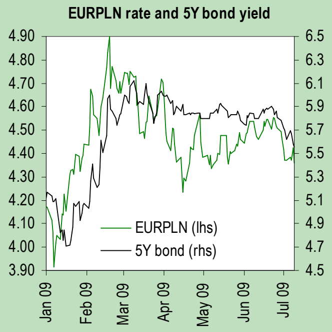
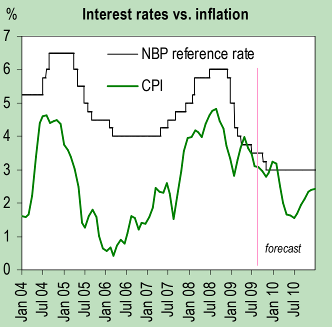
Bank Zachodni WBK

MACROscope

Polish Economy and Financial Markets

July/August 2009





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Back to reality

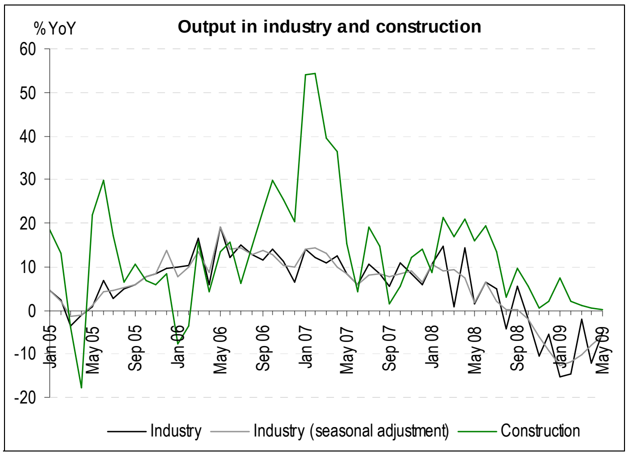
- **Over the past month, the government returned to reality in its official assessment of the global crisis impact on the Polish economy and public finance.** Estimate of the GDP growth this year was lowered to 0.2% from 3.7% assumed in the budget act. The resulting from that shortfall in tax revenues was levelled to some extent by cut in budget spending (after reduction of PLN19.7bn at the beginning of the year now the government found PLN3bn of savings) as well as higher dividend payments and larger income related to EU funds. However, a budget deficit widening was inevitable – from the initially planned PLN18.2bn to PLN27.2bn. Such a shape of the budget amendment did not affect the market, which now waits for draft of the next year's budget. Meanwhile, it will be much more difficult to design that amendment of the state's financial plan for 2009. As for now, in order to avoid a necessity to hike taxes, Prime Minister announced an idea of reduction in military spending and controversial conception assuming transfer of the NBP profit to the 2010 budget.
- **Although a part of MPC members had suggested a need to end monetary easing and change policy bias to neutral, majority of rate-setters decided in June that economic reality justifies a return to interest rate cuts and keeping easing bias.** An important argument for such a decision was stronger than expected fall of CPI inflation in May and results of the new NBP projection, which showed lower GDP patch (especially for 2009-2010) and inflation path still below the target in 2010-2011, although above the path indicated in the previous projection from February. At the same time, the recent comments from central bankers suggest that even dovish faction of the Council believes a room for further rate cuts is sees a narrowing and a possible next rate cut should not be expected before GDP data for Q2. We expect that after the next rate cut in September we may see one more reduction in rates, but this will depend on further data and results of the new NBP projection of inflation and GDP due for release in October.
- **Direction of changes in the Polish financial market was in line with our predictions presented a month ago.** Although initially the zloty was remaining under pressure related to concerns about devaluation of the Latvian currency, EURPLN did not break an important level of 4.60 and after situation in Latvia stabilised the zloty clearly appreciated, going into direction of levels more consistent with real condition of the domestic economy and financial system. A fundamental factor supporting the Polish currency is a C/A surplus recorded for the third month in a row in April. The local interest rate market strengthened thanks to a drop in inflation and reduction in rates by the MPC, although fall in yields at the long end of the curve is tempered by fiscal risk.
- **Differently than usual, this edition of MACROscope is bimonthly.** We hope that after a few quarters of the global crisis the summer months will be quite calm in the economy and financial markets. It seems that among others the MPC will make a holiday break, delivering a rate cut neither in July nor in August. After approval of the budget amendment in July, MPs will go for (well-deserved?) holidays. Meanwhile, during summer works on the 2010 budget will enter the final stage and we will write about it in September.

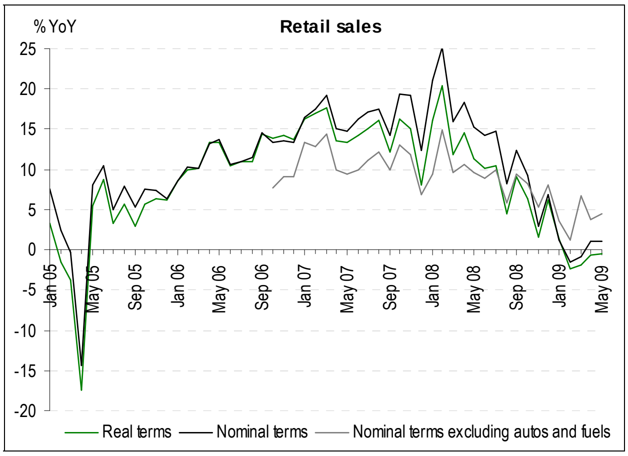
Financial market on 30 June 2009:

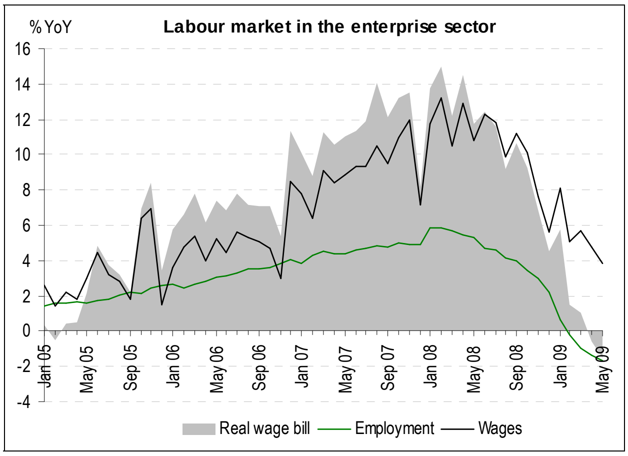
NBP deposit rate	2.00	WIBOR 3M	4.44	USDPLN	3.1733
NBP reference rate	3.50	Yield on 2-year T-bonds	5.21	EURPLN	4.4696
NBP lombard rate	5.00	Yield on 5-year T-bonds	5.77	EURUSD	1.4085

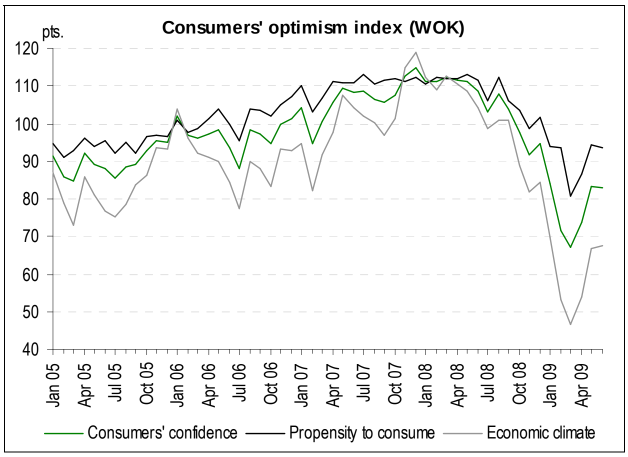
This report is based on information available until 09.07.2009

Economic update









Source: CSO, Ipsos, own calculations

Output figures not that bad

▪ Industrial output in May fell by 5.2%YoY (expected -7%YoY) against average drop of 11%YoY in January-April. A deceleration of output decrease was also seen in seasonally adjusted data – fall of 5.9%YoY in May versus average fall in the first four months of the year by more than 10%YoY. The data suggest that a fall in industrial output in Q2 will be lower than the one recorded in Q1. However, it does not imply a rebound in GDP growth rate in Q2 (although it might have remained positive), given a slowdown in other sectors.

▪ Construction output growth in May decelerated stronger than expected, to 0.2%YoY (market consensus was 1%YoY). In Q2 construction output growth rate is set to be lower than in Q1 and later in the year it is likely to weaken even further as a large part of investments will be finished and not much new will appear.

Slight rebound in retail sales

▪ Nominal retail sales growth in May was 1.1%YoY against 1%YoY rise in April. In real terms retail sales fell 0.5%YoY after -0.7%YoY in April and -0.9%YoY on average in Q1.

▪ Structure of nominal sales growth was similar as in previous months. There was again strong drop in car sales (-10.7%YoY) due to a reduction in households' demand for durable goods requiring substantial spending. A decline in fuel sales was also strong (-11.2%YoY), which is related to price effect (significant annual fall in fuel prices), and does not show fall in real demand.

▪ Demand for all other components of retail sales is still growing in annual terms. According to our estimates, after excluding motor vehicles and fuels, retail sales growth accelerated to 4.5%YoY in May from 3.7%YoY in April and 3.8%YoY on average in Q1.

Further deterioration in labour market conditions

▪ Average wage in the enterprise sector rose 3.8%YoY, which means a deceleration against 4.8%YoY rise April. The result was clearly below expectations pointing to stabilisation of even slight acceleration in average wage growth. The slowdown of wage growth took place despite quite low base in the analogous month of last year, which shows that the strength of downward pressure on wages in enterprises is really significant. One should expect that in the next months the process will be continued and as a result the real wage growth in the second half of this year will be below zero (in May it grew a mere 0.2%YoY, the least in 4 years).

