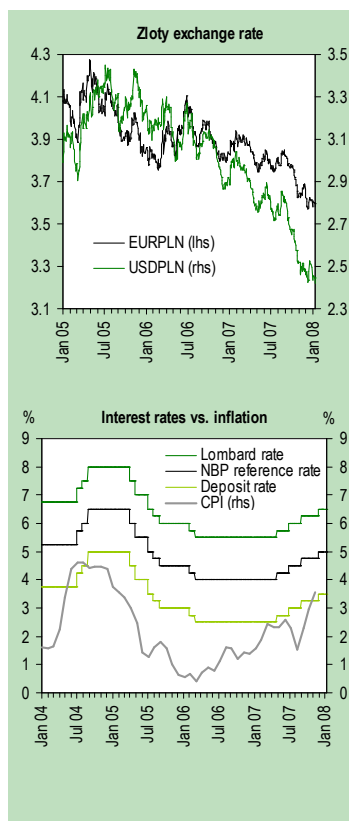


MACROscope

Polish Economy and Financial Markets

January 2008



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Welcome to 2008

Traditionally, in the first *Special focus* section in a new year we present possible scenarios of economic developments in the new year. We expect this year to be much more “normal” following very successful 2006 and 2007. Like in other countries, Poland will also witness a lowered pace of economic growth (though the slowdown will be milder in Poland), coupled with a higher, average annual inflation, though it should reach its peak in the first quarter of 2008. As regards situation in the Polish financial market, it will depend mainly on risk of recession in the US and domestic monetary policy actions by the Monetary Policy Council. The former will be of great importance to the stock market while the latter will drive the local interest rate market. In our view, the Polish zloty will remain in the medium-term appreciation trend, but the pace of appreciation will not be as high as in the previous year.

The macroeconomic data for November confirmed a continuation of economic expansion in Poland and acceleration of inflation. Despite a temporary slowdown of industrial production growth, the results of retail sales and construction output were optimistic enough so that one could expect GDP growth of ca. 6%YoY in 4Q07. The demand for labour is still high, which translated into the wages level. Although their growth of 12%YoY in November was to some extent elevated by bonuses in the mining sector, the two-digit wage growth is going to hold in the nearest time, supporting the consumption demand growth. In the last months of 2007 there was significant acceleration of inflation, which will most likely exceed 4%YoY at the beginning of this year. The tendencies in the fuel and food markets are the major factors, which raise the overall price level. Net inflation is rising to much smaller extent and is still near the lower end of the allowed range of inflation fluctuations around the target. The recent data seem consistent with our scenario of changes in the monetary policy – we forecast two 25 bp rate hikes in January and February.

On the other hand, prices growth decelerated in the housing market, and in Q4 a slight price declines were recorded in the major cities. A correction was experienced mostly in the segment of low standard flats, while the offers of the higher standard still enjoyed a large interest. A structural shortage of flats in the market is still large, which is going to support prices against deeper fall, as every improvement in relation of personal income to flats prices should result in creation of additional demand in the market.

In the recent weeks, after a slight weakening of the zloty against the major currencies, there was a recovery and exchange rates returned to the levels recorded a month ago. The EURPLN stabilised in the last weeks in a range of 3.58-3.62. In the fixed income market, after a significant weakening on November inflation and wages data, the market also regained some strength.

Financial market on 31 December 2007:					
NBP deposit rate	3.50	WIBOR 3M	5.56	USDPLN	2.4589
NBP reference rate	5.00	Yield on 2-year T-bonds	5.96	EURPLN	3.6267
NBP lombard rate	6.50	Yield on 5-year T-bonds	6.02	EURUSD	1.4749

This report is based on information available until 11.01.2008

Special focus

2008 – back to normal

“Is it really possible to repeat the year of 2006 which was so good in terms of economy? It will be difficult given less favourable external conditions. Should the relatively high-paced GDP growth continue, won't the inflation start to pose a threat to the central bank's medium term target? Or perhaps, the excessively strong zloty will be a sufficient factor increasing the restrictiveness of the monetary policy and we do not have to be afraid of interest rate hikes?” With such musings we began to work on the January issue of MACROscope last year when writing about perspectives in 2007. Curiously enough, these questions, though slightly modified, remain valid. Traditionally, in the first 2008 issue of *Special focus* we discuss possible scenarios of economic developments in the new year. We expect this year to be much more “ordinary” following boisterous and successful 2006 and 2007, but mind you we are not referring to the political scene.

2007 – best year for a long time

While discussing economy in 2006, we pointed out at the outset that better than expected developments surprised basically all analysts. Likewise, 2007 saw even better performing economy. Inasmuch as our projected rate of economic growth seemed overly optimistic only a year ago, the actual GDP growth was higher by 1% pp. Obviously, the difference between forecast and performance was most vivid in Q1 (especially in relation to industrial output, construction and capital expenditure), however it wasn't only because of exceptionally good weather through winter months initial expectations look pessimistic. Certainly, the size of investments remained a nice surprise through a major part of the year and on top of that demand for workforce was much better (from consumers' perspective) than projected. This relates both to a growing employment rate and salaries. Although we noted last year that labour market statistics caused risk to mount intermittently, a substantial increase of unit labour cost provided strongest rationale for subsequent interest rate hikes, as signed off by the Monetary Policy Council. Curiously enough, our net inflation forecast proved to be right, even slightly pessimistic. Whilst CPI inflation exceeded forecasts only towards the end of the year because of growing food prices. A low net inflation partially resulted from a weaker impact of labour cost on the retail price index with good industrial performance and stronger than projected zloty in the background (on average by 8 groszy against Euro and much more against USD). An accumulated increase

of NBP interest rates by 1% and market expectation for a further hikes in 2008 adds to a significant increase of yields on bonds, which in the second half of the year were above our forecast dated last year (especially 2-year ones).

In relation to the global economy, we wrote last year that risks materialising on the American property market do not bode well for an economic growth. We were expecting a slower GDP growth in US that would drop to 2.3% from 3.4% in 2006 and the actual performance should stay close to the forecast. Insofar as last year one might assume that depreciating properties could cause consumption to decrease, there was not awareness about the scale of exposure to financial instruments linked to mortgage backed facilities and consequent losses on such instruments incurred by financial institutions. Liquidity crunch that came in its wake (some say it is a solvency crisis) has exacerbated the performance of American economy at the outset of the new year to such an extent that it is below the last year's forecast. On the other hand, Eurozone economy grew by 2.7% in 2007, i.e. above our forecast of 2%.

When seeking an answer to questions about forthcoming developments in the Polish economy in 2008, this needs to be done against the backdrop of global trends. Stock investors are wondering about the scale of US GDP growth (or decline, as some are foretelling) and the performance of global financial institutions, which determines the strength of US dollar and stock exchange. In the meantime, investors acting on the Polish bond market are trying to predict the peak of inflation and the Monetary Policy Council's reaction to mounting food prices (which are more dependent on global fluctuations of supply and demand rather than domestic harvest levels and weather's whims) and to growing net inflation. It seems that two topics will remain high on the agenda – the risk of advancing recession in the US and decisions made by the Monetary Policy Council will dominate our financial market this year.

Recession or “only” slowdown in the US?

Forecasts of global economic growth globally carry substantial uncertainty. Recently, economists have been voicing stronger concerns about a possible recession in the US, which might also cause other developed economies to slacken their pace of growth, especially in the euro zone. Still, it is possible that the American economy will avoid recession thanks to a very expansive monetary policy. A global market sentiment will also be shaped by a boisterous Chinese economy as well as other emerging economies.

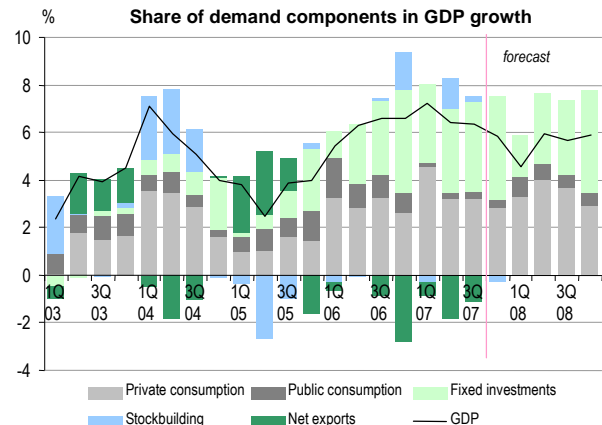
Whilst US growth is likely to be very subdued this year, with the economy skirting with recession in the first half of 2008, our base-case scenario envisages positive GDP growth, though below 1%. Then, GDP should climb to 1.8% of a yearly growth. In a short-term, the property market is unlikely to rebound, which will continue to fuel uncertainty on financial markets. A worse outlook for the American economy, troubled property market and the fact that these were contributors to subsequent interest rate cuts (some more are still expected) alleviates pressure depreciating US dollar. We expect that in the first months of the new year, EURUSD rate might go above 1.50 though upon reaching subsequent psychological thresholds, market players can become wary of further euro appreciation in the face of concerns of EU officials about the economic performance of euro zone. We assume that later in the year the rate of exchange will bounce back to stay between 1.40 and 1.45 in the fourth quarter. We are expecting a stable interest rate of 4% in the euro zone throughout the entire year, as the uncertainty in financial markets, marked rise in the value of the euro and signs of a slowdown in the pace of economic activity in the eurozone (GDP at 2.1% in 2008) brought an end to ECB policy tightening. However, upside risks to price stability persist (annual average CPI at 2.4% in the euro zone and 3.3% in USA). The ECB has warned that it is ready to act pre-emptively so that second round price effects do not materialise, warning against excessive wage inflation in particular. The slowdown in the economy should help contain inflationary pressures, including wage rises, keeping policy on hold.

(Slight) GDP slowdown in Poland

In terms of the dynamics of GDP in Poland, 2008 should be another good year although it will be difficult to post as good results as over the last two years. Moreover, business will be expanding amid a widening macroeconomic imbalance, growing inflation and a growing current account deficit. In a delicate GDP slowdown, the key consumption driver will be domestic demand. With a two digit dynamics of capital expenditure, the economy should still be enjoying appetite for workforce and growing nominal remuneration though not as vigorous as in 2007. Although an average annual inflation (see further sections) will be eating away at the actual income, Polish households will benefit from a larger disposable income following reduction in the disability pension contribution. This will foster a high consumption dynamics. The dynamics of Polish export is also expected to remain strong, however it will be

outpaced by import, thus adding to current account deficit which can exceed 5% of GDP.

Share of demand components in GDP growth



Source: CSO, own estimates

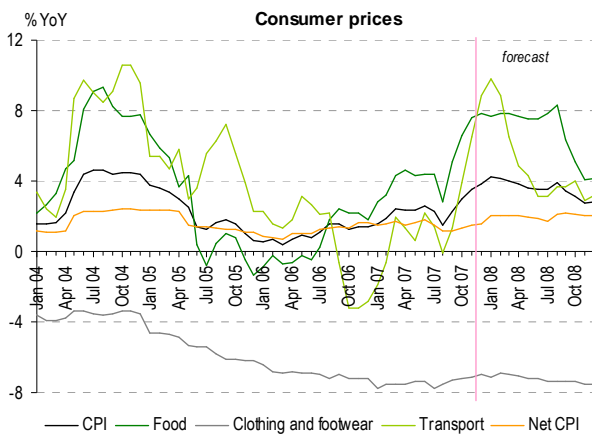
Inflation up. But why?

