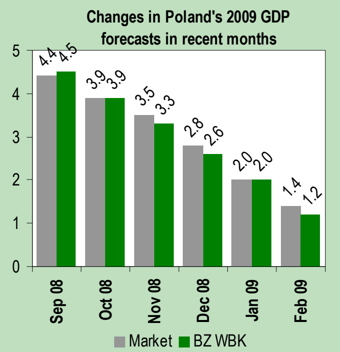
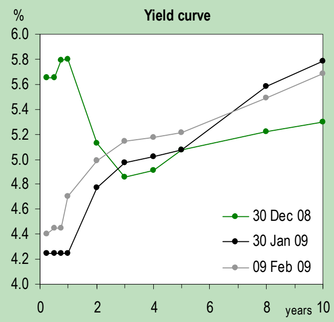
Bank Zachodni WBK

MACROscope

Polish Economy and Financial Markets

February 2009





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Steeper and steeper

- **Global GDP growth forecasts continue to be revised which also impacts forecasts for Poland.** We currently predict that in 2009 the GDP will drop in the euro zone and the US by 2%. At the same time, most domestic macroeconomic data for December fell short of our expectations while the survey carried out among senior loan officers in banks and business climate indicators brought further negative information. Therefore, though data on the GDP growth for the entire year of 2008 (and, consequently, an estimate for Q4) were not so bad, the above mentioned factors incline us to revisit the GDP growth forecast for this year and revise it down to 1.2%. The margin chart illustrates how steep is the path of changes in the GDP growth forecast for Poland over the past months. Interestingly enough, the pessimistic scenario presented by the government (GDP growth at 1.7%) is even above the average expectations of banking analysts. The latter ones are not isolated as similar forecasts have been published by such institutions as the European Commission, EBRD or Fitch Ratings.
- **The GDP growth rate much below budget assumptions will put pressure on budget incomes and creates a risk of the budget amendment as the savings proposed by the government may be not sufficient.** A higher fiscal deficit represents an additional risk for the supply of securities this year, though it is worth noticing that a portion of the deficit may be pushed out outside the central budget (high level of deposits of Social Security Fund and local governments in the banking sector plus the option to raise loans). In such a case, there would still be a risk of “crowding out” the private sector. According to the government, savings in the budget are to reach nearly PLN20bn but half of this amount is merely a change in the way of financing expenditure and, so far, the government has failed to explain on what scale this manoeuvre will affect the entire public finance sector. According to our estimates, this year, the entire general government sector’s deficit will be 3-4% of GDP. Let us notice, that even without a change in the level of the central budget deficit, the government’s financial needs this year are high at over PLN150bn, which may impact the bond yields later in the year, especially at the long end of the yield curve which will lead to its steeping.
- **In the near future, the Polish interest rate market may be affected by next macroeconomic data which will be a continuation of the negative information about the economy.** Because they should strengthen the market players’ belief in further interest rate cuts by the MPC, notwithstanding budget-related problems and forthcoming large supply of bonds, we expect bond yields to go down quickly. Amid high volatility in the FX market it is hard to tell how the weak zloty will impact the Council’s decisions, yet we sustain our forecast as regards the NBP reference rate going down to 3% in the upcoming months.

Financial market on 31 December 2008:

NBP deposit rate	3.50	WIBOR 3M	5.66	USDPLN	2.9618
NBP reference rate	5.00	Yield on 2-year T-bonds	5.13	EURPLN	4.1724
NBP lombard rate	6.50	Yield on 5-year T-bonds	5.07	EURUSD	1.4087

This report is based on information available until 09.02.2009

Special focus

Supply of treasury papers in 2009

This paper is an attempt to estimate this year's supply of government's securities in the domestic and foreign markets, as dictated by the State Treasury's borrowing needs, as well as assessing the risk and difficulties the Finance Minister may encounter to place the required pool of government's securities on financial markets. To arrive at the right estimate of this year's supply, to the amount of the securities maturing this year we add the budget deficit and additional items "below the line". We make certain assumptions for both categories for this year taking into account of the risks for the government's targets. In line with the earlier announcements, while planning this year's supply, the Finance Ministry will watch the market situation closely, taking into account the current risk aversion in the international financial markets and yield levels in the secondary market. The Ministry of Finance will adjust to it the tenors and size of the issued securities to minimize the costs of managing public debt.

Financial needs

The government adopted a budget deficit for this year at PLN18.2bn. The underperformance of the 2008 budget against the plan for the previous year as well as the risk of GDP growth being lower than assumed by the Finance Ministry pose risk for the central budget deficit and jeopardize the realisation of the budget revenues this year, even though the government might have moved part of the revenues from the previous year. The risk for the deficit from the size of the FUS subsidy (Social Security Fund) connected with possible lower revenues is offset by FUS' substantial funds deposited in the banking accounts (PLN16bn) and the possibility to raise loans with the absence of indebtedness in the banking sector. In our view the general government sector's deficit may prove ca. PLN17-20bn higher than assumed by the Finance Ministry in the Convergence Program update released in December 2008. This amount covers the risk for the central budget and other units of the public finance sector. If the latter found it difficult to raise funding in the market, the Finance Ministry would have to engage in financing its deficit.

The net financing needs outside the budget deficit take into account additional net spending, the so-called "in the red", including, in particular, funds transferred by FUS to OFEs (open pension funds) planned in the 2009 budget at PLN22.3bn. When calculating the net financing needs, we also take into account the value of net account of funds spent on prefinancing tasks connected with the use of funds from the EU (PLN3.7bn as budgeted), as well as expenditure allocated to specific funds (PLN5.2bn as budgeted). This year, the Finance Ministry is also spending ca. PLN650m as part of the loans granted abroad and PLN267m in relation to the membership in international organizations. This way, the net financial needs total over **PLN50bn**.

Table 1. Redemption of Treasury securities in 2009 r. (PLNbn)

	T-bills	market bonds	market treasury securities	
			monthly	quarterly
January	3.82	1.48	5.30	
February	5.71	0.00	5.71	*15.80*
March	4.80	0.00	4.80	
April	3.13	0.00	3.13	
May	6.06	24.41	30.47	*39.35*
June	5.74	0.00	5.74	
July	2.26	13.95	16.22	
August	3.30	0.00	3.30	*22.90*
September	3.39	0.00	3.39	
October	2.81	0.00	2.81	
November	3.83	3.38	7.21	*15.58*
December	5.57	0.00	5.57	
Total	**50.40**	**43.23**	**93.63**	

Source: Ministry of Finance, BZ WBK

Table 2. Redemption of FX denominated Treasuries in 2009 (PLNbn)

	bonds	currency
January	1.5	EUR
March	0.4	CHF
June	50.0	JPY

Source: Ministry of Finance, BZ WBK

To gauge the gross financial needs, the said amount must be increased by the amount related to the maturing domestic securities, i.e. ca. PLN50.0bn worth of treasury bills (as at 1 January) and ca. PLN43bn worth of treasury bonds (as at 1 January), which, altogether, gives an amount of ca. PLN93.6bn (see Table 1.). The value of retail bonds maturing this year drives the amount up by PLN2.2bn to PLN95.8bn.

Moreover, we take into account bonds maturing this year, issued in foreign markets, worth €1.5bn, ¥50bn and CHF400m (Table 2.). The value of the foreign loans maturing this year is an equivalent of ca. EUR1bn, including mainly the last tranche due towards the Paris Club of ca. EUR800m. The total of the net financial needs and the debt due in the country and abroad makes the gross financial needs at ca. **PLN147bn** and **ca.**

EUR3.1bn, which, altogether, comes up to ca. PLN160bn (see Table 3).

Table 3. Financing needs in 2009 (PLNbn).

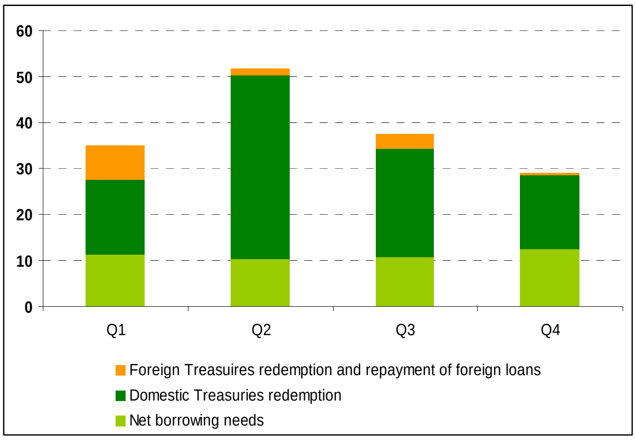
budget deficit	PLN	18.2
spending „below the line”	PLN	32.6
redemption of T-bills	PLN	50.4
redemption of market T-bonds	PLN	43.2
redemption of saving T-bonds	PLN	2.2
Sum	**PLN**	**146.7**
Redemption of foreign debt	**EUR**	**3.1**

Source: Ministry of Finance, BZ WBK

Funding sources

The State Treasury's financial needs will be partially satisfied with income from privatisation which, under the budget, would total ca. PLN12bn, versus PLN2.3bn revenue in 2008, which was in sync with the plan. Current difficult situation in the international capital markets incline us to adopt a less optimistic assumption re. revenues from privatisation of PLN 6bn. Hence, gross borrowing needs are, in our view at ca. PLN 153bn (Figure 1.).

Figure 1. Gross borrowing needs in 2009 (PLN bn)



Source: Ministry of Finance, BZ WBK.

The Finance Ministry envisaged, in this year's budget, refinancing loans raised with the international institutions and the Paris Club with new loans (PLN 3.9bn) to be raised mainly with the European Investment Bank (PLN 3.5bn) and the World Bank (PLN 238m). Consequently, the net foreign loans were to amount to PLN 0.8bn. Still towards the end of last year, Poland borrowed ca. EUR 1bn from the World Bank. The revenues from foreign loans decrease the issue of securities domestically and abroad needed to satisfy gross borrowing needs down to ca. PLN 145bn.

The budget presumes an issue of securities in the foreign markets by ca. PLN 6bn higher relative to the value of the securities maturing this year and this is the amount by which the gross borrowing need would reduce in the domestic market. In our view, notwithstanding the currently difficult market conditions, the Finance Ministry's plan assuming a bigger issue abroad might prove successful depending on the approved price. An example is the issue of Eurobonds worth EUR1bn with the price of 300bps above the swap curve (much above the market). Although, the euro denominated issue costs more than in the domestic market, a bigger issue abroad seems beneficial given a room for zloty appreciation and the FX profit likely over the medium term. According to deputy finance minister, Katarzyna Zajdel-Kurowska, and her statement made in early February following the issue of bonds worth EUR 1bn, in January the Finance Ministry is planning to carry out an issue in yens and Swiss franks as soon as possible. On the other hand, in view of the fact that the government borrowed EUR 1bn from the World Bank towards the end of last year, subsequent bond issues are not necessary. We finally assume that the Finance Ministry will not go to any lengths to issue bonds beyond what matures further in the year and the net issue of foreign bonds will be slightly negative. As to compare last year the foreign bonds issue was slightly higher (€2bn, ¥ 25bn and CHF 250m).

