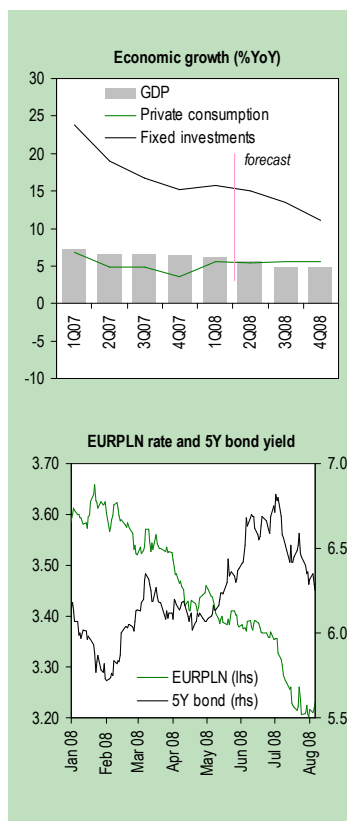


MACROscope

Polish Economy and Financial Markets

August 2008



Slowdown game

- At the end of August we will get data on GDP growth in Q2 and all the signs are that for the first time in the last two years the economic growth was below 6%. Even the usually optimistic Ministry of Finance (see the growth projections for the upcoming years) says that the growth will be below this level. It should be noted that the slowdown is still very moderate and gradual. This is evidenced by the fact that the maximum level in this economic cycle in Q1 2007 was slightly above 7% and despite the fact that since then the economic growth has been decreasing quarter by quarter, it is still likely to exceed the potential growth rate. It is true that the retail sales increased in Q2 weaker than in Q1, however the slowdown in the case of industrial production or exports was not as significant and the construction output even accelerated. This might mean that the strong consumption growth is maintained and there are no signs of a significant slowdown in exports and investments.

- However, what happened in Q2 is not as important as what may happen in the next quarters. In this context, there have been some disturbing signals in the economic climate indices in the last few months, which point to a greater pessimism among entrepreneurs. What is more, the consumers are also becoming less optimistic. We are still of the opinion that in the upcoming quarters we will continue to observe a decrease in the economic growth rate and the question we should raise is: how low will the GDP growth go? We have been claiming for a long time now that the bottom of the cycle (next year) will be ca. 4.5%.

- The economic scenario for the upcoming quarters does not exclude a possibility of further monetary policy tightening. We are still of the opinion that after the holiday break, the Monetary Policy Council will hike interest rates as the inflation will remain at elevated level for some time and the slowdown will not be substantial. However it seems today that the less hawkish scenario is more likely (the last communiqué of the Council was not hawkish) due to the risk of a greater slowdown in the euro zone and in Poland. The Council will definitely closely observe whether the weaker labour demand will result in a lower wage pressure in the conditions of a higher inflation. Moreover, the foreign exchange rate partially contributes to the reduction in inflation yet it will have some negative impact on the trade deficit.

- The slowdown game played by the investors is particularly visible in the bond market, which experienced substantial strengthening over the last month in Poland and the euro zone, which was additionally driven by falling price of oil. As for the foreign exchange market, in line with our expectations, there was a correction of the zloty appreciation trend. However, before it happened the EURPLN rate was close to 3.20. We do not change the projections for the remainder of the year, we believe that the correction will be continued and the zloty exchange rate against the euro will temporarily return to the level above 3.30.

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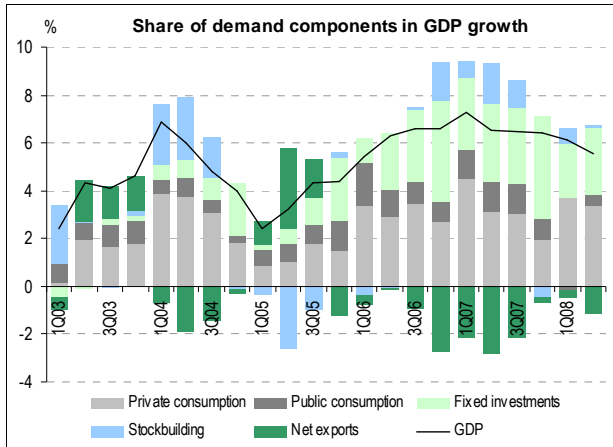
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Financial market on 31 July 2008:

NBP deposit rate	4.50	WIBOR 3M	6.56	USDPLN	2.0509
NBP reference rate	6.00	Yield on 2-year T-bonds	6.46	EURPLN	3.2026
NBP lombard rate	7.50	Yield on 5-year T-bonds	6.29	EURUSD	1.5616

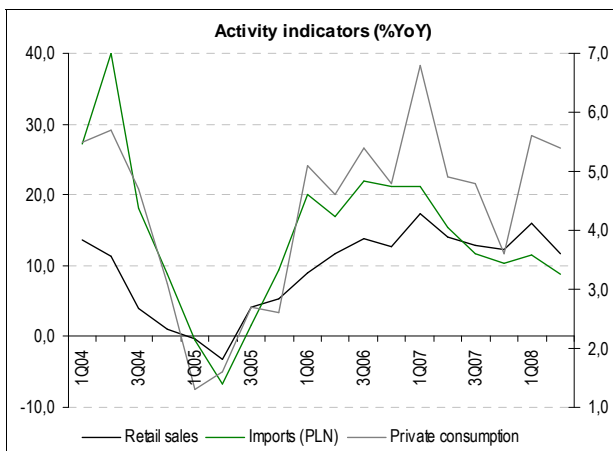
This report is based on information available until 07.08.2008

Economic update



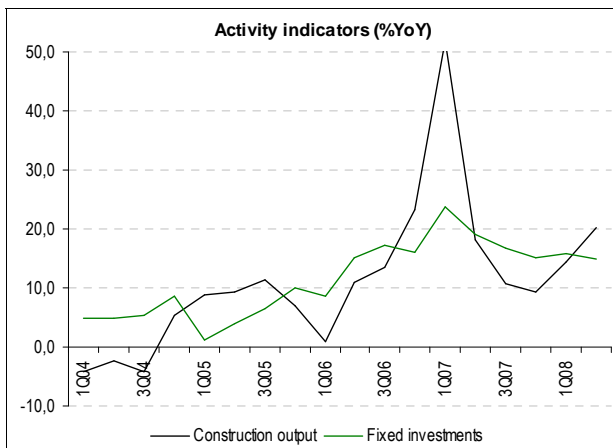
GDP still above 5% in the second quarter

- Since 1Q07, we have been dealing with slowdown in Polish economic growth, and everything indicates that in the second quarter it will be below 6% for the first time in two years.
- Our forecast points at economic growth at 5.6%YoY, which is closer to the lower limit of the forecast range announced by the Ministry of Finance. Although, according to the ministry, there is no reason to change annual forecast at 5.5%, we are not so optimistic and we maintain the view on further, gradual slowdown of GDP growth in the second half of the year. Our annual forecast stays at 5.3%. Moreover, there are also more and more arguments to review government's GDP growth forecast for the next year. The same applies to inflation assumption, though in this case there will be upward change.



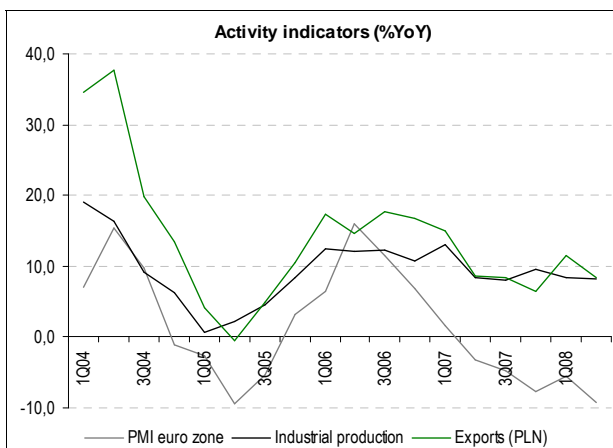
Sales slightly worse, consumers less optimistic

- Retail sales growth saw lower than expected and was at 14.2%YoY in June (the worst result in this year), less than 14.9%YoY in May, which was negatively influenced by the fewer number of working days in retail sector.
- Retail sales growth in real terms was at 10.1%YoY against 11.2%YoY in May, and in the second quarter it slowed to ca. 12%YoY from 16% in 1Q08. This means, that the private consumption effect on economic growth in 2Q will be probably smaller than we had expected.
- Despite some negative signals from consumer sentiment indicators, we maintain the opinion that consumption will remain the main factor responsible for the economic growth. It will be due to the increase in wage bill and social benefits income, as well as smaller tax burden.



Construction output and investment go ahead

- Although consumption might have risen slightly less in the second quarter, it will be offset by faster investment growth. Therefore, after the publication of monthly data for June, we keep our GDP growth forecast for Q2 on hold.
- Construction output may be considered as an indicator for the situation in fixed investment. In June it rose by more than 20%, while in the second quarter as a whole it accelerated to 20.1%YoY from 14.4% recorded in 1Q08.
- We expect that investment growth rate of ca. 15% reached in 1Q08 was maintained in Q2. However, despite the faster growth in investment loans for enterprises, we see the risk of investment slowdown inter alia due to tightening credit conditions, higher interest rates and lesser inflow of foreign direct investment.