The last months of 2007 marked the acceleration of inflation. The beginning of 2008 will surely continue this trend. But the end of 2008 is expected to bring a decline in the twelve month CPI index slightly below 3%. An important question remains to be asked: what inflationary contributors will we be faced with and what will bring inflation down in the second year half? As shown on the below graph, we assume that food prices will continue to grow dynamically, given the trends of previous years (average annual growth in the period between 2001 and 2007 reached 2.5%), but all in all they will drop from nearly 8% (YoY) at the turn of 2007 and 2008 to less than 5% towards the year end. A similar scenario might materialise in relation to transport services (the price of crude oil is expected to stay in the range between USD 80-100 per barrel). Concurrently, net inflation will grow from 1.5% in December 2007 to above 2% towards the end of the year. This will be driven primarily by mounting labour costs which will be as high as in 2007 on top of which retail prices will also be pushed upwards on account of wage increases over the previous years. The risk scenario for inflation envisages asymmetric upsurge though it is worth pointing out those inflationary contributors which might (should) trigger response from the central bank.

Food prices require special attention. The November issue of MACROscope already drew readers' attention to OECD and FAO report discussing the outlook for food production over the next 10 years showing that a temporary price increase (coming to an end for the majority of food products in 2008/2009) will be followed by stabilisation at a higher level. In many cases we deal with a projected decline over subsequent years (either in EUR or USD terms) though prices will stay higher than

averages of the previous years, which reflects a larger global demand (fuelled mainly by emerging markets), lower supply (biofuels) and weather factors attributable to global warming. Only meat prices are an exception in the case of which a continuous growth is expected, however, also weakening in time. If FAO and OECD forecasts were to materialise, this would mean that a pressure on inflation associated with food prices will be gradually vented, hence we did not assume that the annual price growth dynamics, as observed over the last several months, would continue for long.

Inflation indicators



Source: CSO, own estimates

Interest rate up. But how high?

Bearing in mind the above inflation scenario, subsequent interest rate hikes by the Monetary Policy Council appear inevitable. Moreover, it seems that belt tightening will be felt as early as in the first quarter of the year. Further actions in this respect will much depend on whether the inflationary scenario will materialise. If inflation (in terms of net figures) outpaces our forecast, the likelihood of subsequent hikes grows, but 6% seems to be a threshold that the MPC will not go beyond. On the other hand, if high prices of fuel coupled with quickly growing food prices (due to imbalance between supply and demand on a global scale) sustain high inflation, then the central bank will be challenged with more difficult decisions. Although these factors remain beyond the central bank's control, it can also be concerned about so-called 'second-round effects', i.e. still stronger salary increase demands in the wake of higher costs of living, especially food prices. The same concern, as we understand, was behind the interest rate hikes in 2007. We agree that the current strategy of the Council (gradual hikes every few months), aiming to ensure that CPI will gradually decrease to the target level by stabilising inflation expectations, should limit the risk that that in the nearest future interest rates should be elevated to much higher levels. But the Council's strategy of response to the growing inflation connected most of all with rising food

prices should, in our opinion, be based on compliance with Maastricht's inflation criterion. One can imagine that the government will keep on delaying a decision about joining ERM2, which can be inferred from statements made by the finance minister, while the MPC will want to abide by a policy of 'always standing by', as it was put by a member of the Council, professor Andrzej Wojtyna, not to be blamed for a failure of the accession. This would result in an overly restrictive monetary policy (squeezing net inflation below 1% or even to nil, in an extreme end scenario, which in turn might cause some difficulty around meeting the fiscal criterion (reduced revenue streams with political restrictions on expenditure).

This dilemma, however, seems quite remote when confronted with the issue of government's uneasiness about a clear strategy for getting in to the euro zone, or speaking in broad terms, they haven't yet produced an economic plan. So far, we have been reassured with frequent declarations of government officials on taxation (this issue is partially covered off in *Government and Politics* section). On the one hand, we hear self-contradicting information about a possible lift of capital gains tax. On the other one, CIT and PIT rates are planned to be cut. Additionally, representative of the Finance Ministry talks about intentions to cut down on public debt, budget deficit and to activate large swaths of people who remain unemployed. In terms of verbal declarations, it paints a bright picture, but there is a question about how many of them have already been confronted with political limitations resulting from pressure on additional spend (it is not yet known whether some sort of a cap will be put on expenditure). We can only hope that a more detailed government programme will have been presented by the end of this year, and the first feel of it will be a budget draft for 2009.

The main central banks also face the danger of food and oil price increases, but they also have to factor in weakening of business activities, which is not observed in Poland on such a scale (here it is rather "return to normality", i.e. to a potential rate of growth). Concerns about worsening business sentiment will probably cause Fed to reduce interest rates further (probably to 3.0 or even deeper), while the European Central Bank should maintain them unchanged throughout 2008 (even with a greater likelihood of increase rather than decrease). Aside from the fact that the risk of economic slowdown will ease pressure on inflation globally (neglecting supply factors in the case of which risk is on the other side), the effect of a growing interest rate disparity can bode well for inflation in Poland.

Strong zloty, high yields

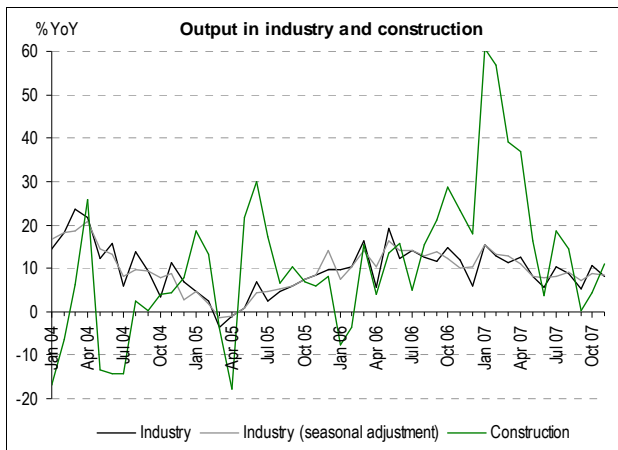
We expect Polish zloty to grow slightly stronger against the main currencies in 2008 than in the previous year. An average annual exchange rate of PLN to EUR is expected to fall from 3.78 to 3.63 while PLN to USD from 2.77 to 2.49. The appreciation of Polish zloty reflects Poland's convergence to developed economies (sound economic foundations and high growth of productivity), growing interest rates which encourage investors to bring their capital here, inflow of EU grants and still high absorption of direct investments. We do not expect, though, that the peak of appreciation goes substantially below 3.60, and it seems that in view of some global factors (risk aversion), the Polish currency may take some adjustments. In view of a medium-term appreciation of the Polish zloty, these can be important moments for exporters, allowing traders to hedge their future deals. We expect that by the end of this year, the EURPLN rate might near the current level of 3.60, among others, on account of "extinguishing" expectations for interest rates hikes, which are currently price-in by the market. In terms of dollar, zloty might slightly depreciate against this currency over the year due to the forecasted rebound of the American currency on international markets.

The domestic bond market (especially at the short end of the yield curve) will remain under pressure of forthcoming inflation and labour market statistics. Inflation above 4% and quick growth of salaries will create expectations of substantial interest rate hikes in a short term. Over subsequent months, however, we are expecting a gradual strengthening of the debt market on account of slower inflation and dwindling expectations as to an overall scale of tightening the monetary policy.

The domestic equity market will much depend on the performance of the American economy. We are expecting some deceleration of the American economy this year, however, quick interest rate cuts administered by Fed might add to a better outlook for 2009. In the event of recession, which scares many investors, bearish markets in the US would backfire on the Warsaw Stock Exchange. A high GDP growth in Poland, albeit slower than last year, may to some extent sustain market capitalisation of domestic companies.

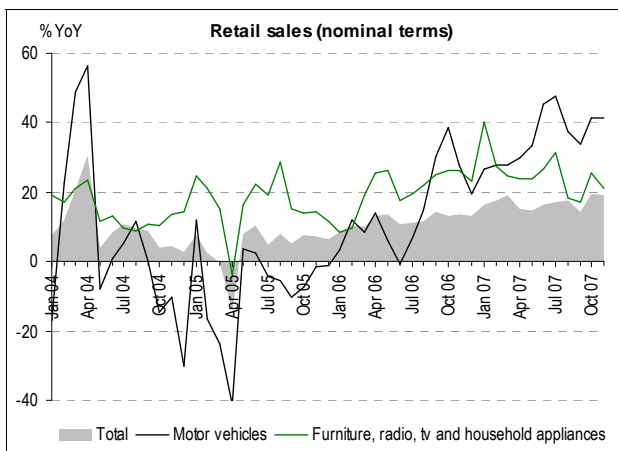
Tables with our forecasts of variable macroeconomic indexes can be found at the end of the report.

Economic update



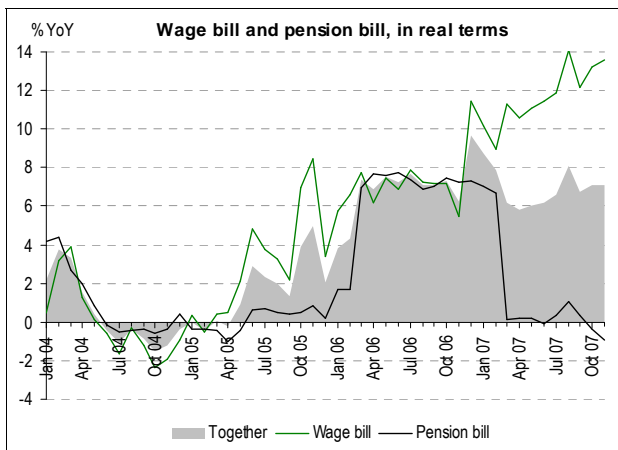
Weaker output growth in industry, better in construction

- Industrial output growth in November reached 8.3%YoY, below forecasts and below October's level. Seasonally adjusted growth remained at 8.6%YoY.
- Despite slowdown in November, average production growth in Q4 2007 should be higher than in Q3, confirming persistence of good business climate, among others amid continuation of good export performance.
- Construction output growth accelerated to 11.1%YoY, returning to two-digit level after two months of weaker performance. Good weather conditions in December should favour maintenance of high output growth also in the last month of the year. It bodes well for forecasts of investment growth that should remain at high, double-digit level in the last quarter of the year.