Accordingly, the country's gross borrowing needs may reach PLN 138bn. Taking into account income from the saving bonds issue planned by the Finance Ministry at PLN 4.4bn, the supply of the treasury market securities issued in the domestic market may reach ca. PLN 134bn. We assume that the Finance Ministry will be willing to buy out this year at the switch auctions some bonds maturing next year as well. This amount may be lower than the average in the previous years, though a little higher than the final figure recorded last year. Assuming ca. PLN 8bn to be generated from it, the issue of domestic market securities in 2009 may reach the value of ca. PLN 141.7bn (Table 4.) relative to the corresponding figure of ca. PLN 113bn in 2008. Taking into account short-term T-bills which can be issued and will mature this year, the amount may even rise above PLN 150bn relative to the corresponding figure of ca. PLN 128bn in 2008.

Supply structure

The 2009 budget assumes a negative net issue of T-bills this year. However, in our view, given the difficult market conditions and problems with accessing funding as well as the relatively lower demand for the long-term debt, the Finance Ministry may be forced to issue short-term securities on a larger scale. Hence, we adopt the value of T-bills issue this year at ca. PLN 60bn though there is a risk the amount will be higher. The remainder of the financial needs, i.e. ca. PLN 74bn will be financed with the issue of treasury market bonds. Some bonds will be bought back at switch auctions. We assume the Ministry of Finance may sell ca. PLN 16bn worth bonds in exchange for securities maturing this year and ca. PLN 8 bn worth bonds for securities maturing in 2010. According to our estimates the value of the bonds offered at primary auctions may reach PLN 58bn (Table 4.).

To compare, in 2008, the Finance Ministry sold ca. 66 billion zloty's worth of T-bills, ca. PLN 14.5bn of which was represented by short-term bills, which were to be rolled over still last year. In the case of bonds, sales at basic auctions totalled PLN 38.7bn. The Finance Ministry sold at the switch auctions bonds worth PLN 22.9bn, over 5bn zloty's worth of which was sold in return for securities maturing in 2009, while PLN17bn were sold in exchange for bonds maturing in 2008.

The budget act provided for a positive net issue of inflation-linked and of a variable interest rate bonds, however, the current schedule of the Finance Ministry's auctions does not provide for any issues of this type of securities. This seems to be reasonable, as in the context of the dropping inflation and interest rates, there could be small demand for these securities.

When risk aversion softens, the Finance Ministry will try to place on the market the biggest possible pool of bonds with long-term maturities. However, it seems that this year short-term securities will be in the biggest supply with the 2-year bills being the bulk of it. Such tactics will be supported by interest rate cuts we expect to be ordained by the MPC and a possible pressure on the long end of the curve given the continuing turmoil in the global markets and limited liquidity as well as the risk of growing yields of long-term bonds in core markets.

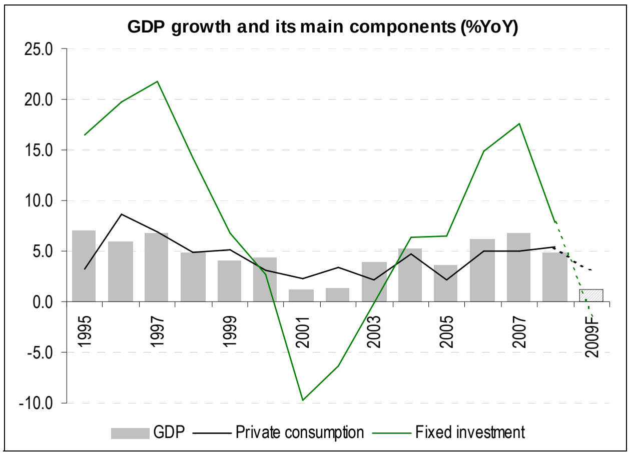
Vast majority of bonds mature in the first half of the year. Nearly 60% of bonds will have to be bought out by end of May (ca. PLN 20bn worth of DS0509 bonds as at 5 February, the Finance Ministry bough back ca. PLN 4.1bn at the switch auction already in January) while over 90% of bonds mature by end of July (ca. PLN 13bn worth of OK0709 bonds). Accordingly, to mitigate the risk of rolling over the debt in months when high-worth bonds mature, the Finance Ministry will be willing to buy out a large portion of securities at switch auctions scheduled for the first year-half. Interest rate cuts by the MPC and the relatively weak zloty may be conducive to such a strategy. The former would offer a potential capital gain while the latter would offer a possibility to gain from fx differences for foreign investors with the expected zloty's gradual rebound further in the year coupled with the improving economic prospects world-wide. Because of the high concentration of the securities maturing in the 1st half of the year (also ca. 60% of T-bills mature by end of June), the government will try to keep fiscal discipline to mitigate the risks in the form of the budget deficit for a higher supply of securities. Such a plan will be supported by the announced spending reductions in H1 this year. In H2, unless the budget is amended, the supply of securities may prove to be lower. The bulk at the switch auctions may then be buy-outs of bonds maturing in 2010, yet, in case the market is difficult, the Finance Ministry may decide not to carry out the switch auctions not to inflate the supply of securities.

Table 4. Forecast of domestic Treasuries issue in 2009 (PLN bn).

	Primary auctions				Switch auctions		Sum
	T-bills	T-bonds	Sum		repurchase of bonds maturing in 2009	bonds maruting in 2010	
			min	max			
Q1	14.0	14.0	26.0	32.0	7.0	0.0	**35,0**
Q2	16.0	16.0	28.0	35.0	7.0	0.0	**39,0**
Q3	16.0	14.3	26.0	32.0	1.5	4.0	**35,8**
Q4	14.0	13.4	25.0	30.0	0.5	4.0	**31,9**
Sum	**60.0**	**57.7**			**16.0**	**8.0**	**141.7**

Source: BZ WBK.

Economic update



GDP growth quickly decelerating

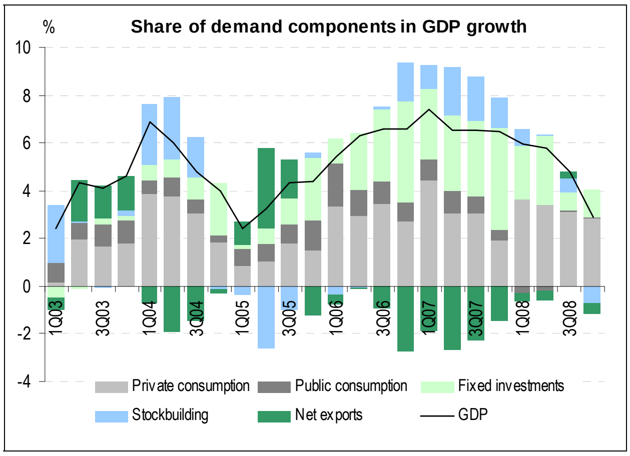
▪ According to tentative data, GDP growth in 2008 reached 4.8% versus 6.7% in 2007. Investment growth reached 7.9% and private consumption increased 5.4%.

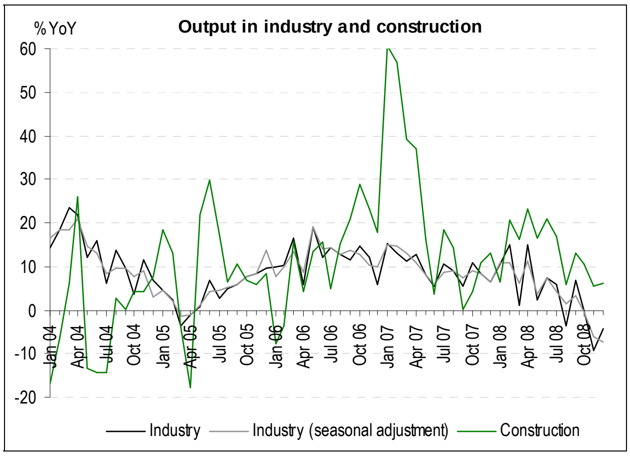
▪ On the basis of this data, we can estimate that GDP growth slowed down to ca. 3% in Q4, private consumption growth unexpectedly accelerated to 5.4% and investment growth to 3.8%. These are better results than could be expected, especially as regards consumption and investments. However, one has to keep in mind that such calculations are approximate and also, the GDP figures may be revised later. Our estimates based on growth in production, sales, and foreign trade results suggested that GDP growth in Q4 could have been clearly below 3%. The CSO will release Q4 GDP figures (possibly together with revision of annual data) at the start of March.

▪ First monthly data for this year will cast more light on a scale of economic downturn in the following quarters. Nevertheless, even already released information concerning the end of 2008, recent leading indicators and business climate surveys, as well as changes in global economic outlook, showed a need to revise our latest GDP forecast for 2009.

▪ Currently we predict that GDP growth will slow down to 1.2% this year (last forecast was 2%), amid a fall in investment outlays by 1.5%, deceleration in consumption growth to 3% and slightly positive contribution of net exports (0.1 pp).

▪ We expect that the biggest slowdown will take place in the first two quarters of the year, when GDP growth may be significantly below 1%. A gradual improvement in the second part of the year will be very much dependent on economic situation abroad.



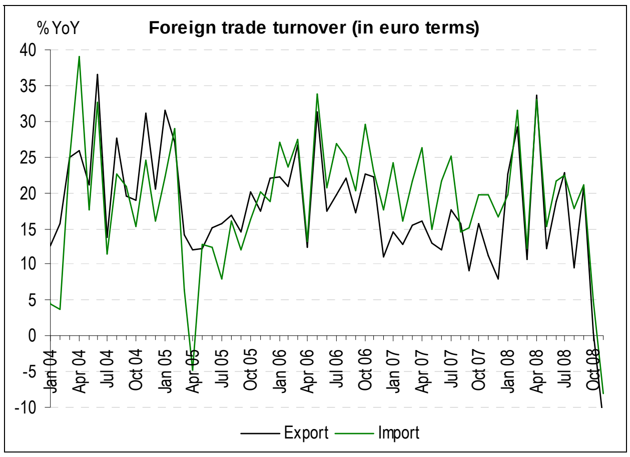


Deepening production fall ahead

▪ Stronger than we earlier assumed contraction will probably hit manufacturing sector and (with some lag) construction. It is suggested by virtually all business climate surveys (including the PMI that slightly rebounded in January, but is still near all-time lows, reflecting a strong decline in activity).

▪ Already the data about industrial output in December were much worse than predicted, showing 4.4%YoY decline (-7.4% after seasonal correction). The data in following months will be unfortunately much worse – we predict a fall in production by over 10%YoY in Q1, the biggest slump since early 90.

▪ By now, situation in construction looks slightly better (6.1% rise in December), however we think it results from realisation of earlier contracts, while next months will see a collapse in output as well (ca. –9%YoY in Q2).



... and a downturn in exports

▪ Deterioration in forecasts of recession in world's main economies, including the euro zone, implies that also a weakening in Polish exports will be more severe than earlier assumed.

