets and news from the US housing and credit markets. However, next data from the Polish economy should support domestic currency and in the following months zloty should appreciate.



Bonds may lose ahead of interest rate hikes

▪ In July in the core debt markets yields were falling, which contributed among others to a slight strengthening in Poland. At certain moment rising risk aversion resulted in higher yields of domestic government bonds against further strengthening in the core markets. The short-term of the curve lost the most as it was influenced, by higher supply of 2Y bonds at auction which results were poor, some MPC comments and highest than expected inflation forecast of the Ministry of Finance.

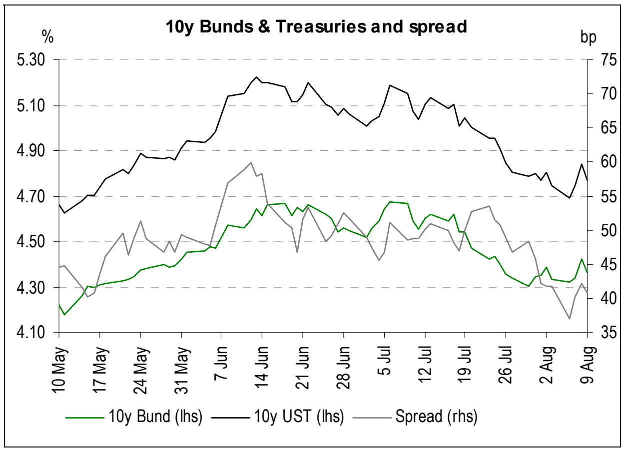
▪ We keep our baseline scenario assuming next interest rate hike in August (possible slight weakening in the debt market), and another in Q4. The statement from August is not rather going to introduce anything new. If the situation in the international credit and equity markets calms down, and core debt markets weaken than it may contribute to higher yields also in Poland.



Record weak dollar

▪ On the wave of negative news from the US housing market the EURUSD rose significantly to the highest level in history. Amid rising risk aversion and technical correction in the international financial markets the greenback temporarily returned to investors' interest. At the end of July, the dollar weakened again and the labour market data did not support it this time as they were much below expectations. In August dollar reached record-weak level against the major currencies basket.

▪ In the nearest weeks moods in the world financial markets and influence of the weakening in the US housing market to other sectors of US economy, which may result in rate cuts, are going to be crucial for the dollar. We keep our view that the US currency may appreciated at the end of this year.



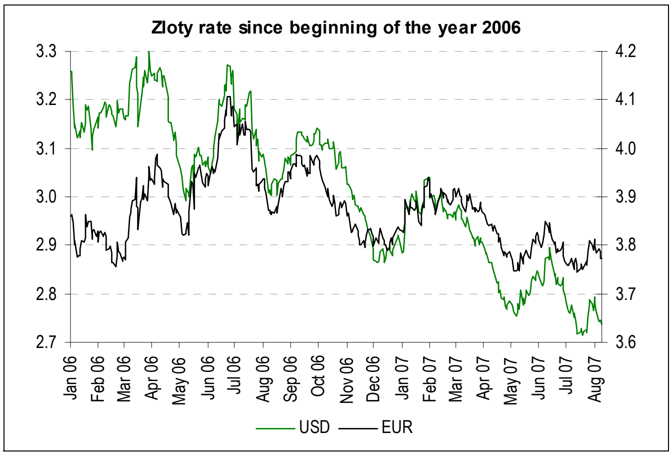
Flight to quality strengthen core markets