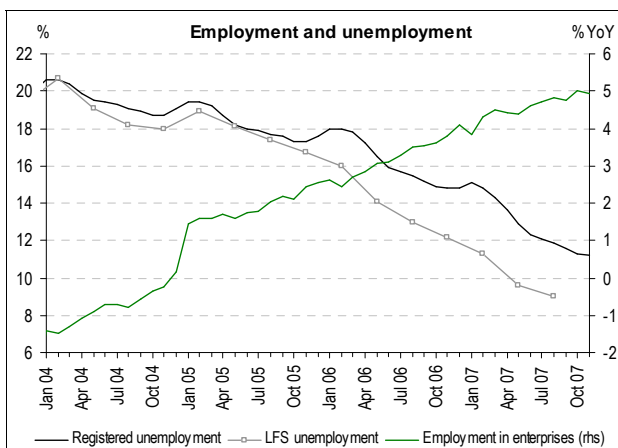
Retail sales growth continues

- Retail sales growth remained at high level 19.2%YoY in November, against 19.4% in October and average 16.7%YoY in January-October. Real growth in retail sales reached 15.1%YoY.
- Once again, deflator of retail sales increased (to 3.6%), reflecting building price growth in retail trade.
- Strong, double digit growth was again recorded in all kinds of sales, which confirms that the revival in consumption demand is really broad based.
- The data confirmed our estimate of private consumption growth in Q4 by 5.2% and GDP growth close to 6% in this period and 6.4% in the entire year 2007.



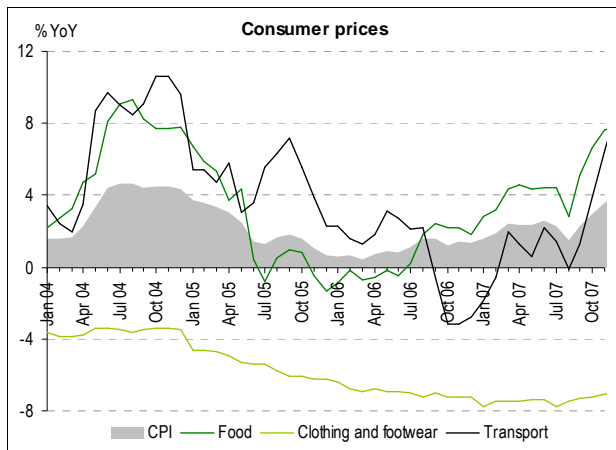
... supported by fast rise in personal income

- Strong consumer demand is being supported by fast rise in households' disposable income.
- In November, wage growth in enterprises sector reached 12%YoY, significantly above market forecasts. However, detailed data suggested that stronger than predicted growth was caused, among others, by bonus payments in mining, where average wage increased as much as 28.6%YoY. Most likely, in 2007 some of mining companies paid bonuses already in November, while in 2006 they did it in December. In manufacturing, average pay growth slowed down to 10.5%YoY from 10.7%YoY in October.
- Total purchasing power of the households is being reduced by low growth in old age and disability pensions, which were not indexed in 2007. Nevertheless, since March pensions will be increased by more than inflation rate.
- Average employment growth in enterprises sector remained in November at record-high level 5%YoY. The number of employed people increased by almost 250,000 during the year, while at the same time the number of registered unemployed dropped more than twice as much, by ca. 570,000.
- Registered unemployment rate reached 11.2% at the end of November, which was the lowest level since mid-1999. According to tentative estimates of the Labour Ministry there was a slight, seasonal rise in unemployment in December, to 11.4%.
- Fast rise in wages and record fast employment growth are negatively affecting a relation between growth in wages and in labour productivity. Average increase in unit labour costs in 2008 may be as high as in 2007, contributing to gradual increase in net inflation during the year.



Source: CSO, NBP, own calculations

Economic update



Inflation above the target at the end of the year

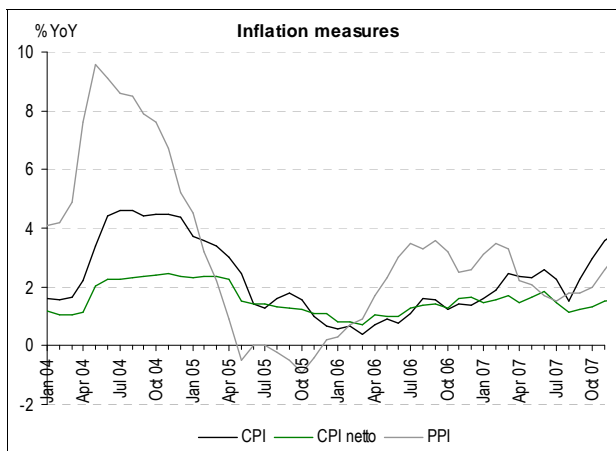
- CPI inflation in November surprised not only market analysts but also the Ministry of Finance, increasing to 3.6%YoY, above majority of forecasts, amid price growth of 0.7%MoM.

- Among the reasons of inflation increase, the top two were rapid increases in prices of food (1.5%MoM and 7.6%YoY) and fuels (2.5%MoM and 13.2%YoY).

- Net inflation reached 1.5%YoY in November, rising in much lower scale than the CPI and remaining close to the lower end of allowed fluctuations band around the target. Nevertheless, increase in other measures of core inflation was more significant, and all four exceeded 3%YoY.

- In the nearest months, the CPI will be probably accelerating further, exceeding 4%YoY at the start of 2008. However, medium term inflation perspectives, that are crucial for the MPC, will depend mostly on whether the upward trend on the food market proves persistent (which is currently one of key uncertainty issues for the market and for the Council). In our view it is likely that after peaking in Q1 2008, the inflation rate will be gradually declining in the later part of the year, although at the same time we predict that net core inflation will be on average higher by ca. 0.5 pct. point than in 2007.

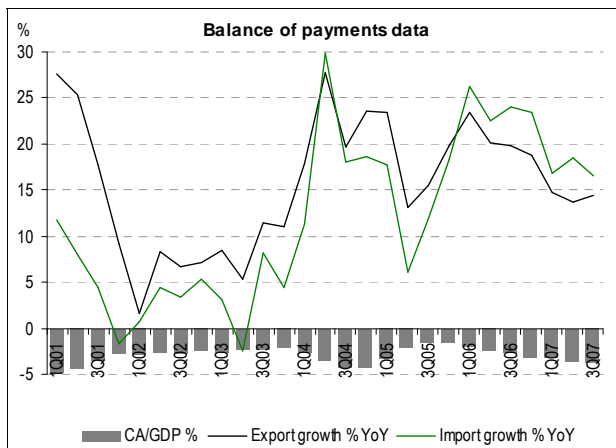
- Increase in producer prices (PPI) accelerated in November as well, however in a scale than was lower than predicted, and reached 2.6%YoY versus 2.0% in October. It resulted mainly from a significant downward revision of PPI data for previous month (from 2.2% to 2.0%YoY). In line with expectations, a rise in prices in manufacturing was caused predominantly by surging prices of natural resources, as in production of coke and oil derivatives the prices went up by 6.8%MoM.



Export remains strong, but current account deficit rising

- Current account deficit in October increased to €1.3bn, exceeding market expectations. It was caused mainly by two elements – low surplus in current transfers, and high deficit on income balance. The former was connected with high reinvested profits and dividends in foreign-owned companies, the former was caused by low financial transfers of the EU funds. The deficit in trade of goods remained moderate (€587m), amid strong rise in export by almost 16%YoY, which was nevertheless outpaced by import growth (17%YoY).

- Quarterly data about balance of payments, released later on, showed slightly more optimistic picture, as the previous estimates of current account deficit were revised down to 3.6% of GDP in Q2 and 3.7% of GDP in Q3 (by 0.1 pp compared to earlier data), while export growth in the same periods was revised up.

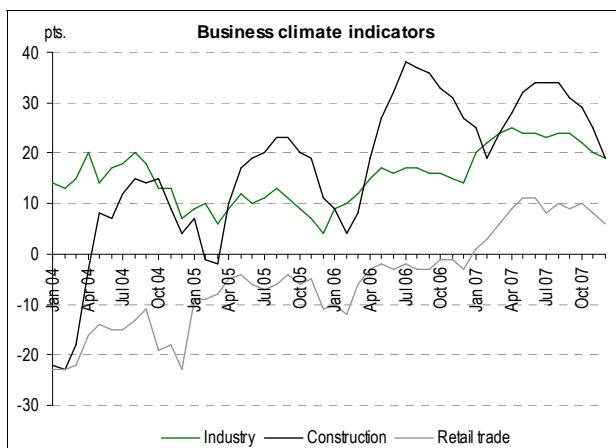


Business climate surveys still quite optimistic

- Most of business climate surveys keep suggesting that the economic growth should remain at fairly high level in the near term, although some reports suggest there may be some slowdown in economic expansion.

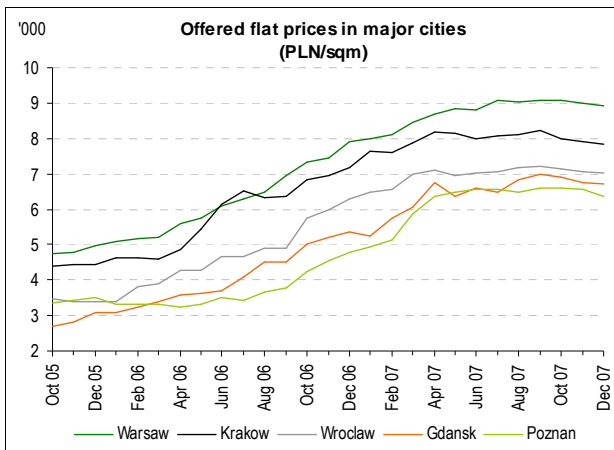
- It is consistent with the scenario of macroeconomic situation predicted by us, assuming GDP growth in 2008 lower by ca. 1 pct. point than in 2007.

- Thanks to recovery on the labour market, perspectives of consumption demand are still very good. Ipsos' index of consumer optimism in December reached the highest level in the history of the survey, while CSO's consumer confidence index declined only marginally, remaining close to historical record.