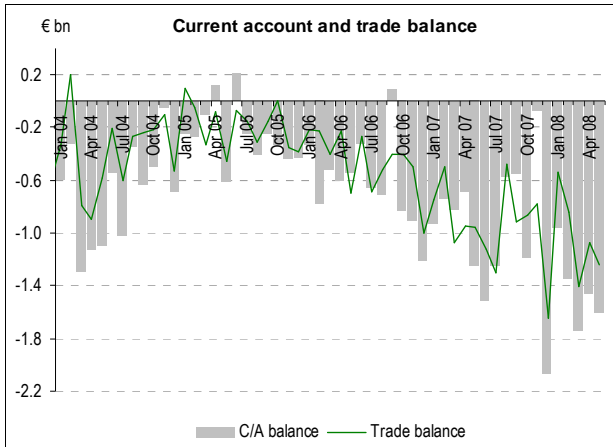


Industry worse than forecasted again, PMI sharply down

- Industrial output rose by 5%MoM and 7.2%YoYo in June, which was below our forecast at slightly above 8%; not to mention market expectations at above 10%. It was signalled earlier by PMI index that rebound in output growth in June from May result of a mere 2.4% would be weak, despite positive effect of higher number of working days.
- The situation in export sections was diverse – increase in manufacture of machinery and equipment by 20.1%YoY, motor vehicles by 17.3%; drop in 'other transport equipment' section (10.9%YoY) and wood products (5.6%YoY). While we expect increase in production in July similar to the one observed in June, the second part of the year should be worse due to weakening of export. It is suggested by low PMI indicators for both Poland and the euro zone.

Source: CSO, own calculations

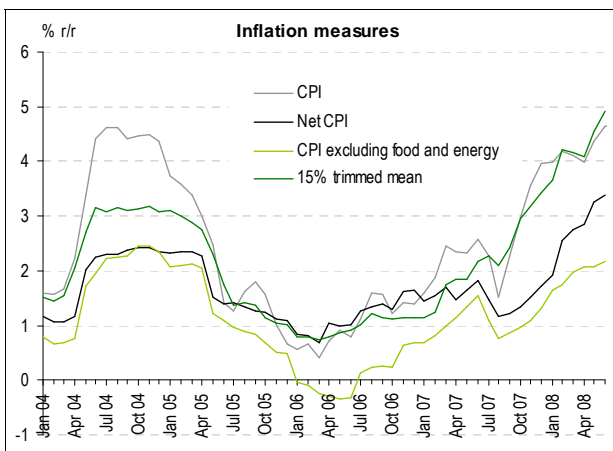
Economic update



Trade gap getting wider

- Exports and imports growth decelerated sharply in May, from over 30%YoY in April to 12.2%YoY in case of exports and 14%YoY in case of imports (31.8% in April). Cumulative 12-month current account deficit increased to 4.7% of GDP from 4.6% after April.

- To some extent, a slowdown in foreign trade turnover was a result of different timing of holidays, similarly as in case of industrial production and retail sales. However, in subsequent months we expect to see further deceleration in Polish exports, under influence of record-strong zloty and slowdown in Poland's main trading partners. In effect, current account deficit may soon exceed 5% of GDP. Moreover, a ratio of coverage of C/A deficit by inflow of foreign direct investment fell again (in May it reached 93% versus ca. 180% a year ago).



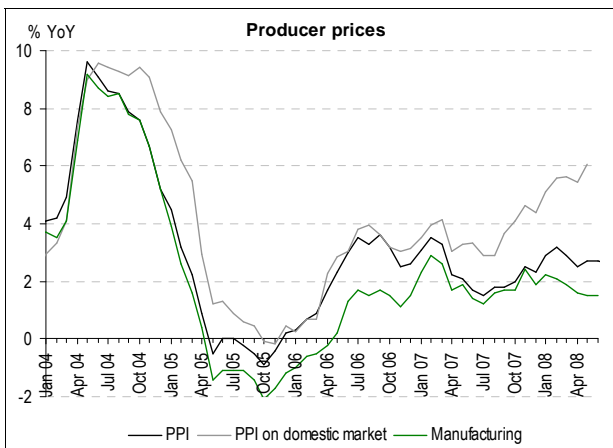
Internal imbalance still significant

- In June, prices of consumer goods and services rose by 0.2%MoM and 4.6%YoY.

- CPI inflation acceleration (from 4.4% in May) was driven to a large extent by higher fuel prices, as they rose by 3.3%MoM or 7.5%YoY. Though food prices fell on monthly basis by 0.6%, this was less than in June 2007, which drove the annual growth in food prices up to 7.6%. Besides, June was another month when acceleration in services prices was observed, while growth in prices of goods was limited (or even negative). Though oil price has been falling and zloty is close to record-strong levels, it is still probable that CPI inflation will exceed the level of 5% in August.

- All core inflation measures increased in June. The two measures most closely watched by the market (and the MPC), i.e. the net inflation (CPI excluding food and fuel prices) and CPI excluding food and energy prices accelerated to the least extent (0.1pp in annual terms). Increase in the four other measures ranged from 0.24pp to 0.39pp. The net inflation reached 3.4% in June. The new measure, CPI excluding food and energy prices, reached a mere 2.2%, although it has been in the upward trend since summer 2007.

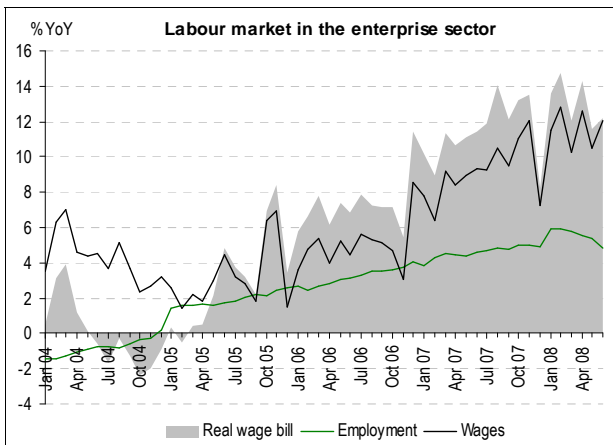
- PPI inflation was at 2.7%YoY in June. Price growth on a monthly basis was 0.5%. June was the second straight month when prices in manufacturing were rising on a fast pace (0.5%MoM), although annual price growth remained limited at 1.5%. Relatively low annual rate of PPI, especially in case of manufacturing, is an effect of a fall in zloty-denominated prices in export (related to zloty appreciation). Meanwhile, growth in producer prices on the domestic market gains strength and reached as much as 6%YoY in May (data for PPI on the domestic market for June are not available yet).



.. but to a lower extent in the labour market

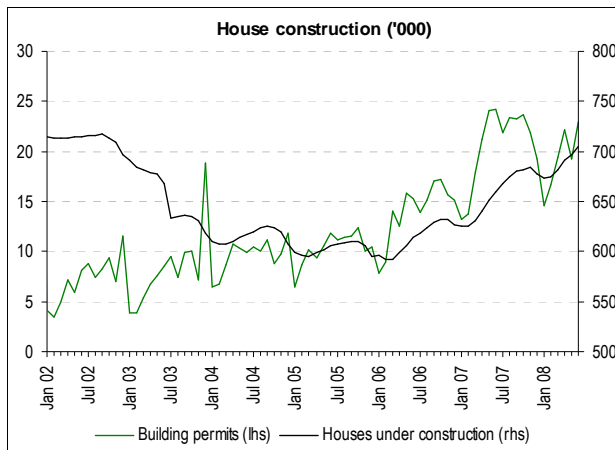
- Average wage in the enterprises sector increased 12%YoY in June (10.5% in May). Following slowdown in wage growth in May as an effect of lower number of working days (and lower wages for piece-work), wage growth in June was positively affected by payments of semi-annual bonuses in mining (wage growth in this sector of above 20%YoY in June).

- Employment growth reached only 4.8%YoY (5.4% in May). Employment was flat on monthly basis, while in 2004-07 June was the month of strong increase in labour demand. Stagnant employment in June was observed last time in 2002-2003 (economic slowdown). Although to some extent the current weakening in employment growth stems from labour shortages, the more important role is played by gradual economic slowdown. Employment reduction already started in manufacturing.



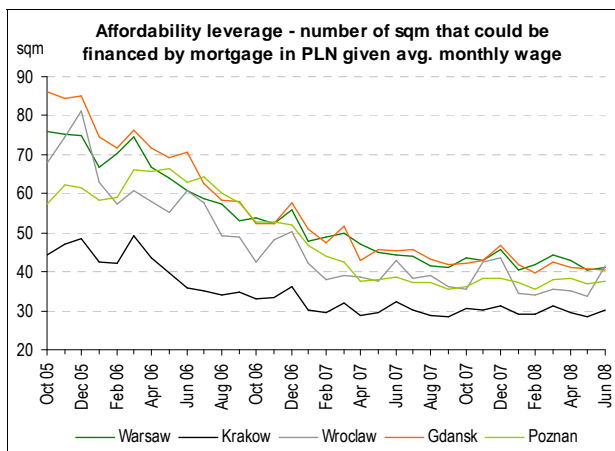
Source: CSO, NBP, own calculations

Housing market update



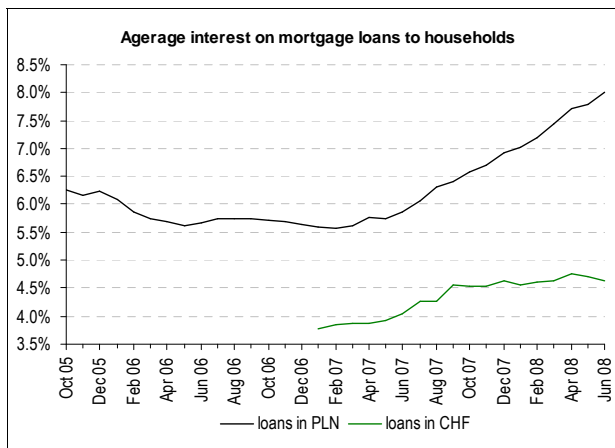
Growing number of new houses and investments

- In June, there were 10,000 new flats completed, 18,000 new house starts, and 23,000 new building permits. 12-month cumulated house completions amounted to almost 149,000, which is the highest result since 1992 (if we skip one-off surge in 2003 related to changes in law).
- Although the number of new housing investments has been growing, its annual growth rate is decelerating amid increasing base from the previous year.
- Developers are reporting growing troubles with new house sales and a need to cut prices. The segment of top-quality, luxury houses and apartments is an exception, as the demand is still in surplus amid restricted supply.