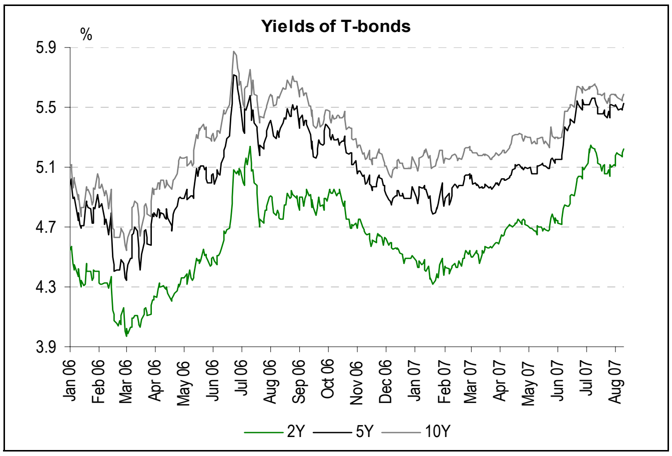
▪ Sudden rise of risk aversion and flight to safe-haven assets, which went along the sell-off in the equity markets, resulted in significant drops of yields in the core debt markets. Expectations of interest rate cuts in the US returned to the market on fears that problems with risky loans in the US subprime mortgage market may lead to rate cuts by Fed. Yield of 10Y US bonds declined since the release of the previous report from 5.00% to 4.74%, and of 10Y Bunds from 4.50% to 4.34%.

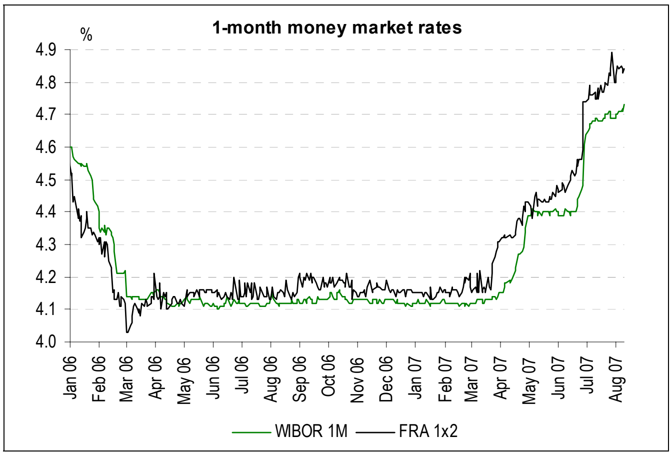
▪ In our view, after such substantial strengthening a correction may follow. We keep our expectations that Fed is going to cut the main rate in Q4. Bonds in the euro zone may weaken further with regards to forecasts of more monetary policy tightening in the euro zone. After a rate hike in September there may be another one at the beginning of 2008.

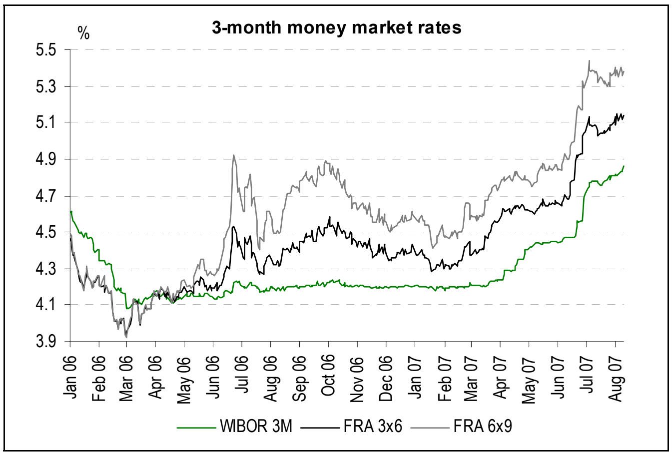
Source: Reuters, BZ WBK

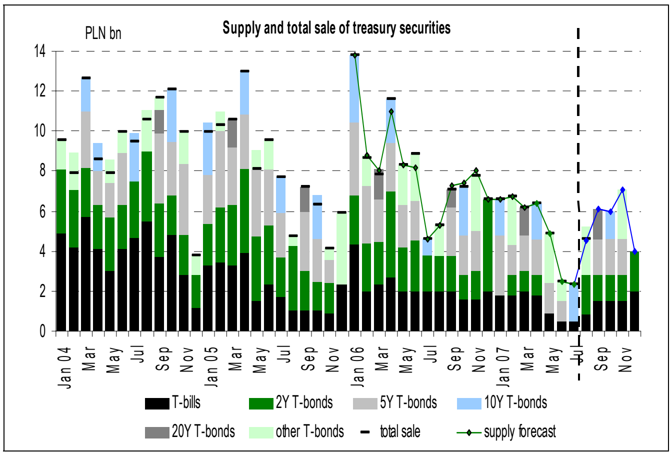
Market monitor











Treasury bill auctions (PLN m)