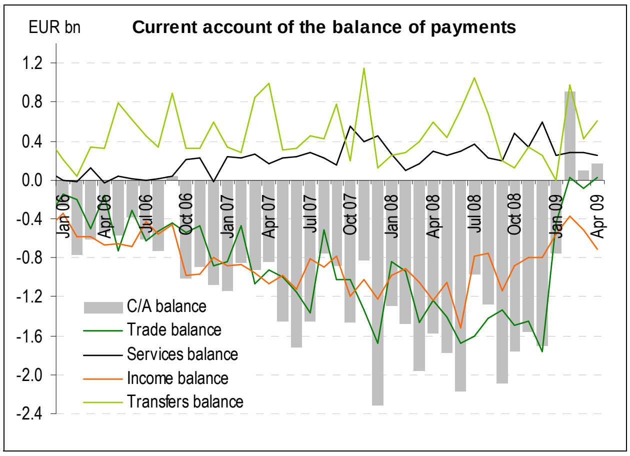
▪ Average employment in the enterprise sector fell by 1.7%YoY in May, in line with market consensus, continuing the tendency of accelerating labour shedding observed in the last couple of months. We expect annual employment drop to accelerate later in the year.

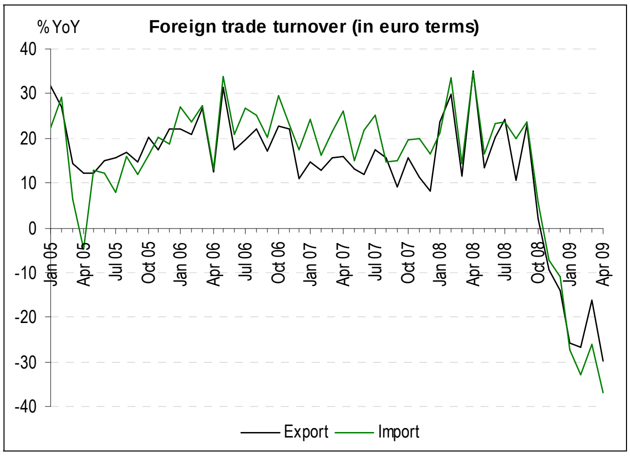
▪ As a result of lower wage growth and fall in employment, the nominal growth in wage bill was a mere 2.1%YoY in May and in real terms it was -1.5%YoY. This shows that the purchasing power of households is falling, which will negatively affect private consumption in the following quarters.

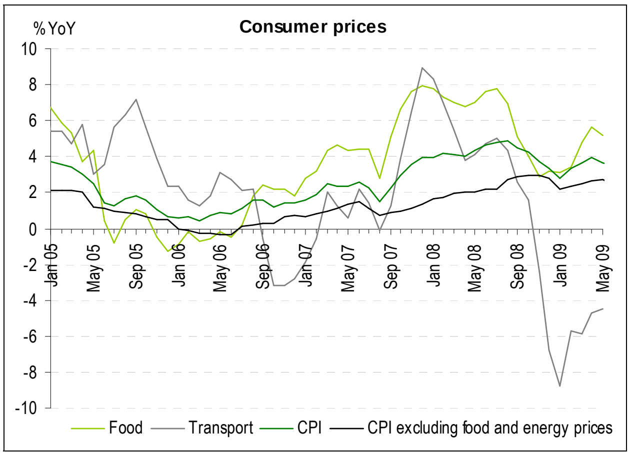
▪ The registered unemployment rate fell to 10.8% at the end of May from 11% in April. The improvement is only a seasonal effect, while in annual terms the unemployment rise accelerated to 1pp from 0.7pp in April. We predict that at the end of the year the unemployment rate will reach ca. 13%.

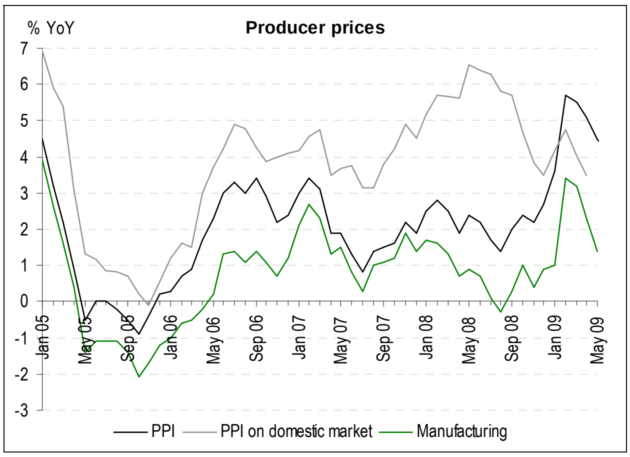
▪ Over the past few months the consumer confidence recovered somewhat from the earlier slump observed until March. However, despite recent increase, the level of consumer confidence is still at very low levels, which together with further deterioration in labour market conditions will negatively affect the consumption demand.

Economic update









Source: CSO, NBP, own calculations

C/A surplus third month in a row

- Balance of payments for April showed a C/A surplus for the third month in a row. It was €171m, slightly more than expected. A surplus in trade of goods was €28m. Foreign trade turnover lowered significantly with stronger deepening of a fall in imports (to -37%YoY from -28.8%YoY on average in Q1) than in exports (to -29.9%YoY vs. -22.9%YoY on average in Q1).
- Such a sharp drop in imports will positively influence the net export contribution to GDP in the second quarter of the year, but at the same time it suggests further weakening in domestic demand. However, one should remember that to some extent a substitution effect of imports may take place with increased competitiveness of domestic goods amid significant weakening of the zloty.
- Positive balances were also seen in services (€249m) and current transfers (€610m). Meanwhile, in incomes account there was a deficit (-€716m) as a positive balance in transfers of money from people working abroad (€234m) was more than offset by negative balance of incomes from investments (-€950m), out of which dividends made close to €300m.
- Cumulated 12M C/A gap fell to 3.9% of GDP from 4.3% after March. At the same time, a ratio of its coverage by inflow of long-term capital (including FDIs and EU funds) decreased from 83% to 75%. Value of FDIs in April was €338m, i.e. almost 3 times fewer than a monthly average in 2008 (€924m). Still, after high inflow of FDIs in Q1 we keep expectations that in the whole year they will total ca. €5.5bn, i.e. half of the amount seen in the whole 2008.
- All in all, balance of payments for April confirmed persistence of the strong adjustment in Poland's external relations observed in Q1. This factor is a support for the zloty in the medium run.

Inflation peak behind us

- CPI inflation in May fell to 3.6%YoY from 4.0% in April, i.e. clearly stronger than expected (the FinMin's estimate and market consensus were at 3.8%YoY). In monthly terms prices rose 0.5%, which was caused mainly by rise in prices of fuel (2.6%MoM) and food (0.7%MoM although FinMin's estimate was even higher at 1.4%MoM). The data confirmed our earlier assumption that a scale of food price increase in the spring has been exhausted in previous months (average monthly rise in food prices in January-April was 1.3%). We predict that since June food prices will start their seasonal drop, possibly even stronger than in the last year.
- As regards other components of CPI inflation, prices of services are still a negative surprise, as they keep rising despite a significant downward adjustment in domestic demand.
- CPI less food and energy prices rose to 2.8%YoY in May from 2.6%YoY in April, slightly stronger than expected, but other 3 core inflation measures calculated by the NBP slightly fell and did not change quite positive assessment of inflation outlook.
- In our opinion, CPI inflation reached the peak at 4% in April and the downward trend started in May will be continued in the following months and quarters. We forecast that in June inflation will drop to the upper end of the tolerance range around the target and at the end of Q3 (or beginning of Q4) will approach the target. Though at the end of the year another rise in inflation is possible, we forecast that next year the average CPI inflation rate will be slightly above 2%.
- Producer prices fell by 0.3%MoM in May, driving the annual PPI inflation strongly down to 3.7% in May from 4.8% in April. PPI inflation on the domestic market, eliminating an effect of the zloty weakness on export prices, was even lower after a drop to 3.5%YoY in April.

Housing market update

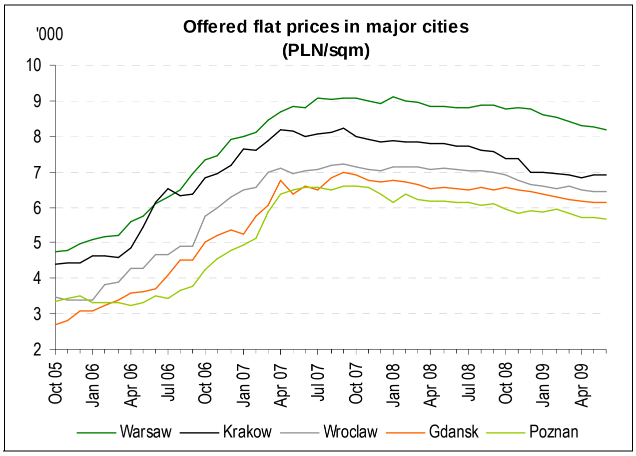
Stabilisation of house prices

▪ According to oferty.net, May brought little changes in house prices in Poland's major cities. In a part of them there was slight rise in prices and in some of them a price drop.

▪ According to szybko.pl, the scale of house price drop in May was smaller than in April in majority of cities, and in Cracow there was even price increase. In June, prices stabilised.

▪ Information about the housing market in June from Home Broker and Open Finance also point to price stabilisation.

▪ Since the end of 2008 until mid-2009 drop in house prices has been the strongest in Warsaw (over 6%), where the price drop in last months of 2008 was the weakest. The Cracow market has performed relatively the strongest (no change in prices from end-2008 to date), following significant correction in the second half of 2008.



