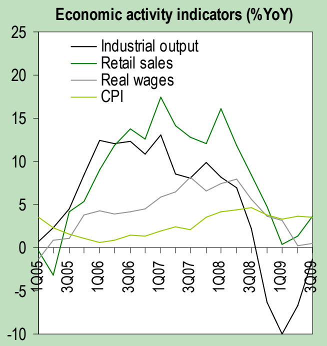
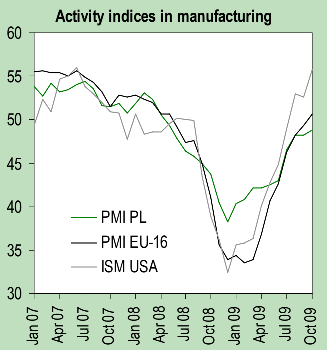
Bank Zachodni WBK

MACROscope

Polish Economy and Financial Markets

November 2009





In this issue:

Maciej Reluga
Chief economist
+48 22 586 8363

Piotr Bielski
+48 22 586 8333

Piotr Bujak
+48 22 586 8341

Cezary Chrapek
+48 22 586 8342

Email: ekonomia@bzwbk.pl

The clock is ticking

- **We decided to make a moderate upward adjustment of our projections concerning the economic growth in Poland.** Currently, we predict that the GDP growth in Poland will be 1.4% this year, whereas next year, it will accelerate to 2.0%. The revised provisions stem from the higher economic growth projections in the euro zone, which makes us believe that exports will be first of the main GDP components to bounce up. In Q3, our 2009 and 2010 assumptions concerning GDP dynamics in the euro zone improved from -4.9% to -4.0% and from 0.4% to 1.0%, respectively. We remain cautious as to the projections concerning consumer demand, which derives from the labour market conditions likely to deteriorate further (e.g. the number of announced redundancies remains high). We keep the fixed investment projections unchanged (which means "only" four quarters of negative annual dynamics), as we still assume that the growing scale of delivery of infrastructural projects (public sector investments) will to some extent make up for the limited private sector investments.
- **The business cycle clock of the Polish economic will make the *Special focus* this month.** We believe that this tool will help our readers to analyse the course of the economic cycle in Poland. Data available by the end of October proved that the clock is ticking in the more positive direction, suggesting that the worst times are behind us and that the Polish economy has started to recover. Hopefully, our clock will be showing that the slump is over and economic situation is gradually improving (hopefully, not until the next crisis).
- **The decision taken by the Monetary Policy Council in October on changing the informal bias in monetary policy to the neutral one has not brought anything new to the assessment of the monetary policy prospects.** Statements made by the present members of the Council start loosing importance for the financial market. Now attention should be focused on the MPC new term, although no candidates have been officially presented yet. Therefore, we temporarily give up one section of our report concerning changes in the restrictiveness of the Council and of its individual members. We will bring the section back when politicians select new members of the Council and we know more about their view on monetary policy. In the meantime, our projections of the domestic monetary policy remain unchanged – we believe that first modest interest rate hikes in Poland will be announced not sooner than in H2 2010. That belief is confirmed by our unchanged assumption that the European Central Bank and Fed are likely to keep the interest rates flat for a longer time – maybe till the end of 2010.
- **In line with our forecast presented a month ago, the EURPLN rate reached the level of 4.30.** After this correction we saw zloty strengthening trend again and this may be continued until the rate reaches 4.06, though we still think that another correction may come as increase in risk appetite observed globally in the last couple of months was excessive given the economic fundamentals. Our view for developments on the foreign exchange market next year remain unchanged, though we see the asymmetric risk towards weaker zloty in the first quarter 2010.

Financial market on 30 October 2009:

NBP deposit rate	2.00	WIBOR 3M	4.19	USDPLN	2.8595
NBP reference rate	3.50	Yield on 2-year T-bonds	4.97	EURPLN	4.2430
NBP lombard rate	5.00	Yield on 5-year T-bonds	5.66	EURUSD	1.4838

This report is based on information available until 10.11.2009

Special focus

Business cycle clock – where are we in the business cycle?

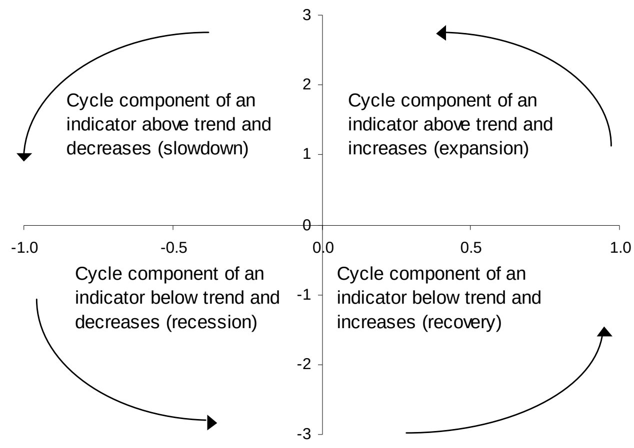
Each month the Central Statistical Office (GUS) publishes a wide range of macroeconomic data which reflect the overall economic situation in Poland. It might be difficult though to track subsequent phases of the business cycle on the basis of the data as many economic indicators are highly volatile and might often lead to contradictory (apparently) conclusions. This is especially evident in the current period when the Polish economy is hit by the greatest global economic crisis in decades. Therefore special tools to analyse the business cycle might be very handy currently. A tool which is gaining popularity is the so-called business cycle clock. This issue of MACROscope presents the business cycle clock we have developed for the Polish economy. In this exercise our goal is not to build an economy model nor explain the nature of or reasons for up- and downswings within the economic cycles. We only attempt to establish where the Polish economy is in the business cycle. To this end, we have designed a tool supporting the macroeconomic analysis and facilitating the interpretation of fluctuations of key economic indicators.

The clock's mechanism – how it works?

The business cycle clock (the 'BCC') is designed to facilitate the analysis of medium-term trends in the economy. It helps determine where the economy is in the business cycle by identifying a cyclical component of movements in the economy. This is done by way of filtering out short-term and random fluctuations not related to a shift in business cycle phases. The BCC has a graphical framework which facilitates the interpretation of fluctuations of selected macroeconomic indicators. Namely, the graphical framework consists of a simple coordinate system where the vertical axis shows a deviation of a given indicator from a long-term trend and the horizontal axis shows a change in this indicator's deviation.

The business cycle clock is divided into four quadrants: (1) (top right): an indicator is above the trend and its deviation from the trend is increasing; (2) (top left): an indicator is above its trend and its deviation from the trend is decreasing; (3) (bottom left): an indicator is above the trend and its deviation from the trend is decreasing; (4) (bottom left): an indicator is below the trend and its deviation from the trend is increasing. Throughout the business cycle, indicators move in time evolving from one phase into the other in a counter-clockwise manner.

Overall mechanism of business cycle clock



Source: BZ WBK

An important feature of business cycles is varied dynamics in particular areas of economic processes. A business cycle shift is not simultaneously reflected in all economic indicators. Thus, we can distinguish leading, coincident and lagging indicators. Leading indicators usually include financial variables (e.g. stock exchange indices) and various business climate indicators. Coincident indicators are usually variables related to the real economy. Lagging indicators include primarily variables related to the labour market.

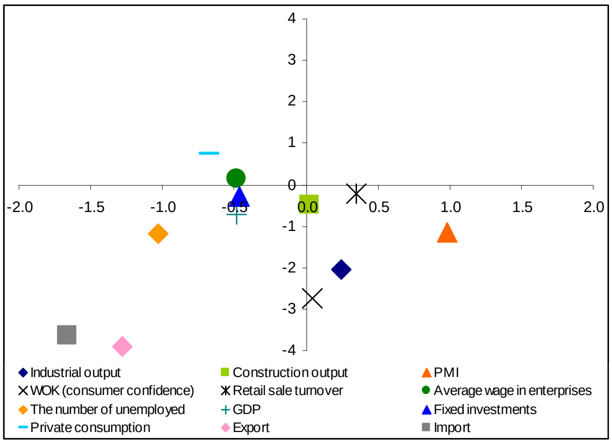
For the BCC to work properly, it is vital to incorporate all types of indicators. The leading indicators signal future economic developments, but sometimes they can be misleading as not all fluctuations of the leading indicators are related to actual changes in business cycle phases. The coincident indicators point to up- or downswings with a little delay (for example, data covering a specified period of time are published with a delay), but they are more stable than the leading indicators, i.e. more related to the real business cycle. The lagging indicators are the least useful when it comes to identifying future or present changes in business cycles, but as they are the most stable indicators they can be used to distinguish crucial movements in the economy from temporary fluctuations amongst all the fluctuations pointed to by the leading and coincident indicators.

Variables included in our BCC were modified so that they help us identify cyclical movements. We have excluded short-term fluctuations in variables, e.g. seasonality where no officially published data are available in the form adjusted to seasonality. See Technical Annex for further information on the subsequent steps in the construction of BCC. It only must be noted here that due to the modifications in variables, values in the graphs, contrary to values of original variables, are themselves meaningless, do not have economic meaning. What is important are movements of indicators across the BCC.

Where are we in the business cycle?

Given the frequency of publishing data, we have designed a BCC on a monthly basis for these indicators for which data are published every month and another BCC on a quarterly basis for all indicators. Due to a significant delay in publishing quarterly data, we are able to calculate indications of the BCC on a quarterly basis for all variables selected by us (including basic categories from national accounts which are published only on a quarterly basis) for Q2'09 at the latest.