Date of auction	OFFER / SALE	
	52-week	Total
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**
06.08.2007	800 / 800	800 / 800
20.08.2007	-	-
Total August*	**800 / 800**	**800 / 800**

* estimations based on Ministry of Finance preliminary information

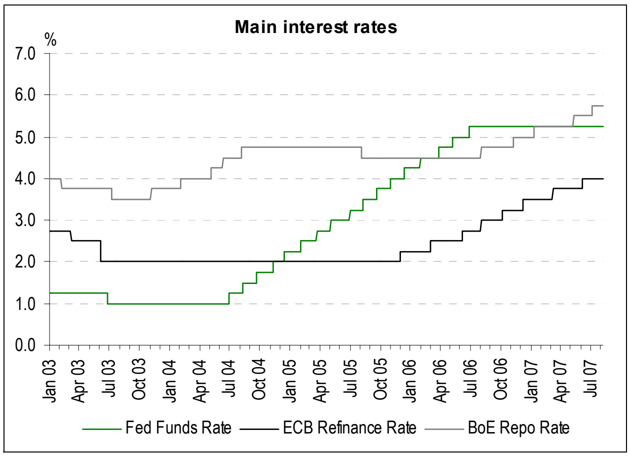
Treasury bond auctions in 2007 (PLN m)

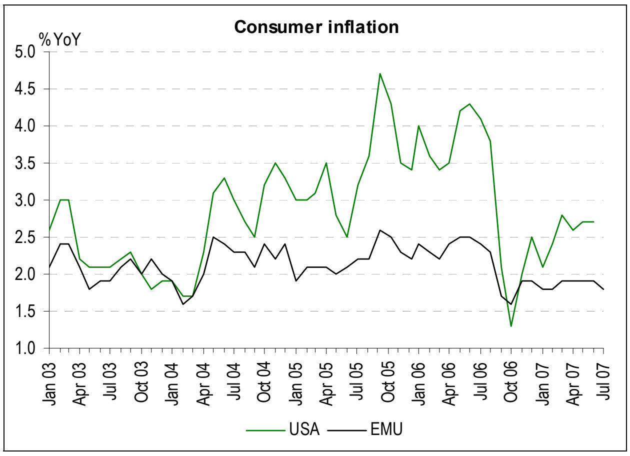
month	First auction				Second auction				Third auction			
	date	T-bonds	offer	sale	date	T-bonds	offer	sale	date	T-bonds	offer	sale
January	-	-	-	-	10.01	DS1017	1 800	1 800	17.01	PS0412	3 000	3 000
February	07.02	OK0709	1 000	1 000	14.02	WZ0118 | IZ0816	2400 | 0	2400 | 0	21.02	PS0412	1 500	1 500
March	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	1 800	-	-	-	-
August	01.08	OK0709	2 000	1 400	08.08	WZ0118 | IZ0816	2 400 | 0	2 400 | 0	-	-	-	-
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	-	-	-	-	-	-	-	-	-	-