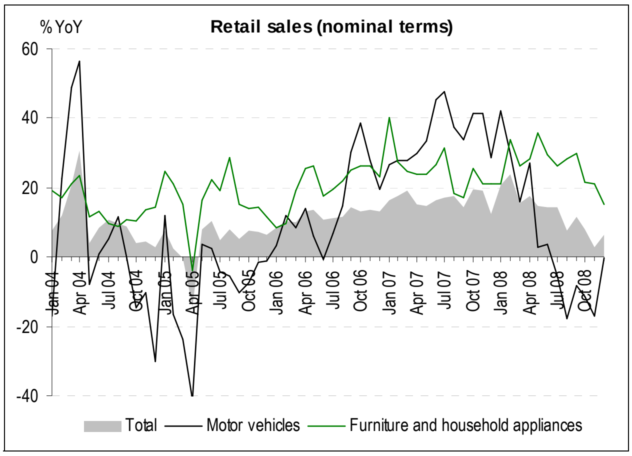
▪ In November export fell by almost 12%YoY, while as recently as in September a growth of over 20%YoY was recorded. In the first months of 2009 a scale of export drop will exceed 25%YoY.

▪ At the same time, we maintain opinion that foreign trade balance should not deteriorate this year, due to strong contraction in domestic demand, dragging down imports (particularly amid deeper assumed zloty depreciation).

▪ In the entire year, net exports' contribution to GDP should be slightly positive according to our estimates (0.1 pp).

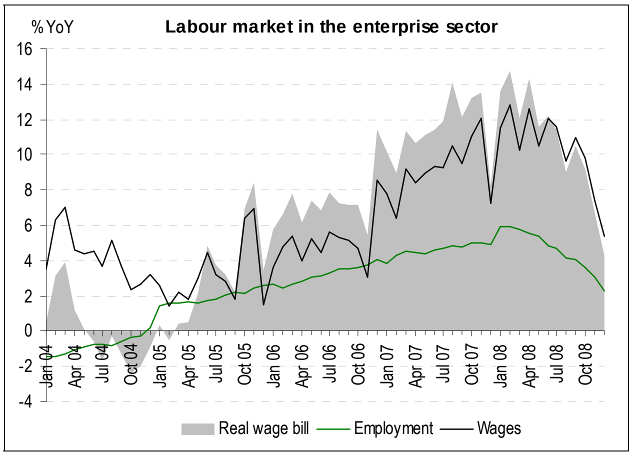
Source: CSO, NBP, own calculations

Economic update



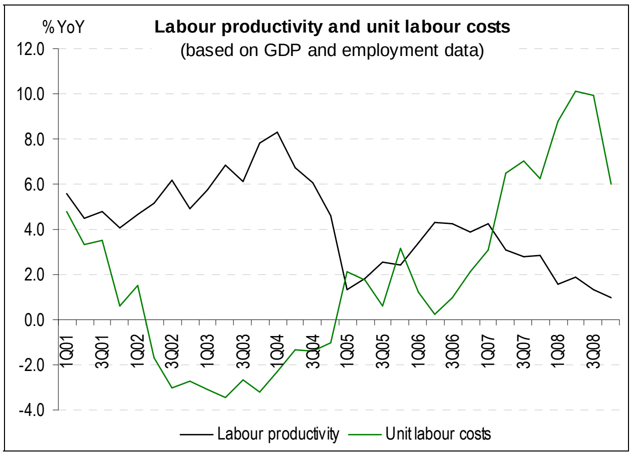
Consumers trimming expenditure

- For some time we have been writing that in a period of global economic crisis, private consumption will be a factor stabilising economic growth in Poland. Still, it does not change the fact that consumption growth is likely to decelerate significantly this year, following a general fall in sentiment and change in labour market situation.
- Surveys of consumer sentiment recorded another slump in January, as Poles' concerns about economic outlook and labour market perspectives have deepened.
- Retail sales growth in December (6.8%YoY) was consistent with market expectations, but it should be noticed that the result was influenced by one-off surge in car sales before year-end. At the start of this year car sales will collapse. Sales of other consumer goods will be also decelerating.



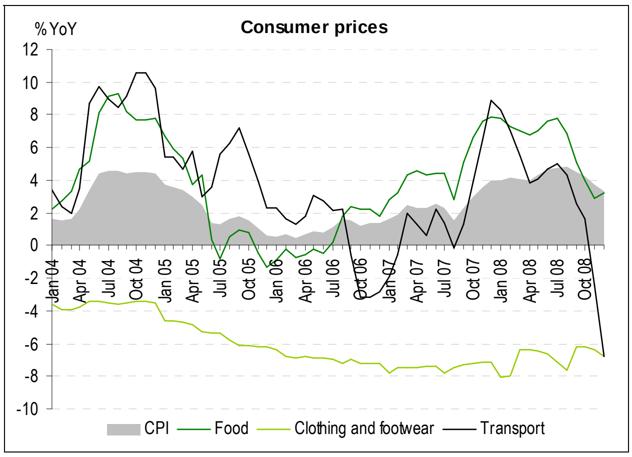
Companies shedding labour, wage growth weakening

- Data about situation in labour market in December were much worse than predicted. Employment fell 0.6%MoM, which caused a deceleration in annual growth from 3.1% to 2.3%YoY. Wage growth slowed down from 7.4% to 5.4%. Registered unemployment rate increased to 9.5%.
- This year, negative trends will be maintained. Significant weakening in economic activity will weaken labour demand (we predict currently employment fall in enterprises sector by 1.7%YoY this year) and will lower wage growth (to 4.7%YoY on average in nominal terms).
- Factors that will partly mitigate impact of labour market trends on private consumption will include PIT tax reduction, pension indexation, and lower scale of wage slowdown in public sector.



Labour market pressures not risky for inflation any more

- Scale of slowdown in the labour market at the end of 2008 was even bigger than scale of slowdown in economic activity, however much stronger reaction took place in a form of wage slowdown than in employment reduction.
- In effect, already in the final quarter of 2008 there was a significant fall in unit labour costs growth (to 6%YoY versus 10% in Q1-Q2), even though labour productivity growth fell to the lowest level for several years (only 1%YoY).
- According to our calculations, growth in unit labour costs will fall sharply to around zero in the remainder of the year, which will create better external competitiveness conditions for our enterprises, and will create a room for manoeuvre in monetary policy.

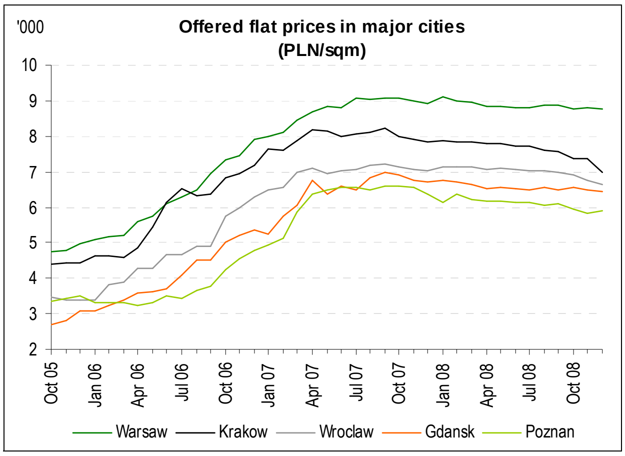


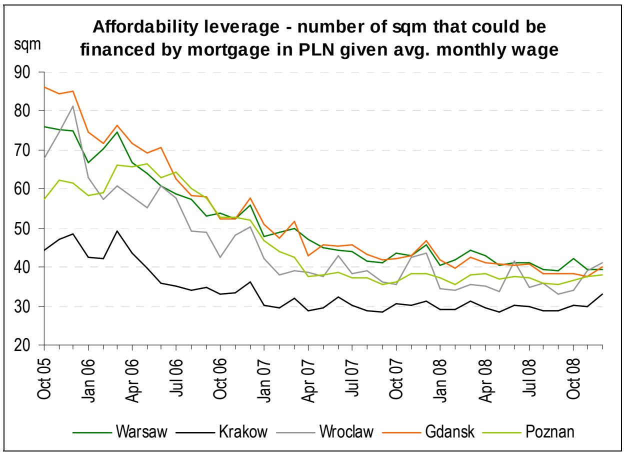
Source: CSO, own calculations

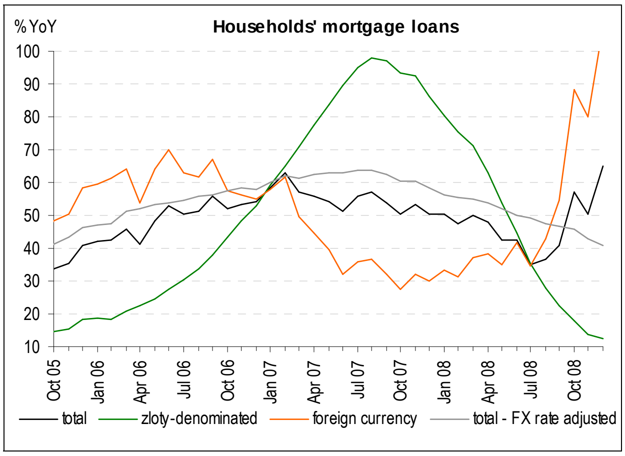
Inflation heading towards the MPC target

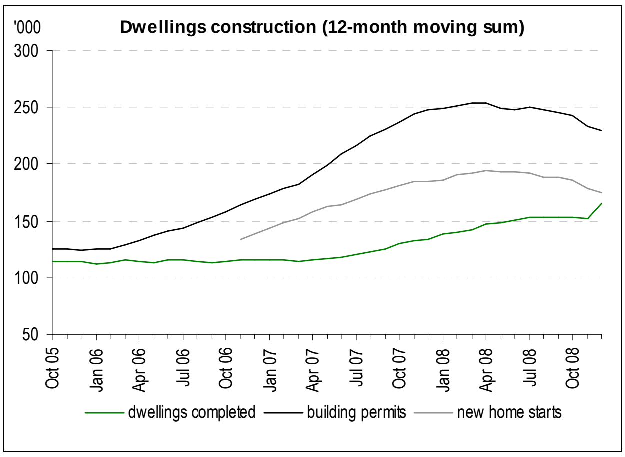
- Annual inflation rate fell to 3.3%, in line with market expectations, returning to the band of allowable fluctuations around the inflation target for the first time in 15 years.
- At the start of the year, as usually, large uncertainty is connected with a scale of hikes in regulated prices and costs of housing. Additionally in February we will see effect of annual revision of weights in CPI basket. In general, we expect that inflation decline will be maintained in the next months and although its pace will be limited slightly under influence of zloty depreciation, realisation of 2.5% target in the middle of the year does not seem to be endangered.
- Core inflation excluding prices of food and energy will decline below 1.5% in the middle of the year, according to our forecast.

Housing market update









Source: CSO, NBP, own calculations

Prices gradually down

- December saw continuation of a fall in offered flat prices in Poland's major cities. The exception was Poznań where a slight correction of the significant fall in two previous months took place.
- Looking at annual price change in December, the Warsaw market remains the relatively strongest with a mere 2% price drop. The worst performers are still Poznań (-7%) and Krakow (-11%).
- In the near term, the unfavourable relation between demand and supply (the number of dwellings completed and offer of flats bought earlier for speculative purposes is clearly higher than the number of active buyers) will lead to further fall in prices during 2009, which in our view will top 10% on average in the whole country.