Business cycle clock for Q2 2009

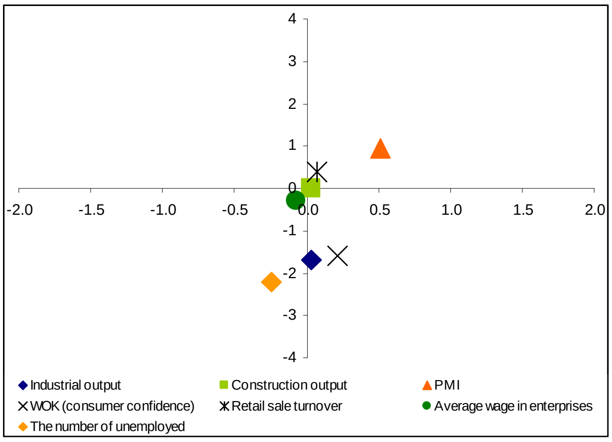


Source: own calculations based on data from Eurostat, GUS, Ipsos and Reuters

The above graph indicates that in Q2 the Polish economy was still ahead of a business cycle trough. However, one of the indicators, i.e. PMI already signalled an imminent start of economic recovery. In addition, indicators such as industrial output and WOK consumer confidence indicator also signalled a bounce upon hitting the cycle trough. Meanwhile, indicators such as the average wage in enterpirses, the number of registered unemployed, fixed investments and private consumption suggested for Q2'09 that the worst was still ahead of us.

We do not have data on GDP for Q3'09 (they will be available in late November), but we can track movements in business cycle phases with the use of monthly indicators available for that period. The graph below shows the BCC for September 2009 with the use of indicators published on a monthly basis.

Business cycle clock for September 2009



Source: own calculations based on data from Eurostat, GUS, Ipsos and Reuters

BCC indicators for September 2009 show that out of indicators which can be included for this period, only wages in the enterprise sector and the number of the unemployed have not yet signalled the economy recovery, which would be reflected in a shift from the third to fourth quadrant of the BCC. However, even in the case of these indicators, we were close to the business cycle trough. The remaining indicators signalled that the Polish economy entered the recovery phase. This is most noticeable in the trajectory of movements for PMI. Of course, we have to keep in mind that PMI is a leading indicator as regards movements in the manufacuring which are leading towards developments in the overall economy due to a large role of exports in manufacturing.

Indicators' position on the BCC for a given period might be ambiguous. Therefore, apart from the analysis of all indicators at the BCC for a given period, it is also important to watch shifts in the position of individual indicators at the BCC over time. For the sake of clarity of the graph, it is necessary to present the BCC in such a dynamic approach separately for each of the indicators (possibly altogether for a limited number of indicators). On the fifth page we present individual BCCs for each of the monthly and quarterly indicators analysed by us.

Looking at charts for quarterly indicators (GDP, fixed investment, private consumption, export, import) it is clearly seen that position of GDP at the BCC is somewhere in between positions of its main components. Namely, exports collapse was first the driving force of the economic downturn and now it should become the driving force of the recovery (it is leading indicator against other components of GDP). Meanwhile, fixed investments are lagging developments in foreign trade and private consumption is even more lagging. Performance of the two latter variables was limiting downturn in the Polish economy under influence of the global crisis, but at the same time one should expect that after entering the recovery phase it should constrain pace of the economic growth acceleration.

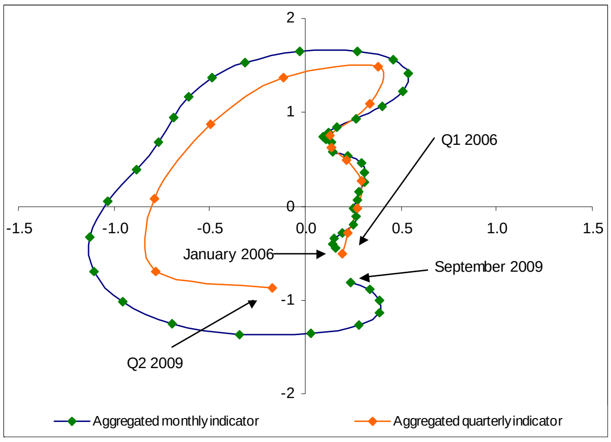
Useful aggregation

To simplify the graphic presentation of movements during business cycle phases arising from the behaviour of many indicators, we have also designed monthly and quarterly aggregated indicators. We have chosen aggregates of monthly and quarterly indicators based on the analysis of correlation power of a given aggregate with a cycle for GDP, so the indicator which is the most general measure of economic processes. As a result, we have come up with an aggregate for monthly indicators covering the industrial production, construction production, PMI, WOK consumer confidence index, wages in the enterprise sector and the number of registered unemployed. An aggregate for quarterly indicators covers the same variables and additionally fixed investments and private consumption. The BCC for both aggregated indicators for the period since the start of 2006 is presented below and we intend to use this form of presentation in the next monthly reports, hoping that our readers will find it helpful while analysing the business cycle in Poland.

The graph below shows that the BCC for aggregated monthly indicators signalled already in April that the Polish economy has bottomed out (entered the recovery phase), which was then confirmed by its performance in next months. However, one may note a weakening of the recovery process in July-September period. Such performance of the indicator seems to support our forecasts indicating that recovery of the Polish economy will continue, but this will be gradual and slow process.

A discrepancy between indication of quarterly BCC for Q2 and monthly indicators for April-July results, inter alia, from the fact that in the quarterly index we have included additional variables, reacting with a lag to change in economic cycle (consumption, investment). We will continue work on the methodology of BCC index, so some modifications in next months are possible, to make it even better gauge of economic cycle.

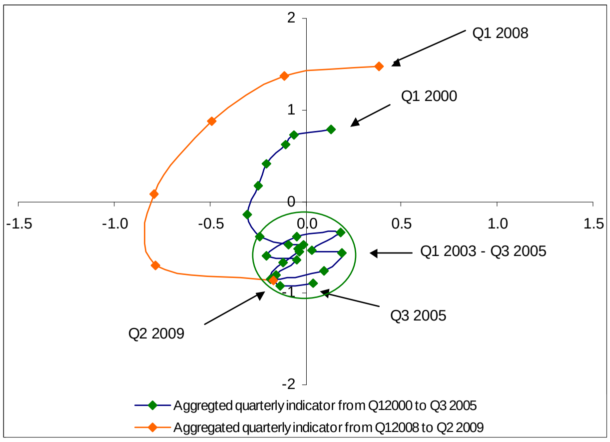
Business cycle clock for aggregated indicators



Source: own calculations based on data from Eurostat, GUS, Ipsos and Reuters

When assessing the current business cycle it may be useful to compare it with the previous cycle, which is done with the use of the BCC below.

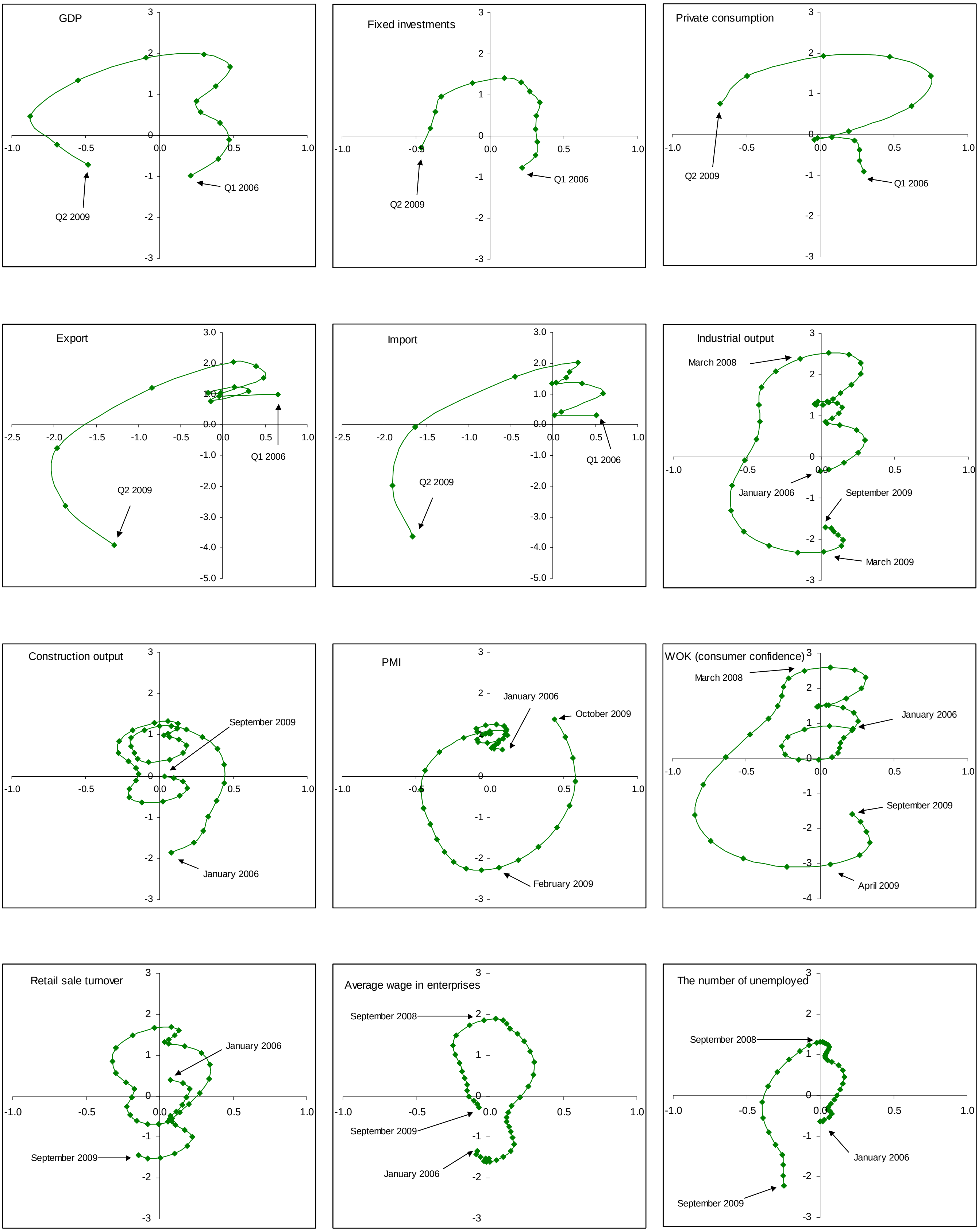
Business cycle clock for current and previous cycle