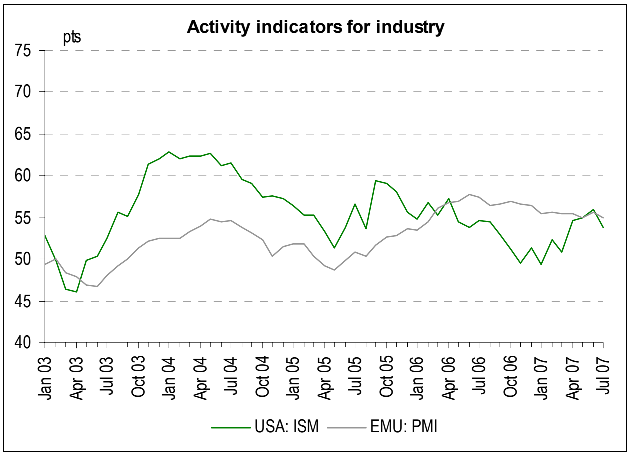
* with supplementary auction

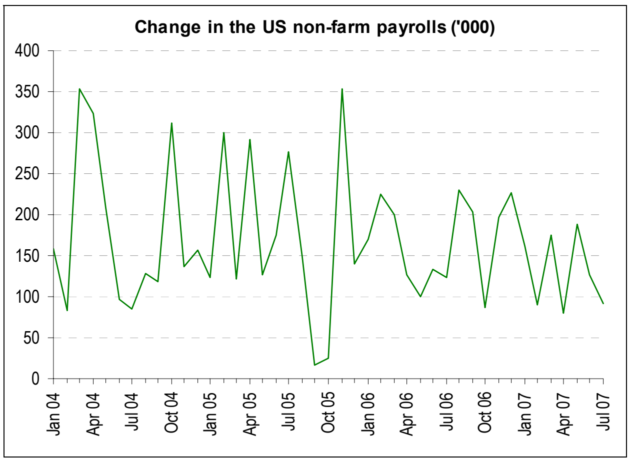
Source: Ministry of Finance, Reuters, BZ WBK

International review









Source: Reuters, ECB, Federal Reserve

More hikes in EMU, Fed clams down moods

- In August Fed left main interest rate unchanged at 5.25%. The Federal Reserve stated that despite the increased volatility in the financial markets and tightening credit conditions for households and businesses, the economy was likely to continue to expand at a moderate pace over coming quarters, supported by solid growth in employment and incomes and a robust global economy. Additionally, the bank stood by its opinion in the communiqué that the predominant policy concern remained the risk that inflation would fail to moderate as expected
- ECB also did not change interest rates (with main rate at 4.00%). Comments of the ECB's Governor Jean Claude Trichet on the need to maintaining strong vigilance against price stability suggest interest rate hike in the nearest time. In our view, this may happen at the next meeting.

US inflation stabilises above the target

- Inflation data showed an increase of CPI by 0.2%MoM (2.3%YoY), against a consensus at 0.1% (2.6%YoY). After excluding the energy and food prices US inflation amounted to 0.2%MoM (2.2%YoY), which was in line with market consensus. Data on US producer prices showed a fall by 0.2%MoM in June, which was the result of decrease in energy and food prices. The market expected increase by 0.2%. The core PPI index rose by 0.3%MoM, which was slightly above expectations at 0.2%. On annual basis the indices amounted to 3.3% and 1.8%, respectively.
- Inflation HICP index for the euro zone rose in June by 1.9%YoY similar as in May and April, which was in line with analysts' forecasts. PPI index increased by 2.3%YoY against 2.4% in May. According to preliminary data HICP index rose in July by 1.8% against expected stabilisation at 1.9%.

Higher US GDP though softer consumption figure

- ISM index of activity in the manufacturing sector in the United States fell in July to 53.8 from 56.0 in the previous month, while analysts expected a moderate decrease to 55.0. ISM non-manufacturing index was also weaker than expected, falling to 55.8 from 60.7 against 59.0 forecast.
- PMI index for the manufacturing sector in the euro zone was released and it also decreased to 54.9 from 55.6. PMI services index for the euro zone had negligible effect. The index remained at record-high level of 58.3 against predicted fall to 58.1.
- GDP data in the US showed 3.4% growth in Q2 as compared to 0.6% increase in Q1 against a forecasted growth of 3.2% from 0.7% in Q1. Economic growth acceleration resulted from stronger business investment, net exports and inventories, which outstripped the soft consumption figure. The core PCE prices index rose by 1.4% in Q2 against a forecast of 2.3%.
- Q1 GDP growth in the euro zone was upwardly revised to 0.7%QoQ and 3.1%YoY against 0.6%QoQ and 3.0%YoY respectively in the first quarter.