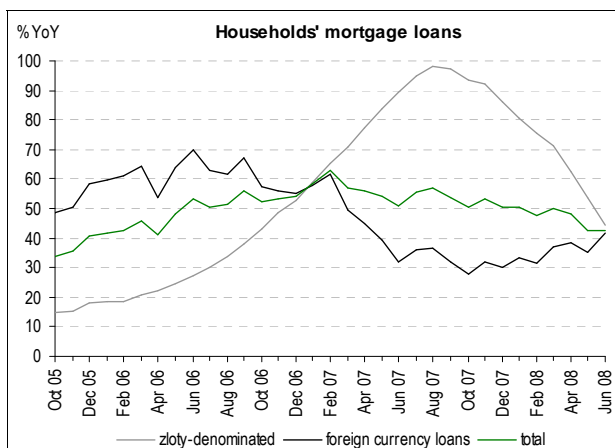
Households' revenues growing, hose prices slightly down

- Households' disposable income has been growing fast, while hose prices in Poland's major cities are stagnant or slightly falling.
- In June, relation between average wages and house prices improved strongly in Wrocław (more than 18%). Less significant improvement was recorded in Kraków (almost 7%), Gdańsk and Warsaw (ca. 3%).
- Nevertheless, thus far developers did not report any significant growth in demand for new flats. Possibly, part of potential clients is still on hold with decisions about buying property, waiting for more significant price correction.
- Affordability of flat financed by zloty-denominated loans remains stable, as rise in income is counterbalanced by growing interest rates. However, purchasing power is growing for those who decide to take foreign currency mortgage loan.



Loans in zlotys more expensive, in currencies cheaper

- In June, average weighted interest on new mortgage loans for households exceeded 8%, the highest level since March 2005. Average instalment of loan for 50-meter flat in Poland's biggest cities was ca. 20% higher than one year ago.
- During holidays, interest rates of zloty-denominated loans should remain stable, but in the autumn further rise is likely, following predicted rate hikes by the MPC.
- Average interest rate of mortgage loans denominated in Swiss francs remained little changed, in May and June even declined slightly, as despite high inflation in Switzerland rate hikes are not very likely due to economic slowdown. Moreover, significant zloty strengthening in recent months reduced value of monthly instalments for outstanding loans in CHF.



Demand for housing loans reviving again

- Interestingly, even though there were no signals of reviving demand for new houses from developers, banks saw higher interest in housing loans. According to quarterly NBP report about situation in credit market, banks recorded a strong increase in demand for mortgage loans for households in Q2, particularly in case of loans in Swiss franc.
- In June, households' mortgage debt grew by ca. PLN5bn versus May. More than 93% out of this amount represented loans in foreign currencies. Their annual growth accelerated from 35.2% in May to 41.5% in June (highest in a year time).
- If we adjust the data for impact of zloty appreciation, growth in households' mortgage loans in June reached ca. 50%YoY, while foreign currency mortgage loans increased ca. 54%YoY.

Source: CSO, NBP, szybko.pl, own calculations

Central bank watch

Comparison of key fragments of the MPC statements in July and June

The Polish economy is still in the period of strong growth encompassing all **most** of its sectors. However, data released recently indicate that the economic growth is gradually slowing down, which is consistent with previous expectations. At the same time, information on labour market developments points to a sustained high growth of employment and wages and to an unfavourable relation between wage and labour productivity growth.

The latest information on the US economy signal that the slowdown of activity in this economy may be less deep than previously expected, though it may last longer. Uncertainty also persists as to the scale of the decrease of euro area economic growth and of its impact on the Polish economy. The latest data on the United States and the euro area point to further deterioration of the outlook for growth in these economies. At the same time, many countries have recorded a rise in both the current and the forecast inflation. In the past few months oil prices in the world markets have increased strongly, while displaying high volatility. Uncertainty persists as to the scale in which the decline in activity in the external environment may affect the Polish economy.

In the Council's assessment in the coming quarters the wage pressure and, consequently, the inflationary pressure will probably persist despite the expected slowdown in the economic growth, though the gradually slowing economic growth should be easing the wage pressure and, consequently, also the inflationary pressure. Increased inflation in the coming quarters will, to a large extent, result from the growth of administered prices and also from the food and fuel price growth observed in the world economy and affecting the Polish market. Persistently increased inflation creates a risk of inflation expectations remaining at an elevated level and, consequently, feeds the risk of the so-called second-round effects. Moreover, the rise in prices of energy and food may be gradually passing through to other prices, particularly to prices of some services **prices of other goods and services**.

In the medium term inflationary pressure may be curbed by still good financial results of enterprises and continuously high investment growth conducive to productivity growth. Inflationary pressure may also be constrained by the slowdown in the global economy and, consequently, also in the Polish economy. The inflationary pressure may additionally be eased by globalisation, though its overall impact will probably be weaker than before the import of goods from countries with low production costs. The previous increases of the NBP's interest rates and the zloty appreciation observed over the past few quarters will also be conducive to lowering inflation will also have the same effect, as well as the rapid zloty appreciation observed over the past quarters, which in the recent period has most probably outpaced the appreciation of the equilibrium exchange rate.

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. Therefore, the Council does not rule out that bringing inflation down to the target in the medium term would require further monetary policy tightening. At the same time, due to the persistence of shocks observed in food and commodity markets, bringing inflation down to the target level may take somewhat longer time.

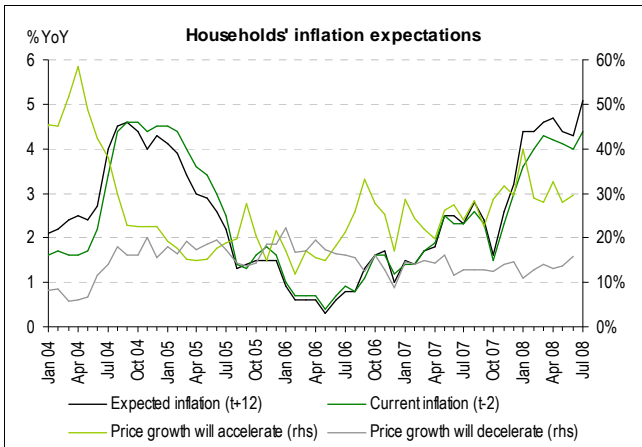
New dovish elements in MPC statement

- As expected, the MPC kept rates on hold in July. The post-meeting statement was interpreted by the market as hawkish. This was connected with the fact that the MPC included again the informal restrictive bias in the statement, as well as the comment that "the Council does not rule out that bringing inflation down to the target in the medium term would require further monetary policy tightening".

- The return to the restrictive bias could have been expected after it appeared in minutes of the June's meeting. The fact that the MPC excluded it from the post-meeting statement in June we interpret as "an accident" rather than a significant signal sent to market players. In our opinion evolution of views within the Council is better reflected in other changes in the last official statements.

- Two elements seem the most important to us. First, the Council left the statement that in the next quarters wage pressure is likely to be maintained. However, while a month earlier the MPC stressed the consequences of the wage pressure on inflation, despite expected economic slowdown, this time we read in the statement that "slowing economic growth should be easing the wage pressure and, consequently, also the inflationary pressure". Second, a crucial dovish element included in the statement is a phrase about rapid appreciation of the zloty in recent quarters on the pace faster than in case of equilibrium exchange rate appreciation.

- Overall, we do not change our expectations that after the summer break the reference rate will increase to 6.25-6.50%, depending on developments in the global situation. Likely months of rate hikes are September and/or October. More radical moves of the MPC become less and less likely.

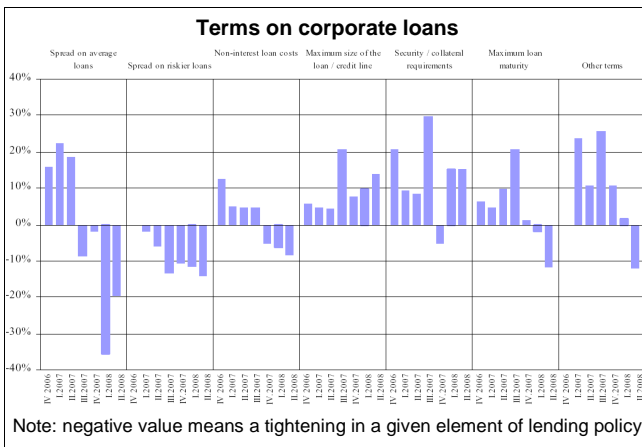


Inflation expectations sharply up

- One of factors, which in our opinion will persuade the MPC to continue rate hikes will be further rise in inflation expectations, increasing risk of the second-round effects. The NBP said that in July inflation expected by households in the next 12 months increased to 5.1%YoY from 4.3%YoY.