Credit less available

- Drop in flat prices, increase in wages (except for Warsaw) and fall in interest rates led to an increase in the affordability leverage index in December.
- However, one should remember that the index does not fully take into account changes in banks' credit policy (e.g. as regards assessment of clients living costs or maximum level of LTV).
- Results of the survey among senior credit officers in banks showed that in Q4 2008 as much as 86% of banks tightened criteria for mortgage loans. Around 90% of banks increased margins and lowered maximum LTV. Thus, the actual availability of credit has been significantly constrained in last months of 2008. In next months banks expect only slight tightening of criteria for mortgage loans.
- Credit policy in the near term should not be affected by actions of the Financial Supervision Authority (KNF). Recent comments from KNF representatives indicate that recommendation T, which is to regulate the mortgage market and impacts the bank's credit policy, is still under discussion. The final shape of the recommendation is expected be ready until July. Besides, the KNF want to give banks enough time for necessary adjustments (up to half a year). Thus, the recommendation would be fully implemented only in early 2010.
- With stabilisation of the banks' credit policy, next months should bring some increase in the affordability leverage index along with a fall in flat prices, continuation of wage growth (although at slower pace) and further drop in domestic interest rates.
- As for now, the more difficult access to credit translates into deceleration in mortgage growth after exclusion of the FX effect.

Continued adjustment on the supply side

- December brought significant rise in the 12M cumulated number of dwellings completed, but this relates probably to faster completion of houses and flats before January 1, 2009 when new law on energy certificates was introduced and some negative tax changes for property buyers were implemented.
- Next months should bring a continuation (after temporary rise in December) of the falling tendency that started in October in case of the 12M cumulated number of dwellings completed, as a lagged effect of a fall in building permits and new home starts. The trend may be additionally reinforced by the fact that many developers change character of some newly started projects from residential to commercial ones.

Central bank watch

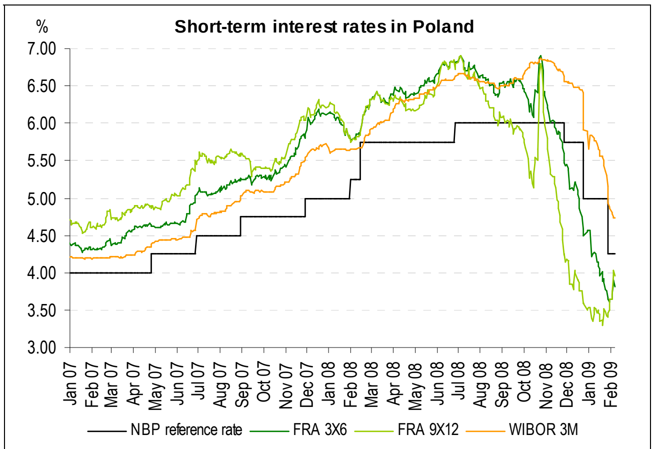
Fragments of the MPC statement after its meeting in January

Data that have been released recently confirm that the economic growth in Poland has been slowing considerably. Stronger than previously expected economic slowdown is mainly driven by an unexpectedly strong decline in economic growth abroad, mainly in countries being Poland's major trading partners. This results in deteriorating expectations of economic agents (both enterprises and consumers). Limited credit availability stemming from considerable tightening of banks' lending conditions is also conducive to the economic slowdown. Despite increased excess liquidity of the banking sector, the cost of credit remains at a relatively high level which results from high risk premium incorporated in market interest rates and from increased margins. At the same time, information on labour market developments points to declining employment, increasing unemployment and decelerating wage growth in the enterprise sector which is conducive to diminishing inflationary pressure. (...) Since the Council's meeting in December growth forecasts for the global economy have been further revised downwards. Strong slowdown in the global economy and the accompanying faster than expected decline in inflation, have urged many central banks to further considerably decrease interest rates.

In the Council's assessment, in the coming months inflation will continue to decline to the NBP inflation target. In the medium term stronger than previously expected slowdown in the globar economy – in particular, the recession in Poland's major trading partners – and, consequently, the significant decline in domestic economic growth will contribute to lowering the inflationary pressure in Poland. Decreasing GDP growth and the related falling labour demand as well as deteriorating financial condition of enterprises will contribute to further easing the wage pressure and thus the inflationary pressure. Significant tightening of banks' lending conditions will also contribute to curbing the inflationary pressure. Factor limiting the decline in inflation may include significant zloty depreciation observed in the past few months, although its impact on inflation may be limited amidst the economic slowdown. Further rise in regulated prices, mainly the prices of electricity, will also drive price increases.

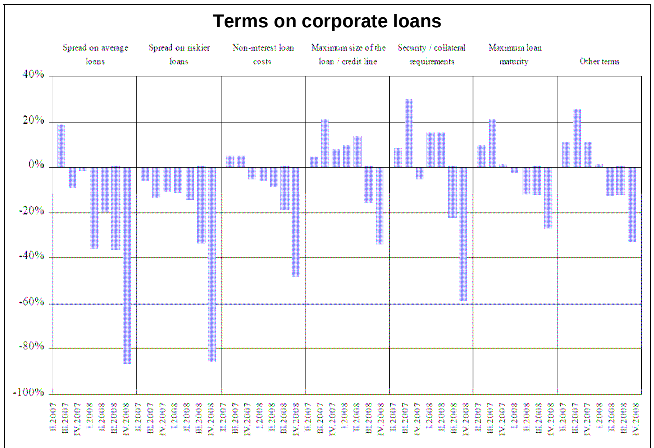
MPC maintains speed

- The MPC cut main interest rates in January by 75 bp – reference rate to 4.25%. This was the third cut in a row, and in sum the reduction since November amounted to 175 bp. The decision has been announced shortly before 15:00, i.e. which was the latest announcement for more than two years. This may suggest that the discussion between Council members was really hot (it should not be surprising though, given their recent comments). On the other hand, one should take into account that January meeting was unusual in a sense that it lasted only one day instead of two.
- In the previous monthly report we believed in smaller scale of a rate cut (50 bp), but after the release of December's data we changed view to 75 bp. Although before the decision the market consensus showed smaller reduction (50 bp), it should be remembered that bank analysts in a poll made by Parkiet, answering to question what the MPC should do answered 75 bp.
- It seems that the only reason why median market forecast was at 50 bp was zloty weakening. There were speculations that the MPC may halt further moves as the zloty continued weakening after the MPC meeting.
- According to minutes of the MPC's meeting in December, most of Council members argued that "insufficient response of the monetary policy to the unfavourable developments in the Polish economy might contribute to intensifying those developments and, as a result (...) be conducive to the weakening and increased volatility of the zloty exchange rate". In our view, interest rate disparity had relatively small impact on exchange rate developments in recent period.



Low GDP offsetting effect of weak zloty

- The Council said in the MPC statement that a significant depreciation of the zloty observed recently may limit a period of inflation reduction, however other factors will counteract this effect (and also higher energy prices) and inflation rate will fall to the target in nearest months.
- Main argument in favour of continuation of disinflation process will be lowering GDP growth. There is a sentence in the communiqué that attracts attention, saying that slowdown is stronger than previously expected and singe December meeting forecasts of world economic growth have been decreasing.
- It is hard to say to what extent GDP forecast in the NBP's new projection will be reduced (to be released this month) but NBP president mentioned a downward risk for recently released by the European Commission (2%).

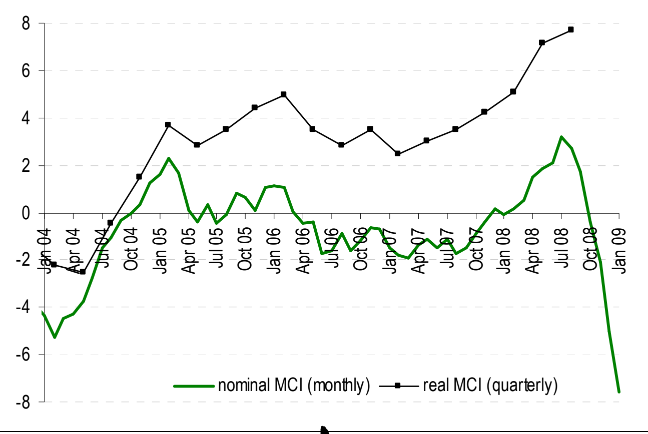


Further tightening of credit conditions

- According to NBP survey about situation in the credit market, all segments of loan market saw a strong tightening of credit supply due to very high uncertainty concerning future economic situation, that makes it hard for banks to assess credit risk properly. Moreover, many banks had to limit credit growth due to intensifying capital adequacy constraints.
- In Q4 2008 around 80% of polled banks tightened conditions for loans for entrepreneurs. This was consistent with declarations presented in October, however a scale of tightening was much higher.
- Banks also tightened loan policy for households in Q4, concerning mortgage loans and consumption loans.

Źródło: NBP, Reuters

Restrictiveness of the Monetary Policy (Council)

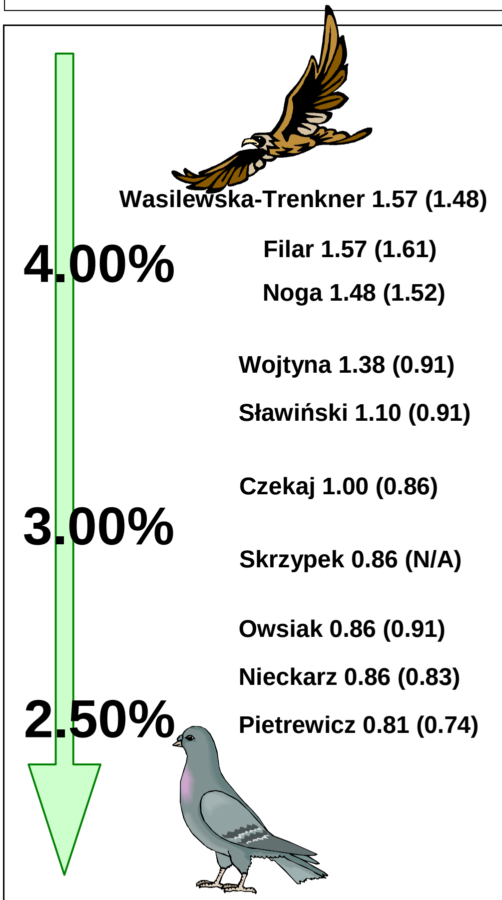


Real MCI will also decline

▪ The significant fall in WIBOR3M in December and January (by 123bps on average in January vs. average in November) and rise in EURPLN (13.2% in January vs. November) led to considerable fall in nominal MCI in the last two months.

▪ Taking into account further drop in WIBOR rates and rise in EURPLN predicted by us for February, nominal MCI would again decline this month.

▪ Although real MCI in Q2 and Q3 2008 continued the earlier observed increase (which negatively impacts the economy in a horizon of a few quarters), already in Q4 2008 there should be a fall in real MCI due to substantial depreciation of real effective exchange rate of the zloty, despite a rise in real WIBOR rates. In Q1 2009 there should be further decrease in real MCI.