Surprisingly weak labour market data

- Non-farm payrolls increased in July 92,000 against 123,000 in June, while market predicted a fall from 132,000 to 130,000. Data for May and June were also revised down by 8,000 in total. The rate of unemployment increased in July by 4.6% and exceeded expectations.
- ADP report published in the afternoon showed that employment outside the agriculture sector increased by 48 thousands in July against 143 thousands in the previous month, while market consensus pointed to a rise by 100 thousands as compared to 150 in June.

Economic calendar

Monday	Tuesday	Wednesday	Thursday	Friday
6 August ***POL: Treasury bills auction***	**7** US: Unit labour costs & labour productivity (Q2) US: Fed meeting – decision	**8** ***POL: Auction of floating rate bonds*** US: Wholesale inventories (Jun)	**9** **POL: Average wage growth in the economy (Q2)** EMU: ECB meeting - decision	**10** US: Foreign trade prices (Jul)
13 ***POL: Balance of payments (Jun)*** US: Retail sales (Jul)	**14** ***POL: Money supply (Jul)*** ***POL: CPI (Jul)*** EMU: Preliminary GDP (Q2) US: Trade balance (Jun) US: PPI (Jul)	**15** ***POL: Public holiday*** US: CPI (Jul) US: NY Fed index (Aug) US: Net capital flows (Jun) US: Capacity utilization (Jul) US: Industrial output (Jul)	**16** ***POL: Wages and Employment (Jul)*** EMU: Final HICP (Jul) US: House starts (Jul) US: Philadelphia Fed index (Aug)	**17** US: Preliminary Michigan (Aug)
20 ***POL: PPI (Jul)*** ***POL: Industrial Output (Jul)*** EMU: Trade balance (Jun)	**21** ***POL: Financial results of companies (H1)*** GER: ZEW Index (Aug)	**22** ***POL: Switch auction***	**23** ***POL: MPC minutes (Jul)*** ***POL: Core inflation (Jul)*** ***POL: Business climate (Aug)*** JP: BOJ meeting - decision	**24** ***POL: Retail sales (Jul)*** ***POL: Unemployment (Jul)*** US: Durable goods orders (Jul) US: New homes sales (Jul)
27 US: Home sales (Jun) GB: Market holiday JP: BOJ minutes	**28** ***POL: MPC meeting*** GER: Ifo Index (Aug) EMU: M3 money supply (Jul) US: Consumer confidence (Aug) US: FOMC minutes	**29** ***POL: MPC meeting – decision***	**30** US: Preliminary GDP (Q2) US: Core PCE (Q2) US: GDP deflator (Q2)	**31** EMU: Business climate (Aug) EMU: Preliminary HICP (Aug) US: Core PCE (Jul) US: Chicago PMI (Jul) US: Final Michigan (Aug)
3 September ***POL: Treasury bills auction*** US: market holiday EMU: Manufacturing PMI (Aug)	**4** EMU: Revised GDP (Q2) US: Manufacturing ISM (Aug)	**5** ***POL: Auction of 2Y bonds*** EMU: Non-manufacturing PMI (Aug) EMU: Retail Sales (Jul) US: ADP report (Aug) US: Pending home sales (Jul)	**6** EMU: ECB meeting - decision US: Unit labour costs & labour productivity (Q2) US: Non-manufacturing ISM (Aug)	**7** US: Non-farm payrolls (Aug) US: Unemployment (Aug) US: Wholesale inventories (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
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	24	-	-	-	-
Gross wages, employment	16	15	15	17	17	19	16	16	17	15	16	17
Unemployment	29	23	23	25	25	26	24	24	-	-	-	-
Foreign trade	about 50 working days after reported period											
Balance of payments*	2	-	30	-	-	29	-	-	28	-	-	-
Balance of payments	16[c]	12	14	13	18	15	13	13	12	15	13	-
Money supply	12	14	14	13	14	14	13	14	14	12	14	-
NBP balance sheet	5	7	7	6	7	6	6	7	7	5	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