- What is important, the increase in the expected inflation was stronger than rise in the current inflation, which suggests that there was deterioration in the structure of households' answers to questions about tendencies in price changes.

- As an improvement in the structure of the households' opinion about inflation outlook observed in the two previous months has been reversed in July, moderate rate-setters may become more convinced about a necessity of lowering inflation expectations through further rate hikes.



Stronger demand for loans, despite wider spreads

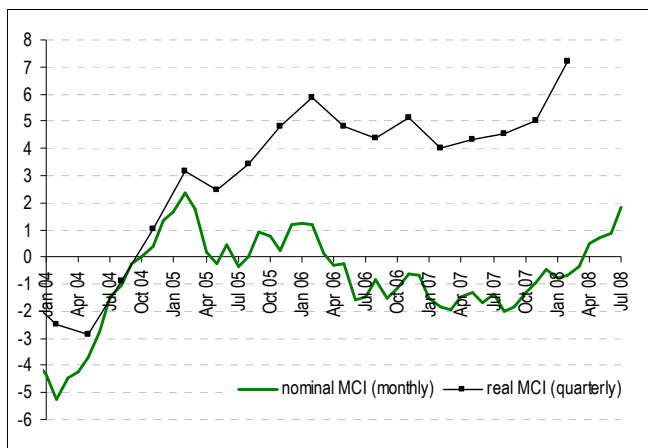
- Results of survey carried out by the NBP among senior loan officers showed that banks increased loans spreads in Q2 for all analysed kinds of loans (corporate, housing and consumer), which was related to the worsening of the bank's capital position. Wider loan spread effectively means additional tightening of monetary conditions.

- However, despite increase in borrowing costs (higher interest rates and loan spreads), Q2 saw increase in demand for all kind of analysed loans. Moreover, the surveyed banks expect further increase in demand for loans in Q3.

- The actual scale of loans increase in Q3 may be, though, constrained by the fact that many banks plan tightening in lending policy with except in case of the lending policy towards small and medium-sized enterprises.

Źródło: NBP, Reuters

Restrictiveness of the Monetary Policy (Council)



MCI clearly up again

- As one could have expected, rapid appreciation of the zloty in July led to clear increase in the nominal monetary conditions index.
- According to our estimated, EURPLN deviation from its long term trend (proxy of the equilibrium exchange rate) widened the most since early 2006.
- Increase in restrictiveness of monetary conditions was lowered by slight narrowing of upward deviation of the short-term interest rate from its long-term trend, which was observed in July, despite the rate hike by the MPC in late June.
- One may expect that after strong rise in real MCI in Q1, the index will go up further in Q2, given significant appreciation of the zloty in that period.

7.0%



Filar 1.50 (1.61)

Noga 1.50 (1.52)

Wasilewska-Trenkner 1.50 (1.48)

Wojtyna 1.31 (0.91)

6.5%

Sławiński 1.06 (0.91)

Czekaj 1.00 (0.86)

Skrzypek 0.81 (N/A)

Owsiak 0.81 (0.91)

Nieckarz 0.81 (0.83)

6.0%

Pietrewicz 0.75 (0.74)



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 period since the beginning of Sławomir Skrzypek's term as NBP governor and numbers in parentheses are values of the index for 2004-2006.

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.

No change in restrictiveness index of particular rate-setters

Over the last month, we have not received any new results of MPC votes. Therefore, there are no changes in our index of restrictiveness of particular rate-setters. Results of possible votes in April and May, when rates were kept on hold, will only be revealed in October in the new *Inflation Report*. Result of MPC vote on the rate hike of 25bp in June will be presented in the Judicial and Economic Monitor at least 6 months after the vote, i.e. within a few days. However, minutes of the MPC meeting in June suggested that similar as in March (and differently than in January and February), the decision to raise rates by 25bp in June was unanimous.

Hawks still call for more hikes

The minutes also showed that there was no motion to raise rates by 50bp in June, although it was submitted in January-March period when the Council was hiking rates by 25bp each month. This suggests that hawks do not see a need for taking more radical steps in monetary policy and/or they see much lower approval for further hikes from other rate-setters. Nevertheless, hawks have no doubts that some rate hikes are still needed. Dariusz Filar said that most likely there would be need for more than one hike and the next move should be made as soon as possible. According to Halina Wasilewska-Trenkner, in order to bring inflation back to the target at the turn of 2010, at least two rate hikes are necessary. She added that currently the MPC observes the situation and waits for monthly data on wages and GDP figures for Q2. Also in Marian Noga's opinion one should wait for next data and the key factors will be wage growth (Noga indicated that dangerous level is 12%YoY) and GDP numbers for Q2. He maintained his view that if there was such necessity, the MPC will raise rates, but most likely not earlier than in October. In his view, the Council cannot allow for cementing of inflation expectations at high level of 4.5-5%.

Doves want at least a few months break

Stanisław Nieckarz from the dovish camp in the Council believes that there is a need for at least 3 months (including July) break in monetary policy parameters, as after the 8 hikes delivered so far and rapid appreciation of the zloty the monetary conditions index rose very considerably and pose a threat to external balance of the economy. In Nieckarz's view, with current interest rates inflation should return to the target at the end of 2008.

Czekaj: 'we have never said that hikes are over'

Last comments from Jan Czekaj, whose pattern of voting was always the same as outcome of MPC votes in the recent years, indicate that he is not sure what decisions should be made and waits for development of the situation. However, he stressed that one cannot state that rate hikes cycle is over. Czekaj suggested that important factors for him will be the pace of economic slowdown and the level at which inflation will peak in August and scale of its fall in September. We think that inflation peak at above 5%YoY and continuation of wage growth at above 10%YoY will persuade prof. Czekaj to vote for one of two rate hikes after holiday.

Government and politics

Comments of government officials on the zloty strength:

Waldemar Pawlak, deputy PM, economy minister (Reuters, 6 August): There are possibilities that may be potentially used but it is a case for the finance ministry. It is now a good time to talk about it (stopping appreciation). Some companies have to limit or even shut down their production. And it is not a matter of productivity...it is a matter of the zloty exchange rate.

Jacek Rostowski, finance minister (Reuters, 25 July): I do not think that currently the strength of the zloty hurts the economy. I do not think that forecast of economic growth at 5.5% this year is in danger.

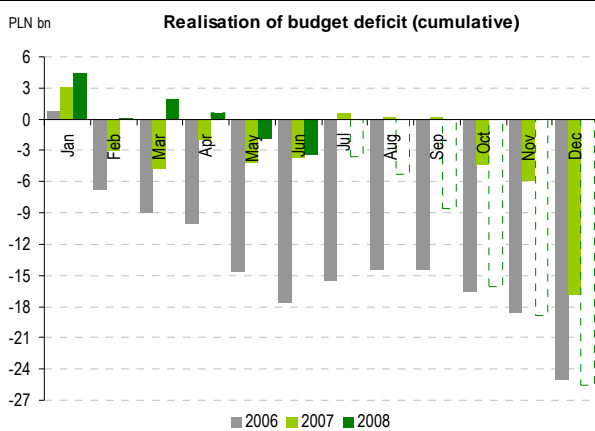
Donald Tusk, Prime Minister (Reuters, 10 July): On one hand (strong zloty) is the most effective tool against high prices of oil and food abroad. It is obvious that exporters prefer weaker zloty, however strong and stable zloty is on balance rather good, not bad phenomenon.

Strong zloty does not bother PM and finance minister

- Deputy PM Waldemar Pawlak expressed recently concerns about zloty appreciation and said it is worth considering ways to weaken the currency. Shortly afterwards, the zloty fell indeed, however in our view it was mainly due to other reasons (dollar strengthening, change in moods in the region, anticipated economic slowdown) and to smaller extent effect of verbal intervention.
- Government tools to halt zloty appreciation are rather limited. Moreover, it is hard to imagine interventions aimed at currency weakening when inflation remains well above the inflation target. Perhaps this is affecting the tone of comments of Prime Minister and finance minister as regards zloty rate. On the other hand, their optimism is so big that it may even spur strengthening of appreciation pressure.

Budget deficit still low, but revenues not impressive

- According to tentative data, after the first half of the year the state deficit reached PLN3.46bn, i.e. 12.8% of the annual plan assumed in the budget bill.
- This is still much lower realisation than in corresponding period of previous years. However, optimism is disturbed by the fact that realisation of budget revenues (45.3% after June) is not particularly high.
- On the other hand, June saw a revival in indirect tax inflow, which may suggest that the second half of the year will be better than the first one. However, this seems to be inconsistent with predicted economic slowdown.
- According to FinMin predictions, deficit after July reached only PLN3.5bn (versus PLN17.9bn in initial schedule), which is another very good result.