Source: own calculations based on data from Eurostat, GUS, Ipsos and Reuters

The chart above indicates that the move from peak to the to the nearly the through in the current cycle took less time than in the previous cycle (with peak in the first half of 2000). At the same time, one has to stress that inconclusive changes of the indicator from Q1 2003 to Q3 2005 was related to extraordinary swings in the economy during the process of the EU entry in 2004. This makes the comparison of the two cycles difficult.

Special focus: Business cycle clock



Source: Eurostat, GUS, Ipsos, Reuters, own calculations

This *Special focus* and our business cycle clock is based mainly on concepts and methodology of the Statistics Netherlands; see Floris van Ruth, Barry Schouten, Roberto Wekker, *The Statistics Netherlands Business Cycle Tracer. Methodological Aspects, Concept, Cycle Computation and Indicator Selection*, Statistics Netherlands Discussion Paper, February 2006. http://www.oecd.org/dataoecd/41/34/36864104.pdf

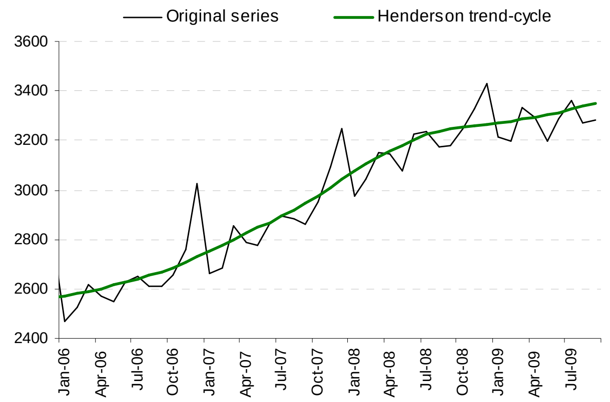
Technical appendix

In the table below we present a list of variables used in the construction of our business cycle clock.

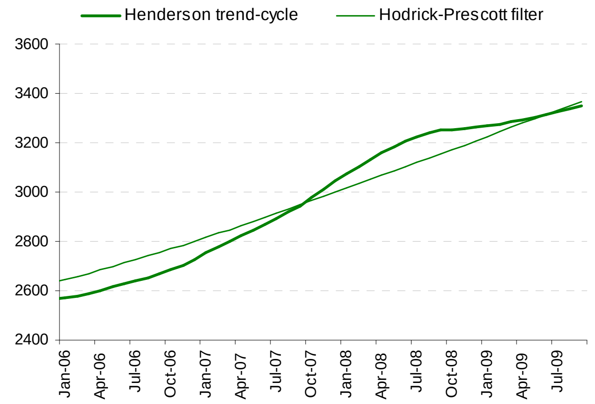
Variable	Detail description	Frequency
Industrial output	Sold industrial output in real terms, index 2005=100	Monthly
Construction output	Construction output in real terms, index 2005=100	Monthly
PMI	Poland's PMI manufacturing, in points	Monthly
WOK (consumer confidence)	Indicator of consumer confidence calculated by Ipsos, in points	Monthly
Retail trade turnover	Deflated turnover of retail trade excluding food and fuel; index 2005=100	Monthly
Average wage in enterprises	Average wage in the enterprise sector, in zlotys	Monthly
The number of unemployed	The number of registered unemployed, in thousand, indicator inverted	Monthly
GDP	GDP in real terms seasonally adjusted, index 2000=100	Quarterly
Fixed investments	Fixed investment in real terms seasonally adjusted, index 2000=100	Quarterly
Private consumption	Private consumption in real terms seasonally adjusted, index 2000=100	Quarterly
Export	Export in real terms seasonally adjusted, index 2000=100	Quarterly
Import	Import in real terms seasonally adjusted, index 2000=100	Quarterly

A procedure of transforming original variables into points at the business cycle clock is presented below on the example of subsequent calculations for the average wage in the enterprise sector. The calculations for that variable were carried out for the whole available sample, that is from January 1999 to September 2009, but in order to facilitate graphical presentation of the results the charts below are for the period from January 2006.

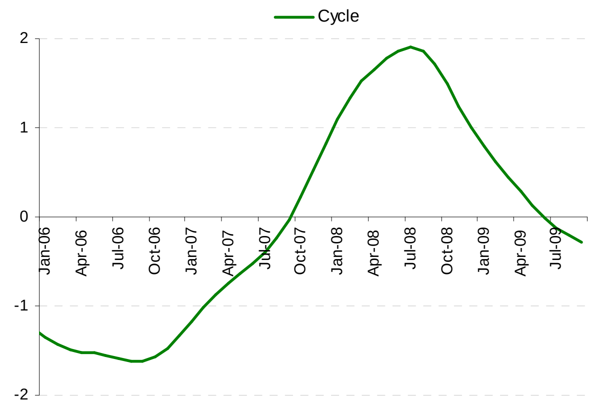
1. Elimination of the short-term fluctuations not related to the cycle component of changes in the variable through calculation of the Henderson trend cycle with use of the Census X12 procedure.



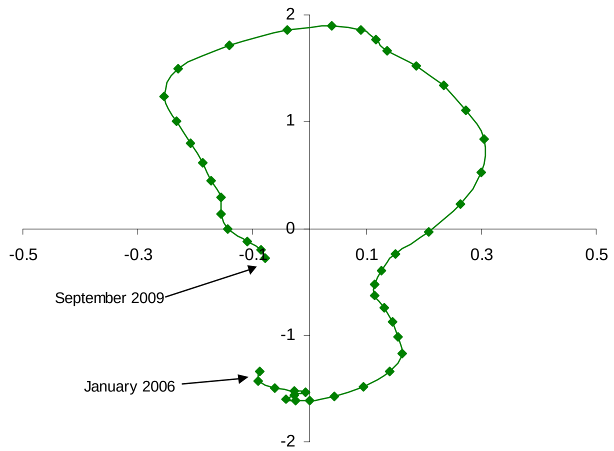
2. Using the trend cycle, computation of the Hodrick-Prescott inflexible trend. The inflexible means that lambda parameter in the procedure is higher than standard one. This causes that the calculated trend changes over time slower, which seems to better reflect the economic reality than strongly flexible trends. At the same time, this limits the so called end-value problem.



3. Computation of the deviations from the Hodrick-Prescott trend and standardise them by subtracting the mean and dividing by the standard deviation.

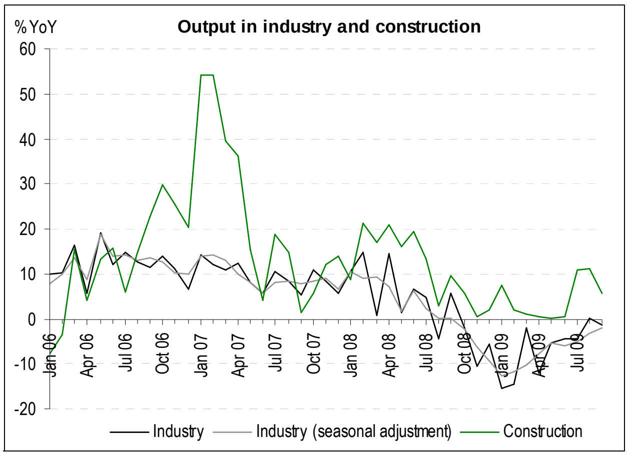


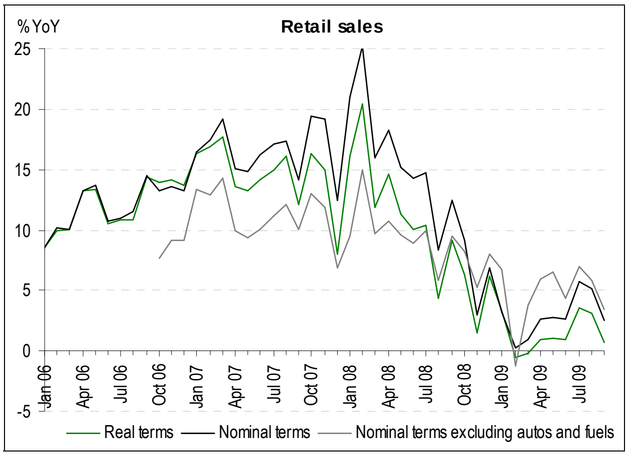
4. Computation of the coordinates of each indicator in the business cycle clock by taking the deviation from trend (the cycle) and as the y-coordinate and the period-on-period change in the cycle as x-coordinate.