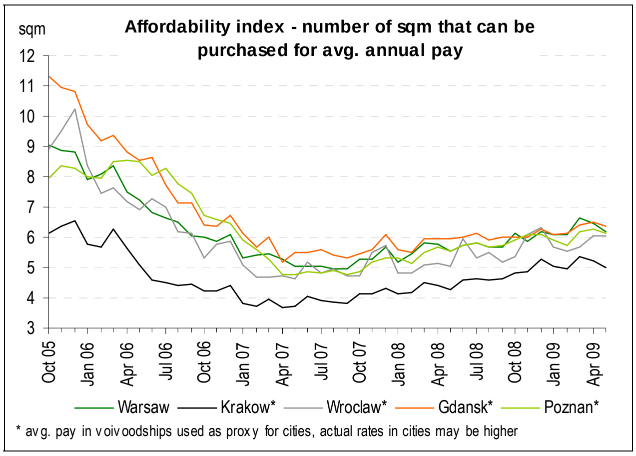
Increased number of home sales

▪ Developers and home brokers has been reporting an increase in the number of transaction in the recent months.

▪ Some revival of the market in Q2 is to a large extent of seasonal nature, as in past years this was always a period of increased activity and higher turnover in the housing market.

▪ However, it seems that higher number of transactions is also a result of an increase in houses' affordability measured as a number of sqm that could be bought with an average wage. This results from the price correction that already took place with simultaneous continuation of wage growth.

▪ Effective demand for houses is also positively affected by the fact that the above-mentioned stabilisation in house prices is coupled with larger readiness of seller to give buyers discounts, sometimes on a large scale.

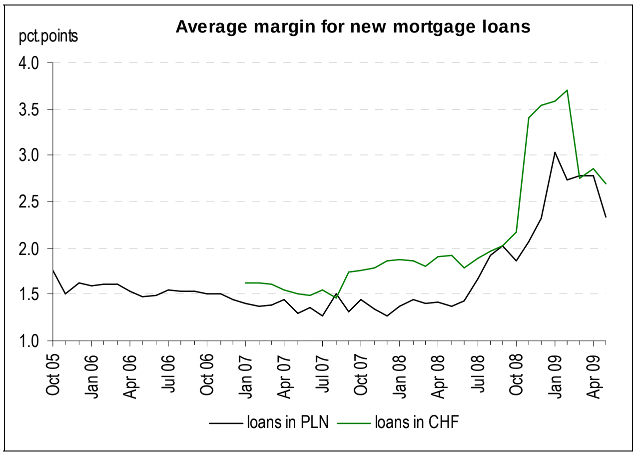


A thaw in the credit market

▪ Although credit policy of banks remains clearly much tighter than before intensification of the global financial and economic crisis, May brought some information about easing of conditions on mortgage loans.

▪ Among others, a narrowing of interest margins was continued, both for PLN and CHF. Some banks are reported to have eased also other conditions on mortgage loans.

▪ Credit activity is supported by the government's program 'Rodzina na swoim' (Family on its own), which becomes more and more popular after changes at the beginning of this year (e.g. increase in limit of house price). In June the program was used by 3.1 thousand families taking loans worth PLN555.1m while in May it was 2.9 thousand and PLN511.8m, respectively.

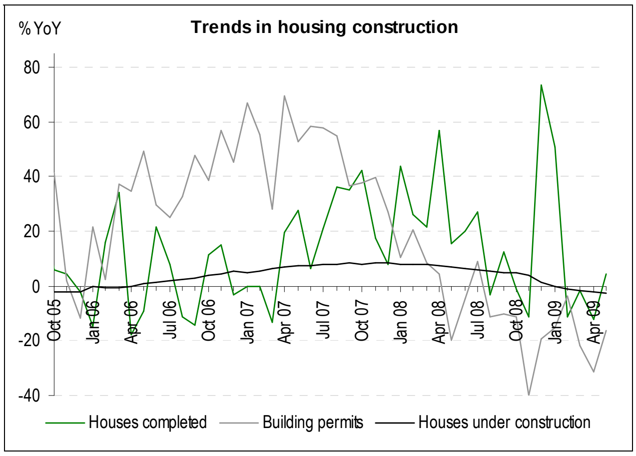


Supply adjustment continues, despite new projects appear

▪ May saw deepening of annual fall in the number of houses under construction, which is an effect of reduction of new projects by developers observed already during 2008 and strengthened after intensification of the global crisis.

▪ Although there was some rise in building permits growth rate in May, it was still negative and it seems that the downward trend has not reversed. This is not changed by the fact that in face of some revival in demand and lowering of construction costs a few developers announced realisation of new projects.

▪ Growth rate of houses completed rose above zero in May, but its downward tendency is likely to be continued in future due to deepening fall in the number of houses under construction observed over the past months.



Source: CSO, NBP, Szybko.pl, Oferty.net, own calculations

Central bank watch

Fragments of the MPC statement after its meeting in June (changed font indicates changes as compared to May's statement)

The growth of prices in the major economies decelerated considerably which was due to the significant slowdown in world economic growth and concurrent drop in commodity prices. Yet, recently commodity prices in the world markets have increased again.

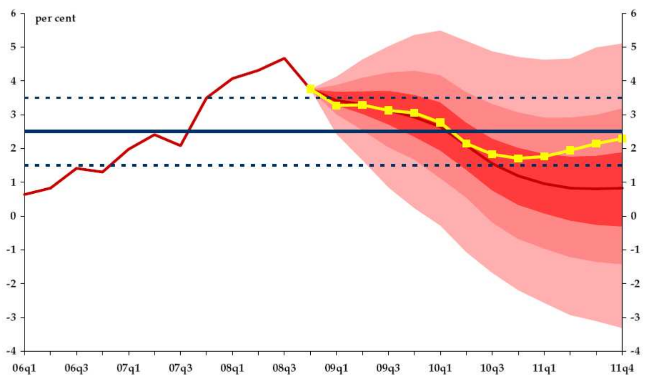
~~Over the recent period the volatility of exchange rates of Central and Eastern European currencies, including the zloty, has seen some reduction, though it remains relatively high in most of these countries.~~

In the Council's assessment, inflation in the coming months will probably decrease, though it will remain at an elevated level, mainly as a result of the relatively high annual growth of food prices and administered prices, including primarily prices of energy. **The recently observed rise in crude oil prices may be conducive to rising inflation. Yet, in the medium term further decline in demand pressure should reduce inflation.**

~~In the medium term, the recession in the global economy bringing about the decline in the domestic economic growth will lower the inflationary pressure in Poland. Further deterioration of the situation in the labour market and the ensuing decline in the growth of real wages as well as worse than in the previous period financial standing of enterprises will also be conducive to curbing demand and, consequently, the inflationary pressure. The tightening of banks' lending conditions will have a similar effect. On the other hand, the previously observed considerable depreciation of the zloty exchange rate will drive price increases.~~

The Council assessed the probability of inflation running below the target in the medium term to be higher than the probability of inflation running above the target **and decided to lower the interest rates. In the Council's assessment, the already implemented cuts in the NBP interest rates together with the lowering of the required reserve rate will support return of the economy to the potential growth path**. The Council's decisions in the coming months will take account of the incoming information on the outlook for economic growth and inflation, the situation in the financial markets in Poland and abroad, information on the public finance sector and zloty exchange rate developments. ~~Moreover, the Council decided that a more comprehensive assessment of inflation outlook will be possible after considering the results of the June projection based on the NECMOD model.~~

June CPI projection against February projection



Projections of inflation and GDP in subsequent *Inflation Reports*

GDP	Jun 08	Oct 08	Feb 09	Jun 09
2009	3.4-6.2	1.9-3.7	0.3-1.9	-0.4-1.1
2010	3.8-6.8	2.7-4.5	1.2-3.3	0.2-2.5
2011	-	-	2.5-4.8	2.4-4.5
CPI	**Jun 08**	**Oct 08**	**Feb 09**	**Jun 09**
2009	2.5-5.8	3.9-5.7	2.5-3.9	2.8-3.5
2010	0.1-5.7	1.9-4.5	0.5-3.2	1.1-3.2
2011	-	-	-0.9-2.6	0.8-3.4

Note: According to NBP projection, GDP growth and CPI inflation will be in the indicated ranges with probability of 50%.

Source: NBP

Another rate cut and easing bias

▪ After two months break, in June the Monetary Policy Council cut main interest rates again by 25 bp (the reference rate to 3.5%, the lowest level in history). This was the fourth cut this year, and the sixth since the start of easing monetary cycle. In sum, since November 2008 the rates went down by a total of 250 bp.

▪ In line with our expectations, the MPC did not decide to change the informal policy bias from easing to neutral, even though comments of some MPC members had suggested earlier than such option is possible. Also, the reserve requirement ratio remained unchanged, which was not surprising, taking into account that a reduction approved last month becomes effective for the reserve held since the end of June.

▪ In general, the tone of the Council's official communiqué remained dovish and consistent with easing bias, which allows for expectation that reduction in June was not the last one in the cycle.

▪ Nevertheless, a new sentence in the communiqué that rate cuts made so far will help to bring economy back to path of potential growth seem to suggest that a room for further rate cuts is narrowing. It was confirmed by comments of MPC members that appeared after the meeting (more details on the next page), which also suggested that the next decision about monetary easing is likely only after summer holidays.

▪ We predict that the next rate cut by 25 bp will take place in September, among others after publication of GDP data for Q2. Reduction of reference rate to 3.0% this year is still possible, although will depend on the upcoming data, including pace of inflation reduction, and results of the next NBP's projections (to be released in October).

New projection did not change expectations

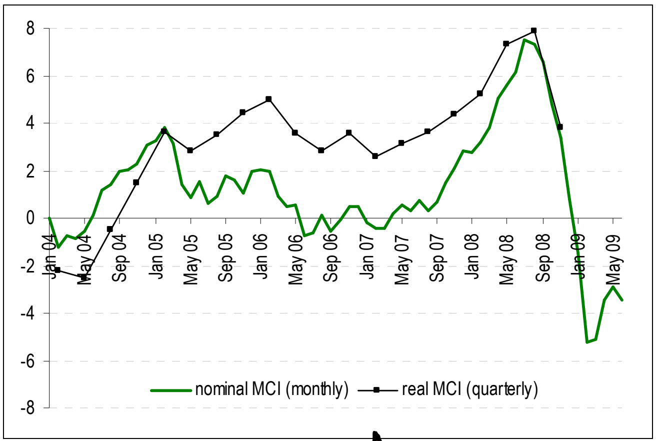
▪ Undoubtedly, one of key factors that affected the MPC decision was the new *Inflation report*, including the updated projections of inflation and GDP based on NECMOD model.