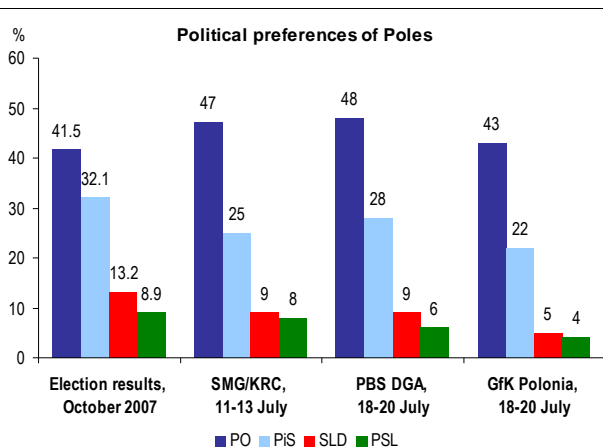
Macroeconomic assumptions in 2009 budget draft versus market forecasts

	Current budget assumptions	BZ WBK forecast	Market consensus forecast*
Average inflation	2.9%	3.7%	3.2%
GDP growth	5.0%	4.5%	4.9%

* Focus Economics, Consensus Forecast Eastern Europe, July 2008

Will realisation of 2009 budget be equally easy?

- According to FinMin representatives, it is possible that macroeconomic assumptions to 2009 budget draft will be revised – inflation up (from 2.9%), GDP down (from 5.0%). The decision will be made at the turn of August and September. Its impact on the budget revenues may be neutral, as the effects of the changes go in the opposite directions.
- FinMin wanted to freeze most of budget revenues in 2009, but some ministries already declared that proposed spending limits will be insufficient. Minister Rostowski proposed abandoning a rule assuming spending on national defence at 2% of GDP. However, this may be hard to implement.
- Budget will probably be in focus of market attention after the holiday break, when work on the draft enters the final phase.

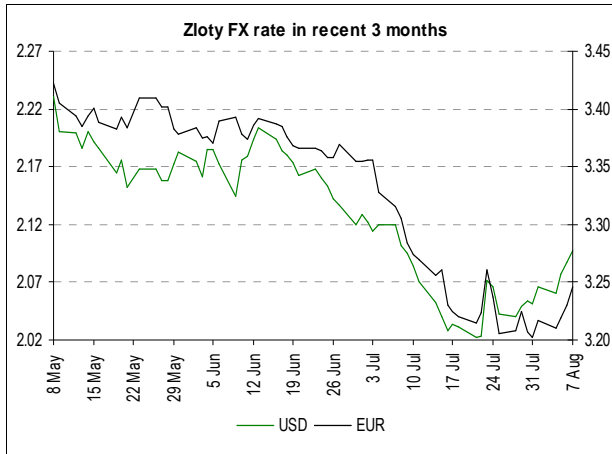


Poles getting more critical about the government

- The latest opinion polls show increasing group of people that are dissatisfied with current government performance – in July they represented 59% of population, versus 31% with positive opinion about the government.
- Less clear trends are seen in polls concerning support for political parties. PO is still in the lead, although according to some surveys it is slightly losing advantage versus PiS, while other polls suggest that the gap is widening.
- Government's plans are complicated by the possibility of President's veto, as its rejection requires support of left-wing SLD. Nevertheless, recent rumours about possible election in the spring if the President continues vetoing next bills seems little likely. Instead, PO is considering realisation of its plans via government's decrees rather than parliament's bills.

Source: Ministry of Finance, PAP, Reuters, own calculations

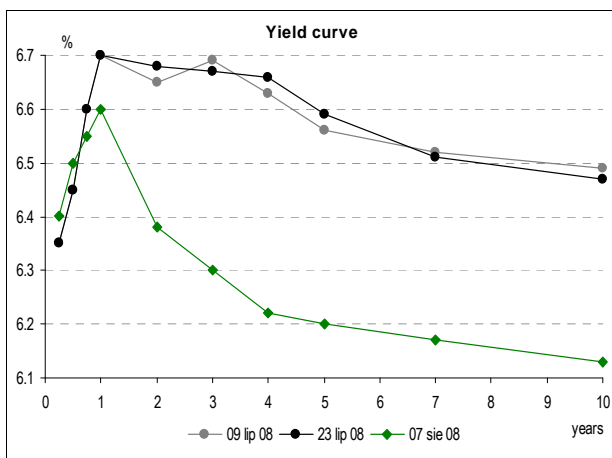
Market monitor



Zloty was testing 3.20 versus euro

- In July the Polish FX market recorded a wave of zloty strengthening. The EURPLN broke historical minimum in mid-July and approached 3.20. After a correction to ca. 3.27, another wave of strengthening took place, but the 3.20 level was not broken. At the start of August the FX market showed weakening of currencies in the region against the euro and the dollar, including the zloty, which was driven among others by dollar appreciation.

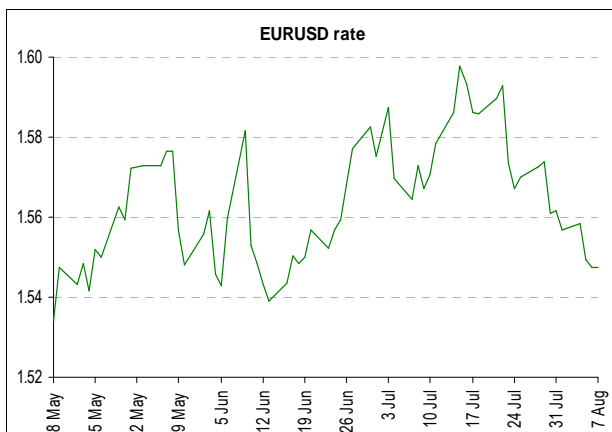
- We expect a continuation of the zloty correction towards 3.30. The expectations on monetary policy in the region may have significant influence on currencies. In our view, rates in Poland will be raised only after summer months, which would support correction in the nearest weeks. Next data on output and sales may be positive, though their influence on the zloty may be ambiguous due to possible negative influence on the bond market.



Investors in offensive in the fixed interest rate market

- In July there was a significant strengthening in the domestic fixed income market. The prices rise was connected with limiting expectations for fast interest rate hikes due to the zloty appreciation, many signs of economic growth weakening. A drop in yields was also influenced by the strengthening in the core markets and "dovish" signals from the Czech central bank. The MPC communiqué interpreted by the market as "hawkish" and higher than expected wages resulted in temporary corrections.

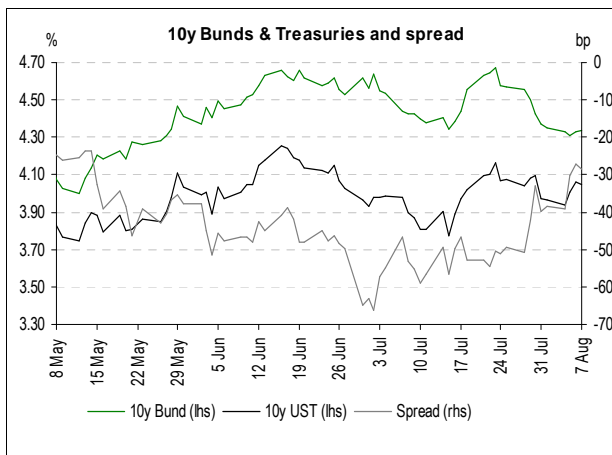
- We expect further interest rate hikes by the MPC after holiday months. Our inflation and wage forecasts for July are only below consensus, but only moderately. On the other hand the output and sales figures differ from consensus in larger scale to the upside, which may contribute to bonds weakening. Further oil prices drops and European market strengthening might be positive factors for the fixed income market.



Dollar recovery

- In mid-July the EURUSD rate temporarily exceeded 1.60 again due to revival of fears over condition of the US financial sector and little hawkish comments of Fed's chief. Then the decline of EURUSD rate was accompanied by oil prices decline. Data from the US (from the labour market, ISM indices, Empire State) appeared slightly better than forecasts and also supported the US currency. In August we saw a series of weaker-than-expected data releases from the euro zone, which fuelled dollar gains and the EURUSD rate fell sharply even more after the ECB meeting.

- We expect the EURUSD to fluctuate close to current levels with a slight tendency to dollar's weakening, among others due to maintaining hawkish stance of the ECB amid limited expectations for fast rate hikes in the US. However, in further perspective the dollar should strengthen.