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 restrictiveness axis 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.

Two apparent hawks

Only after the release of the new *Inflation report* we will be able to say who voted in favour of rate cut in September and who demanded a 50 bp rate cut already in November (we know there were such motions submitted from the MPC minutes), The results of those votes will probably affect our index of MPC members' restrictiveness. Although one may suspect that they were the most hawkish members of the Council who wanted to see the reference rate above 6% in Q3, we cannot be sure that all three of them voted the same way (maybe someone else supported a rate hike again, like in August?), The results of vote for a rate cut in November showed that Marian Noga abandoned Dariusz Filar and Halina Wasilewska-Trenkner. At the same time those doves who supported deeper rate cut in November will move lower in our rank. It all suggests that at the end of the MPC tenure, differences between index values for particular MPC members may be changing.

Comments about target level of interest rates

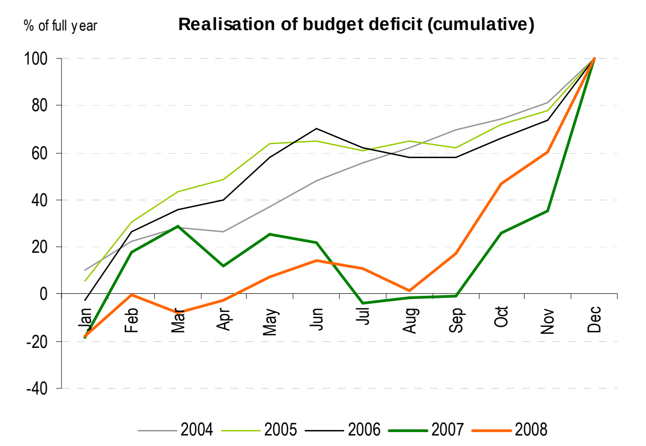
Interesting comment about target level of interest rate was made by hawkish MPC member who said that the next MPC decisions will depend of February's inflation projection, and the interest rate level that the Council is unlikely to go below is 2%. Even a mentioning such low level of interest rates by such hawkish MPC member may suggest that a general inclination to cut interest rates in the Council has been rising. However, it may turn out that Halina Wasilewska-Trenkner had in mind real rather than nominal interest rate level. Much more interesting was comment of Jan Czekaj, who said twice that the Council may relatively quickly deliver next interest rate cuts to 3.0-3.5% level (in steps no higher than 75 bp) and did not exclude that there may be a necessity to go even below 3% if the economy slows down considerably. In his opinion, interest rate level in Poland is still high as compared to other countries. Several MPC members (Filar, Owsiak) were also mentioning a possibility of delay in interest rate cuts in February. However, in our opinion, even despite zloty depreciation, majority of Council members will agree that the next rate cut in February is justified in the light of economic data for January that we predict to be particularly weak. Although the situation in the FX market may well change several times until the MPC meeting, weakening of the zloty suggests that the move may be smaller than in December and January.

Zloty exchange rate and interest rates

Several MPC members were underscoring recently that weakening of the zloty will be an important element of discussion at the next Council meeting. While according to Filar, "zloty weakening orders a caution in making decisions about interest rate cuts and it would be appropriate to signal the market that rate cuts will not be significant", comments of more dovish MPC members were in different tone. Andrzej Sławiński said that weakening of the zloty does not have to big impact on inflation due to weakening demand and previously large margins of importers. According to Czekaj, exchange rate will be important factor taken into account by the MPC during the next meeting (probably conditions of effective interventions may be discussed), but at other occasion he said that "impact of interest rates on the zloty is currently different than described in textbooks". In turn, Stanisław Nieckarz believes that zloty weakening if of short-term nature and thus should not be an obstacle for interest rate cuts that should support the economy, which in turn should help the zloty. It should be underscored that also according to Filar "for some time investors stop herding and start seeing that Polish economy outperforms the region.

Source: CSO, Eurostat, NBP, PAP, Reuters, own calculations

Government and politics



Sharp deterioration in revenues at the end of 2008

▪ Budget revenues fell in December by 6.6%YoY, which resulted in large part from a fall in indirect tax inflow (over 13%). Also, drop in corporate income tax was in double digits.

▪ According to the Ministry, January saw a surplus in the budget of ca. PLN3bn, however we do not expect that a path of budget realisation will be similar to the last year's. Next months will see growing deficit that may deteriorate quickly as the economic slowdown deepens.

▪ As a main reason for good budget result in January the Ministry indicated higher revenue, so perhaps some part of last year's revenue was accrued in January. This will make it easier to fulfil this year's planned deficit, however there is still a risk that the deficit may be exceeded.

Macroeconomic forecasts for 2009

	GDP	CPI
Budget assumptions	3.7%	2.9%
The government's „pessimistic scenario"	1.7%	1.9%
BZWBK scenario	1.2%	2.3%
Market consensus	1.4%	2.3%

PM Donald Tusk, Reuters, 28 January: The pessimistic scenario assumes much lower revenues in the 2009 budget, so we have to look for ways of spending reduction. We need around PLN17bn of savings. The scenario assumed, possibly too pessimistically, that GDP growth will reach 1.7% and inflation 1.9%.

Government still too optimistic

▪ According to government officials, economic growth of about 1.7% is a pessimistic scenario. In PM Donald Tusk's opinion it may be even too pessimistic.

▪ Looking at a pace of change in GDP forecasts, not only according to commercial institutions (for example, latest forecasts of European Commission or EBRD) such scenario this year may be described as rather optimistic.

▪ It implies that either the government underestimates macro–economic risk for the budget or does not want to talk about it in public. Nevertheless, it will be hard to escape from this issue, as in our view already the first quarter of the year may show economic growth below 1%, turning the government's "black scenario" into more realistic. The government will have to find more and more savings or to raise deficit.

The government's plan of savings

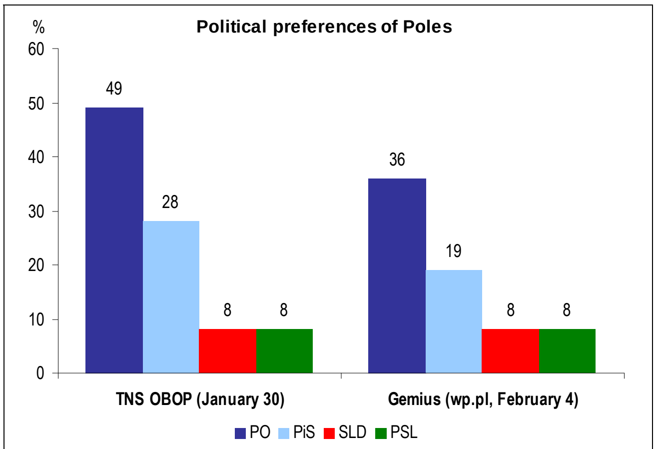
Spending item	PLNm
In ministries and voivodships :	**10 000**
Voivodships budgets	1 887
Ministry of Defence	1 947
Ministry of Internal Affairs	1 216
Ministry of Science and Higher Education	872
Ministry of Justice	587
Ministry of National Education	556
Ministry of Finance	535
Social Security Fund (administrative)	455
Change in the source of financing road investments	**9 700**
TOTAL	**19 700**

... and "savings" may be too small

▪ Scale of savings presented by the government was supposed to reach PLN17bn, while the government managed to "find" even more. The problem is that part of the presented amount of almost PLN20bn is hardly a saving.

▪ Domestic Road Fund will be financing road investments with a use of EU funds – state owned BGK bank will be borrowing from international financial institutions in the name of Road Fund. However, it does not change the fact that money will be spent and will increase public debt. Moreover, they will probably also increase general government deficit, which is important in the context of government's plan of entering the euro zone (and ERM2).

▪ There are no details concerning assessment of feasibility of other cuts in the budget.



Source: Ministry of Finance, PAP, own calculations

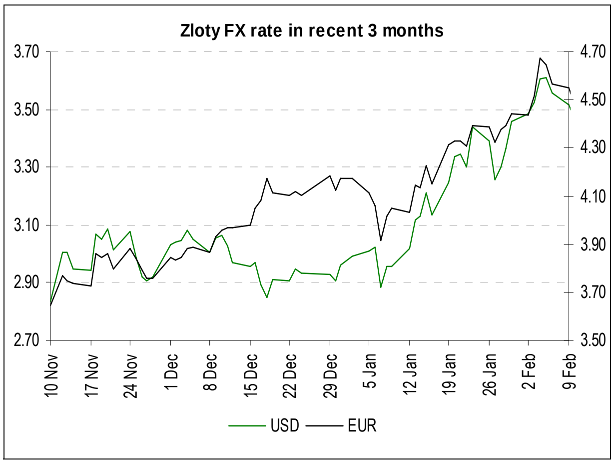
A start of changes in support for political parties?

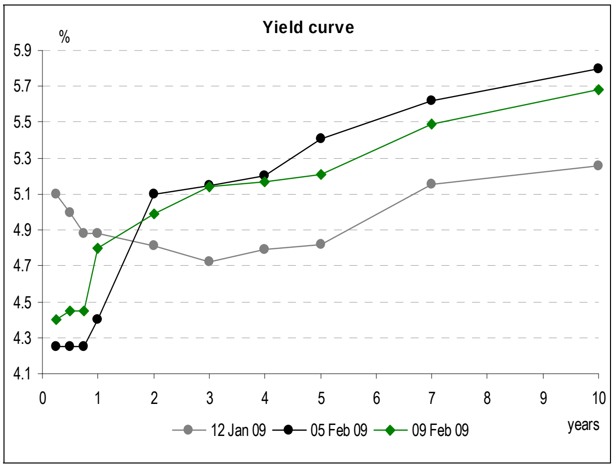
▪ An impact of deterioration of economic situation is slowly appearing in the results of public opinion surveys. Although the Civic Platform (PO) is still in the lead in polls with large advantage versus competition, the distance is shrinking.

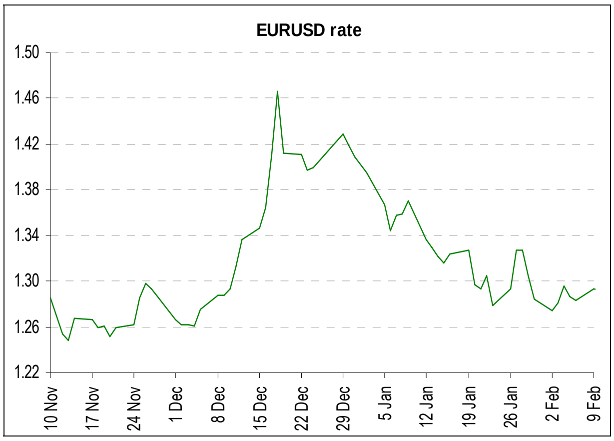
▪ According to survey for wp.pl website, PO lost 7 pp of support, mainly for the benefit of PiS and SLD (3 pp increase). Moreover, for the first time more people were negative about Prime Minister's work than positive. It is a fact that current economic situation does not result from factors connected with current government's actions, however it remains to be seen what will be the electorate's assessment.