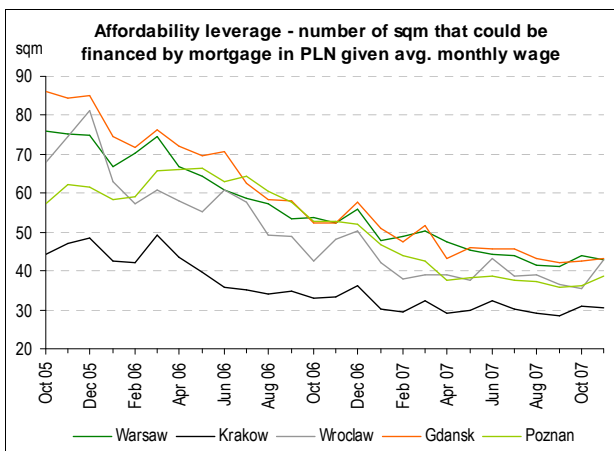
Source: CSO, NBP, own calculations

Housing market update



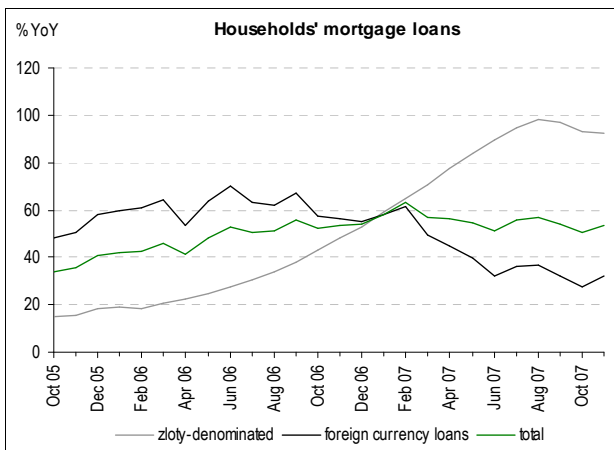
Average flat prices down at the end of year

- In the last months of 2007, a decline in average offered prices of flats in Poland's biggest cities was recorded. Since September, prices dropped in a range between 1.7% in Warsaw and 4.4% in Kraków.
- Nevertheless, the entire year ended with a significant rise in prices. The biggest gain was recorded in those cities where the upward move in prices started later and from lower level: in Gdańsk prices rose by ca. 25%, in Poznań by ca. 33%, in Katowice by 56%YoY.
- The correction at the end of the year affected mostly the flats of lower standard, those being a target for people with relatively low income. Meanwhile, top-quality flats in good locations still enjoyed high interest of wealthy clients and their prices remained at elevated levels.



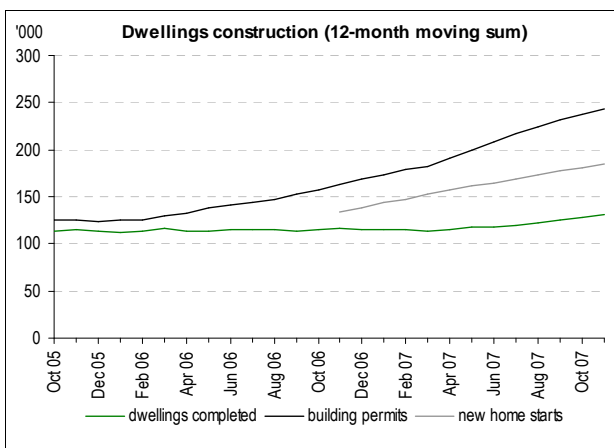
Price/income ratio improving, but interest rates up

- The stoppage of upward trend in flat prices resulted from reaching a short-term frontier of households' financial capabilities. Nevertheless, a slight decline in prices and a fast rise in average wages in the economy caused that the relation between income and house prices has bottomed out and started improving slowly in October and November.
- On the other hand, rising interest rates are pushing up costs of mortgage loans, thus curbing an increase in affordability of flats financed by a loan.
- One should bear in mind a huge structural shortage of flats available on the market (ratio of existing housing units to the number of households at merely 92%), which implies that a potential demand is still very big and will be appearing as the households' revenue will rise.



Credit growth remains high

- According to NBP survey, in Q3 2007 banks recorded a slight decline in demand for mortgage loans due to tightening credit conditions. Nevertheless, banks expected a further rise in demand for credit in Q4.
- Banking sector data show that a growth rate of mortgage loans has been declining since Q1 2007, although it still remains at a very high level (above 50%YoY).
- Due to increase in local interest rates, the near future could see a reversal in recent tendency of growing popularity of PLN-denominated housing loans. Swiss franc could start gaining importance again as a currency of mortgage loans in Poland.
- For a number of months there is a constant acceleration in the growth rate of enterprises' housing loans (to 30%YoY in November).

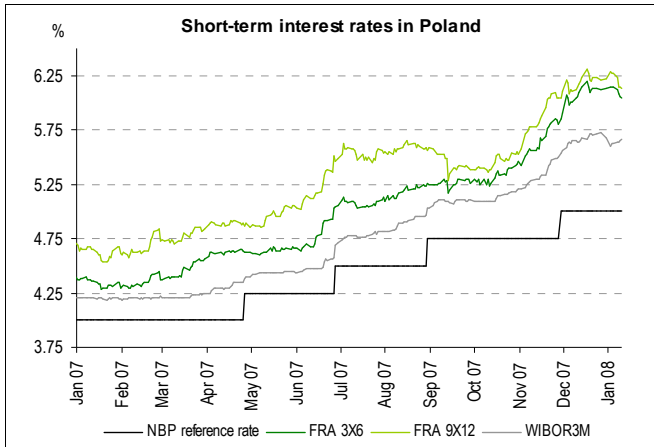


House completions on the rise

- Supply of new flats started picking up gradually in the recent period, however it is still a rather gradual process. The number of houses completed in 2007 could be estimated at ca. 130,000 (based on data for first eleven months), which is ca. 15,000 above annual growth in 2005-2006.
- However, this is still below the estimated increase in the number of households (above 150,000 p.a.).
- Data about new building permissions and new home starts suggest that in the next years house completions will be gradually rising, to above 200,000 per year. However, one should also remember that a large part of existing dwelling stock needs to be replaced due to poor technical condition.
- A ratio of houses for rent or for sale is clearly rising, while a role of housing associations has been diminishing.

Source: CSO, NBP, own calculations

Central bank watch

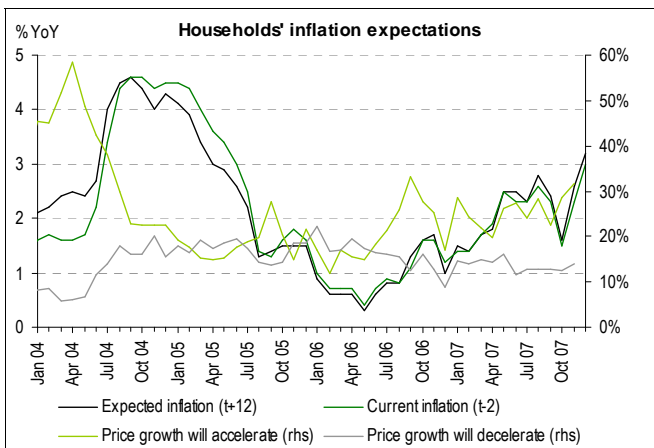


Selected fragments of MPC statement from 19 December 2007

(...) A further build-up in wage pressure and, consequently, inflationary pressure is quite probable. The risk of continuing high inflation is also raised by the food price growth observed in the world economy and affecting the Polish market and also by prices of oil being higher than assumed in the projection. (...)

In the mid-term inflation may be curbed by the continuing very good financial results of enterprises and high investment growth conducive to productivity growth. Inflation may also be constrained by globalisation and the ensuing increased competition in the market of internationally traded goods and services as well as to the relative stability of the zloty exchange rate. The inflationary pressure may also be reduced by a slowdown of the global economy.

The Council assessed the probability of inflation overshooting the inflation target in the medium term to be higher than the probability of inflation running below the target. A more comprehensive assessment of the inflation outlook will be possible after analysing the data released in the near future. The Council will strive to bring inflation down to the level consistent with the inflation target in the medium term.



Selected fragments of the minutes of the MPC meeting in November

Some MPC members emphasised that the rise in CPI inflation in October was to a large extent the result of a surge in food and fuel prices, while the net inflation remained at a relatively low level. The same members pointed out that it was difficult to assess at the moment whether the factors responsible for inflation rise would prove permanent. Other MPC members, however, pointed out that all measures of core inflation had risen since the previous month and the increase in net inflation was significant as compared to changes of this indicator over the past year. They believed this suggested that the inflationary pressure that had been building for some time was beginning to be reflected in the growth of prices.

The risk of second-round effects is higher than in 2004 due to the tight labour market, including a markedly lower unemployment. On the other hand, it was argued that the current risk of second-round effects was significantly lower than at the time of oil shocks in the 1970s.

The food price increase would mean changing the relative prices and a rise in the food expenditures of households. As a result, there may be a lowered demand for other goods, which would limit the rise of the overall price level.

December without a rate hike

- As expected, the MPC kept rates on hold at its December meeting. The reference rate remained at 5%.
- The MPC communiqué listed the same factors as previously that may result in an increase in inflation, as well as those that may limit the price growth.
- In the Council assessment the probability of the inflation running above the target is higher than the probability of inflation below the target in the medium run, which means a restrictive bias of the monetary policy.
- As far as the short term is concerned, the Council view is that the inflation will hold above the level forecasted in the October inflation projection, while the GDP growth in the next quarters will be above the potential growth. Despite such assessment, the Council kept interest rates on hold, underscoring that inflation rise was caused largely by factors independent of local monetary policy. This supports our view that the factors like higher prices of foodstuff or fuels are not likely to make the MPC to abandon its approach of gradual and cautious hikes, as it could have had worse effects for the economy than temporary rise of inflation above the target.
- At the same time, the above-mentioned assessment of medium-term inflation prospects and a sentence in the official statement that "the Council will strive to bring inflation down to the level consistent with the inflation target in the medium term" should be interpreted as a herald of next rate hikes. Their timing and overall scale of further monetary tightening will be determined by next information about the economic situation. All in all, we keep our view that in the first quarter of this year the Council will deliver the next two rate hikes of 25bps - in January and March.

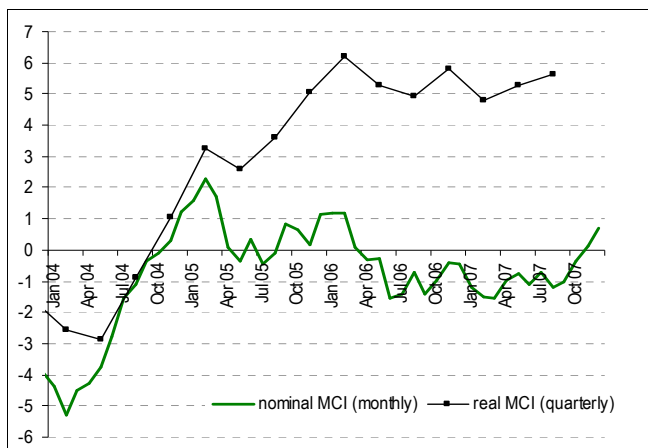
Inflation expectations up, but weaker than in 2004

- According to the NBP data, in December the expected CPI inflation rate in 12 months increased to 3.2%YoY (by 0.6pp), that is slightly weaker than the current inflation (CPI lagged by 2 months rose 0.7pp in December).
- The revealed structure of households' answers to the survey in November showed another deterioration. Percentage of answers that "prices will grow faster than now" increased by another several percentage points.
- However, from May to December 2007 the difference between expected inflation in 12 months and the current inflation was 0.1pp on average, while in the first half of 2004 it was as much as 0.7pp. This suggests that as compared to "pre-accession price heat", the current inflation increase translated into inflation expectations to a weaker degree.

Minutes of November meeting has not changed our view

- Description of MPC members discussion about net inflation in the recent months does not seem to indicate, in our opinion, that its current level and scale of increase could persuade majority of MPC members to change their opinion about a needed scale of further monetary tightening.
- The Council also debated on the possible impact of the current high inflation on inflation expectations and wage pressure. Although the Council acknowledged that risk of the second-round effects is higher than in 2004 due to tight labour market conditions, the risk is seen by central bankers as significantly lower than in previous decades.
- As regards effects of higher food prices, it was pointed out that, among other, this may limit demand (and price growth) in case of other goods and services.