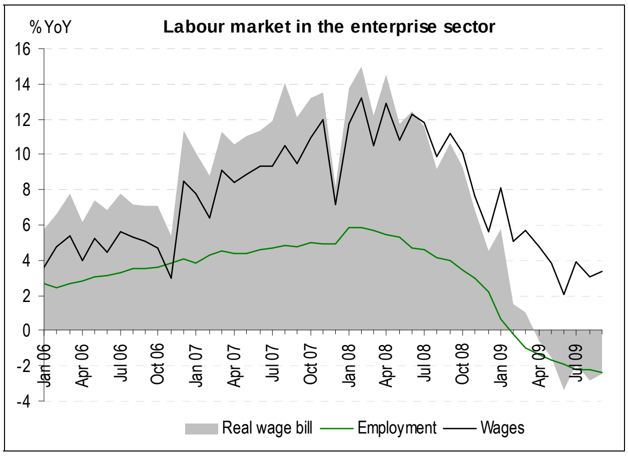


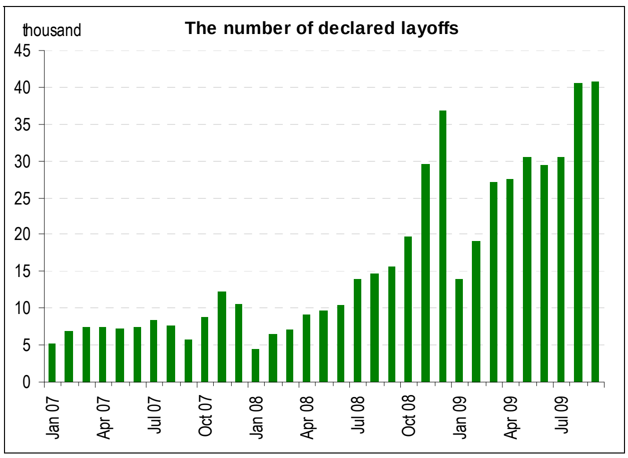
Apart from producing charts as above indicating how a selected indicator moves on the business cycle clock over time (or possibly a few indicators move, if the chart remains legible), it is also possible to produce charts showing position of many indicators at the business cycle clock for a given period (in the form of many isolated points at a chart).

Economic update









Source: Eurostat, CSO, own calculations

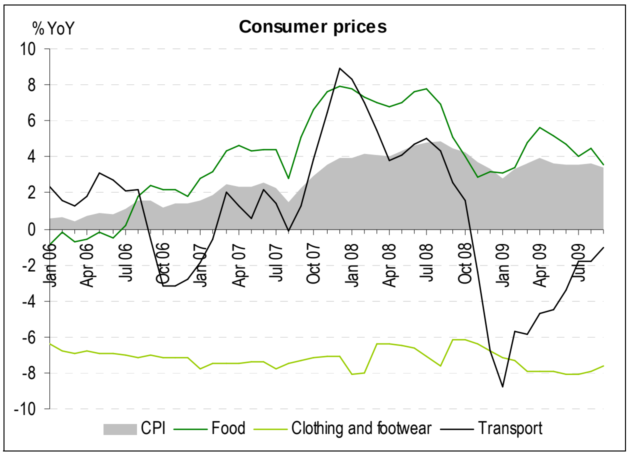
Mixed indicators of economic activity for September

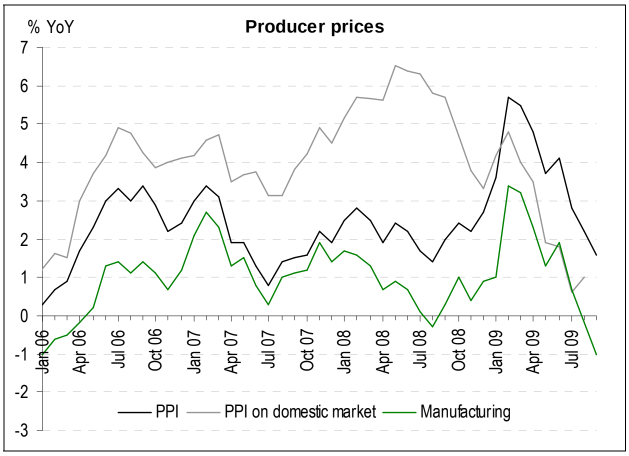
- The annual growth rate of industrial production in September fell to -1.3% (above market consensus -2.4%). Deterioration of the industrial output growth from the upwardly revised 0.1%YoY in August was connected with an effect of higher number of working days in August. Seasonally adjusted data showed the continuation of gradual improvement (to -2.1%YoY from -3.1%YoY in August), which according to our forecasts, will continue in the coming months.
- After a few months of positive surprises September's data on construction and assembly production disappointed. Its annual growth has slowed to 5.7% from 11.0% in August, although is still at relatively high level as for a period of global economic crisis. We owe it probably to growing scale of infrastructure projects. It is indicated by still high, although lower than in August, increase of production in units engaged in works related to the construction of buildings and civil engineering (28.8%YoY).
- The annual growth in retail sales slowed in September to 2.5% following over 5% increase in July and August. There was a decline in sales growth in nearly all areas. Weakening retail sales growth after the holidays seems to support the thesis, that the results of a domestic trade were temporarily supported by the Poles, who resigned from a holiday abroad this year. We forecast that in the next few quarters, real retail sales growth will be close to zero as a result of decline in the growth of households' income.
- Economic data for September were just as in August, a bit disappointing, but they were preceded by a significant positive surprises in the July data. In addition, there was some improvement in forecast for the external environment of the Polish economy. Therefore, we have revised up the estimate of GDP growth in the third quarter and forecast for the next quarters.

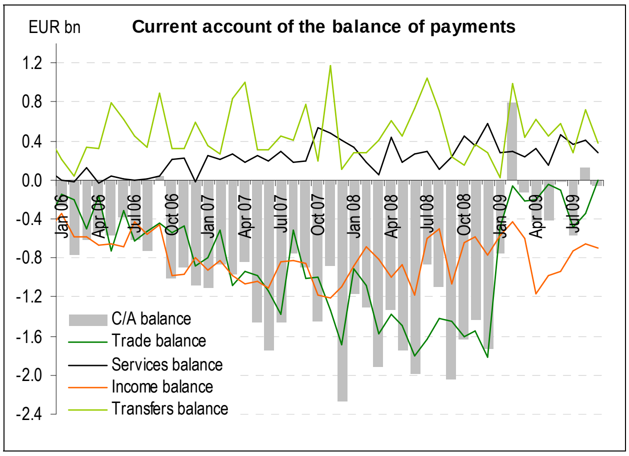
Continuing deterioration in the labour market

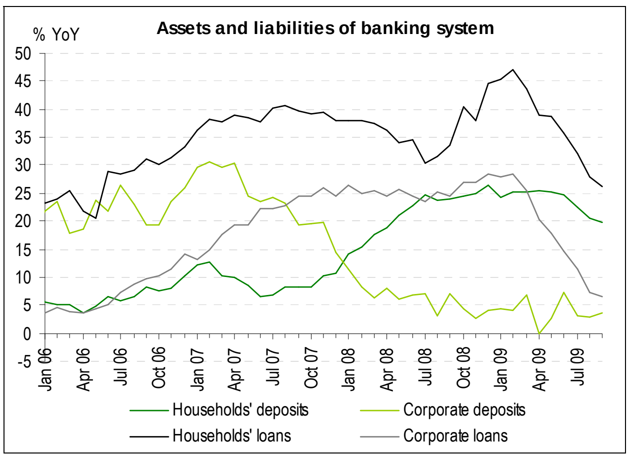
- The annual rate of employment decline in enterprises fell in September to -2.4% from -2.2%YoY in August. At the same time, the average annual pay growth rebounded somewhat to 3.3% from 3.0%YoY in August. As a result, the gross nominal wage bill in the enterprise sector in September was 0.9% higher than one year before, and after taking into account inflation, it decreased by 2.4%YoY (in August the real drop amounted to 2.8%YoY).
- We believe that the acceleration in the wage growth in September was temporary and was associated with postponement of bonus payment in some companies. In the coming months we anticipate a return to downward trend in wage growth (on average less than 2%YoY in Q4). This will be favoured by further reduction in labour demand from firms (signalled by the persisting high number of declared layoffs) and the associated weakening of the bargaining power of workers.
- The registered unemployment rate rose in September to 10.9%, slightly less than initially estimated by the Labour Ministry. However, the annual growth of number of unemployed accelerated again, reaching the highest level since March 2002 (during last 12 months, the number of registered unemployed rose by 339,000).
- The detailed data from the labour market indicated that the number of layoffs declared by companies in September remained at exceptionally high level (almost 41k), almost identical as in August. This may mean that the same companies that were planning to shed labour a month ago are still waiting with a final decision about redundancy. The threat of second wave of redundancies on the turn of the year is still realistic. We stand by the forecast, assuming a further increase in the unemployment rate in this and next year (in December this year, the registered unemployment rate above 12%).