▪ The report showed that the central inflation path until mid-2010 is broadly in line with the path from the February's projection, falling gradually towards the inflation target of 2.5% and then below, while for the longer horizon the new inflation path is clearly higher than the previous one, but stays below the target. According to the projection, probability that inflation will be below the target of 2.5% is higher than 50% for the period from Q2 2010 to the end of the projection horizon, i.e. the end of 2011. At the same time, the projection indicates lowering of GDP path practically in the whole projection horizon, particularly for 2009-2010.

▪ The increase in the inflation path in the projection horizon resulted from upward shift in paths of core inflation and food prices growth while path of energy prices growth was lowered. The heightened core inflation path is an effect of the fact that the path of EURPLN estimated in the model in much above the one in the previous report, although the zloty gradually appreciates. Weaker zloty in the new projection is also responsible for upward move in the domestic food prices path, despite the lowered path of global prices of agricultural commodities.

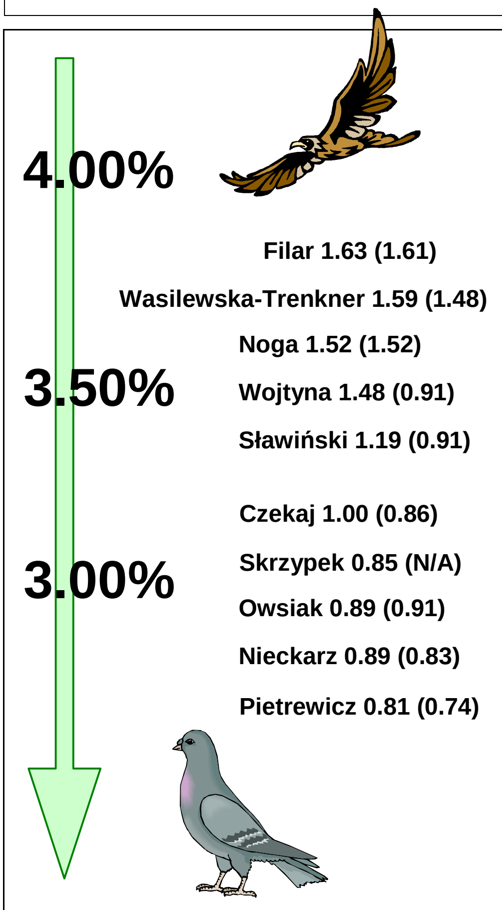
▪ In NBP analysts' view, the balance of uncertainty factors shows that the risk of inflation running above the central path prevails throughout the projection horizon. In turn, in the case of GDP growth, the risk factors to the projection indicate that it is possible that economic slowdown in Poland may persist for a longer period than it is assumed in the projection.

Restrictiveness of the Monetary Policy (Council)



Slight MCI fall after rise in previous months

- After several months of increases, our nominal index monetary conditions recorded a slight drop in June. Although average money market rates have climbed in the last month, but at the same time there was a weakening of the zloty and increase in deviation from long-term trend on the depreciation side. In sum, it resulted in slight decrease of the index.
- In July, there will be most likely an opposite situation – money market rates will be probably lower (WIBOR went down moderately after the MPC cut main interest rates in June), however average zloty rate is likely to appreciate. In effect, one could expect a stabilisation, or even another slight increase in the monetary conditions index.



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.

Smaller room for rate cuts, but still there

After MPC decision in June about cutting interest rates again and keeping easing bias in monetary policy, there was a mixed set of MPC members' comments. On one hand, there were comments of hawks, which did not exclude another rate cut (although one has to admit, they were quire reserved about such possibility), and at the same time, there were comments of doves suggesting that there is not much room left for monetary easing, and the next reduction will probably not take place in the nearest months.

The most unequivocal opinion about interest rates outlook was presented by NBP president Sławomir Skrzypek, who said after the MPC meeting that we are still in monetary easing cycle, and the next rate hikes of main interest rates are still likely. However, other members of the dovish faction, including Mirosław Pietrewicz and Stanisław Nieckarz, signalled that a room for rate cuts has narrowed and the next decision may wait until the Council will know the entire set of economic data for the first half of this year, which will be possible only after publication of GDP data for Q2, after the MPC meeting in August. The key MPC member for distribution of votes, Jan Czekaj, also suggested that change in interest rates may take place only after Q2 GDP data release, i.e. only in September.

In our view, the key issue for the next MPC decisions may be a scale and pace of inflation drop in the nearest months. Dovish MPC members positively assessed a fall in CPI inflation to 3.4% in June predicted by the Ministry of Finance, however in our view this forecast may be slightly too optimistic, which will increase the Council's caution. The Ministry's prediction was sceptically assessed by Marian Noga, who said that he sees no more room for interest rate cuts any more.

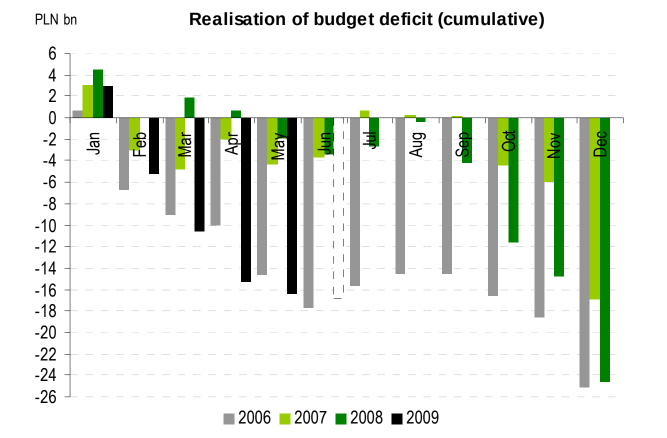
First (unofficial) candidates for the new MPC

PiS leader Jarosław Kaczyński said in June that a good candidate for a new member of the MPC (the term of office of the current rate-setters terminates in early 2010) would be prof. Wojciech Roszkowski, a historian and economist. Kaczyński probably meant the candidature will be proposed by his brother, Poland's President Lech Kaczyński, who may nominate 3 members of the Council. Media speculated also that two other candidates of the President may be Adam Glapiński (President's economic advisor) and former finance minister Zyta Gilowska (however the latter reportedly was not interested in the post at the moment). Both professor Roszkowski and Adam Glapiński admitted later on that they were consulted as regards a possible appointment for MPC members and they were interested in the position proposed by the President.

PO and PSL informed that the parties did not discuss the issue of MPC nominations yet and probably this matter will be consulted after holiday. Nevertheless, PSL representatives said later on that their candidates for MPC members position are: prof. Józef Kozioł (ex-CEO of BOŚ bank and vice-rector of one of private economic universities), prof. Władysław Szymański (chief of Department of Market and Competition at Warsaw School of Economics) and Elżbieta Chojna-Duch (deputy finance minister). According to anonymous PO source cited by PAP, one of party's candidate could be prof. Jan Winiecki. He confirmed in public that he is ready to apply for the post.

Source: CSO, Eurostat, NBP, own calculations

Government and politics



Budget revenues much lower than planned

▪ After five months of the year, state budget deficit reached PLN16.4bn, i.e. 90.2% of the plan for entire year. In May alone the gap reached ca. PLN1bn, i.e. was quite small.

▪ Budget revenues reached 36.6% of annual plan, while spending realisation was at 39.7%.

▪ Although growth rate in total revenues improved in May, but it was mainly due to higher inflows from the EU. Tax revenues remain very weak, confirming that in the entire year there will be a significant shortfall as compared to initial plans in the budget bill.

▪ The deputy minister of finance said that in June the deficit should not exceed PLN16.9bn, and should be within limits predicted earlier in the schedule of spending and revenues realisation.

Planned budget revenue in 2009 according to draft budget amendment

(PLN m)	Budget bill	Budget amendment	Difference
Total revenue	303 035	272 904	-30 131
Tax and non-tax revenue	269 433	231 140	-38 293
Tax revenue	251 434	204 812	-46 622
Indirect taxes	178 064	147 462	-30 602
VAT	118 590	94 000	-24 590
excise tax	58 110	51 900	-6 210
CIT	33 120	23 000	-10 120
PIT	40 250	34 350	-5 900
Non-tax revenue	17 999	26 328	8 329
Dividends	3 351	8 652	5 301
Customs duty	2 032	1 917	-115
Budgetary units revenue	9 023	9 561	538
Other non-tax revenue	785	3 297	2 512
Local government payments	2 702	2 702	0
Foreign revenue, funds from EU and other non-refundable sources	33 601	41 763	8 162

Government approved budget amendment

▪ On 7th of July, the government approved draft budget amendment for 2009, lifting budget deficit by PLN9bn, to PLN27.2bn.

▪ According to draft amendment, tax revenues this year will be lower than planned in the original budget bill by PLN46.6bn.

▪ At the same time, non-tax revenues will be lower than initially planned by PLN8.3bn (including dividend payments higher by PLN5.3bn, and other non-tax revenues higher by PLN2.5bn thanks to exchange rate gains related to payments of EU subsidies for farmers).

▪ Foreign revenues and EU funds will be higher by PLN8.1bn thanks to exchange to zlotys amid higher than earlier planned euro exchange rate.

▪ In sum, total budget revenues after amendment will be lower than in the current budget bill by PLN30.2bn.

▪ As regards budget spending, apart from savings found already in January this year, totalling PLN19.7bn (out of which PLN9.7bn comes from change in formula of road construction financing), the government applied further spending cuts in ministries amounting to ca. PLN3bn.