Restrictiveness of the Monetary Policy (Council)



MCI up in December, despite no rate hike by the MPC

- Despite the MPC has not raised interest rates at its December meeting, the last month of 2007 brought significant increase in monetary policy restrictiveness measured by nominal MCI.
- The increase in nominal MCI is an effect of both a rise in market short-term interest rates and appreciation of the zloty exchange rate against the euro.
- What is important, nominal appreciation of the zloty versus the single currency and rise in the short-term interest rates took place not only in absolute terms, but also against the long-term trends estimated by us.
- As for now, it is not possible to calculate real MCI for Q4, as there is no REER for Q4 and CPI inflation for December available.

6.5%



Filar 1.43 (1.61)

Wasilewska-Trenkner 1.43 (1.45)

6.0%

Wojtyna 1.43 (0.95)

Noga 1.43 (1.51)

5.5%

Sławiński 1.14 (0.95)

Czekaj 1.00 (0.88)

5.0%

Owsiak 0.71 (0.91)

Pietrewicz 0.71 (0.68)

Nieckarz 0.71 (0.77)

Skrzypek 0.57 (N/A)



Index is between 0 and 2. A vote for the majority view is given a score of 1. A vote for a more hawkish (less dovish) decision than the majority view has a score of 2 and a vote for a less hawkish (more dovish) decision than the majority view has a score of 0. Average of points for all votes is the value of the index for a given MPC member.

Numbers directly by the name are values of the index for 2007 (period since the beginning of Skrzypek's term) and numbers in parentheses are values of the index for 2004-06.

Direction of the arrow reflects our expectations regarding direction of interest rate changes within the nearest 12 months. Values in percent indicate our subjective assumption as regards a preferred level of the reference rate in 12 months by a particular MPC member.

Hawks strengthen pressure on rate hikes

Recently, remarkable differences appeared among central bankers as regards needed scale of further monetary policy tightening and they has been reflected in our classification of MPC members restrictiveness. For instance, Dariusz Filar sees a possibility that prediction of one of foreign banks will be fulfilled, meaning that the reference rate would reach 6.5% at the end of 2008. Asked in an interview with TVN CNBC whether this is not excluded, Filar... nodded. Well, this was not a very decisive declaration of will, but based on that one can acknowledge that prof. Filar is currently the most hawkish rate-setter. The fact that he indicated 6.5% made us to include this level of the reference rate to our classification of MPC members restrictiveness. In Filar's view the CPI inflation will rather not fall significantly in the second half of 2008. In his opinion, we face persistent shock in the food and fuel markets and he thinks that core inflation will be rising and the already high headline inflation rate will stimulate wage demands. Filar's opinion about necessity of decisive rate hikes is not affected by the fact that he expects deeper slowdown in economic growth in 2009 than in 2008. Clearly hawkish opinions were expressed also by Halina Wasilewska-Trenkner, who said in an interview with *Gazeta Prawna* daily that the reference rate should be raised to 6% in order to bring inflation back to the inflation target. She added that even stronger monetary tightening might be needed. The reference rate at the level of 6% appears also in article by Andrzej Wojtyna published in *Rzeczpospolita* daily. The MPC member wrote about "the key and significant range of possible hikes (4 hikes of 25bps)". Recognising such range of possible hikes as a "significant", prof. Wojtyna seems to be in slightly less hawkish moods than the above mentioned rate-setters. Marian Noga, who is also regarded as one of hawks, said explicitly that in his opinion the CPI inflation could be brought back to the target, if the reference rate was raised to the level of 5.75%.

...and doves are still not eager to tighten monetary policy

Dovish camp in the MPC still quite reluctantly think of further rate hikes. The least prone to monetary tightening among the whole Council seems to be the NBP governor Sławomir Skrzypek. In his opinion, the second half of this year should see deceleration of inflation. "I think that 2009-2010 will be years of inflation stabilisation around the target", head of the Polish central bank said.

Moderate rate-setters ready to moderate hikes

Comments from MPC members classified between the hawkish camp and the dovish faction seem consistent with monetary policy scenario predicted by us. Andrzej Sławiński said that "so far, low core inflation gives the MPC a possibility of decisive, but also reasonable actions, taking into account among others the fact that restrictiveness of monetary policy is determined jointly by interest rates and the zloty exchange rate". In turn, Jan Czekaj said that given expected core inflation increase, there is a reason for some action already today and a rate hike in January is not excluded, but constraining demand the Council should not harm the economic growth. What is important, as for now prof. Czekaj does not see a possibility of the second-round effects.

Government and politics

Selected comments on economic policy

Jacek Rostowski, finance minister; 7 January

Taxation of capital gains in relation to stocks market is necessary, as its lack would enable to avoid income taxation at all.

Stanisław Gomułka, deputy finance minister; PAP, 7 January

The aim is to permanently meet the Maastricht criteria, including the fiscal one. (...) However, there are some uncertainties, including the uncertainty connected with inflation increase. Therefore, setting a euro zone entry date is impossible at the moment. My priorities does not differ from what the PO and partly the PSL declared during the election campaign. These are not revolutionary changes. We maintain the plan to introduce the flat rate tax, but it is difficult to say whether this will be accepted by the coalition partner. Another priority is reduction in employment in the public sector. The third goal is to increase in employment of people at the age of above 50.

Zbigniew Chlebowski, head of PO caucus; PAP, 7 January

It seems that we can at least implement reduction [of CIT rate] to 15%. (...) My ambition is to reduce the CIT rate to below 10% in a few years.

Biographical note of deputy finance minister Stanisław Gomułka

Born and educated in Poland (M.A. in physics, PhD in economics, both degrees received at the Warsaw University), member of the Economics Faculty at the London School of Economics from 1970 to 2005, lecturer and researcher in many academic institutions, including Columbia, Harvard, Pennsylvania and Stanford universities in the US, the Dutch Institute for Advanced Studies i Central European University in Hungary. Most of his research and lectures concerned economic growth, macroeconomics and economic systems.

In 1980s Gomułka was a consultant to IMF, OECD, and the EC. In 1989 he became advisor to the Polish government and a member of the team which designed Polish economic transition (the so-called Balcerowicz plan). In 1989-1995 and 1998-2002 worked as advisor to the Poland's finance minister, and in 1995-1998 was advisor to NBP governor. In 1989-1995 was official Polish negotiator with the IMF on macroeconomic programmes and in 1990-1992 negotiated plan of Poland foreign debt reduction. In 2002-2007 worked as chief economist with PZU, the Poland's largest insurance company.

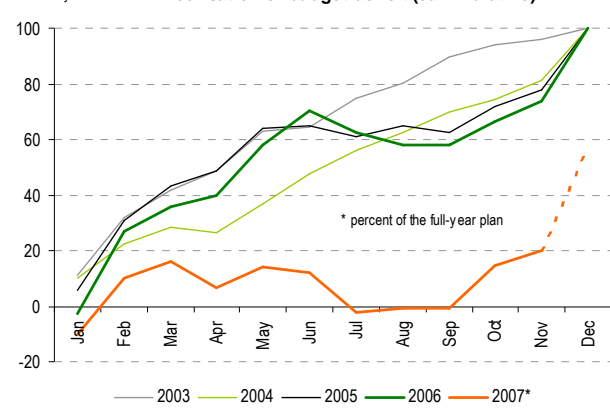
Selected comments of treasury minister Aleksander Grad

So far, we have prepared program for 2008. Already in February we will present privatisation program for four years and this will be approved by the government. Privatisation revenues planned for the four years should amount to PLN25-27bn and maybe more, that is annual average privatisation revenues should reach PLN5-6.5bn.

The year of 2008 is very ambitious, we have 300 companies on the list. There are many companies where we have the minor stakes, but also many companies where we have majority stakes. Privatisation revenues in 2008 should reach PLN4.5-5.5bn. If some projects, which are planned for completion in 2009, will be completed in 2008, then one could count that we will reach even higher revenues this year.

Particularly in 2008 we want to deal with companies, and there is the largest number of such companies, which were forgotten for many years. They are from branches connected with agriculture, furniture industry, tourism and many such sectors of our IMF economy where the state should not be functioning.

Realisation of budget deficit (cumulative)



Source: BZWBK, Ministry of Finance, PAP, Reuters

Many comments, few details, what the cabinet thinks of it?

▪ Recently, we have had many comments from government officials regarding planned changes in economic policy.

▪ There were particularly many comments from the new deputy finance minister Stanisław Gomułka who is going to be responsible for, among others, co-ordination of work for overall public finance reform.

▪ The new deputy finance minister said that the government will soon present and sent to the European Commission the updated version of the Convergence programme. This should take place in March. According to estimates presented by Gomułka, the general government deficit in 2008 and 2009 should be below 3% of GDP. In his opinion, this would be still unsatisfactory, as in period of strong economic growth public finance should be balanced. As for now, the target declared by Gomułka is the reduction of general government to 1-1.5% of GDP "within a few years".

▪ Although the nomination of Stanisław Gomułka and his plans for fiscal policy should be positively perceived by the market, it is uncertain whether he will be able to win support of the whole government for the planned changes in public finance.

▪ The most serious doubts concern political support for changes in PIT (flat rate tax), which admits Gomułka himself. In the case of many changes desired by enterprises, e.g. changes in VAT, there is lack of solutions that would be earlier prepared and ready to apply. From a part of election promises the government will probably withdraw, e.g. from elimination of capital gains tax. Besides, which seems crucial, there are not many plans regarding spending side of the public finance.

▪ It seems that in the next years one may count mainly on further reduction in CIT and acceleration in privatisation.

Plans of privatisation acceleration

▪ Privatisation plans of the new government become more and more clear-cut. In line with declarations of treasury ministry's officials, the work on the four-year privatisation plan are advanced and in February this is going to be debated by the government.

▪ According to tentative estimates, average annual value of privatisation revenues in the next four years should reach PLN5-6.5bn, much more than in a few previous years.

▪ Privatisation revenues this year should reach, in view of treasury ministry's officials, around PLN5bn (against PLN2.3bn assumed in the budget), while last year it was PLN1.95bn (versus plan of PLN3bn).

▪ Increase in privatisation revenues would enable to reduce borrowing needs of the budget (positive factor for the debt market) and constrain public debt growth.

Very good budget result in 2007

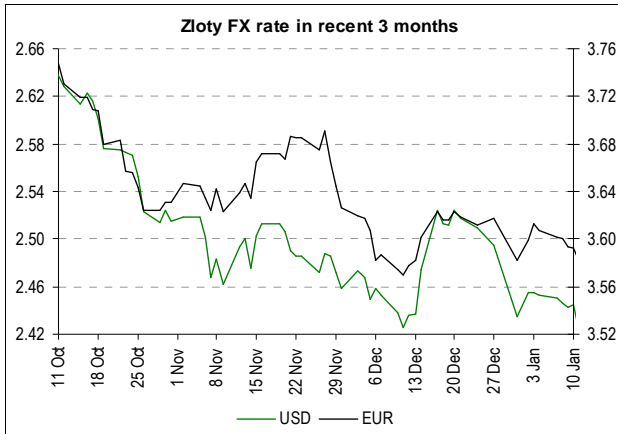
▪ According to the FinMin's data, budget deficit after November reached PLN6bn, i.e. 20% of the full-year plan.