Economic update









Source: CSO, NBP, own calculations

Inflation fell more than expected

▪ CPI inflation in September fell more than expected, to 3.4%YoY from 3.7%YoY in August, amid stabilization of consumer prices during the month. Prices of food and non-alcoholic beverages were the main drivers causing a decline in inflation in September, as they unexpectedly fell during the month by 0.2% (annual growth decreased to 3.6% from 4.5%). There was a positive surprise in prices of housing and energy (+0.2%MoM, the annual growth rate down to 7.6% from 8.1%). Annual price growth also fell in the case of alcoholic beverages and tobacco products, education, and restaurants and hotels. Meanwhile, factors increasing annual inflation growth were prices of transport (-1.0%YoY versus -1.8% in August) and clothing and footwear (-7.6%YoY versus -7.9% in August, amid a stronger than a year ago to seasonal rise in prices of 1.7%YoY).

▪ In October, almost all measures of core inflation have increased. CPI excluding food and energy prices stagnated at 2.9%YoY, the same level as recorded in July and August.

▪ By the end of the year the path of CPI inflation will remain near the upper limit of tolerance band around the target, but in 2010 it should come down significantly, reflecting the impact of weak demand, reduced growth in labour costs and strengthening of the zloty. The pace of decrease will depend on the timing and scale of changes in administered prices.

▪ Producer prices fell in September for the third time in a row, this time by 0.2%MoM, bringing the annual PPI inflation to 1.6%. The fall in prices in manufacturing was 0.3%MoM, which deepened an annual rate of decline in prices in this section to 1%. In other sections prices rose moderately in September and annual growth rates remained at high levels. Data indicated that weak demand and trend of zloty appreciation observed since March are effectively reducing the price pressure on manufacturers.

Smaller C/A deficit, higher trade turnover

▪ Current account deficit in September reached a mere €57m and was much smaller than expected. This resulted to a large extent from significant narrowing of the trade deficit amid considerable growth in exports and imports as compared to August. Moreover, there was upward revision in data for August – instead of the deficit of €69m there was a surplus in the current account of €124m.

▪ The balance of trade in goods and services for Q3 proved much better than we earlier estimated, which positively affects GDP estimates for that period.

▪ Also, the structure of financing of the deficit improved. The coverage of the current account gap by long-term capital inflow (including FDI and EU funds) in the last 12 months increased to ca. 160%, the highest level since November 2006.

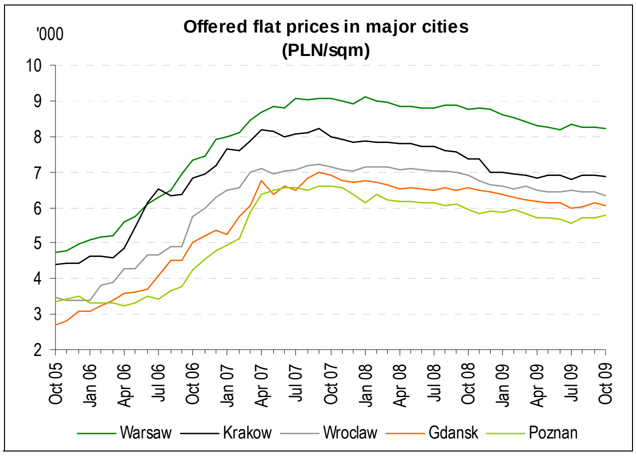
The first sign of recovery in loans for companies

▪ Money supply rose in September by nearly PLN6bn (9.7%YoY versus 9.0% in August), which is a positive surprise after two months of decrease. Strong monthly increase in the deposits of firms was recorded (about PLN5.2bn), although it may be a temporary phenomenon (the effect of the end of the quarter) in the downward trend.

▪ The increase in total deposits once again was accompanied by the reduction of cash in circulation (this time ca. PLN1.2bn), which in our view is the continuation of the return of cash-to-total money supply ratio to the level before the outbreak of the crisis.

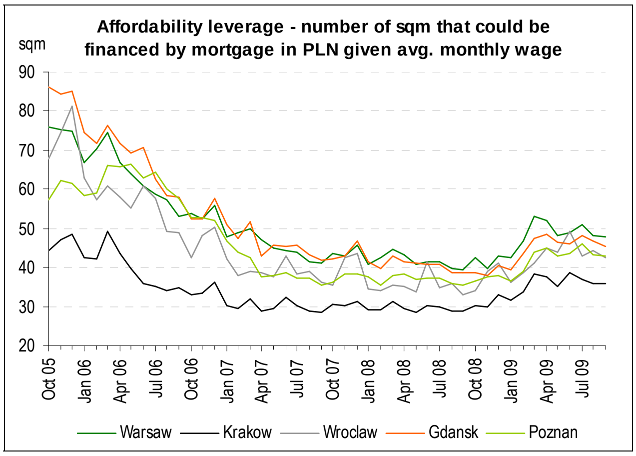
▪ What is important, in September for the first time since March there has been a monthly increase in lending to firms after eliminating the effect of exchange rate, but for now it is difficult to say whether this will spill over into a sustainable trend.

Housing market update



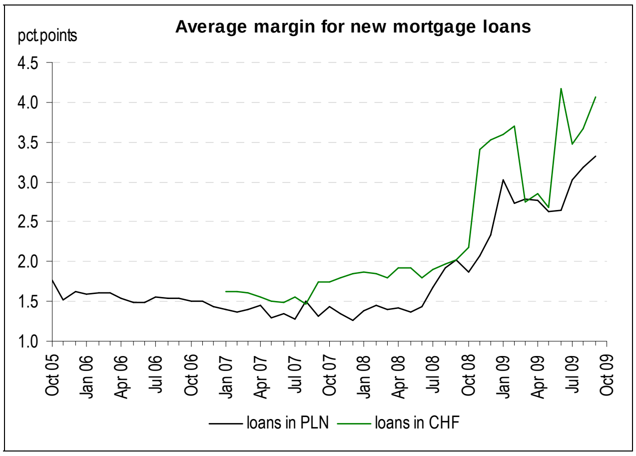
House prices stand still

- In recent months, the average house prices in major Polish cities have stabilised, and are subject only to cosmetic changes.
- Decrease in the average level of house prices since the peak point of the house market bubble in the third quarter of 2007 was moderate and amounted to (depending on the city and the source of the data) from a few to a dozen or so percent. However, there have been quite significant changes in market structure.
- According to oferty.net site, over the past two years the percentage of the cheapest housing offers has increased almost three times, while the share of the most expensive offers has diminished at the same time.



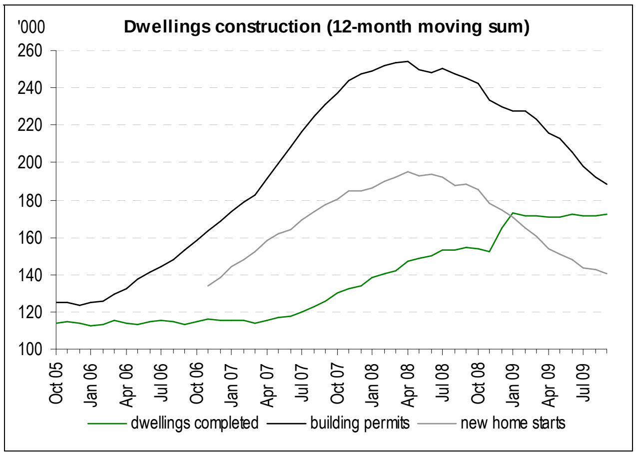
What about the households' demand?

- Purchasing power of households in the housing market has been gradually decreasing, which is caused by the delayed impact of the economic slowdown on the labour market and rising costs of credit (see below).
- Hopes for revival of households' demand, which appeared in the third quarter, largely proved futile. NBP's latest report on the situation in the credit market indicates that the actual demand for housing loans in the third quarter was much lower than expected by the banks.
- On the other hand, some developers informed recently about increased customers' interest in buying a property and the increased volume of transactions.



Banks keep tightening credit policy

- NBP's survey showed that in the third quarter banks have tightened lending policies again against housing loans. Scale of tightening, however, was lower than in previous quarters.
- The main premise of tightening credit policy was uncertainty about future economic situation. For some banks, an important argument was a deterioration in the quality of housing loan portfolio. Limitations of a capital have increasingly smaller impact on the banks' lending policy.
- A few banks have decided to relax lending conditions in the third quarter, including an increase in maximum loan-to-value ratio. For the first time in four quarters, the increase in competitive pressures had impact on easing credit policy of some banks.



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

Some new projects on the supply side?

- Emerging signals of reviving demand and improving sentiment in the economy led some investors in the real estate market to resume investment aborted before and to launch new projects.
- Dom Development has started building and selling the country's largest housing project in Warsaw (1.6 thousand of dwellings). Other developers (incl. Gant, Ronson) also announced plans to launch new investments in the near future. Construction of the tallest residential building in Poland has resumed in Wroclaw.
- CSO data show, however, that despite the gradual reversal of negative trends, downward tendencies still dominate. Number of building permits issued in September was about 19% lower than a year before, the number of house starts decreased by 12.5% and the number of dwellings under construction fell by 4.5%YoY.