▪ Taking into account FinMin's cautious macroeconomic forecasts that were a basis for budget amendment construction, we think that deficit target after changes may be accomplished without further amendments. However, a "safety margin" is not big, so one should pay close attention to realisation of revenues in the next months.

▪ Sejm is scheduled to end work on the budget amendment until 18 July. Then the bill goes to Senate.

Main macroeconomic assumptions of the Ministry of Finance from *Information on macroeconomic situation and state of the budget in 2009*

		2008	2009 F	2010 F
GDP	%YoY	4.9	0.2	0.5
Domestic demand	%YoY	5.4	-0.7	0.5
Private consumption	%YoY	5.4	2.1	0.8
Investment	%YoY	8.2	-1.9	0.1
CPI	%YoY	4.2	3.0	1.0
PPI	%YoY	2.6	4.5	0.8
Wage growth in enterprises sector	%YoY	5.8	2.0	1.4
Unemployment rate	%	9.5	12.5	13.8
Current account balance in relation to GDP	%	-5.5	-3.2	-3.2

F - forecast

What tax hikes in 2010?

▪ The government decisively ruled out tax hikes in 2009, but they may be hard to avoid in 2010. However, changing taxes will not be easy, as it requires agreement with the President, or sufficient majority in Sejm to reject his veto.

▪ Meanwhile, parties in parliament are far from unanimous about preferred tax changes (see table on left).

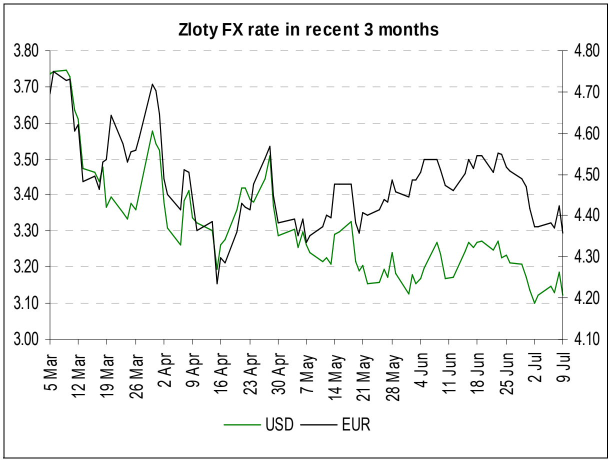
▪ After meeting with the President, PM Tusk said the government has a set of ideas to avoid tax hikes in 2010. They included among others passing NBP's profit for 2009 (over PLN10bn) to the budget or suspending obligation to spend 1.95% of GDP for army. Still, those solutions need first of all, agreement of the MPC, and also adequate changes in legislation before the end of this year.

Comments of party officials about possible tax changes

Grzegorz Doliniak, deputy head of PO caucus: Raising direct taxes is the last thing we shall do. The government is seeking less painful solutions for people. But at this moment it is hard to resolve whether it will be VAT, excise tax or other indirect taxes.
Eugeniusz Kłopotek, PSL deputy: For sure we will not agree for VAT tax hike. (...) We will not oppose strongly (against temporary restoration of 40% PIT rate), it may be necessary to return to previous solution.
Maks Kraczkowski, PiS deputy: PiS opts for lowering taxes, not hikes. During the crisis one should stimulate the economy. If the PM wants to pass the costs of fighting crisis on entrepreneurs, there is no agreement for that.
Marek Wikiński, Left deputy: Our caucus could agree for temporary hike in taxes for the richest. However, the devil is in the details. Definitely, the Left will not agree for increasing VAT rates, for example for food, nor for CIT hike.
Andrzej Duda, minister in President's office: For sure, the President will not support such changes (in taxes) that would harm the poorest citizens. (...) I think that in this matter the President's standpoint will be quite hard.

Source: Ministry of Finance, PAP, own calculations

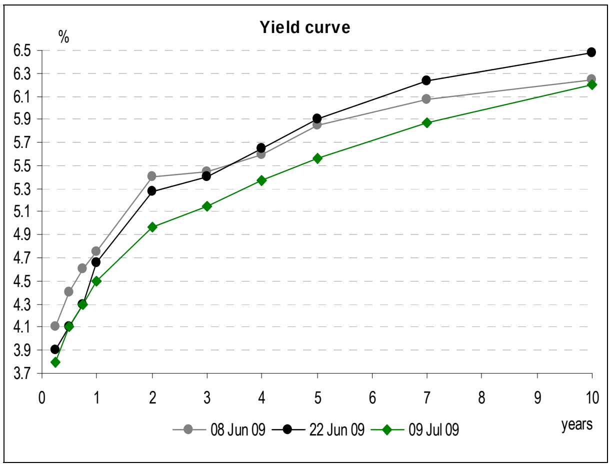
Market monitor



Zloty stronger after trading in narrow range

▪ Concerns over devaluation of Latvian lat negatively affected the zloty in June, similar as expectations for budget amendment and deterioration in global moods. EURPLN rate remained above 4.50 for most of the past month. The zloty strengthened at the turn of the month with a rise in risk appetite, and lower concerns over lat (after Latvia secured next IMF tranche), though investors' moods cooled after weak data on US non-farm payrolls.

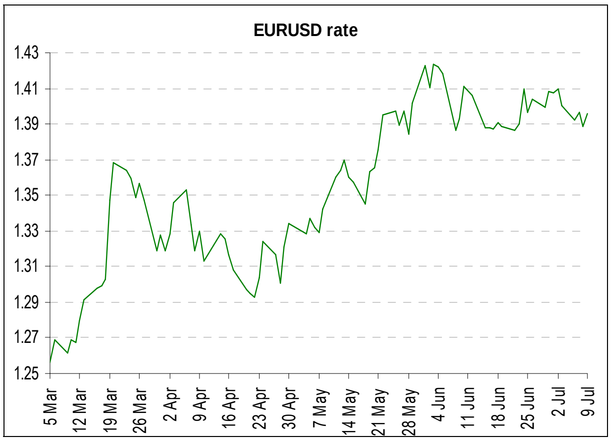
▪ Returning concerns about condition of the world economy may negatively affect the zloty in the near time, but we hold our view EURPLN should not exceed 4.60. With positive sentiment in the markets EURPLN may test a range of 4.30-4.33 within next few weeks with a possible decline to 4.25. However, persisting uncertainty regarding financial stability of the region may prevent the zloty from clearer strengthening. The key factor will be direction and strength of changes in global risk appetite.



Yield curve steepening

▪ In the last weeks there was a significant drop in FRA and IRS rates as well as in bond yields at the short end of curve, resulting from low inflation in May, stronger expectations for monetary easing with actual rate cut in June, and low FinMin's CPI forecast for June. Long end of the yield curve was under pressure related to deteriorated sentiment towards the region and uncertainty regarding the budget amendment. Supportive factor for the long end of the curve was FinMin's decision to limit supply of longer dated bonds in summer months.

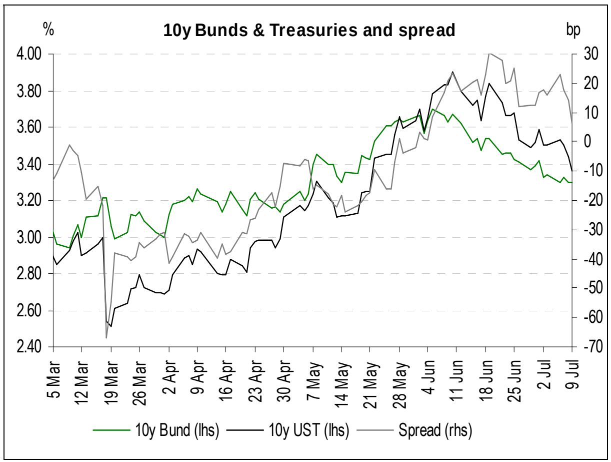
▪ Weak economic activity indicators and expectations of further rate cuts after summer will support the local interest rate market. Short-end of the curve will be mainly influenced by the pace of inflation decline. Gradual decrease in WIBOR may contribute to further lowering of FRA rates. Fiscal concerns will prevent long-term bonds from large strengthening.



EURUSD stabilised in tight range

▪ After dollar's strengthening to ca. 1.39 at the start of June, which was in reaction to optimistic data from the US labour market, EURUSD fluctuated in a narrow range of 1.38-1.41 being driven by changes in risk aversion. The comments from Russia and China regarding the role of the dollar as the reserve currency had mixed impact on EURUSD. In July the dollar weakened temporarily to 1.41 after Chinese PMI, which revived risk appetite. However, after the weak US non-farm payrolls report the dollar gained to ca. 1.39.

▪ In summer months EURUSD should range in 1.37-1.43. The euro may appreciate in periods of increased risk appetite, though taking into account expected faster recovery in the US than in the euro zone and narrowing trade deficit in the US the dollar should gradually strengthen vs. the euro.