▪ Deputy finance minister Elżbieta Suchocka-Roguska said that tentative estimates showed that budget deficit in the whole 2007 amounted to PLN16.5-17bn. She added that revenues were PLN7bn higher and spending PLN6bn lower than planned.

▪ Budget results for the whole year indicate that criticism on fiscal plans for 2007 were too strong as regards risks for its realisation. However, this is an effect of very strong GDP growth, higher than expected inflation and lags in spending related to projects co-financed by the EU funds, and not an effect of the government's actions aimed at spending cuts.

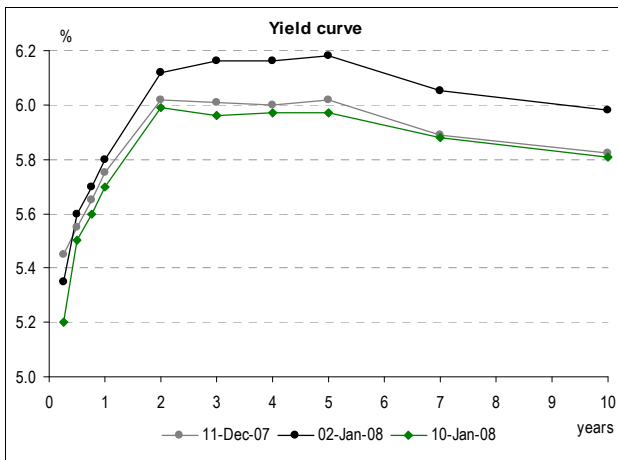
▪ At the moment, the market is more focused on performance of the 2008 budget and fiscal plans for the subsequent years.

Market monitor



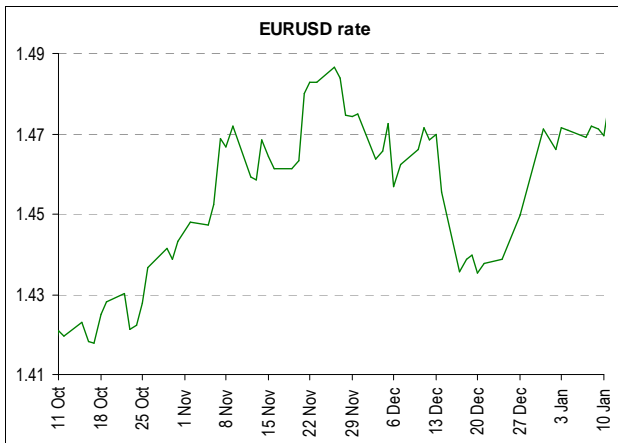
Zloty stabilised after the year-end correction

- The second half of December brought a slight zloty correction, which was in line with our expectations. The zloty weakening was accompanied by appreciation of the US currency which resulted in stronger USDPLN correction. In the last weeks the EURPLN rate stabilised in range of 3.58-3.62. On the other hand, the zloty started recovering against the dollar, due to a strong increase of the EURUSD rate. The zloty correction was limited due to holding expectations of further interest rates hikes.
- In our view, the domestic currency is going to be supported by presumed monetary policy tightening, while the key moments of zloty appreciation would fall on EURUSD increase moves. We expect zloty appreciation against the euro in the next few weeks. The USDPLN rate decline may be larger due to possible dollar's weakening.



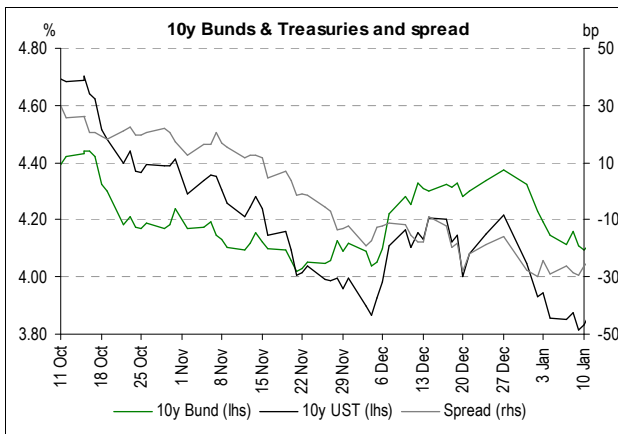
Return to stronger levels after a sell-off

- After the release of November inflation data, a strong weakening in the fixed income market experienced. This move was fuelled with better than expected data on wages, which were followed by yields rise to the highest levels since early 2005. In the following days there was a recovery among others in reaction to weakening of expectations of an interest rate hike in December and bonds were strengthening till the end of year. At the start of January there was a temporary weakening after the release of the MF's new inflation forecast, however later on there was a recovery, which went in line with yields drop in the core markets.
- In our opinion, in the next month bonds may hold near the currently traded levels after a quite low inflation and wages for December. However, these data will keep the market under pressure in the following months until we see a clear slowdown in inflation.



Dollar weakens again after appreciation at the end of year

- At the end of the 2007 the dollar was recovering against the single currency. Investors were limiting their short positions in the dollar ahead of the holiday period and the New Year. Moreover, the higher than expected US inflation and retails sales data were released, which put some doubt among investors regarding the scale of the further interest rate cuts in the US. However in the last days of December this move was reversed and the EURUSD rate went back to 1.47 again and it fluctuated near this level at the start of January, which was supported by weak data from the labour market data in the US.
- According to our forecasts, the dollar weakening is going to be continued, and the EURUSD rate may approach 1.50 in the next weeks. This may be connected with holding fears over the prospects of US economy (a substantial slowdown in consumption).

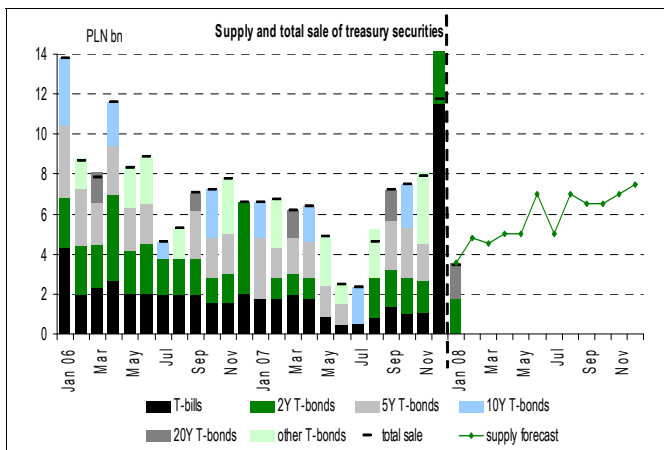
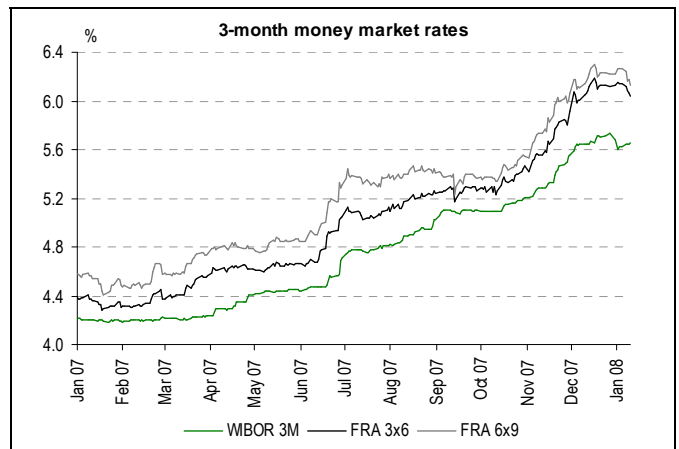
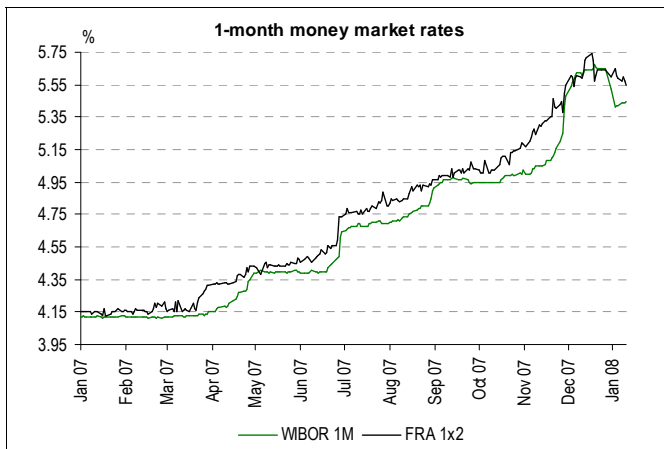
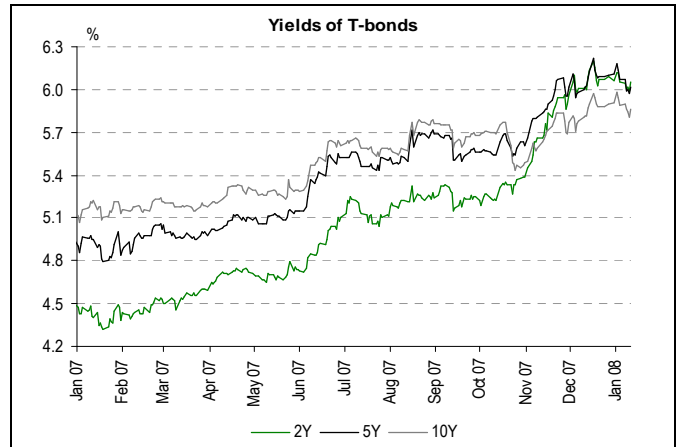
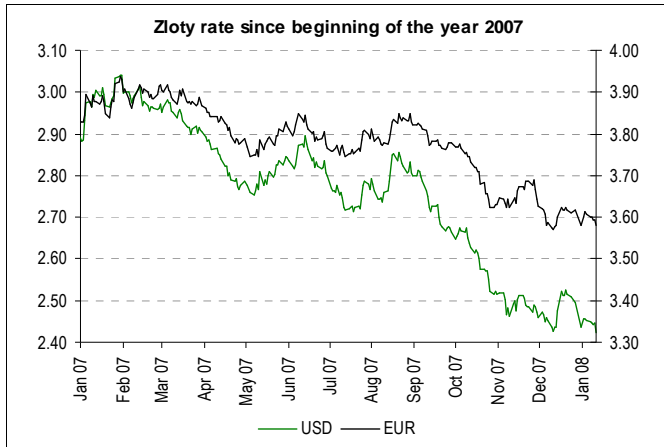


A strong fall of yields in the core debt markets

- Strong inflation and retail sales data from the United States contributed to a significant rise of yields of long-term US and German government bonds. However, at the end of December and at the start of this year there was a substantial strengthening recorded, which was connected with weak data from the US (low manufacturing ISM and poor non-farm payrolls). In the result the yields of 10Y Treasuries and Bunds fell since the release of our previous report fell from 4.10% to 3.81%, while of 10Y Bunds from 4.26% to 4.11%. The latter decline was limited with holding expectations of no rate cuts in the euro zone.
- In our view low yields in the US are going to be supported by further interest rate cuts, by 50 bp already in January and to 3% at the end of the first half of this year. On the other hand, the rates should be left unchanged in the euro zone till the end of this year.