		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	Aug 07
Industrial production	%YoY	14.3	12.6	11.6	14.8	12.0	5.9	15.4	13.0	11.3	12.6	8.1	5.6	12.1	11.7
Retail sales [c]	%YoY	11.0	11.5	14.5	13.3	13.6	13.3	16.5	17.5	19.2	15.1	14.8	16.2	18.1	17.4
Unemployment rate	%	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	12.1
Gross wages [b c]	%YoY	5.6	5.3	5.1	4.7	3.1	8.5	7.8	6.4	9.1	8.4	8.9	9.3	9.5	9.6
Employment [b]	%YoY	3.3	3.5	3.5	3.6	3.8	4.1	3.8	4.3	4.5	4.4	4.4	4.6	4.6	4.5
Export (€) [d]	%YoY	21.0	22.3	18.6	23.0	21.8	8.3	16.2	13.8	14.6	16.5	11.4	9.4	16.8	15.8
Import (€) [d]	%YoY	26.2	22.9	19.2	27.3	21.3	16.9	22.2	12.1	21.2	24.9	14.3	18.3	20.6	20.4
Trade balance [d]	EURm	-519	-434	-212	-311	-352	-1075	-400	-143	-683	-723	-734	-817	-908	-866
Current account balance [d]	EURm	-527	-646	222	-718	-716	-1271	-772	-566	-622	-700	-1202	-917	-898	-906
Current account balance [d]	% GDP	-2.1	-2.1	-1.9	-2.0	-2.1	-2.3	-2.5	-2.4	-2.5	-2.5	-2.8	-3.0	-3.1	-3.1
Budget deficit (cumulative)	PLNbn	-15.6	-14.5	-14.5	-16.6	-18.5	-25.1	3.1	-3.0	-4.8	-2.1	-4.3	-3.7	0.1	-3.3
Budget deficit (cumulative) [e]	% of FY plan	62.3	57.9	57.8	66.3	73.9	100.0	-10.3	10.1	16.1	6.9	14.2	12.3	-0.3	11.1
CPI	%YoY	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	1.8
PPI	%YoY	3.5	3.3	3.6	3.2	2.5	2.6	3.1	3.5	3.3	2.2	2.1	1.8	1.6	2.0
Broad money (M3)	%YoY	13.0	12.9	13.0	12.3	14.4	15.6	19.3	17.9	18.0	17.8	16.1	14.9	15.5	16.3
Deposits	%YoY	12.3	12.0	11.6	11.4	13.1	15.0	18.4	18.1	17.5	17.9	16.3	15.1	15.6	16.2
Loans	%YoY	16.7	18.0	19.2	19.5	20.7	23.4	25.0	26.5	26.8	28.4	28.6	29.2	29.3	27.7
USD/PLN	PLN	3.15	3.05	3.12	3.09	2.97	2.88	2.98	2.98	2.94	2.83	2.80	2.84	2.75	2.79
EUR/PLN	PLN	4.00	3.90	3.97	3.90	3.82	3.81	3.88	3.90	3.89	3.82	3.78	3.81	3.77	3.82
Reference rate [a]	%	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	4.75
Lombard rate [a]	%	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	6.25
WIBOR 3M	%	4.19	4.19	4.21	4.22	4.20	4.20	4.20	4.20	4.22	4.32	4.44	4.52	4.78	4.80
Yield on 52-week T-bills	%	4.30	4.35	4.44	4.35	4.29	4.20	4.14	4.07	4.23	4.36	4.43	4.42	4.70	4.80
Yield on 2-year T-bonds	%	4.95	4.85	4.87	4.84	4.65	4.54	4.41	4.46	4.55	4.71	4.70	4.93	5.14	5.20
Yield on 5-year T-bonds	%	5.37	5.41	5.31	5.24	5.01	4.91	4.90	4.97	4.98	5.07	5.11	5.40	5.50	5.50
Yield on 10-year T-bonds	%	5.55	5.61	5.48	5.39	5.18	5.10	5.16	5.18	5.18	5.27	5.28	5.52	5.60	5.60