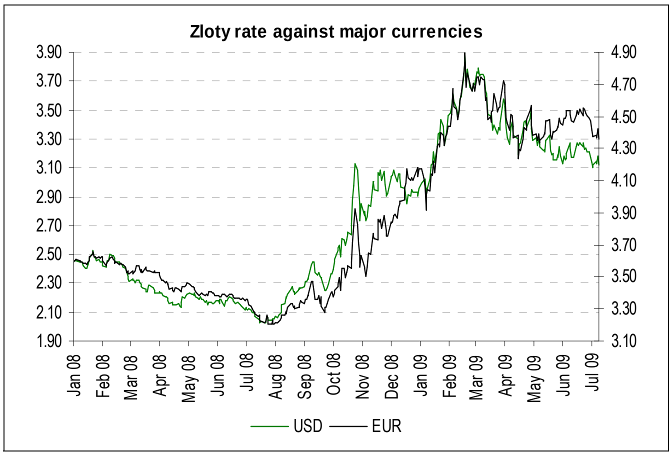
Significant recovery in core debt markets

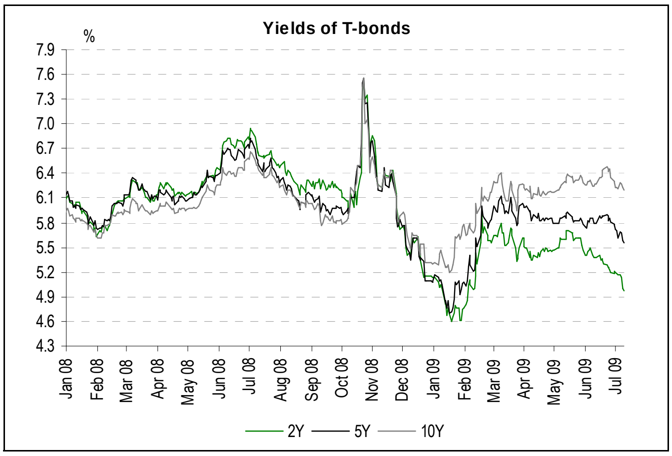
▪ A significant rise in yields in the core debt markets in May and at the start of June was followed by a substantial strengthening of bonds since the middle of June. This was caused by larger risk aversion, debt purchases by Fed, lower than expected inflation figures in the US and good results of government securities auctions in the US. In early July the US consumer confidence data and non-farm payrolls figures contributed to a rise in debt prices. Since our previous report yields of both 10Y Treasuries and Bunds fell 33bp (to 3.50% and 3.23%, respectively).

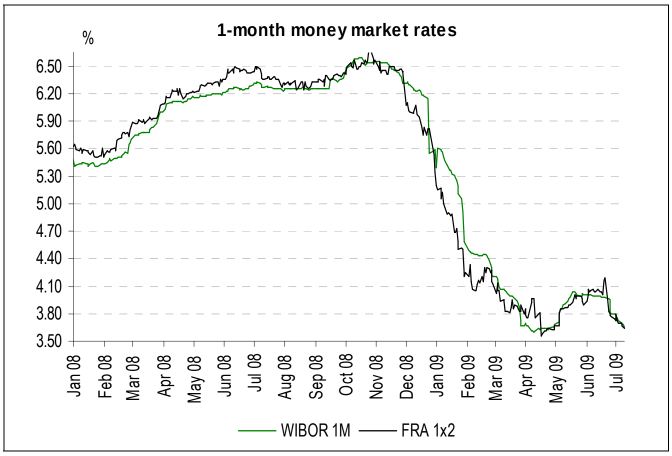
▪ Large debt supply will still negatively affect the core debt markets. The US market will be to some extent supported by bond purchases by Fed. However, the core debt markets will be mainly driven by risk appetite influenced by releases of Q2 companies' earning.

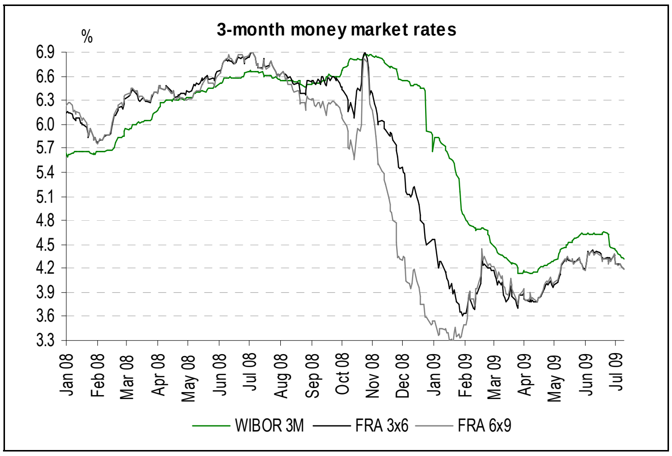
Source: Reuters, BZ WBK

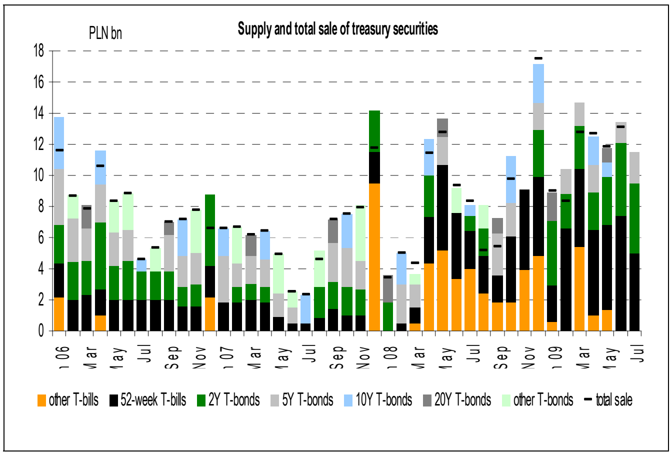
Market monitor











Treasury bills auctions (PLN m)

	(OFFER)*/SALE	
Auction date	**52W**	**49W**
1.06.2009	1500-2000/2125	-
8.06.2009	1200-1600/1600	-
15.06.2009	1200-1600/1616	-
22.06.2009	800-1000/1083	-
29.06.2009	800-1000/1200	-
6.07.2009	1000-1200/1256	-
13.07.2009	1000-1300	-
20.07.2009	-	800-1000
27.07.2009	1200-1500	-
3.08.2009	-	-
10.08.2009	-	-
17.08.2009	-	-
24.08.2009	-	-

** based on data of the Ministry of Finance*

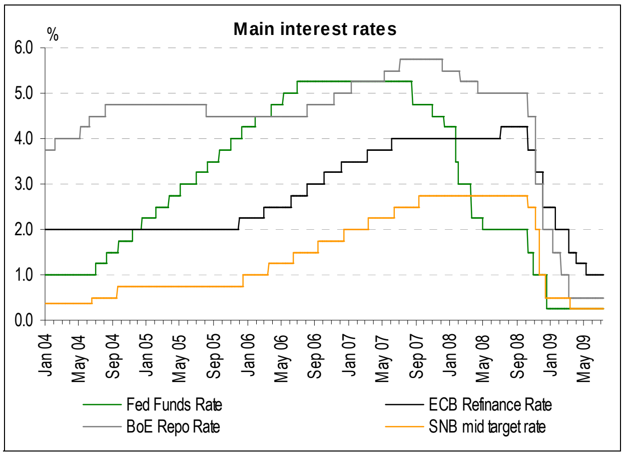
Treasury bond auctions in 2008/2009 (PLNm)

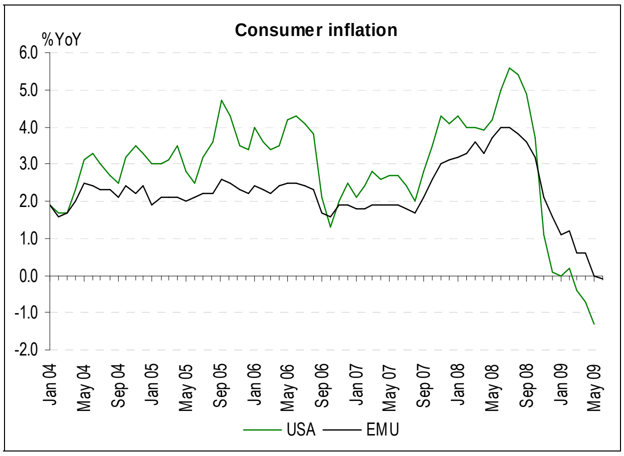
month	First auction				Second auction				Switch auction		
	date	T-bonds	offer	sale	date	T-bonds	Offer	sale	date	T-bonds	sale
January	7.01*	OK0711	4200	4296	14.01	WS0429	1500	1500	21.01	PS0414/DS1019	2800/1300
February	4.02	OK0711/PS0414	2200/1600	722/1186	-	-	-	-	18.02	-	-
March	4.03	OK0711/PS0414	2760/1500	2550/640	-	-	-	-	11.03	OK0711/PS0414	2759/1809
April	1.04	OK0711/PS0414	2400/1800	2544/1814	8.04	DS1019	1000-1800	2120	15.04	PS0414/DS1019/WS0922	1437/3129/1158
May	13.05*	OK0711	3150	3286	20.05	DS1019|WS0429	1000-1800	1835	6.05	DS1013/DS1015	765/2505
June	3.06*	OK0112|PS0414	4000-6000	4359/1122	10.06	DS1019|WS0429	0-2000	cancelled	17.06	OK0112/PS0414	1739/2108
July	1.07	OK0112	3000-4500	4006	15.07	PS0414	1000-2000	-	8.07	PS0414/ DS1019	0/1982
August	5.08	OK/PS	-	-	-	-	-	-	-	-	-
September	2.09	OK/PS	-	-	9.09	DS/WS	-	-	-	-	-
October	7.10	OK/PS	-	-	14.10	DS/WS	-	-	-	-	-
November	4.11	OK/PS	-	-	18.11	DS/WS	-	-	-	-	-
December	2.12	OK/PS	-	-	-	-	-	-	-	-	-

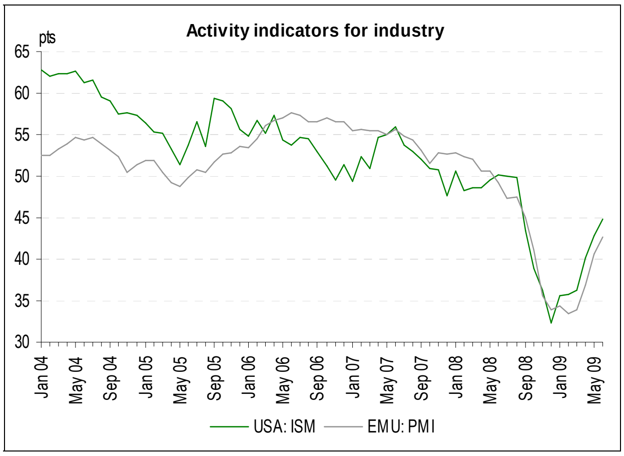
* with supplementary auction

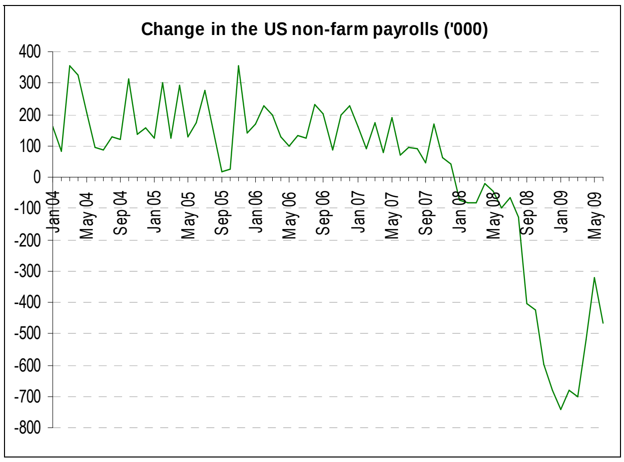
Source: Ministry of Finance, Reuters, BZ WBK

International review









Source: Reuters, ECB, Federal Reserve

Remote prospects for rate hikes

▪ The Fed decided to keep rates on hold and did not change scale of assets purchases, stating that pace of economic activity contraction in the US is decelerating, but the low inflation and thus extraordinary low level of interest rates will remain in place for longer time. Hence, as we expected, the Fed weakened expectations of swift rate hikes in the US.