Central bank watch

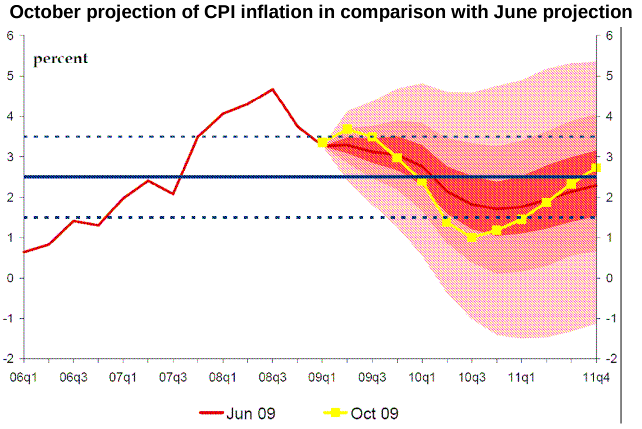
Fragments of the MPC statement after its meeting in October (indication of changes as compared to September statement)
The latest data point to a further economic activity improvement in the United States and the euro area, even though activity remains subdued. **Once again, GDP growth forecasts for 2010 have been slightly revised upwards in** both economies ~~have recorded further improvement in most economic sentiment indicators and the forecasts of GDP growth in 2010 have been slightly revised upwards~~. It is still difficult to assess the scale and sustainability of the expected recovery, especially given the persistent problems in the financial sector and the **prospect of** gradual restraint of stimulus packages.
In major economies the decline in the general price level continued driven by the global economic slowdown and an earlier drop in food and other commodity prices ~~– though its scale was smaller than in the preceding month~~. **In turn, crude oil prices in the world markets picked up again.**
In the Council's assessment, inflation is likely to remain at an elevated level in the coming months, mainly due to the relatively high annual growth rate of administered prices, including especially energy prices, and food prices. **Heightened inflation may also be supported by increase in oil prices, partially neutralised by hitherto zloty appreciation, and possible further growth of administered prices.** However, in the medium term low demand pressure and slower growth of labour costs, **amid persistent uncertainty regarding the growth outlook,** should be leading to inflation decrease.
~~In the Council's assessment, the probability of inflation running below the inflation target in the medium term is higher than the probability of its running above the target. At the same time, in the Council's assessment, the probability of inflation running below the inflation target in the medium term has decreased in recent months.~~ **Having taken the above into account, the Council assesses the probabilities of inflation in the medium term running below or above the inflation target to be balanced.** In the Council's view, the expected improvement in the global economic activity and the implemented cuts in the NBP interest rates together with the lowering of the required reserve rate will support the 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.

Projections of CPI inflation and GDP in subsequent *Inflation reports*

CPI	Oct 08	Feb 09	Jun 09	Oct 09
2009	3.9-5.7	2.5-3.9	2.8-3.5	3.3-3.5
2010	1.9-4.5	0.5-3.2	1.1-3.2	0.8-2.2
2011	-	-0.9-2.6	0.8-3.4	1.1-3.2
GDP	**Oct 08**	**Feb 09**	**Jun 09**	**Oct 09**
2009	1.9-3.7	0.3-1.9	-0.4-1.1	1.1-1.5
2010	2.7-4.5	1.2-3.3	0.2-2.5	0.8-2.8
2011	-	2.5-4.8	2.4-4.5	2.2-4.2

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

October projection of CPI inflation in comparison with June projection



Source: NBP

Communication problems at the end of the MPC's term

- The MPC kept interest rates unchanged at its meeting in October. The reference rate remained at a record low level of 3.5%. Such a decision was widely expected.
- More uncertainty concerned a possible change in informal bias in monetary policy. Comments from MPC members (both from the dovish and the hawkish camp), which appeared during a few weeks before the October meeting, suggested that such a decision will most probably not be made at October meeting and perhaps even until the end of this MPC's term. However, it turned out that the bias was changed to neutral.
- At the same time, an assessment of the situation in domestic and world economy and current inflation tendencies presented by the MPC in the statement were not significantly changed as compared to the previous month's statement.
- Outcome of the MPC meeting in October does not alter our assessment of monetary policy prospects. In our view, the current MPC will not change interest rates by the end of its term, which was known for several months and an indication of such scenario by MPC members at the press conference after the meeting has not brought anything new. Decisions on interest rate changes will depend on the new Council.
- Meanwhile, it is difficult to predict decisions of the new MPC not knowing its personal composition. Submission of candidacies for MPC members in the Sejm will last until 10 December and in the Senate until 23 December. The deadlines are very late taking into account the need to carry out a procedure for selection of MPC members. The President is going to pick his nominees in early January. However, given our assessment of the outlook for inflation and economic situation, we assume that the new Council will not decide on the first (cautious) interest rate hikes before the second half of 2010.

New projection does not change MPC policy prospects

- The MPC vote results revealed in the new *Inflation Report* show that already since July the motion to change the informal policy bias from easing to neutral was blocked by the casting vote of the NBP governor with vote relation of 5:5.
- As regards the Council's decision to change bias to neutral, which was quite surprising in light of earlier comments from MPC members, it is hard to find arguments for a change in their views in the new NBP projection for GDP and inflation.
- For GDP path there was substantial improvement for this year resulting from much better GDP figures for Q2 and monthly data for next months, which verified the most pessimistic scenarios for the Polish economy this year. GDP projections for next years, which are more important for decisions on interest rates, have not been changed significantly. GDP path for 2010 has been slightly revised up and was slightly lowered for 2011.
- The most striking change in the new NBP projection is considerable lowering of inflation path for 2010, which at the first sight may be treated as a factor discouraging for the change in policy bias to neutral and for rate hikes during 2010.
- However, it is noteworthy that according to detailed results of the new NBP projection presented two days after the MPC meeting, the reduction of the CPI path in 2010 results mainly from changed assumptions regarding exogenous factors (lowered path of food and fuel prices), while the core inflation remained high in the whole projection horizon (it does not go below inflation target despite GDP growth below potential). This should be key factor for decisions of the new MPC with forward-looking approach. CPI inflation path for 2011 has not been changed significantly.

Government and politics

Comments of government officials

Marek Bucior, deputy labour minister, PAP, 10 Nov
It looks that such a move (limiting contributions to OFE), would take place anyway at some time. Committing an error is bad, but it is even worse to stick in it. (...) As the open pension funds invest so much in bonds, the capital pension system becomes a PAYG. (...) The current proposal is not only a reduction in contributions to the OFE from 7.3 percent to 3 percent but also a variety of other solutions will follow. Among other things, loosening of investment policy in the OFE, and in the long term some loosening of limits for investment abroad. Next issues to resolve are the shape of new accounts in ZUS and its interest rate.

Donald Tusk, Prime Minister, PAP, 6 Nov
This is not the government's proposal, if understood by the project, which will be presented to the parliament. (...) The ministers will have to put a lot of effort into preparing the draft better than now. (...) No amendment of any law relating to pensions will be introduced, which would jeopardise the slightest amount and regularity of pension payments in the future. We want to get these changes in Polish law, which will enable other, more logical than the current calculation of debt associated with the pension system. And those two things are not in contradiction.

Ludwik Kotecki, deputy finance minister, PAP, 10 Nov, Reuters, 4 Nov
This (changes in the pension system) will not reduce the deficit, nor the obligations of the State Treasury. Especially in the EU methodology. Today transfer to the OFE is treated as government expenditure. After the change it will be treated similarly, because the EU applies the accrual methodology: a commitment that the Social Security Fund will have to pensioners, will be probably treat as an expense, which increases the deficit. From this perspective, nothing will Change.
Changes will cause debt reduction, and the gross borrowing needs in 2010 will decrease by about PLN13bn. The risk of exceeding the 55% debt to GDP ratio is moving away, although this is not the aim of the reform. The aim is to increase future pensions to beneficiaries by reducing the costs they incur.

Paweł Graś, government spokesman, Reuters, 4 Nov
This is not a proposal of the Ministry of Finance, but one of the ideas being considered. It is not even at the stage of the assumptions to the Act. I did not talk about it even with the Prime Minister. At this stage it is not the government's proposal.

Government plans to trim contributions to OFE

▪ The ministers of labour and finance proposed to increase the part of pension contributions discharged from the salary that are handed to the Social Security Fund, at the expense of reducing the contribution to open pension funds (OFE) from 7.3% to 2%, which would be a way to reduce budget borrowing needs and lower debt/GDP ratio.

▪ Undermining the rules of the pension system to achieve short-term budgetary goals creates a dangerous precedent, encouraging to further manipulation in future. The proposed solution will give only temporary and purely accounting relief to public finances, while a problem of balancing the pension system in the long run will remain. Moreover, the alleged savings in the system, which would be achieved through the change are quite doubtful.

More details on government plans by end-November

▪ By the end of November the government is supposed to present a draft version of the so-called plan for the consolidation and development of public finances. The plan aims to avoid exceeding the debt threshold of 55% of GDP and reduce the deficit below 3% of GDP within three years.

▪ In addition to the proposals concerning pension contributions, the plan will include, inter alia, the proposal of extending the retirement age and introducing rules limiting public expenditure. The latter two proposals appear to be steps in the right direction, although they are difficult to evaluate until they are presented in details. In particular, the effectiveness of the rules concerning the expenditure would be reduced if (as suggested by unofficial information) it does not apply to the so-called fixed expenditures.