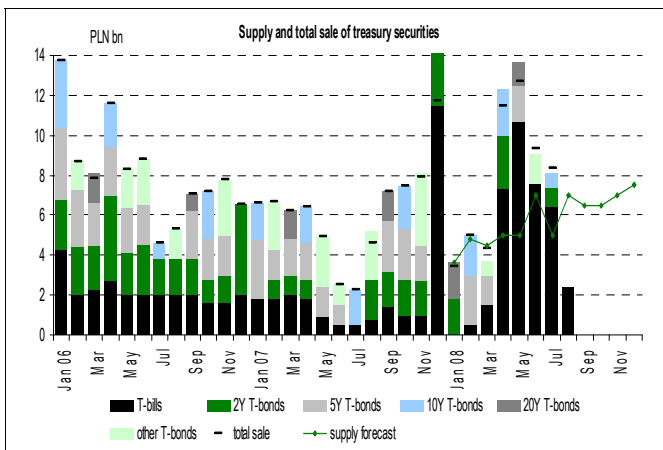
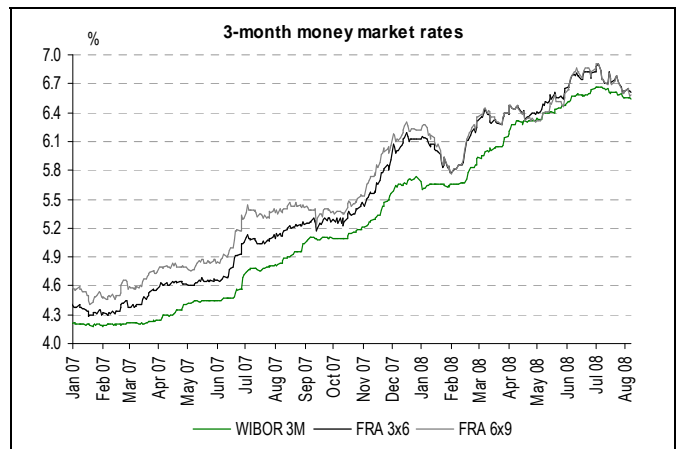
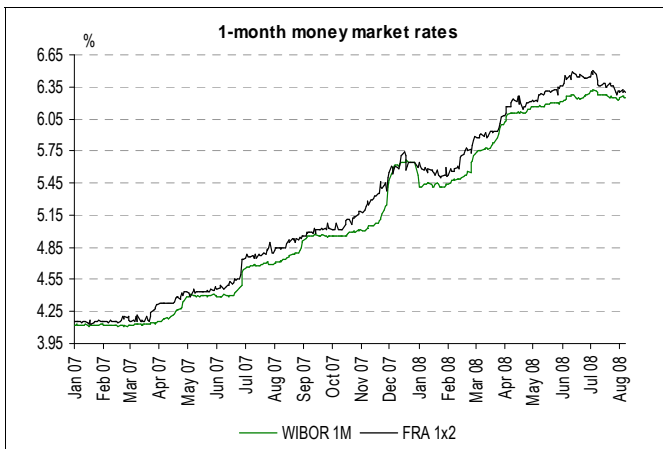
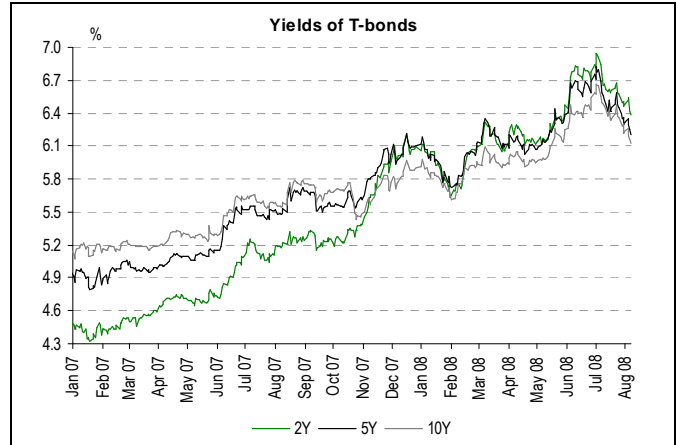
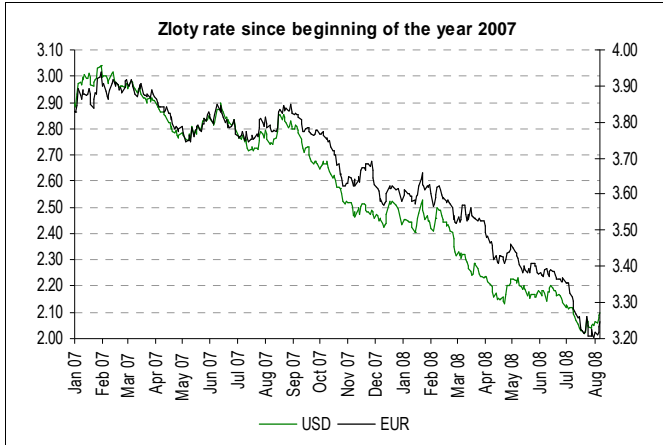
Bunds yields fall

- In the core debt markets yields fell in mid-July, among others on higher risk appetite. Later on Bunds prices started rising due to falling oil prices, which weakened concerns over inflation prospects. Bunds strengthening was connected with poor euro zone data released at the start of August. Yields of 10Y US Treasuries held at elevated levels as compared to the previous months.

- In our view, amid economic slowdown and risk of recession in the US as well as holding instability of financial system the interest rate hikes in the US will be postponed even to the end of 2009. In the euro zone stabilisation in official rates this year will be followed by some easing at the start of next year, in our view. For some time the ECB will maintain its hawkish tone of comments, though it is not going to be easy in the environment of the economic slowdown.

Source: Reuters, BZ WBK

Market monitor



Treasury bill auctions (PLN m)

Date of auction	(OFFER)*/SALE					
	52W	26W	13W	5W	3W	2D
14.04.2008	3134	1005	573	-	-	-
05.05.2008	2787	-	-	-	2007	-
26.05.2008	3000/3275	1500/964	1500/1167	-	-	-
02.06.2008	1500/1496	-	500/810	-	-	-
09.06.2008	1400/1320	-	1400/1577	-	-	-
16.06.2008	1400/1443	-	1400/1449	-	-	-
07.07.2008	1200/965	-	500/709	-	-	-
14.07.2008	1200/1298	-	500/629	-	-	-
21.07.2008	-	1000/1000	500/500	-	-	-
28.07.2008	-	1000/1023	500/526	-	-	-
04.08.2008	1200/1200	1200/1200	-	-	-	-
11.08.2008	0-1500	0-1500	-	-	-	-
18.08.2008	0-1000	0-1000	-	-	-	-

* based on data of the Ministry of Finance

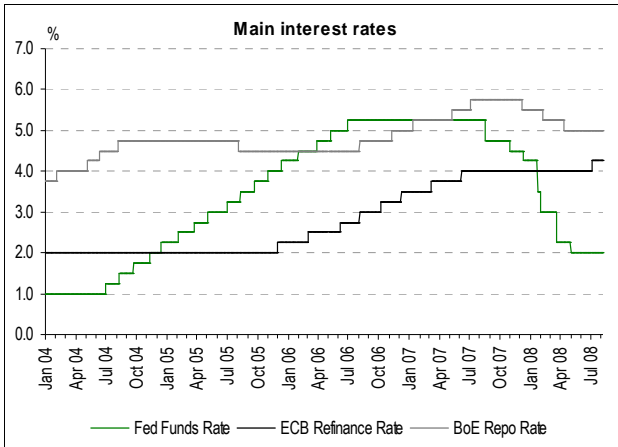
Treasury bond auctions in 2008 (PLN m)

month	First auction			Second auction			Switch auction				
	date	T-bonds	offer	sale	date	T-bonds	offer	sale	date	T-bonds	sale
January	02.01	OK0710	1 800	1 655	09.01	WS0922	1 800	1 800	16.01	PS0413 / IZ0816 / WS0922	524 / 766 / 431
February	06.02	PS0413	2 500	2 500	13.02	DS1017	2 000	2 000	20.02	WZ0816 / WZ1118	855 / 914
March	05.03	PS0413	1 500	1 500	12.03	WS0437	700	700	19.03	PS0413/WZ0118/WS0922	1632/ 340 /369
April	02.04	OK0710	2 700	2 700	09.04	DS1017	2 300	1 208	16.04	PS0413/DS1017	3399/2804
May	07.05	PS0413	1 800	1 800	14.05	WS0922	1 200	714	21.26	OK0710/PS0413/DS1017	0/0/0
June	04.06	IZ0816/WZ0118	500/1000	505/719	-	-	-	-	11.06	no switch auction organised	-
July	02.07	OK0710	1000	1000	09.07	DS1017	700	705	23.07	PS0413	1558
August	06.08	OK0710	1800	1830	13.08	12L CPI 10L zm.	-	-	-	-	-
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

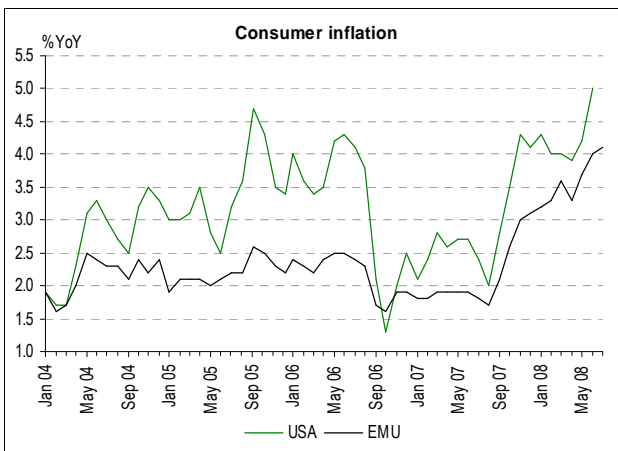


Interest rates in the US and EMU unchanged

- In August Fed kept interest rates unchanged with the Fed Funds Rate at 2%, as expected. In the official statement Fed stressed that downside risks for economic growth remained and dropped a phrase about decreasing risk for growth. At the same time, the Fed stressed that inflation is in an upward trend and is "of significant concern to the Committee". The market interpreted the statement that rates in the US should remain unchanged until the year-end.
- After a July rate hikes by 25 bp in August the ECB similar to Fed left rates unchanged. The official statement focused on high fears of second round effects and upside risks to inflation in mid and long term and downside risk for economy. In ECB's view risk of negative influence of financial markets turmoil on the economy increased, while economic growth prospects are more uncertain. J.C. Trichet did not put much weight on falling oil prices.