Source: Reuters, BZ WBK

Market monitor



Treasury bill auctions (PLN m)

Date of auction	OFFER / SALE	
	52-week	Total
05.11.2007	1 000 / 1 000	1 000 / 1 000
19.11.2007	-	-
Total November	1 000 / 1 000	1 000 / 1 000
03.12.2007	2 000 / 2 000	2 000 / 2 000
17.12.2007	-	-
Total December	2 000 / 2 000	2 000 / 2 000
14.01.2008	-	-
11.02.2008	-	-
Total January-February	-	-

* estimations based on Ministry of Finance preliminary information

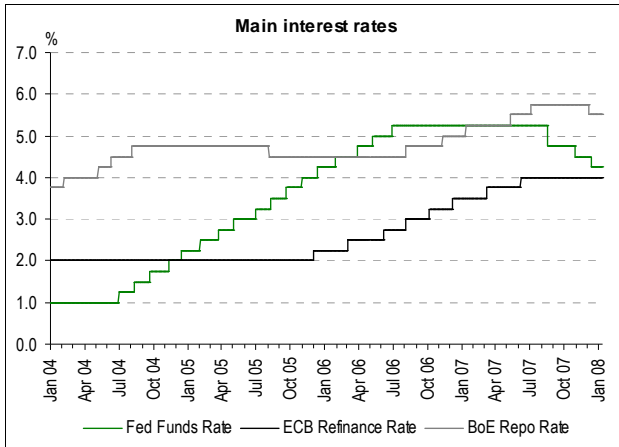
Treasury bond auctions in 2008 (PLN m)

month	First auction			Second auction			Switch auction	
	date	T-bonds	offer	sale	date	T-bonds	offer	sale
January	02.01	OK0710	1 800	1 655	09.01	WS0922	1 800	1 800
February	06.02	5Y	-	-	13.02	10Y	-	-
March	05.02	5Y	-	-	12.03	30Y	-	-
April	02.04	2Y	-	-	09.04	10Y	-	-
May	07.05	5Y	-	-	14.05	20Y	-	-
June	04.06	5Y	-	-	11.06	12Y CPI 10Y float	-	-
July	02.07	2Y	-	-	09.07	10Y	-	-
August	06.08	2Y	-	-	13.08	12Y CPI 10L float	-	-
September	03.09	5Y	-	-	10.09	20Y	-	-
October	01.10	5Y	-	-	08.10	10Y	-	-
November	05.11	5Y	-	-	12.11	12Y CPI 10Y float	-	-
December	03.12	2Y	-	-	-	-	-	-

* with supplementary auction

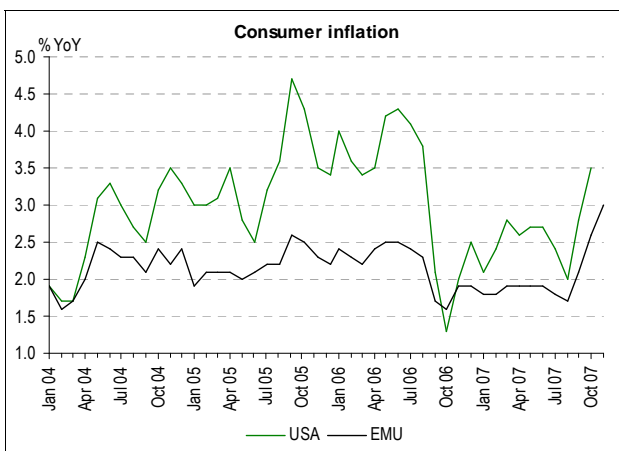
Source: Ministry of Finance, Reuters, BZ WBK

International review



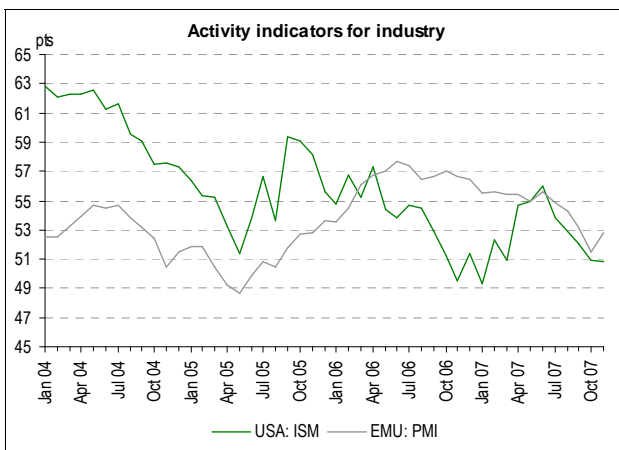
Further rate cuts expected in the US

- The tone of the „minutes” from Fed’s December meeting, at which the bank cut rates by 25 bp, strengthened expectations of further monetary policy easing in the US. The Fed’s Governing Council members lowered their forecasts on the US economic growth and expressed their fears, that further significant rate reductions may be needed. Ben Bernanke admitted that he expects a strong economic slowdown in the United States and suggested a possibility of further interest rate cuts.
- In January the ECB left rates unchanged (the main rate at 4.0%). The comments of the ECB’s President were more hawkish than expected. Trichet said that the pressure on inflation growth in the short and medium term holds and the ECB is ready to take preemptive actions against the second round effects. The anchoring of inflation expectations is one of the highest priorities for the ECB.



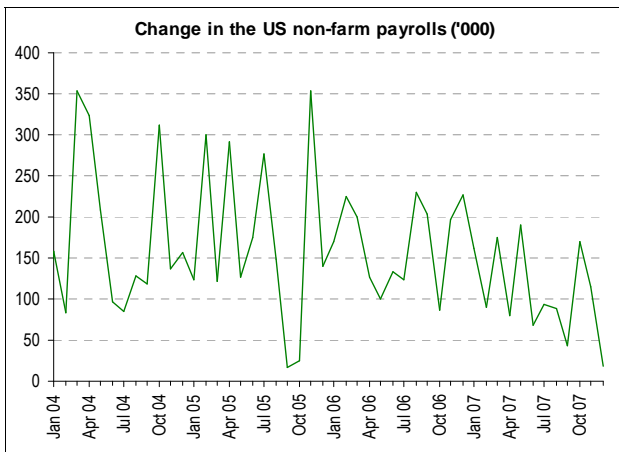
Inflation is rising

- The CPI index rose in November by 0.8%MoM and 4.3%YoY against a consensus of 0.6%MoM, among others in the result of energy prices growth by 5.7%MoM and food by 0.3%MoM. The core inflation amounted to 0.3%MoM and 2.3%YoY against expectations of 0.2%MoM. The producer prices inflation was much above expectations, as it amounted to 3.2%MoM against a forecast of 0.9%. In the annual terms PPI rose by 7.2%YoY (the highest rate since 1981). The core PPI index recorded a rise by 0.4%MoM (2.0%YoY), which was also above expectations. A series of last data on inflation makes the running of the monetary policy in the US and further rate cuts difficult.
- Inflation stays high also in the euro zone. The HICP index rose in November by 3.1% in the annual terms. According to preliminary data the December inflation was at the same level.



Significant fall of activity index in the US

- The manufacturing ISM index for December fell from 50.8 pts in November below 50 to 47.7 pkt and was much below expectations arousing fears over realisation of recession scenario in the US. The ISM index for the non-manufacturing sector was higher than expected though it lowered in December to 53.9 pts from 54.1 pts in November, while the market expected a stronger fall of the index to 53.5 pts. However, this information did not improve the market moods.
- The PMI index for the manufacturing sector in the euro zone rose in December to 52.6 pts from 52.5. The PMI index for the services fell to 53.1 pts from 54.1 pts against expected 53.2 pts.
- Final GDP data from the US for Q3 showed, the economic growth in Q3 was at 4.9% (in line with the previous estimate), and the core PCE index rose by 2% against the previous estimate of and the forecast of 1.8%.
- According to official final data of the Eurostat for Q3 the GDP growth in the euro zone amounted to 0.8%QoQ and 2.7%YoY.



Disappointing data from the US labour market

- The ADP report for December showed a jobs growth in the United States outside farming in the private sector by 40k against expectation of 33k after a 173k revised increase in November (previously 189k).
- Data were quite optimistic herald of the official data of the Department of Labour. However the non-farm payrolls rose in December by only 18k against an increase by 115k in November (after a correction from 94k), which was much below market expectation of 70k. What is more the rate of unemployment rose in December to 5.0% from 4.7% against a forecasted increase to 4.8%.
- These data deteriorated investors’ moods and strengthened view of interest rate cut in the US by 50 bp already in January.

Source: Reuters, ECB, Federal Reserve

Economic calendar

Monday	Tuesday	Wednesday	Thursday	Friday
14 January POL: Money supply (Dec) EZ: Industrial production (Nov)	15 POL: CPI (Dec) DE: ZEW index (Jan) US: NY Fed index (Jan) US: PPI (Dec) US: Retail sales (Dec)	16 POL: Wages and employment (Dec) POL: Switch auction EZ: Final HICP (Dec) US: CPI (Dec) US: Net capital flows (Nov) US: Capacity use (Dec) US: Industrial production (Dec)	17 US: Mouse starts (Dec) US: Philadelphia Fed index (Jan) US: Net jobless claims	18 PL: Balance of payments (Nov) PL: Industrial production (Dec) PL: Producer prices (XII) US: Preliminary Michigan (I)
21 US: Market holiday	22 PL: Core inflation (Dec)	23 PL: Business climate (Jan) JP: Market holiday EZ: Flash manufacturing PMI (Jan) EZ: Flash services PMI (Jan)	24 PL: Retail sales (Dec)* PL: Unemployment (Dec)* PL: MPC minutes (Dec) DE: Ifo index (Jan) US: Home sales (Dec)	25
28 EZ: M3 money supply (Dec) US: New home sales (Dec)	29 PL: MPC meeting US: Durable goods orders (Dec) US: Case/Schiller home prices index (Jan) US: Consumer confidence (Jan)	30 PL: Preliminary GDP (2007) PL: MPC meeting – decision US: ADP report (Jan) US: Preliminary GDP (Q4) US: Core PCE (Q4) US: Fed meeting - decision	31 EZ: Flash HICP (Jan) US: New jobless claims US: Core PCE (Dec) US: Chicago PMI (Jan)	1 February EZ: Manufacturing PMI (Jan) US: Non-farm payrolls (Jan) US: Unemployment (Jan) US: Manufacturing ISM (Jan) US: Final Michigan (Jan)
4 USA: Factory orders (Dec)	5 EZ: Non-manufacturing (Jan) EZ: Retail sales (Dec) US: Non-manufacturing ISM (Jan)	6 PL: Auction of 5Y bonds US: Unit labour costs, labour productivity (Q4)	7 GB: BoE meeting – decision EZ: ECB meeting - decision US: New jobless claims US: Pending home sales (Dec)	8 US: Wholesale inventories (Dec)
11 PL: Auction of Treasury Bills JP: Market holiday	12 PL: Balance of payments (Dec) DE: ZEW index (Feb)	13 POL: Auction of 10Y bonds EZ: Industrial production (Dec) US: Retail sales (Jan)	14 PL: Money supply (Jan) EZ: Preliminary GDP (Q4) US: Trade balance (Dec)	15 PL: Wages and employment (Jan) PL: CPI (Jan) US: Import prices (Jan) US: NY Fed index (Feb) US: Net capital flows (Dec) US: Industrial production (Jan) US: Preliminary Michigan (Feb)