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	1 150.7	1 247.6	242.4	253.9	261.4	300.1	267.1	275.7	282.5	325.2
GDP	%YoY	3.6	6.1	6.2	5.5	5.5	6.0	6.3	6.6	7.4	6.0	5.9	5.7
Domestic demand	%YoY	2.4	6.6	7.5	6.6	5.3	5.4	6.9	8.6	8.6	7.8	6.7	6.9
Private consumption	%YoY	2.0	5.2	6.1	5.7	5.4	4.8	5.6	5.1	6.9	6.1	5.7	5.7
Fixed investments	%YoY	6.5	16.5	17.9	13.0	7.6	14.5	19.3	19.3	29.6	19.0	15.0	14.5
Industrial production	%YoY	4.0	12.5	10.5	10.0	12.4	12.1	12.3	10.8	13.0	8.8	10.0	10.2
Retail sales (real terms)	%YoY	1.5	11.9	15.5	11.0	9.0	11.8	13.8	12.6	17.4	13.8	15.2	15.6
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	6.5	5.5	4.3	3.9	4.1	4.5	5.9	6.3	7.4	6.4
Employment [c]	%YoY	1.9	3.2	4.4	4.3	2.6	3.0	3.4	3.8	4.2	4.5	4.5	4.3
Export (€) [b]	%YoY	17.8	20.2	13.9	15.0	23.3	19.5	20.7	18.0	14.8	12.3	14.7	13.9
Import (€) [b]	%YoY	13.4	21.8	18.4	17.0	23.3	19.0	22.8	21.9	18.5	18.9	18.4	17.7
Trade balance [b]	EURm	-2 242	-3 896	-8 768	-12 383	-352	-646	-1 165	-1 733	-1 226	-2 274	-2 258	-3 011
Current account balance [b]	EURm	-4 130	-6 312	-10 022	-11 083	-1 396	-1 266	-949	-2 701	-1 950	-2 819	-2 283	-2 971
Current account balance [b]	% GDP	-1.7	-2.3	-3.3	-3.3	-1.9	-2.0	-1.9	-2.3	-2.5	-3.0	-3.3	-3.3
Budget deficit (cumulative) [a]	PLNbn	-28.6	-25.1	-26.0	-30.0	-9.0	-17.7	-14.5	-25.1	-4.8	-3.7	-5.3	-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	2.5
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	2.6	3.0	0.9	3.0	3.6	2.6	3.3	2.0	1.9	3.1
Broad money (M3) [a]	%YoY	10.5	15.6	14.4	14.3	9.8	11.9	13.0	15.6	18.0	14.9	15.9	14.4
Deposits [a]	%YoY	9.4	15.0	15.0	14.1	9.1	11.4	11.6	15.0	17.5	15.1	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	29.2	27.2	25.0
USD/PLN	PLN	3.23	3.10	2.82	2.80	3.19	3.14	3.10	2.98	2.97	2.82	2.76	2.71
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	4.67	5.50	4.29	4.15	4.20	4.20	4.20	4.42	4.84	5.20
Yield on 52-week T-bills	%	4.92	4.18	4.62	5.40	4.02	4.06	4.37	4.28	4.14	4.40	4.82	5.12
Yield on 2-year T-bonds	%	5.04	4.57	4.97	5.40	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	5.35	5.70	4.67	5.04	5.36	5.05	4.95	5.19	5.52	5.75
Yield on 10-year T-bonds	%	5.24	5.22	5.49	5.90	4.83	5.27	5.55	5.22	5.17	5.36	5.62	5.80

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 09.08.2007 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