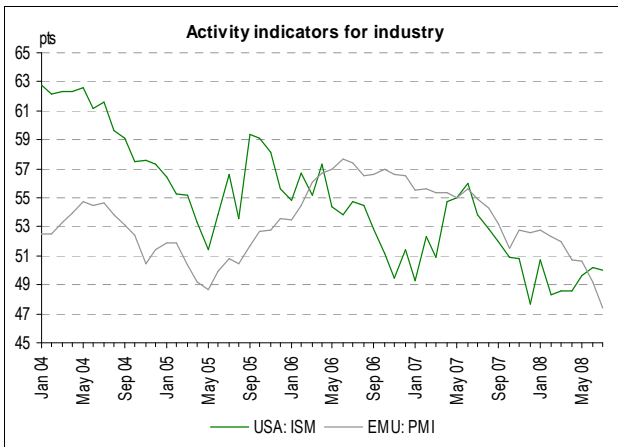
...though inflation is still a problem

- Inflation in the euro zone is still rising. According to preliminary data from Eurostat for July HICP inflation increased to 4.1%YoY from 4.0% in June. Core inflation was at 2.5%YoY, though the market expected 2.6%. On the other hand PPI inflation rose in June to 8%YoY from 7.1% in May, slightly above forecasts. According to the ECB president HICP inflation will stay above level guaranteeing price stability for some time and will decelerate only slightly in 2009.
- US inflation accelerated in June to 5.0%YoY (1.1%MoM) from 4.2%YoY in May, reaching the highest level since 1991, when the prices rose influence by the effects of the first war in Iraq. The market expected 4.5% r/r. The core CPI rose by 0.3%MoM (2.4%YoY) amid expectations of no change as compared to May. PPI in the US rose in June by 1.8%MoM, and core PPI by 0.2% and exceeded market expectations, similar to the core PCE index, which rose by 0.3%MoM (2.3%YoY).



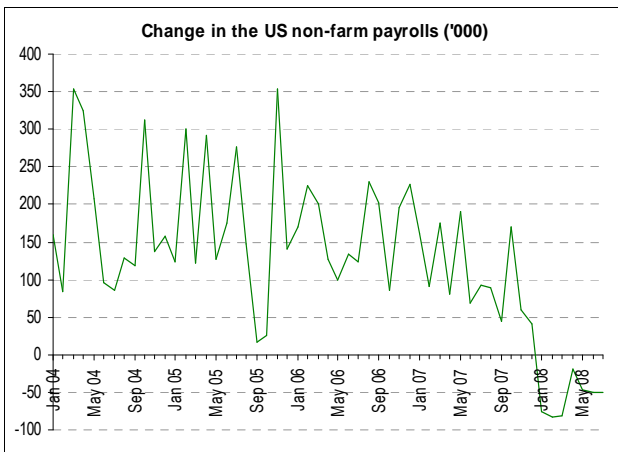
...as data confirm economic slowdown

- In contrast to May in June US retail sales figure was disappointing (rise by 0.1%MoM against forecasts of 0.4%). GDP figure in the US was weaker than expected and showed economic growth for Q2 at 1.9% against downwardly revised 0.9% in Q1. On the other hand the ISM index was slightly better than expected (50.0 vs. 49.3), similar to index for services, which rose in July to 49.5 pts. Values of particular sub-indices in services confirmed the picture of the slowing economy with deteriorating situation in the labour market and high inflation pressure.
- Economic data in the euro zone were not a sign of optimism at all and keep the ECB from further interest rate hikes despite high inflation. ZEW index fell in July to -63.9 pts against -52.4 pts in June and expected -55.0 pts. Retail sales recorded a deep fall in annual terms, i.e. -3.1% (-0.6%MoM). The PMI activity index for manufacturing in July declined to 47.4 pts against 49.2 pts in June. On the other hand the PMI index in services fell in line with expectations to 48.3 pts from 49.1 pts, the lowest level in five years, while the expectations index dropped to 49.7 pts, the lowest in ten years. Data may strengthen the dovish camp in the ECB.
- The situation in the oil market was optimistic from the point of view of inflation and economic growth as the oil prices dropped since the start of July by ca. 20% from 145\$ per barrel to 117\$.



US labour market still in retreat

- In July the non-farm payrolls fell by 51k as compared to market forecast of -75k. Moreover data for the previous month were upwardly revised. The unemployment rate in the US rose in July to 5.7% from 5.5% (market expectations pointed to 5.6%).



Source: Reuters, ECB, Federal Reserve

Economic calendar

Monday	Tuesday	Wednesday	Thursday	Friday
11 August <i>PL: Auction of Treasury Bills</i>	12 <i>PL: Balance of payments (Jun)</i> US: Trade balance (Jun)	13 <i>Auction of 10Y floating rate and 12Y CPI linked bonds</i> <i>PL: CPI (Jul)</i> EZ: Industrial output (Jun) US: Import prices (Jul) US: Retail sales (Jul)	14 <i>PL: Money supply (Jul)</i> EZ: Preliminary GDP (Q2) EZ: Final HICP (Jul) US: CPI (Jul)	15 US: NY Fed index (Aug) US: Capital flows (Jun) US: Capacity utilisation (Jul) US: Industrial output (Jul) US: Preliminary Michigan (Jul)
18 <i>PL: Auction of Treasury Bills</i> <i>PL: Wages and employment (Jul)</i>	19 DE: ZEW index (Aug) US: Build permits (Jul) US: House starts (Jul) US: PPI (Jul)	20 <i>PL: Switch auction</i> <i>PL: Industrial output (Jul)</i> <i>PL: PPI (Jul)</i>	21 <i>PL: Net inflation (Jul)</i> <i>PL: MPC minutes (Jul)</i> US: Philadelphia Fed index (Aug)	22 <i>PL: Business climate (Aug)</i>
25 DE: Ifo index (Aug) US: Home sales (Jul)	26 <i>PL: MPC meeting</i> <i>PL: Retail sales (Jul)</i> <i>PL: Unemployment (Jul)</i> US: Consumer confidence (Aug) US: New home sales (Jul)	27 <i>PL: MPC meeting – decision</i> US: Durable goods (Jul)	28 EZ: M3 money supply (Jul) EZ: Economic sentiment (Aug) US: Preliminary GDP (Q2) US: GDP deflator (Q2) US: Core PCE (Q2)	29 <i>PL: GDP (Q2)</i> EZ: Flash HICP (Aug) US: Core PCE (Jul) US: Chicago PMI (Aug) US: Final Michigan (Aug)
1 September US: Market holiday EZ: Manufacturing PMI (Aug) US: Manufacturing ISM (Aug)	2 EZ: PPI (Jul)	3 <i>PL: Auction of 5Y bonds</i> EZ: Services PMI (Aug) EZ: Retail sales (Jul) US: Factory orders (Jul) US: Non-manufacturing ISM (Aug)	4 GB: BoE meeting – decision EZ: ECB meeting – decision US: ADP report (Aug) US: Labour productivity (Q2) US: Unit labour costs (Q2)	5 US: Non-farm payrolls (Aug) US: Unemployment (Aug)
8 <i>PL: Auction of Treasury Bills</i>	9 US: Pending home sales (Jul) US: Wholesale inventories (Jul)	10 <i>PL: Auction of 20Y bonds</i>	11 US: Trade balance (Jul) US: Import prices (Aug)	12 <i>PL: Balance of payments (Jul)</i> US: Industrial output (Jul) US: PPI (Aug) US: Retail sales (Aug) US: Preliminary Michigan (Aug)

Source: CSO, NBP, Finance Ministry, Reuters

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	25	26	22	28	24	25	26	-	-	-	-
Gross wages, employment	16	15	17	15	19	16	15	18	15	15	18	15
Unemployment	24	25	26	22	28	24	25	26	-	-	-	-
Foreign trade	about 50 working days after reported period											
Balance of payments*	2	-	31	-	-	30	-	-	30	-	-	-
Balance of payments	18 ^c	12	13	15	15	17	15	12	12	-	-	-
Money supply	14	14	14	14	14	13	14	14	12	-	-	-
NBP balance sheet	7	7	7	7	7	6	7	7	5			
Business climate indices	23	22	21	23	23	23	23	22	23	23	21	22

* quarterly data, ^a preliminary data for January, ^b January and February, ^c November 2007