Source: CSO, NBP, Finance Ministry, Reuters, * probable data of release of the CSO's Statistical Bulletin

MPC meetings and data release calendar for 2008

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

* quarterly data, ^a preliminary data, January, ^b January and February, ^c probable release date according to the CSO, ^d November 2007

Source: CSO, NBP

Economic data and forecasts

Monthly economic indicators

		Dec 06	Jan 07	Feb 07	Mar 07	Apr 07	May 07	Jun 07	Jul 07	Aug 07	Sep 07	Oct 07	Nov 07	Dec 07	Jan 08
Industrial production	%YoY	5.9	15.4	13.0	11.3	12.6	8.1	5.6	10.4	8.9	5.4	10.8	8.3	10.4	7.0
Retail sales ^c	%YoY	13.3	16.5	17.5	19.2	15.1	14.8	16.2	17.1	17.4	14.2	19.4	19.2	18.5	19.0
Unemployment rate	%	14.8	15.1	14.8	14.3	13.6	12.9	12.3	12.1	11.9	11.6	11.3	11.2	11.4	11.7
Gross wages ^{b,c}	%YoY	8.5	7.8	6.4	9.1	8.4	8.9	9.3	9.3	10.5	9.5	11.0	12.0	10.5	11.8
Employment ^b	%YoY	4.1	3.8	4.3	4.5	4.4	4.4	4.6	4.7	4.8	4.7	5.0	5.0	4.9	4.8
Export (€) ^d	%YoY	10.2	15.4	13.8	15.0	17.1	13.1	11.5	19.1	16.0	9.0	15.7	12.8	21.7	12.8
Import (€) ^d	%YoY	18.2	19.6	12.2	18.5	24.9	12.7	18.6	22.6	13.0	14.4	17.0	16.5	24.5	14.6
Trade balance ^d	EURm	-996	-542	-141	-757	-836	-762	-882	-1090	-362	-917	-587	-916	-1450	-759
Current account balance ^d	EURm	-1290	-881	-545	-681	-798	-1274	-1488	-1127	-513	-620	-1302	-1276	-1530	-1109
Current account balance ^d	% GDP	-3.2	-3.4	-3.2	-3.2	-3.2	-3.3	-3.6	-3.7	-3.6	-3.8	-3.8	-3.9	-3.9	-4.1
Budget deficit (cumulative)	PLNbn	-25.1	3.1	-3.0	-4.8	-2.1	-4.3	-3.7	0.6	0.3	0.2	-4.4	-6.0	-17.0	3.0
Budget deficit (cumulative) ^e	% of FY plan	100.0	-10.3	10.1	16.1	6.9	14.2	12.3	-2.1	-0.9	-0.7	14.8	20.0	56.7	-11.1
CPI	%YoY	1.4	1.6	1.9	2.5	2.3	2.3	2.6	2.3	1.5	2.3	3.0	3.6	3.9	4.2
PPI	%YoY	2.6	3.1	3.5	3.3	2.2	2.1	1.7	1.5	1.8	1.8	2.0	2.6	3.1	3.1
Broad money (M3)	%YoY	16.0	19.3	18.0	18.0	17.8	16.0	14.7	15.6	16.1	14.4	13.8	13.6	13.1	13.0
Deposits	%YoY	15.2	18.5	18.3	17.7	18.2	16.4	15.2	15.9	16.3	15.4	15.2	15.1	14.3	13.2
Loans	%YoY	23.4	25.0	26.5	26.8	28.4	28.6	29.2	31.4	31.1	31.0	30.6	30.1	29.9	29.2
USD/PLN	PLN	2.88	2.98	2.98	2.94	2.83	2.80	2.84	2.75	2.80	2.73	2.61	2.49	2.47	2.43
EUR/PLN	PLN	3.81	3.88	3.90	3.89	3.82	3.78	3.81	3.77	3.81	3.79	3.71	3.66	3.60	3.60
Reference rate ^a	%	4.00	4.00	4.00	4.00	4.25	4.25	4.50	4.50	4.75	4.75	4.75	5.00	5.00	5.25
Lombard rate ^a	%	5.50	5.50	5.50	5.50	5.75	5.75	6.00	6.00	6.25	6.25	6.25	6.50	6.50	6.75
WIBOR 3M	%	4.20	4.20	4.20	4.22	4.32	4.44	4.52	4.78	4.80	5.09	5.13	5.36	5.67	5.61
Yield on 52-week T-bills	%	4.20	4.14	4.07	4.23	4.36	4.43	4.42	4.70	4.80	5.01	5.04	5.30	5.78	5.75
Yield on 2-year T-bonds	%	4.54	4.41	4.46	4.55	4.71	4.70	4.93	5.14	5.23	5.25	5.30	5.77	6.06	6.05
Yield on 5-year T-bonds	%	4.91	4.90	4.97	4.98	5.07	5.11	5.40	5.50	5.61	5.60	5.59	5.90	6.07	6.05
Yield on 10-year T-bonds	%	5.10	5.16	5.18	5.18	5.27	5.28	5.52	5.60	5.68	5.69	5.64	5.70	5.85	5.90

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	1Q07	2Q07	3Q07	4Q07	1Q08	2Q08	3Q08	4Q08
GDP	PLNbn	983.3	1,060.2	1,163.2	1,271.1	266.7	280.2	286.8	329.5	290.4	307.7	314.1	358.9
GDP	%YoY	3.6	6.2	6.4	5.5	7.2	6.4	6.4	5.9	4.6	5.9	5.7	5.9
Domestic demand	%YoY	2.4	7.3	7.6	7.0	7.7	8.2	7.4	7.1	5.8	7.5	7.2	7.5
Private consumption	%YoY	2.0	4.8	5.6	5.7	6.9	5.1	5.2	5.2	5.0	6.5	6.0	5.5
Fixed investments	%YoY	6.5	15.6	19.2	14.0	26.2	20.8	19.8	15.5	12.0	15.0	14.5	14.0
Industrial production	%YoY	4.0	12.5	9.9	9.3	13.0	8.5	8.1	9.8	5.7	10.8	11.3	9.4
Retail sales (real terms)	%YoY	1.5	11.9	14.9	15.5	17.4	14.1	12.8	15.3	14.7	18.5	15.2	13.6
Unemployment rate ^a	%	17.6	14.8	11.4	8.5	14.3	12.3	11.6	11.4	11.1	9.3	8.7	8.5
Gross wages (real terms) ^c	%YoY	1.2	4.2	6.8	6.8	5.9	6.5	8.1	7.5	6.8	7.1	7.1	6.0
Employment ^c	%YoY	1.9	3.2	4.6	4.3	4.2	4.5	4.8	5.0	4.8	4.5	4.2	3.7
Export (€) ^b	%YoY	17.8	20.4	14.9	13.0	14.7	13.8	14.4	16.3	13.0	13.0	13.0	13.0
Import (€) ^b	%YoY	13.4	24.0	17.8	17.3	16.8	18.4	16.6	19.1	17.0	17.0	17.0	18.0
Trade balance ^b	EURm	-2,242	-5,536	-9,240	-15,429	-1,440	-2,481	-2,366	-2,953	-2,683	-3,939	-3,834	-4,973
Current account balance ^b	EURm	-3,866	-8,787	-12,031	-18,220	-2,104	-3,559	-2,260	-4,108	-3,347	-5,017	-3,728	-6,128
Current account balance ^b	% GDP	-1.6	-3.2	-3.9	-5.2	-3.2	-3.6	-3.8	-3.9	-4.1	-4.4	-4.7	-5.2
Budget deficit (cumulative) ^a	PLNbn	-28.6	-25.1	-17.0	-28.0	-4.8	-3.7	0.2	-17.0	-	-	-	-28.0
Budget deficit (cumulative) ^a	% GDP	-2.9	-2.4	-1.5	-2.2	-	-	-	-	-	-	-	-
CPI	%YoY	2.1	1.0	2.5	3.6	2.0	2.4	2.0	3.5	4.1	3.7	3.6	2.9
CPI ^a	%YoY	0.7	1.4	3.9	2.8	2.5	2.6	2.3	3.9	4.0	3.5	3.5	2.8
PPI	%YoY	0.7	2.5	2.4	2.3	3.3	2.0	1.7	2.6	2.9	2.2	1.7	2.5
Broad money (M3) ^a	%YoY	13.1	16.0	13.1	11.5	18.0	14.7	14.4	13.1	13.1	12.8	12.1	11.5
Deposits ^a	%YoY	12.6	15.2	14.3	10.4	17.7	15.2	15.4	14.3	13.1	12.9	12.2	10.4
Loans ^a	%YoY	13.3	23.4	29.9	22.8	26.8	29.2	31.0	29.9	28.0	26.0	23.8	22.8
USD/PLN	PLN	3.23	3.10	2.77	2.48	2.97	2.82	2.76	2.52	2.41	2.47	2.53	2.53
EUR/PLN	PLN	4.02	3.90	3.78	3.63	3.89	3.80	3.79	3.65	3.59	3.64	3.67	3.63
Reference rate ^a	%	4.50	4.00	5.00	5.50	4.00	4.50	4.75	5.00	5.50	5.50	5.50	5.50
Lombard rate ^a	%	6.00	5.50	6.50	7.00	5.50	6.00	6.25	6.50	7.00	7.00	7.00	7.00
WIBOR 3M	%	5.29	4.21	4.73	5.68	4.20	4.42	4.89	5.39	5.63	5.70	5.70	5.70
Yield on 52-week T-bills	%	4.92	4.18	4.69	5.61	4.14	4.40	4.84	5.37	5.75	5.65	5.55	5.50
Yield on 2-year T-bonds	%	5.04	4.57	5.24	5.89	4.47	4.78	5.21	5.71	6.05	5.95	5.80	5.75
Yield on 5-year T-bonds	%	5.25	5.03	5.52	5.89	4.95	5.19	5.57	5.85	6.05	5.95	5.80	5.75
Yield on 10-year T-bonds	%	5.24	5.22	5.56	5.76	5.17	5.36	5.66	5.73	5.90	5.80	5.70	5.65

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

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

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