▪ The ECB kept main interest rates on hold at 1%. J.C. Trichet said that all ECB actions were aimed at creating conditions for strategy of fast exit from particular tools and in order to avoid threat for inflation prospects. According to ECB President, economic revival in the euro zone may come in mid-2010. Trichet said that current level of interest rates is adequate, but he did not exclude that a lower level of interest rates in the euro zone could be achieved.

▪ In our baseline scenario we assume no changes in official interest rates in the US and euro zone until 2011.

▪ The euro zone's HICP inflation in May was at 0%YoY. Preliminary data for June showed inflation rate at –0.1%YoY against expected –0.2%YoY. PPI index in May fell by 0.2%MoM and 5.8%YoY.

▪ The US CPI index in May rose 0.1%MoM, less than expected, and in annual terms it fell by 1.3%, the deepest in almost 60 years. CPI excluding food and fuel prices was 0.1%MoM (1.8%YoY) after 0.3%MoM a month ago. Analysts expected rise in CPI by 0.3%MoM and in core inflation by 0.1%MoM.

▪ The US producer prices in May rose less than expected, by 0.2%MoM against a rise of 0.3%MoM in April and expected increase of 0.6%MoM. PPI excluding food and energy prices fell by 0.1%MoM vs. 0.1% rise recorded in April and expected by the market for May.

Chinese PMI above 50 again, poor US non-farm payrolls

▪ Chinese PMI in June was fourth time in a row above 50pts. There was also an increase in exports orders sub-index and it was above 50pts for the second consecutive month.

▪ The euro zone's PMI manufacturing rose to 42.6pts in June from 40.7pts in May, slightly above expectations. PMI services was 44.7pts against 44.8 pts in May (44.5 was expected).

▪ The US ISM manufacturing rose to 44.8pts in June from 42.8pts in May and was close to expectations. ISM services rose to 47pts from 44pts a month earlier, against 46pts expected by the market. A weakening in activity signalled by the services index was the smallest in nine months mainly due to improvement of assessment of new orders and employment.

▪ According to final data, the US GDP in Q1 fell by 5.5% after a decline of 6.3% in Q4 2008 and against no change expected as compared to earlier reading of –5.7%.

▪ In its recent update of the World Economic Update the IMF raised forecast for the US GDP growth in 2009 by 0.2pp to –2.6% and for 2010 by 0.8pp to 0.8%. Forecast for the euro zone's GDP growth rate in 2009 was revised down by 0.6pp to -4.8% and for 2010 was raised by a mere 0.1pp to -0.3%.

▪ After positive surprise in May, data from the US labour market disappointed again. The non-farm payrolls fell by 467k, much more than expected 367k. Data for May were upwardly revised by 23k to –322k. The unemployment rate in the US rose to 9.5% from 9.4%, slightly below 9.6% expected by the market.

▪ Unemployment rate in the euro zone rose from 9.3% in April to 9.5% in May, the highest level in 10 years.

Economic calendar

Monday	Tuesday	Wednesday	Thursday	Friday
13 July ***PL: Auction of Treasury Bills***	**14** ***PL: CPI (Jun)*** ***PL: Money supply (Jun)*** ***PL: Balance of payments (May)*** DE: ZEW index (Jul) US: PPI (Jun) EZ: Industrial production (May) US: Retail sales (Jun)	**15** ***PL: Auction of Treasury bonds*** JP: BOJ decision EZ: Final HICP (Jun) US: CPI (Jun) US: Empire State index (Jul) US Capacity use (Jun) US: Industrial production (Jun) US: FOMC minutes	**16** ***PL: Wage and employment (Jun)*** US: Capital flows (May) US: Philly Fed index (Jul)	**17** ***PL: Industrial production (Jun)*** ***PL: PPI (Jun)*** EZ: Trade balance (May) US: Building permits (Jun) US: House starts (Jun)
20 ***PL: Auction of Treasury Bills*** JP: Market holiday US: Leading indicators (Jun)	**21**	**22** ***PL: Core inflation (Jun)*** ***PL: Business climate (Jul)*** US: Home prices (May)	**23** ***PL: MPC minutes (May)*** ***PL: Retail sales (Jun)*** ***PL: Unemployment rate (Jun)*** US: Home sales (Jun)	**24** EZ: Flash manufacturing PMI (Jul) EZ: Flash services PMI (Jul) DE: Ifo index (Jul) US: Final Michigan (Jul)
27 ***PL: Auction of Treasury Bills*** DE: Gfk index (Aug) EZ: M3 money supply (Jun) US: New home sales (Jun)	**28** ***PL: MPC meeting*** US: Case/Shiller report (May) US: Consumer confidence (Jul)	**29** ***PL: MPC meeting – decision*** US: Durable goods orders (Jun)	**30** EZ: Economic sentiment index (Jul)	**31** EZ: Flash HICP (Jul) US: Flash GDP (Q2) US: Core PCE (Q2) US: Chicago PMI (Jul)
3 August ***PL: Auction of Treasury Bills*** ***PL: PMI (Jul)*** EZ: Manufacturing PMI (Jul) US: Manufacturing ISM (Jul)	**4** EZ: PPI (Jun) US: Core PCE (Jun) US: Pending home sales (Jun)	**5** ***PL: Auction of Treasury bonds*** EZ: PMI services (Jul) EZ: Retail sales (Jun) US: ADP report (Jul) US: Factory orders (Jun) US: Non-manufacturing ISM (Jul)	**6** EZ: ECB decision GB: BoE decision	**7** US: Non-farm payrolls (Jul) US: Rate of unemployment (Jul)
10 ***PL: Auction of Treasury Bills***	**11** ***PL: Balance of payments (Jun)*** JP: BoJ decision US: Unit labour costs & productivity (Q2) US: Wholesale inventories (Jun)	**12** EZ: Industrial production (Jun) US: Foreign trade (Jun) US: Fed decision	**13** ***PL: Money supply (Jul)*** ***PL: CPI (Jul)*** EZ: Preliminary GDP (Q2) US: Import prices (Jul) US: Retail sales (Jul)	**14** EZ: Final HICP (Jul) US: CPI (Jul) US: Capacity utilisation (Jul) US: Industrial production (Jul) US: Preliminary Michigan (Aug)
17 ***PL: Auction of Treasury Bills*** US: Empire State index (Aug) US: Capital flows (Jun) EZ: Trade balance (Jun)	**18** ***PL: Wage and employment (Jul)*** DE: ZEW index (Aug) US: Building permits (Jul) US: House starts (Jul) US: PPI (Jul)	**19** ***PL: Industrial production (Jul)*** ***PL: PPI (Jul)***	**20** ***PL: MPC minutes (Jun)*** ***PL: Core inflation (Jul)*** US: Philly Fed index (Aug) US: Leading indicators (Jul)	**21** ***PL: Business climate (Aug)*** EZ: Flash manufacturing PMI (Aug) EZ: Flash services PMI (Aug) US: Home sales (Jun)
24 ***PL: Auction of Treasury Bills***	**25** ***PL: MPC meeting*** US: Case/Shiller report (Jun) US: Consumer confidence (Aug)	**26** ***PL: MPC meeting – decision*** DE: Ifo index (Aug) US: Home prices (Jun) US: Durable goods orders (Jul) US: New home sales (Jul)	**27** DE: Gfk index (Sep) EZ: M3 money supply (Jul) US: Preliminary GDP (Q2) US: Core PCE (Q2)	**28** ***PL: GDP (Q2)*** EZ: Economic sentiment index (Aug) US: Core PCE (Jul) US: Final Michigan (Aug)
31 ***PL: Auction of Treasury Bills*** EZ: Flash HICP (Aug) US: Chicago PMI (Aug)	**1 September** ***PL: PMI (Aug)*** EZ: Manufacturing PMI (Aug) US: Manufacturing ISM (Aug) US: Pending home sales (Jul)	**2** ***PL: Auction of Treasury bonds*** EZ: Revised GDP (Q2) US: PPI (Jul) US: ADP report (Aug) US: Unit labour costs & productivity (Q2) US: Factory orders (Jul) US: FOMC minutes	**3** EZ: PMI services (Aug) EZ: Retail sales (Jul) EZ: ECB decision US: Non-manufacturing ISM (Aug)	**4** US: Non-farm payrolls (Aug) US: Rate of unemployment (Aug)
7 ***PL: Auction of Treasury Bills*** US: Market holiday	**8**	**9** ***PL: Auction of Treasury bonds***	**10** GB: BoE decision US: Trade balance (Jul)	**11** ***PL: Balance of payments (Jul)*** US: Import prices (Aug) US: Preliminary Michigan (Sep) US: Wholesale inventories (Jul)

Source: CSO, NBP, Ministry of Finance, Reuters.
Full calendar of MPC meetings and data releases for 2009 is available in our previous reports.