Source: CSO, NBP

Economic data and forecasts

Monthly economic indicators

		Jul 07	Aug 07	Sep 07	Oct 07	Nov 07	Dec 07	Jan 08	Feb 08	Mar 08	Apr 08	May 08	Jun 07	Jul 08	Aug 08
Industrial production	%YoY	10.4	8.9	5.4	10.8	8.5	6.4	10.7	15.0	1.0	15.1	2.4	7.2	8.6	3.5
Retail sales ^c	%YoY	17.1	17.4	14.2	19.4	19.2	12.4	20.9	23.8	15.7	17.6	14.9	14.2	15.6	13.3
Unemployment rate	%	12.1	11.9	11.6	11.3	11.2	11.4	11.7	11.5	11.1	10.5	10.0	9.6	9.5	9.3
Gross wages ^{b,c}	%YoY	9.3	10.5	9.5	11.0	12.0	7.2	11.5	12.8	10.2	12.6	10.5	12.0	11.0	10.5
Employment ^b	%YoY	4.7	4.8	4.7	5.0	5.0	4.9	5.9	5.9	5.8	5.6	5.4	4.8	4.5	4.4
Export (€) ^d	%YoY	17.0	14.9	8.2	13.5	13.1	8.7	23.2	30.2	12.0	33.9	12.2	17.4	12.5	10.7
Import (€) ^d	%YoY	23.3	13.4	13.7	17.7	15.4	15.4	18.7	32.5	13.9	31.8	14.0	19.3	17.0	15.4
Trade balance ^d	EURm	-1299	-472	-917	-859	-783	-1645	-535	-840	-1402	-1075	-1240	-1500	-1910	-944
Current account balance ^d	EURm	-1252	-576	-546	-1183	-67	-2061	-962	-1347	-1738	-1455	-1602	-1800	-1930	-1064
Current account balance ^d	% GDP	-3.7	-3.6	-3.8	-3.8	-3.5	-3.7	-3.9	-4.0	-4.3	-4.6	-4.7	-4.7	-5.1	-5.2
Budget deficit (cumulative)	PLNbn	0.6	0.3	0.2	-4.4	-6.0	-16.9	4.4	0.0	1.9	0.6	-1.9	-3.5	-3.6	-5.3
Budget deficit (cumulative) ^e	% of FY plan	-3.6	-1.6	-1.2	26.2	35.5	100.0	-16.4	-0.1	-6.9	-2.2	6.8	12.8	13.1	19.4
CPI	%YoY	2.3	1.5	2.3	3.0	3.6	4.0	4.0	4.2	4.1	4.0	4.4	4.6	4.7	5.2
PPI	%YoY	1.5	1.8	1.8	2.0	2.5	2.3	2.9	3.2	2.9	2.5	2.7	2.7	2.6	2.4
Broad money (M3)	%YoY	15.6	16.1	14.4	13.8	13.6	13.4	12.9	13.5	13.6	15.0	15.1	16.2	16.1	15.3
Deposits	%YoY	15.9	16.3	15.4	15.2	15.1	14.5	14.3	14.7	15.3	16.7	17.4	18.4	18.4	17.6
Loans	%YoY	31.4	31.1	31.0	30.6	30.1	30.0	30.3	29.5	29.7	28.4	27.6	27.6	27.2	26.1
USD/PLN	PLN	2.75	2.80	2.73	2.61	2.49	2.47	2.46	2.43	2.28	2.19	2.19	2.17	2.07	2.07
EUR/PLN	PLN	3.77	3.81	3.79	3.71	3.66	3.60	3.61	3.58	3.54	3.45	3.40	3.37	3.26	3.25
Reference rate ^a	%	4.50	4.75	4.75	4.75	5.00	5.00	5.25	5.50	5.75	5.75	5.75	6.00	6.00	6.00
Lombard rate ^a	%	6.00	6.25	6.25	6.25	6.50	6.50	6.75	7.00	7.25	7.25	7.25	7.50	7.50	7.50
WIBOR 3M	%	4.78	4.80	5.09	5.13	5.36	5.67	5.64	5.74	6.03	6.29	6.41	6.58	6.62	6.60
Yield on 52-week T-bills	%	4.70	4.80	5.01	5.04	5.30	5.78	5.75	5.66	6.09	6.10	6.10	6.63	6.70	6.60
Yield on 2-year T-bonds	%	5.14	5.23	5.25	5.30	5.77	6.06	5.92	5.90	6.17	6.20	6.27	6.73	6.66	6.55
Yield on 5-year T-bonds	%	5.50	5.61	5.60	5.59	5.90	6.07	5.94	5.93	6.20	6.12	6.25	6.62	6.53	6.45
Yield on 10-year T-bonds	%	5.60	5.68	5.69	5.64	5.70	5.85	5.81	5.82	5.98	5.98	6.10	6.41	6.43	6.25

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

^a at the end of period ^b in corporate sector ^c in nominal terms ^d balance of payments data on transaction basis ^e 2006 - % of Dec, 2007 - % of plan

Quarterly and annual economic indicators

		2006	2007	2008	2009	1Q07	2Q07	3Q07	4Q07	1Q08	2Q08	3Q08	4Q08
GDP	PLNbn	1 060.0	1 167.8	1 282.7	1 389.7	267.7	281.5	288.5	330.1	294.1	310.0	317.4	361.2
GDP	%YoY	6.2	6.6	5.3	4.5	7.3	6.5	6.5	6.4	6.1	5.6	4.9	4.8
Domestic demand	%YoY	7.3	8.3	6.5	6.3	9.3	9.2	8.4	6.5	6.3	6.5	6.6	6.7
Private consumption	%YoY	5.0	5.0	5.5	5.5	6.8	4.9	4.8	3.6	5.6	5.4	5.5	5.5
Fixed investments	%YoY	14.9	17.6	13.1	11.4	23.8	19.0	16.7	15.2	15.7	15.0	13.5	11.0
Industrial production	%YoY	12.5	9.7	7.4	5.4	13.0	8.5	8.1	9.6	8.5	8.2	6.6	6.1
Retail sales (real terms)	%YoY	11.9	14.0	12.4	11.5	17.4	14.1	12.8	12.2	16.0	11.8	10.6	11.0
Unemployment rate ^a	%	14.8	11.4	9.4	7.9	14.3	12.3	11.6	11.4	11.1	9.6	9.1	9.4
Gross wages (real terms) ^c	%YoY	4.2	6.7	6.2	4.6	5.9	6.5	8.1	6.5	7.2	7.1	6.0	4.8
Employment ^c	%YoY	3.2	4.6	4.8	2.6	4.2	4.5	4.8	5.0	5.9	5.2	4.4	3.8
Export (€) ^b	%YoY	20.4	12.8	14.2	6.0	13.4	12.7	13.1	12.0	21.3	21.0	10.0	6.0
Import (€) ^b	%YoY	24.0	17.9	17.7	11.0	19.5	19.7	16.6	16.2	21.1	21.5	16.0	13.0
Trade balance ^b	EURm	-5 539	-11 311	-17 001	-24 909	-2 322	-3 029	-2 684	-3 276	-2 769	-3 815	-4 707	-5 709
Current account balance ^b	EURm	-7 283	-11 577	-19 127	-27 435	-2 468	-3 434	-2 376	-3 299	-4 038	-4 857	-4 399	-5 832
Current account balance ^b	% GDP	-2.7	-3.8	-5.1	-6.5	-2.9	-3.5	-3.8	-3.7	-4.1	-4.3	-4.6	-5.0
Budget deficit (cumulative) ^a	PLNbn	-25.1	-16.9	-25.6	-18.2	-4.8	-3.7	0.2	-16.9	1.9	-3.5	-6.5	-23.1
Budget deficit (cumulative) ^a	% GDP	-2.4	-1.4	-2.0	-1.3	-	-	-	-	-	-	-	-
CPI	%YoY	1.0	2.5	4.4	3.7	2.0	2.4	2.0	3.5	4.1	4.3	4.9	4.4
CPI ^a	%YoY	1.4	4.0	4.2	3.5	2.5	2.6	2.3	4.0	4.1	4.6	4.9	4.2
PPI	%YoY	2.5	2.3	2.9	3.3	3.3	2.0	1.7	2.3	3.0	2.6	2.5	3.4
Broad money (M3) ^a	%YoY	16.0	13.4	13.9	10.4	18.0	14.7	14.4	13.4	13.6	16.2	16.4	13.9
Deposits ^a	%YoY	15.2	14.5	15.0	10.4	17.7	15.2	15.4	14.5	15.3	18.4	18.3	15.0
Loans ^a	%YoY	23.4	30.0	21.1	13.8	26.8	29.2	31.0	30.0	29.7	27.6	24.9	21.1
USD/PLN	PLN	3.10	2.77	2.19	2.14	2.97	2.82	2.76	2.52	2.39	2.18	2.08	2.10
EUR/PLN	PLN	3.90	3.78	3.39	3.29	3.89	3.80	3.79	3.65	3.58	3.41	3.27	3.29
Reference rate ^a	%	4.00	5.00	6.50	6.50	4.00	4.50	4.75	5.00	5.75	6.00	6.25	6.50
Lombard rate ^a	%	5.50	6.50	8.00	8.00	5.50	6.00	6.25	6.50	7.25	7.50	7.75	8.00
WIBOR 3M	%	4.21	4.73	6.44	6.70	4.20	4.42	4.89	5.39	5.80	6.43	6.60	6.91
Yield on 52-week T-bills	%	4.18	4.69	6.33	6.50	4.14	4.40	4.84	5.37	5.84	6.28	6.60	6.60
Yield on 2-year T-bonds	%	4.57	5.23	6.40	6.30	4.47	4.78	5.21	5.71	5.99	6.40	6.60	6.60
Yield on 5-year T-bonds	%	5.03	5.52	6.34	6.25	4.95	5.19	5.57	5.85	6.02	6.33	6.50	6.50
Yield on 10-year T-bonds	%	5.22	5.56	6.13	6.03	5.17	5.36	5.66	5.73	5.87	6.16	6.30	6.20

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

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

This analysis is based on information available until 07.08.2008 has been prepared by:

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