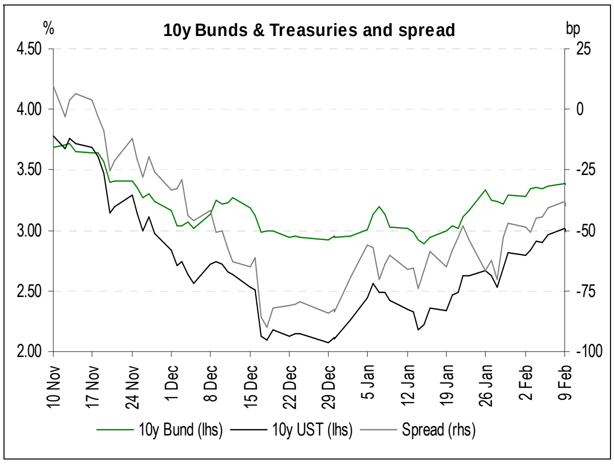
▪ A real test in the conditions of economic crisis will be incoming election to the European Parliament in June (polls show that a turnout will be low).

Market monitor









Source: Reuters, BZ WBK

Swinging moods affect zloty

▪ In January the zloty gradually recovered against the major currencies. The currencies in the region behaved in a similar pattern, though the zloty weakened more than the Czech crown and Hungarian forint. The EURPLN rate rose to ca. 4.30 in mid-January and was quite stable till the end of the previous month and afterwards at the start of February on a wave of risk aversion to the region the zloty weakened to 4.70 against the euro and over 3.6 vs. the dollar. The zloty was influenced by the issue of FX options sold by the Polish enterprises. The recovery of the EURPLN rate to ca. 4.41 was also sudden.

▪ In our view after a recovery the zloty is going to weaken further, and there is a risk that 4.70 against the euro may be hit in the short term. The zloty will be negatively affected by the negative sentiment toward the region, domestic data pointing to substantial economic weakening and to lower extent interest rate cuts.

Yields higher, the curve steeper

▪ In the second part of January there was a strengthening at the short end of the yield curve due to poor economic figures (labour market, output), while the longer end was under pressure due to large jump in long-term yields in the core debt markets. 10-2 spread increased to ca. 100 bp after the MPC reduced interest rate more than the market expected. After the Council meeting there was a correction at the short end of the curve, and the longer end weakened to smaller extent. FRA and IRS rates also temporarily increased at the start of February and this was connected with a sharp sell-off of the zloty, which affected the market expectations regarding the MPC moves.

▪ We expect another steepening of the yield curve with room for yield decline at the short end of the curve amid poor domestic data and further interest rate cuts. A long end of the curve may remain under pressure from the core debt markets.

Dollar strengthens

▪ The dollar was appreciating throughout January and after a correction of the EURUSD rate up at the turn of the month in February the US currency strengthened again. Growing risk aversion and concerns over prospects of world economy amid poor Q4 financial results of enterprises worked in favour of the dollar. On the other hand the euro was under negative influence of expectations for interest rate cuts in the euro zone and faster than expected drop of HICP inflation.

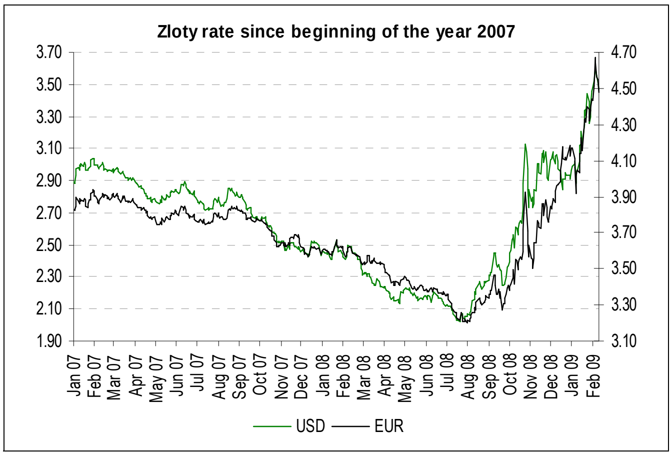
▪ Holding risk aversion may support the dollar in the short term, however when investors' moods improve and risk appetite grows the US dollar may be under pressure. This will happen when the market starts to focus more on the long-term implications of substantial increase of budget deficit and quantitative monetary easing in the US.

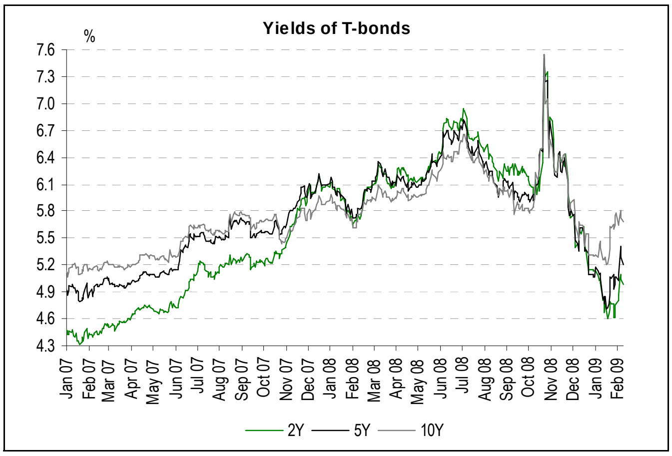
Concerns over large debt supply

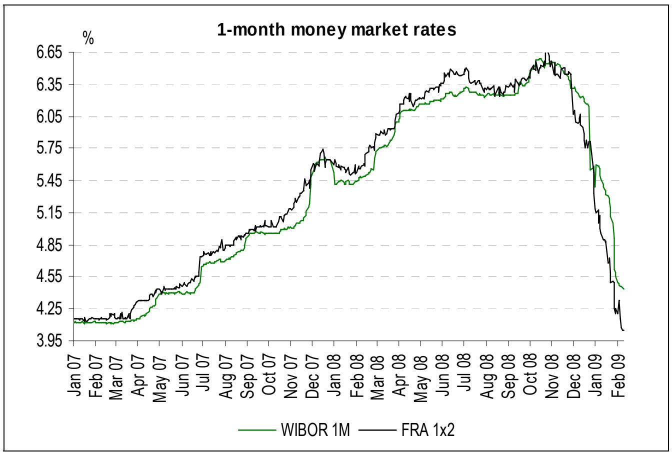
▪ In the core debt markets the concerns over a large supply of government securities in the US and the euro zone was a dominating issue. In the US it may reach ca. $2.5bn, more than 2.5 times the issue size in 2008. The long-term bonds in the euro zone were hurt by the downgrades of Greece, Spain and Portugal ratings as well as fears over next similar moves of rating agencies. A little decisive Fed statement on purchases of long-term bonds did not reverse this tendency in the US. Some notice also rising yields as an effect of mounting inflation expectations and gradual economic recovery in the major economies.

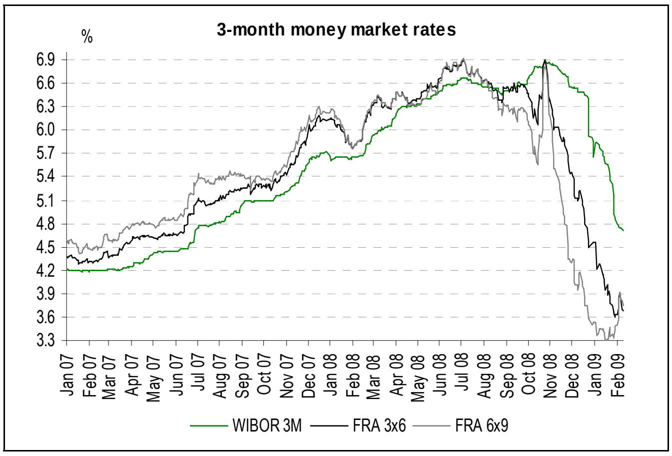
▪ Long-term bonds may be still under pressure due to holding negative factors mentioned above. On the other hand in our view the swap curves may slightly decline amid further interest rate cuts in the euro zone and maintaining rates at low levels in the US for longer time.

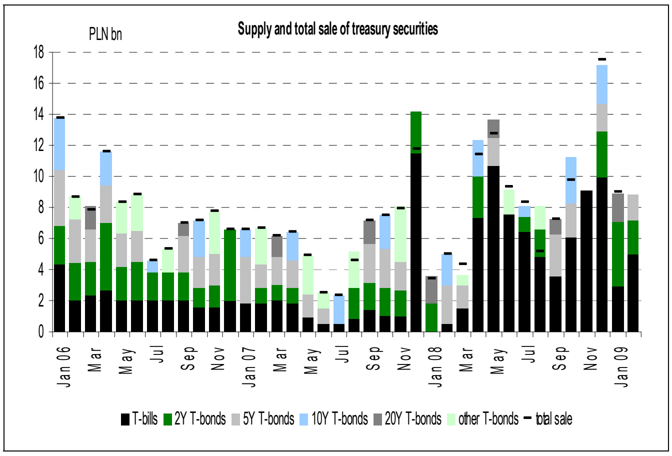
Market monitor











Treasury bills auctions (PLN m)

Auction date	(OFFER)*/SALE 52W	39W	26W	13W
08.12.2008	1000-1800/1910	-	200-500/542	200-500/563
15.12.2008	1200-1500/1850	-	300-500/489	300-500/514
22.12.2008	-	1500-1800/1585	-	-
05.01.2009		500-600/500	-	-
12.01.2009	500-600/505	-	-	-
19.01.2009	500-600/500	-	-	-
26.01.2009	1000-1100/1100	-	-	-
02.02.2009	900-1100/733	-	-	-
09.02.2009	-	-	-	-
16.02.2009	-	-	-	-
23.02.2009	-	-	-	-
02.03.2009	-	-	-	-
09.03.2009	-	-	-	-

** based on data of the Ministry of Finance*

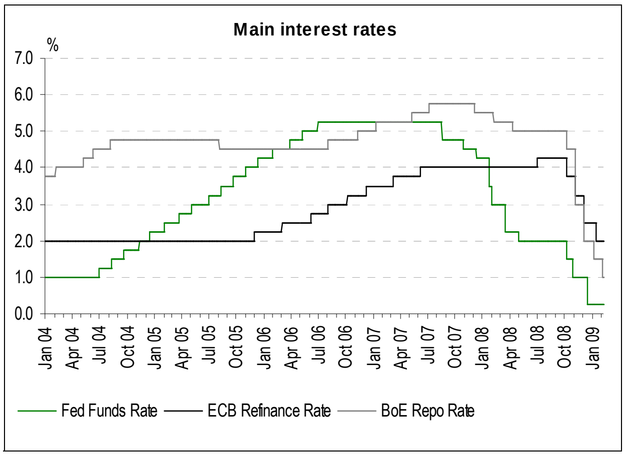
Treasury bond auctions in 2008/2009 (PLN m)