Autumn European Commission's forecasts for Poland

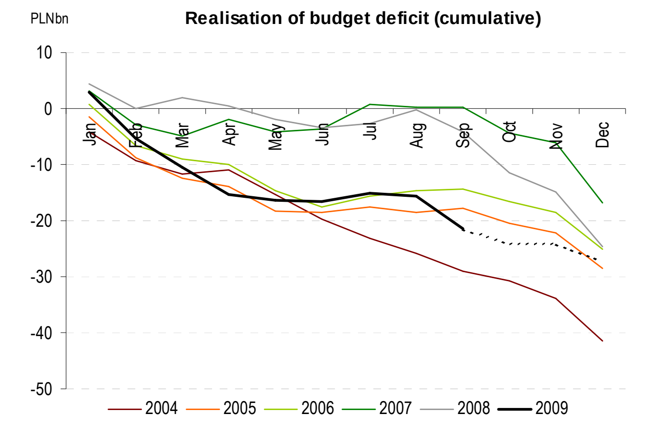
		2009	2010	2011
GDP	%YoY	1.2	1.8	3.2
Private consumption	%YoY	2.1	1.3	3.3
Gross fixed investment	%YoY	-1.9	1.9	5.0
Unemployment rate	%	8.4	9.9	10.0
HICP	%YoY	3.9	1.9	2.0
Current account balance	% of GDP	-1.9	-2.8	-3.2
General government balance	% of GDP	-6.4	-7.5	-7.6
General government debt	% of GDP	51.7	57.0	61.3

Upward revision of European Commission's forecasts

▪ In the autumn edition of macroeconomic forecasts, the European Commission pointed to the problems of the labour market in Poland and the poor state of Polish public finances.

▪ Assuming of no action from the government, the Commission predicts a rise in general government deficit to 6.4% of GDP in 2009 and 7.5% of GDP in 2010 and an increase in public debt to GDP to 51.7% in 2009, 57% in 2010 and 61.3% in 2011.

▪ However, the Commission stressed that our country is coping with the economic crisis far better than any other state in the region. Therefore they revised up forecasts of GDP growth. Current EC's estimates do not differ significantly from the market consensus and our forecasts.



Budget realisation in line with (amended) plan

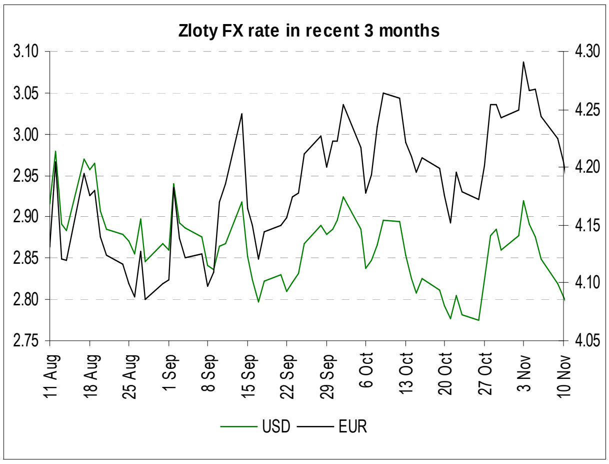
▪ After three quarters of the year, the state budget deficit amounted to PLN21.5bn, or about 79% of the plan for the whole year after the revision, a fraction less than earlier estimated by the Ministry of Finance.

▪ In the September deficit amounted to nearly PLN6bn, which was caused by relatively low revenues from the EU, the decline in revenue from other budget units and other income. Revenues from indirect taxes were relatively high, which confirms the revival of activity in the economy.

▪ According to FinMin, domestic budget revenue this year will be higher than planned in the amendment, but the inflow of EU funds may be lower, therefore the deficit is unlikely to be lower than planned and will be around PLN27bn.

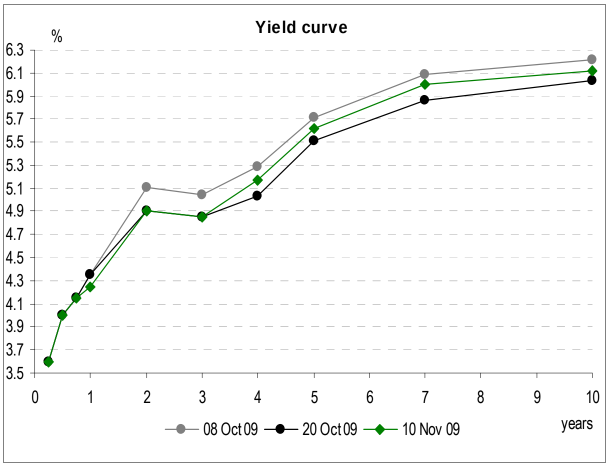
Source: Ministry of Finance, Reuters, European Commission, own calculations

Market monitor



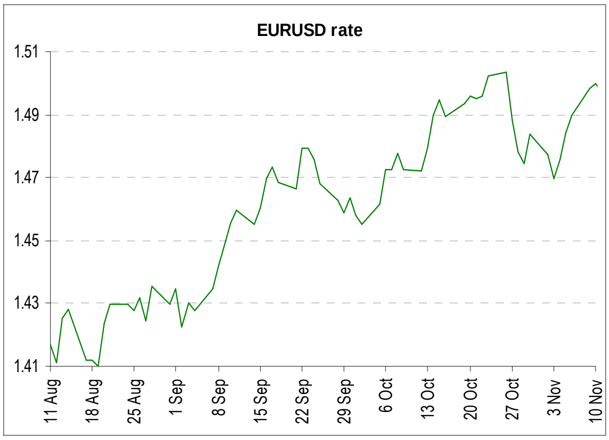
Zloty recovers after losses

- After zloty recovery along with improvement of global moods driven by good financial results for Q3 and decline of concerns over the lat devaluation, there was a correction. The EURPLN rate temporarily broke 4.30 and on lower risk appetite and profit taking in risky assets. Expectations on interest rate cuts in Czech Republic contributed to depreciation of the zloty. Lack of rate cut by the CNB and recovery in risk taking led to zloty rebound.
- Along with possible further dollar weakening there may be further zloty appreciation (resistance levels: 4.10, 4.06). Technical analysis indicates that after breaking important technical level at 4.18 there is some room for further zloty strengthening. However, it may be hard to break 4.06 level. Weak output and sales figures may partly offset positive influence of the current account data. Within few weeks there may be another correction.



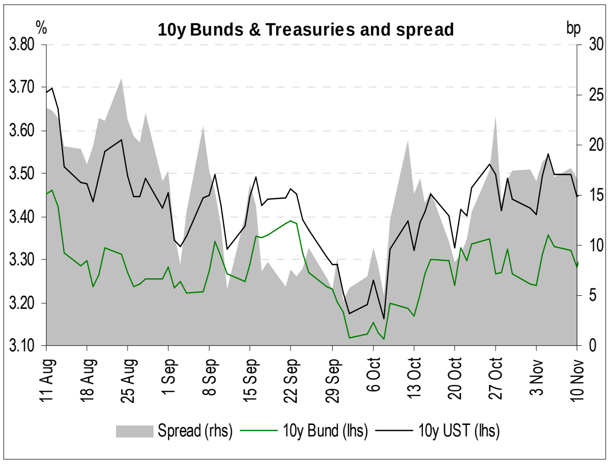
Debt strengthening, decline of asset swap spread

- As we expected a month ago the debt market strengthened. This resulted from deeper than expected decline of inflation in September, limiting government securities supply and buyback auctions adding liquidity in the market. Another factor supporting short-end of the curve was optimistic inflation projection of the NBP for 2010. In mid-October there was a significant decline of short-term IRS rates. IRS rates increase, which started at the end of past month, decelerated. During last month there was large drop in asset swap spread.
- Higher than expected inflation should slightly negatively affect the short-term interest rates. However, in the coming weeks we see more room for further IRS rates decline, which should support bonds. Debt market should be also supported by data on retail sales and industrial production.



Return to dollar weakening

- Risk appetite increased in reaction to Q3 financial results of enterprises, which appeared to be better than expected. The EURUSD rate exceeded 1.50 and the dollar was at highly oversold levels. Soon afterwards there was profit taking on risky assets and the EURUSD rate fell to near 1.46. The Fed's communiqué saying rates would stay at low level for an extended period and the IMF report, suggesting the dollar is still quite strong led to EURUSD rebound to ca. 1.50.
- In our view in the coming weeks the dollar slide may be continued toward 1.53. The dollar is going to stay under pressure stemming from recovery of risk appetite and increase in the expected interest rates disparity vs. other currencies. Decline of current account deficit and gradual recovery in the US should led to dollar recovery next year.