Economic data and forecasts

Monthly economic indicators

		Jul 08	Aug 08	Sep 08	Oct 08	Nov 08	Dec 08	Jan 09	Feb 09	Mar 09	Apr 09	May 09	Jun 09	Jul 09	Aug 09
Industrial production	%YoY	4.8	-4.4	5.5	-2.0	-10.6	-5.6	-15.3	-14.6	-1.9	-12.2	-5.2	-6.5	-7.7	-4.6
Retail sales [c]	%YoY	14.7	8.3	12.4	9.2	3.0	6.9	1.3	-1.6	-0.8	1.0	1.1	-0.1	-3.2	1.2
Unemployment rate	%	9.2	9.1	8.9	8.8	9.1	9.5	10.5	10.9	11.2	11.0	10.8	10.7	10.8	10.9
Gross wages [b c]	%YoY	11.8	9.9	11.2	10.1	7.6	5.6	8.1	5.1	5.7	4.8	3.8	2.1	2.3	2.9
Employment [b]	%YoY	4.6	4.1	4.0	3.5	3.0	2.2	0.7	-0.2	-0.9	-1.4	-1.7	-1.8	-2.3	-2.6
Export (€) [d]	%YoY	24.3	10.8	23.0	1.9	-9.5	-14.2	-25.8	-26.6	-16.3	-29.9	-20.9	-28.8	-28.6	-23.5
Import (€) [d]	%YoY	23.5	20.1	23.7	5.9	-7.3	-10.9	-27.4	-32.9	-26.2	-37.0	-29.4	-37.4	-37.2	-29.2
Trade balance [d]	EURm	-1606	-1420	-1334	-1496	-1449	-1762	-448	24	-89	28	-155	-147	-75	-461
Current account balance [d]	EURm	-972	-1278	-2088	-1767	-1566	-1707	-749	910	102	171	-90	-47	405	-411
Current account balance [d]	% GDP	-5.0	-5.1	-5.3	-5.4	-5.6	-5.4	-5.3	-4.7	-4.2	-3.8	-3.3	-2.7	-2.4	-2.1
Budget deficit (cumulative)	PLNbn	-2.7	-0.3	-4.2	-11.6	-14.8	-24.6	2.9	-5.3	-10.6	-15.3	-16.4	-16.8	-16.8	-17.8
Budget deficit (cumulative) [e]	% of FY plan	10.9	1.3	17.0	47.1	60.3	100.0	-16.0	29.0	58.3	84.3	90.2	92.4	92.4	97.9
CPI	%YoY	4.8	4.8	4.5	4.2	3.7	3.3	2.8	3.3	3.6	4.0	3.6	3.5	3.1	3.1
PPI	%YoY	1.7	1.4	2.0	2.4	2.2	2.7	3.6	5.7	5.5	4.8	3.7	3.4	3.0	2.5
Broad money (M3)	%YoY	16.8	16.8	17.3	17.3	18.1	18.6	17.6	17.8	17.5	14.4	14.3	13.4	12.0	10.2
Deposits	%YoY	19.4	18.9	20.0	18.7	19.4	20.6	19.5	19.2	19.4	16.1	15.8	14.8	13.0	11.6
Loans	%YoY	25.3	26.7	28.0	32.8	31.7	36.0	35.8	37.2	34.5	30.3	29.3	26.9	25.1	20.5
USD/PLN	PLN	2.07	2.19	2.34	2.69	2.93	2.98	3.18	3.63	3.55	3.36	3.23	3.22	3.17	3.09
EUR/PLN	PLN	3.26	3.29	3.37	3.57	3.73	4.01	4.22	4.65	4.62	4.43	4.41	4.51	4.40	4.30
Reference rate [a]	%	6.00	6.00	6.00	6.00	5.75	5.00	4.25	4.00	3.75	3.75	3.75	3.50	3.50	3.50
Lombard rate [a]	%	7.50	7.50	7.50	7.50	7.25	6.50	5.75	5.50	5.25	5.25	5.25	5.00	5.00	5.00
WIBOR 3M	%	6.62	6.52	6.56	6.80	6.74	6.40	5.51	4.69	4.30	4.20	4.52	4.60	4.35	4.20
Yield on 52-week T-bills	%	6.70	6.60	6.46	6.45	6.52	6.10	4.85	4.62	4.78	4.80	4.91	4.73	4.45	4.50
Yield on 2-year T-bonds	%	6.66	6.32	6.25	6.46	6.26	5.43	4.81	5.37	5.60	5.44	5.60	5.34	5.05	5.10
Yield on 5-year T-bonds	%	6.53	6.15	6.01	6.48	6.21	5.42	4.96	5.57	5.97	5.88	5.85	5.83	5.60	5.55
Yield on 10-year T-bonds	%	6.43	6.10	5.89	6.39	6.25	5.57	5.43	5.94	6.21	6.17	6.30	6.34	6.20	6.20

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

		2007	2008	2009	2010	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10
GDP	PLNbn	1,175.3	1,271.7	1,335.3	1,376.4	314.5	331.0	326.4	363.3	322.7	338.3	336.1	379.3
GDP	%YoY	6.7	4.9	0.5	1.5	0.8	0.1	0.2	0.9	0.9	1.0	1.5	2.5
Domestic demand	%YoY	8.6	5.5	-1.6	1.6	-1.0	-1.6	-2.2	-1.6	1.8	1.9	1.0	1.8
Private consumption	%YoY	5.0	5.4	2.0	1.0	3.3	2.0	1.5	1.0	0.5	1.0	1.0	1.5
Fixed investments	%YoY	17.6	8.1	-5.6	1.4	1.2	-5.0	-5.5	-9.0	-3.0	3.0	2.0	2.0
Industrial production	%YoY	9.7	3.5	-6.5	0.4	-10.0	-8.0	-6.1	-1.9	-3.0	-0.9	0.6	4.8
Retail sales (real terms)	%YoY	14.0	9.6	-1.9	-1.7	-1.4	-0.8	-2.3	-3.2	-3.5	-2.1	-0.8	-0.5
Unemployment rate [a]	%	11.2	9.5	12.9	15.6	11.2	10.7	11.1	12.9	14.4	14.1	14.1	15.6
Gross wages (real terms) [c]	%YoY	6.7	5.9	0.4	0.7	3.2	-0.1	-0.4	-0.7	-1.7	0.8	1.5	2.1
Employment [c]	%YoY	4.6	4.8	-1.9	-3.8	0.1	-1.6	-2.6	-3.3	-4.1	-4.0	-3.7	-3.3
Export (€) [b]	%YoY	13.4	12.7	-22.7	3.7	-22.6	-24.9	-28.0	-14.0	-2.0	2.0	6.0	9.0
Import (€) [b]	%YoY	19.5	14.9	-29.2	5.8	-28.7	-33.1	-33.0	-21.0	3.0	6.0	6.0	8.0
Trade balance [b]	EURm	-12,369	-16,538	-3,972	-6,102	-488	-274	-1,334	-1,876	-1,669	-1,221	-1,414	-1,798
Current account balance [b]	EURm	-14,586	-19,531	-2,754	-3,402	342	34	-954	-2,176	-1,069	-521	-514	-1,298
Current account balance [b]	% GDP	-4.7	-5.4	-0.9	-1.0	-4.1	-2.7	-1.8	-0.9	-1.3	-1.4	-1.2	-1.0
General government balance	% GDP	-2.0	-3.9	-5.7	-6.5	-	-	-	-	-	-	-	-
CPI	%YoY	2.5	4.2	3.2	2.1	3.3	3.7	3.1	3.0	2.6	1.6	1.9	2.4
CPI [a]	%YoY	4.0	3.3	3.2	2.4	3.6	3.5	3.0	3.2	2.0	1.6	2.1	2.4
PPI	%YoY	2.0	2.2	3.3	0.4	4.9	4.0	2.5	1.9	-0.8	-0.2	1.0	1.6
Broad money (M3) [a]	%YoY	13.4	18.6	5.2	2.3	17.5	13.4	9.6	5.2	1.2	2.1	2.1	2.3
Deposits [a]	%YoY	14.5	20.6	5.1	1.6	19.4	14.8	10.0	5.1	-0.4	-0.2	-0.1	0.4
Loans [a]	%YoY	29.9	36.0	3.9	1.4	34.5	26.9	16.9	3.9	-1.5	-1.2	0.3	1.4
USD/PLN	PLN	2.77	2.41	3.22	2.96	3.45	3.27	3.11	3.04	3.01	2.98	2.94	2.93
EUR/PLN	PLN	3.78	3.52	4.34	3.90	4.50	4.45	4.30	4.10	3.98	3.93	3.87	3.82
Reference rate [a]	%	5.00	5.00	3.00	3.00	3.75	3.50	3.25	3.00	3.00	3.00	3.00	3.00
Lombard rate [a]	%	6.50	6.50	4.50	4.50	5.25	5.00	4.75	4.50	4.50	4.50	4.50	4.50
WIBOR 3M	%	4.73	6.36	4.30	3.30	4.83	4.44	4.24	3.69	3.30	3.30	3.30	3.30
Yield on 52-week T-bills	%	4.69	6.26	4.52	3.94	4.75	4.81	4.50	4.00	3.80	3.75	4.00	4.20
Yield on 2-year T-bonds	%	5.23	6.22	5.16	4.64	5.26	5.46	5.10	4.80	4.70	4.55	4.60	4.70
Yield on 5-year T-bonds	%	5.52	6.15	5.56	5.24	5.50	5.85	5.55	5.35	5.30	5.20	5.20	5.25
Yield on 10-year T-bonds	%	5.56	6.06	6.12	6.06	5.86	6.27	6.20	6.15	6.10	6.10	6.05	6.00

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

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

Bank Zachodni WBK

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