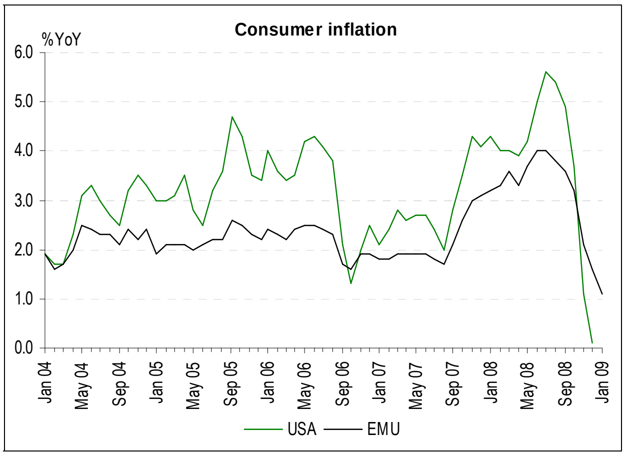
month	First auction date	T-bonds	offer	sale	Second auction date	T-bonds	Offer	sale	Switch auction date	T-bonds	sale
July	02.07	OK0710	1 000	1 000	09.07	DS1017	700	705	23.07	PS0413	1558
August	06.08	OK0710	1 800	1 830	13.08	WZ0118|IZ0823	1 000 | 500	1 000 | 451	22.08	DS1017	1244
September	03.09*	PS0413	2 640	2 640	10.09	WS0429	1 000	1 000	17.09	DS1017/WS0429	3113/590
October	01.10*	PS0414	2 160	2 160	08.10*	DS1019	3 000	3 000	24.10	IZ0816/WZ0118	620 / 655
November	-	-	-	-	-	-	-	-	12.11	OK0710/PS0414	874 / 313
December	10.12*	Ok0711	3000	3430	17.12*	PS0414|DS1019	1800 | 2500	2042|2340	03.12	PS0414/DS1019	1212 / 1350
January	07.01*	OK0711	4200	4296	14.01	WS0429	1500	1500	21.01	PS0414/DS1019	2800/1300
February	04.02	OK0711/PS0414	2200/1600	722/1186	11.02	-	-	-	-	-	-
March	04.03	OK and/or PS	-	-	11.03	DS and/or WS			-	-	-
April	01.04	OK and/or PS	-	-	08.04	DS and/or WS			-	-	-
May	06.05	OK and/or PS	-	-	13.05	DS and/or WS	-	-	-	-	-
June	03.06	OK and/or PS	-	-	10.06	DS and/or WS	-	-	-	-	-

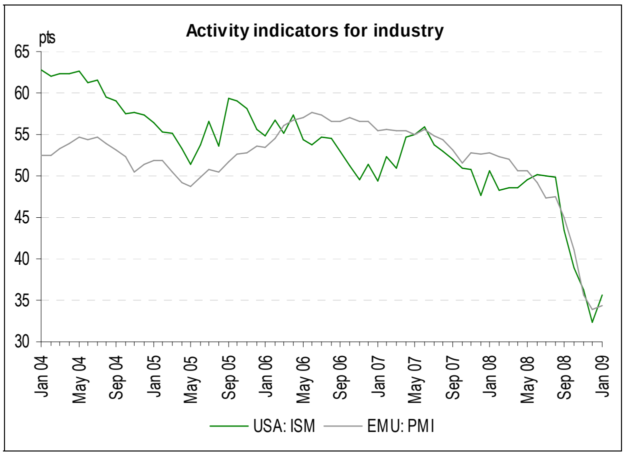
* with supplementary auction

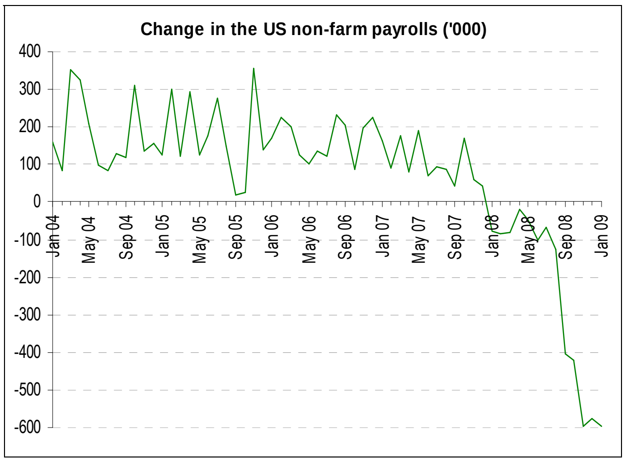
Source: Ministry of Finance, Reuters, BZ WBK

International review









Source: Reuters, ECB, Federal Reserve

Inflation prospects support monetary easing

▪ In January the FOMC decided to keep interest rates on hold in record low range of 0-0.25%. Fed informed that it will employ all available tools to promote the resumption of sustainable economic growth and to preserve price stability. The Fed also said it is going to purchase treasury papers in order to revive the credit market and the economy, but only if such purchases proves potentially effective.

▪ In the US both houses of the Congress approved a plan stimulating the economy proposed by the president Barack Obama worth over $800bn. It is now being finalised by the House of Representatives.

▪ As expected the ECB left parameters of monetary policy unchanged and the main refi rate remained at 2%. The ECB president suggested the interest rate cut at the March meeting will be closer to 50 bp than to 25 bp. In our view there is a chance that interest rate will be lowered this year down to 1% till the mid-year due to dramatic data from the euro zone economy and our forecast of GDP growth decline by 2% and slight recovery by 0.5% in 2010.

▪ Inflation data still surprise showing faster drop of inflation pressure and inflation in the major economies.

▪ Final data on inflation for the euro zone for December confirmed inflation decline to 1.6%YoY from 2.1% in November. According to early estimates of Eurostat the HICP growth for January appeared to be much below the market expectations at 1.1%YoY, while market consensus pointed to 1.4%.

▪ US CPI fell in December by 0.7%MoM against expected drop by 0.9% after another, significant decline of prices in transport and energy. In annual terms inflation fell to 0.1% from 1.1% in November. On the other hand core inflation did not change in monthly terms against expected increase by 0.1%MoM, and in annual terms it was at 1.8%.

Activity indices bounced back, poor labour market data

▪ US Q4 GDP data were better than expected. GDP fell by 3.8% against expected –5.4%. A significant drop of domestic demand was recorded, and a better than forecasted figure resulted mainly from large contribution of inventories change.

▪ The new estimates of the IMF from January 2009 assume world GDP drop by 0.5%YoY against expected +2,2% in November. IMF estimates GDP decline by 1.6% in the US and -2 in the euro zone as well as recovery in 2010 to 1.6% and 0.2% respectively. Our recent forecasts presume a drop of GDP both in the US and the euro zone by 2%, after which the recovery in the US next year will faster to 1% against +0.5%in the euro zone.

▪ The economic sentiment indices released in the previous month appeared to be to large extent above expectations. The PMI index for euro zone manufacturing sector rose in January for the first time in 11 months to 34.4 pts from 33.9 pts in December, slightly below market forecast (34.5 pts). The PMI index for euro zone services rose in January to 42.2 pts from 42.1 pts, slightly less than was pointed by the market consensus (42.5 pts). Ifo similar as ZEW for January was higher than expected. The ISM index for US manufacturing sector rose in January to 35.6 pts (the market expected a decline to 32.6 pts) from 32.9 pts in December. ISM for services sector rose to 42.9 pts from 40.1 pts in December against expected drop to 39 pts.

▪ The labour market data confirmed deteriorating situation in the US economy. According to Department of Labour the rate of unemployment in the US rose in January to 7.6% from 7.2%, while the non-farm payrolls fell by 598k against –577k in December. The market expected a smaller decline by 520k after –524k in December. Poor data from the US strengthened view on accepting packages stimulating the US economy.

Economic calendar

Monday	Tuesday	Wednesday	Thursday	Friday
9 February ***PL: Auction of Treasury Bills***	**10** US: Wholesale inventories (Nov)	**11** US: Trade balance (Dec)	**12** ***PL: Balance of payments (Dec)*** EZ: Industrial production (Dec) US: Retail sales (Jan)	**13** ***PL: CPI (Jan)*** ***PL: Money supply (Jan)*** EZ: Preliminary GDP (Q4) US: Preliminary Michigan (Feb)
16 ***PL: Auction of Treasury Bills*** US: Market holiday	**17** ***PL: Wage and employment (Jan)*** DE: ZEW index (Feb) US: NY Fed index (Feb) US: Capital flows (Dec)	**18** ***PL: Switch auction*** US: House starts (Jan) US: Building permits (Jan) US: Import prices (Jan) US: Capacity utilisation (Jan) US: Industrial production (Jan) US: FOMC minutes	**19** ***PL: Industrial production (Jan)*** ***PL: PPI (Jan)*** ***PL: MPC minutes (Jan)*** JP: BoJ meeting – decision US: PPI (Jan) US: Leading indicators (Jan) US: Philadelphia Fed index (Feb)	**20** ***PL: Core inflation (Jan)*** ***PL: Business climate (Feb)*** EZ: Flash manufacturing PMI (Feb) EZ: Flash services PMI (Feb) US: CPI (Jan)
23 ***PL: Auction of Treasury Bills***	**24** ***PL: MPC meeting*** ***PL: Retail sales (Jan)*** ***PL: Unemployment rate (Jan)*** DE: Ifo index (Feb) US: Case/Shiller report (Dec) US: Consumer confidence (Feb)	**25** ***PL: MPC meeting - decision*** US: Home sales (Jan)	**26** DE: Gfk index (Mar) EZ: M3 money supply (Jan) EZ: Economic sentiment index (Feb) US: Durable goods orders (Jan) US: New home sales (Jan)	**27** EZ: Final HICP (Jan) US: Preliminary GDP (Q4) US: Core PCE (Q4) US: Chicago PMI (Feb) US: Final Michigan (Feb)
2 March ***PL: Auction of Treasury Bills*** ***PL: PMI (Feb)*** ***PL: GDP (Q4)*** EZ: Manufacturing PMI (Feb) US: Core PCE (Jan) US: Manufacturing ISM (Feb)	**3** EZ: PPI (Jan) US: Pending home sales (Dec)	**4** ***PL: Auction of Treasury bonds*** EZ: Services PMI (Feb) EZ: Retail sales (Jan) US: ADP report (Feb) US: Non-manufacturing ISM (Feb)	**5** EZ: ECB meeting decision US: Labour productivity & unit labour costs (Q4) US: Factory orders (Jan)	**6** US: Non-farm payrolls (Feb) US: Rate of unemployment (Feb)
9 ***PL: Auction of Treasury Bills***	**10** US: Wholesale inventories (Jan)	**11** ***PL: Auction of Treasury bonds***	**12** EZ: Industrial production (Jan) US: Retail sales (Feb) CH: SNB meeting - decision	**13** ***PL: CPI (Feb)*** ***PL: Money supply (Feb)*** ***PL: Balance of payments (Jan)*** US: Import prices (Feb) US: Trade balance (Jan) US: Preliminary Michigan (Mar)

Source: CSO, NBP, Finance Ministry, Reuters

MPC meetings and data release calendar for 2009

	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
MPC meeting	27	24-25	24-25	28-29	26-27	23-24	28-29	25-26	29-30	27-28	24-25	22-23
MPC minutes	22	19	19	23	21	18	23	20	24	22	19	17
GDP*	-	-	2	-	29	-	-	28	-	-	30	-
CPI	14	13[a]	13[b]	15	14	15	14	13	15	14	13	15
Core inflation	21	20	22	21	22	22	20					
PPI	20	19	18	20	20	19	17	19	17	19	19	17
Industrial output	20	19	18	20	20	19	17	19	17	19	19	17
Retail sales	29	24	-	-	-	-	-	-	-	-	-	-
Gross wages, employment	19	17	17	17	19	18	16	18	16	16	18	16
Unemployment	29	24	-	-	-	-	-	-	-	-	-	-
Foreign trade	about 50 working days after reported period											
Balance of payments*	-	-	31	-	-	-	-	-	-	-	-	-
Balance of payments	15	12	13	14	-	-	-	-	-	-	-	-
Money supply	14	13	13	14	-	-	-	-	-	-	-	-
NBP balance sheet	7	6	6	7	-	-	-	-	-	-	-	-
Business climate indices	22	20	20	22	22	22	22	21	22	22	20	22

* quarterly data, [a] preliminary data for January, [b] January and February

Source: CSO, NBP

Economic data and forecasts

Monthly economic indicators

		Jan 08	Feb 08	Mar 08	Apr 08	May 08	Jun 07	Jul 08	Aug 08	Sep 08	Oct 08	Nov 08	Dec 08	Jan 09	Feb 09
Industrial production	%YoY	10.7	15.0	1.0	15.1	2.4	7.3	5.9	-3.7	6.8	-0.1	-9.2	-4.4	-15.1	-15.7
Retail sales [c]	%YoY	20.9	23.8	15.7	17.6	14.9	14.2	14.3	7.7	11.6	7.9	2.7	6.6	-0.3	0.3
Unemployment rate	%	11.7	11.5	11.1	10.5	10.0	9.6	9.4	9.3	8.9	8.8	9.1	9.5	10.0	10.4
Gross wages [b c]	%YoY	11.5	12.8	10.2	12.6	10.5	12.0	11.6	9.7	10.9	9.8	7.4	5.4	5.0	4.5
Employment [b]	%YoY	5.9	5.9	5.8	5.6	5.4	4.8	4.7	4.2	4.1	3.6	3.1	2.3	0.5	-0.3
Export (€) [d]	%YoY	22.6	29.1	10.6	33.6	12.1	18.7	22.8	9.4	20.9	0.5	-11.9	-11.6	-26.4	-27.3
Import (€) [d]	%YoY	19.8	31.4	12.2	33.1	15.3	21.7	22.5	17.8	21.0	4.8	-8.2	-14.5	-22.3	-23.8
Trade balance [d]	EURm	-780	-808	-1345	-1195	-1420	-1661	-1635	-1329	-1249	-1526	-1593	-1200	-1000	-969
Current account balance [d]	EURm	-1211	-1322	-1807	-1521	-1745	-2219	-879	-1300	-1881	-2012	-1748	-1400	-1050	-1069
Current account balance [d]	% GDP	-4.6	-4.7	-4.9	-5.1	-5.1	-5.1	-4.9	-5.0	-5.2	-5.3	-5.5	-5.3	-5.3	-5.3
Budget deficit (cumulative)	PLNbn	4.4	0.0	1.9	0.6	-1.9	-3.5	-2.7	-0.3	-4.2	-11.6	-14.8	-24.6	3.0	-2.2
Budget deficit (cumulative) [e]	% of FY plan	-18.1	-0.1	-7.6	-2.4	7.5	14.1	10.9	1.3	17.0	47.1	60.3	100.0	-16.5	12.0
CPI	%YoY	4.0	4.2	4.1	4.0	4.4	4.6	4.8	4.8	4.5	4.2	3.7	3.3	3.1	3.0
PPI	%YoY	2.9	3.2	2.9	2.5	2.7	2.6	2.1	2.0	2.3	2.6	2.4	2.6	2.0	1.6
Broad money (M3)	%YoY	12.9	13.5	13.6	15.0	15.1	16.3	16.8	16.8	17.3	17.3	18.1	18.8	18.4	16.6
Deposits	%YoY	14.3	14.7	15.3	16.7	17.4	18.5	19.4	18.9	20.0	18.7	19.4	20.8	20.4	18.2
Loans	%YoY	30.3	29.5	29.7	28.3	27.6	27.7	25.3	26.7	28.0	32.8	31.7	36.1	35.9	35.2
USD/PLN	PLN	2.46	2.43	2.28	2.19	2.19	2.17	2.07	2.19	2.34	2.69	2.93	2.98	3.18	3.44
EUR/PLN	PLN	3.61	3.58	3.54	3.45	3.40	3.37	3.26	3.29	3.37	3.57	3.73	4.01	4.22	4.50
Reference rate [a]	%	5.25	5.50	5.75	5.75	5.75	6.00	6.00	6.00	6.00	6.00	5.75	5.00	4.25	3.75
Lombard rate [a]	%	6.75	7.00	7.25	7.25	7.25	7.50	7.50	7.50	7.50	7.50	7.25	6.50	5.75	5.25
WIBOR 3M	%	5.64	5.74	6.03	6.29	6.41	6.58	6.62	6.52	6.56	6.80	6.74	6.40	5.51	4.68
Yield on 52-week T-bills	%	5.75	5.66	6.09	6.10	6.10	6.63	6.70	6.60	6.46	6.45	6.52	6.10	4.85	4.50
Yield on 2-year T-bonds	%	5.92	5.90	6.17	6.20	6.27	6.73	6.66	6.32	6.25	6.46	6.26	5.43	4.81	4.90
Yield on 5-year T-bonds	%	5.94	5.93	6.20	6.12	6.25	6.62	6.53	6.15	6.01	6.48	6.21	5.42	4.96	5.10
Yield on 10-year T-bonds	%	5.81	5.82	5.98	5.98	6.10	6.41	6.43	6.10	5.89	6.39	6.25	5.57	5.43	5.63

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] 2008 - % of Dec, 2009 - % of plan

Quarterly and annual economic indicators

		2006	2007	2008	2009	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09
GDP	PLNbn	1 060.0	1 175.3	1 272.1	1 317.6	295.3	309.9	312.1	354.8	305.6	319.9	322.9	369.3
GDP	%YoY	6.2	6.7	4.8	1.2	6.0	5.8	4.8	2.9	0.4	0.8	1.4	2.0
Domestic demand	%YoY	7.3	8.6	4.8	1.1	6.2	6.0	4.3	3.2	0.9	0.8	1.0	1.5
Private consumption	%YoY	5.0	5.0	5.4	3.0	5.6	5.5	5.1	5.4	3.5	3.2	2.7	2.5
Fixed investments	%YoY	14.9	17.6	7.9	-1.5	15.7	15.2	3.5	3.8	-4.0	-6.0	-1.5	2.0
Industrial production	%YoY	12.5	9.7	3.8	-2.7	8.5	8.5	3.3	-5.2	-11.0	-4.2	1.1	3.3
Retail sales (real terms)	%YoY	11.9	14.0	10.0	0.3	16.0	11.1	8.0	4.7	0.6	1.1	0.2	-0.6
Unemployment rate [a]	%	14.8	11.4	9.5	12.3	11.1	9.6	8.9	9.5	10.7	10.6	11.3	12.3
Gross wages (real terms) [c]	%YoY	4.2	6.7	5.8	1.4	7.2	7.7	5.6	3.4	1.5	0.9	1.3	1.6
Employment [c]	%YoY	3.2	4.6	4.6	-1.7	5.9	5.2	4.3	3.0	-0.3	-1.6	-2.4	-2.6
Export (€) [b]	%YoY	20.4	13.4	12.5	-11.7	20.3	21.3	17.9	-7.3	-22.7	-17.4	-7.0	2.0
Import (€) [b]	%YoY	24.0	19.5	14.0	-11.8	20.5	23.2	20.6	-5.5	-20.2	-17.1	-8.0	-1.0
Trade balance [b]	EURm	-5 539	-12 369	-15 725	-13 747	-2 927	-4 272	-4 207	-4 319	-3 083	-3 627	-3 558	-3 479
Current account balance [b]	EURm	-7 445	-14 586	-19 048	-11 777	-4 333	-5 478	-4 077	-5 160	-3 213	-2 627	-2 608	-3 329
Current account balance [b]	% GDP	-2.7	-4.7	-5.3	-3.7	-4.9	-5.1	-5.1	-5.3	-5.1	-4.5	-4.3	-3.7
General government balance	% GDP	-3.8	-2.0	-2.7	-3.7	-	-	-	-	-	-	-	-
CPI	%YoY	1.0	2.5	4.2	2.4	4.1	4.3	4.7	3.8	3.0	2.4	2.0	2.0
CPI [a]	%YoY	1.4	4.0	3.3	2.3	4.1	4.6	4.5	3.3	2.9	2.1	2.0	2.3
PPI	%YoY	2.5	2.3	2.6	1.5	3.0	2.6	2.1	2.5	1.7	1.2	1.3	1.7
Broad money (M3) [a]	%YoY	16.0	13.4	18.8	5.5	13.6	16.3	17.3	18.8	16.0	12.1	9.8	5.5
Deposits [a]	%YoY	15.2	14.5	20.8	5.5	15.3	18.5	20.0	20.8	17.7	13.0	9.9	5.5
Loans [a]	%YoY	23.4	29.9	36.1	5.4	29.7	27.7	28.0	36.1	32.6	26.7	17.1	5.4
USD/PLN	PLN	3.10	2.77	2.41	3.08	2.39	2.18	2.20	2.87	3.36	3.26	2.95	2.77
EUR/PLN	PLN	3.90	3.78	3.52	4.13	3.58	3.41	3.31	3.77	4.41	4.30	3.98	3.82
Reference rate [a]	%	4.00	5.00	5.00	3.00	5.75	6.00	6.00	5.00	3.25	3.00	3.00	3.00
Lombard rate [a]	%	5.50	6.50	6.50	4.50	7.25	7.50	7.50	6.50	4.75	4.50	4.50	4.50
WIBOR 3M	%	4.21	4.73	6.36	3.73	5.80	6.43	6.57	6.65	4.75	3.47	3.40	3.30
Yield on 52-week T-bills	%	4.18	4.69	6.26	3.58	5.84	6.28	6.59	6.36	4.42	3.30	3.30	3.30
Yield on 2-year T-bonds	%	4.57	5.23	6.22	4.09	5.99	6.40	6.41	6.05	4.72	3.80	3.90	3.95
Yield on 5-year T-bonds	%	5.03	5.52	6.15	4.46	6.02	6.33	6.23	6.04	4.94	4.20	4.30	4.40
Yield on 10-year T-bonds	%	5.22	5.56	6.06	5.19	5.87	6.16	6.14	6.07	5.47	5.00	5.10	5.20

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 09.02.2009 has been prepared by:

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