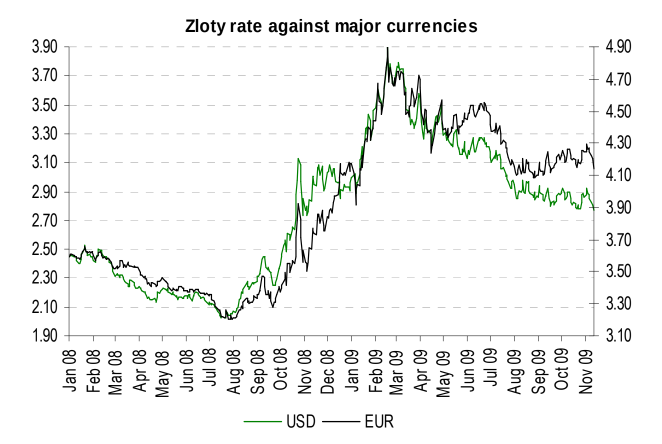


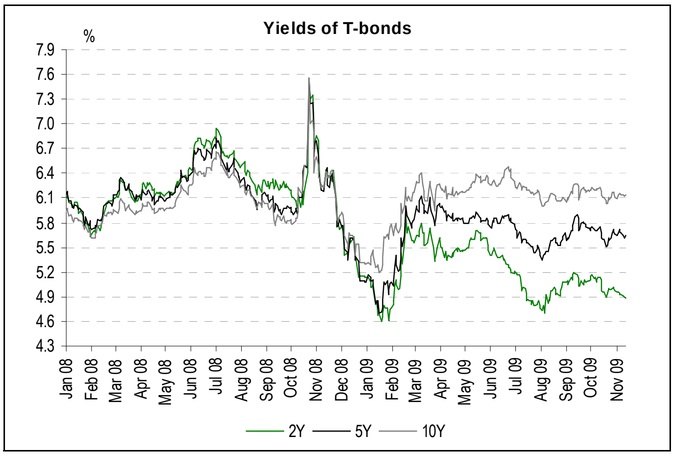
Declines of long-term bond prices

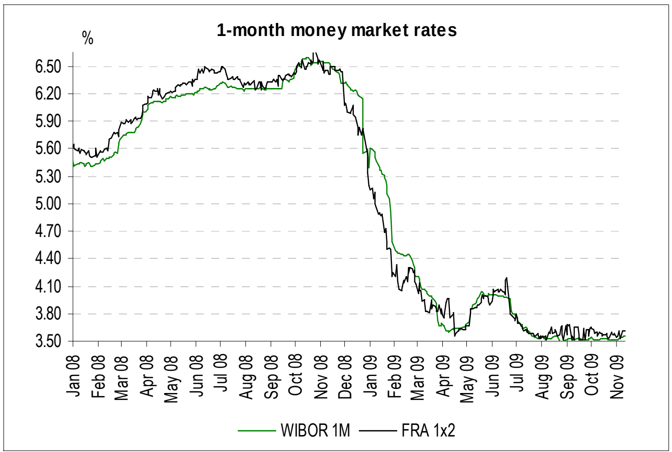
- In the last weeks there was a significant weakening in the core debt markets. This resulted from falling appetite for safe haven assets, which was accompanied by increase in the equity markets. Additional factor was better than expected data from the US (NY Fed index, Q3 GDP, ISM) and euro zone (PMI). Correction in risk appetite brought short-term recovery. Since previous report yields of 10Y Bunds and Treasuries rose to 3.32% and 3.50% from 3.11% and 3.16%. The US and euro zone IRS curves steepened.
- US and euro zone rates stay at low level through most of 2010 due to inflation staying at low level, high rate of unemployment and uncertainty regarding the economic recovery. In spite of this, we expect gradual increase in IRS rates in the euro zone and the US. Increase in risk appetite may weaken the debt market.

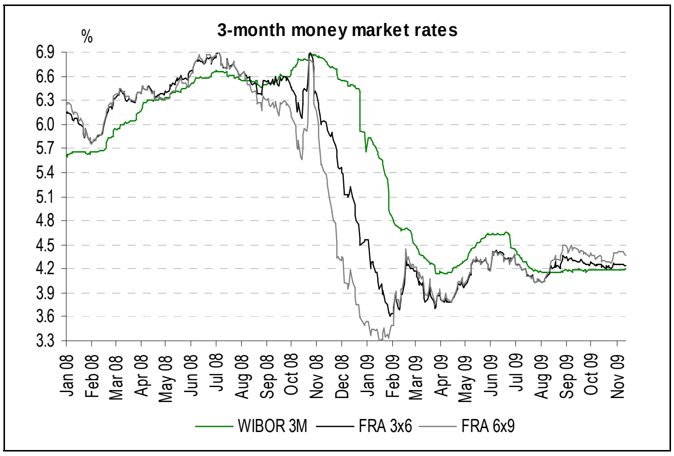
Source: Reuters, BZ WBK

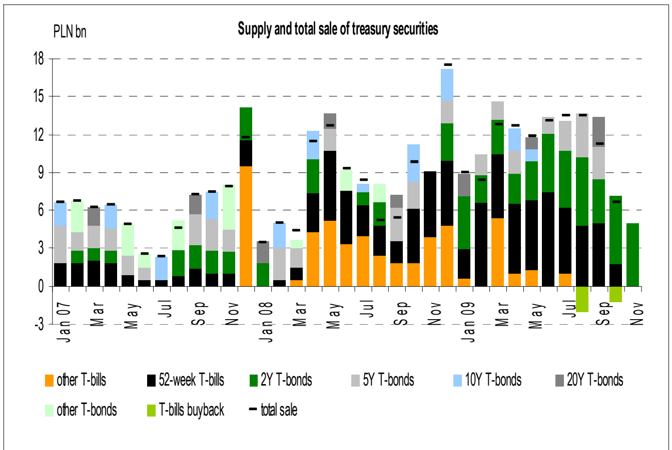
Market monitor











Treasury bills auctions (PLN m)

Auction date	(OFFER)*/SALE 52W	BUYBACK
7.09.2009	800-1000/807	-
14.09.2009	800-1000/803	-
16.09.2009	-	-44
21.09.2009	800-1000/1000	-
28.09.2009	800-1000/848	-
5.10.2009	-	-1210
12.10.2009	400-600/409	-
19.10.2009	400-600/400	-
26.10.2009	400-600/431	-
23.11.2009	-	Auction
7.12.2009	-	-
14.12.2009	-	-
21.12.2009	-	-

** based on data of the Ministry of Finance*

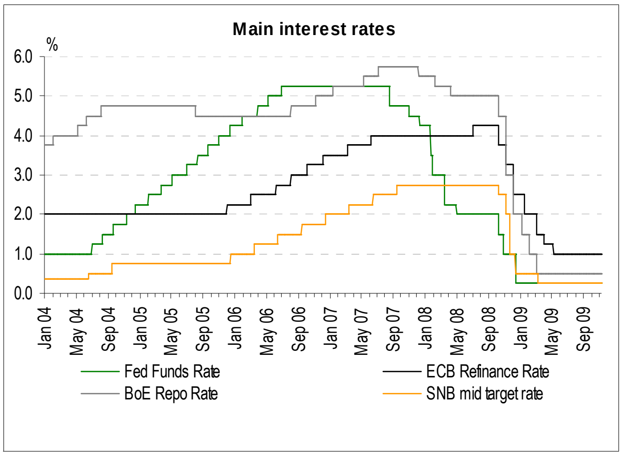
Treasury bond auctions in 2009 (PLNm)

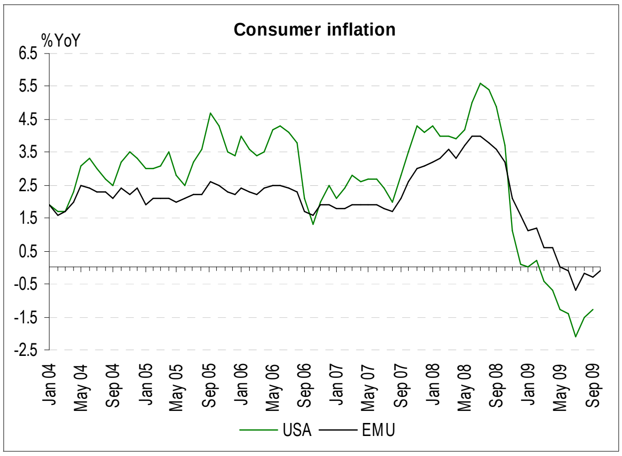
month	First auction				Second auction				Switch auction		
	date	T-bonds	offer	sale	date	T-bonds	Offer	sale	date	T-bonds	sale
January	7.01*	OK0711	4200	4296	14.01	WS0429	1500	1500	21.01	PS0414/DS1019	2800/1300
February	4.02	OK0711/PS0414	2200/1600	722/1186	-	-	-	-	18.02	-	-
March	4.03	OK0711/PS0414	2760/1500	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*	OK0112	3900-5400	5402	12.08	PS0414	2000-3500	3500	-	-	-
September	2.09	OK0112	2500-3500	3500	9.09	PS0414	1000-2500	1109	23.09**	WS0922	1000-2400/2400
October	7.10*	OK0112	3000-5400	5400	-	-	-	-	29.10	PS0413/PS0414/DS1019	1573/1753/1290
November	10.11	OK0712	3500-5000	5000	-	-	-	-	26.11	-	-
December	2.12	OK0712/PS0415	-	-	-	-	-	-	16.12	-	-

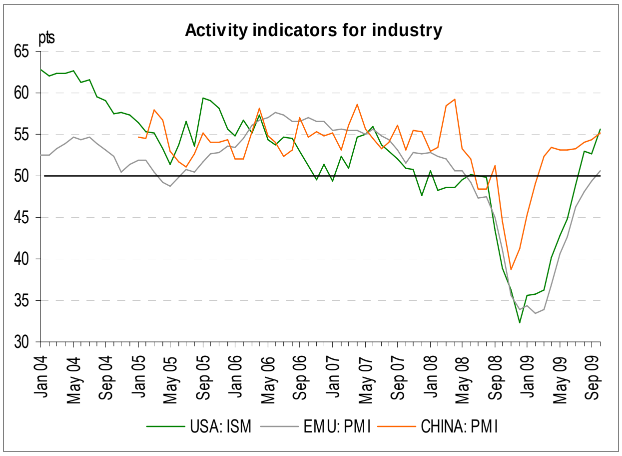
* with supplementary auction, ** primary auction

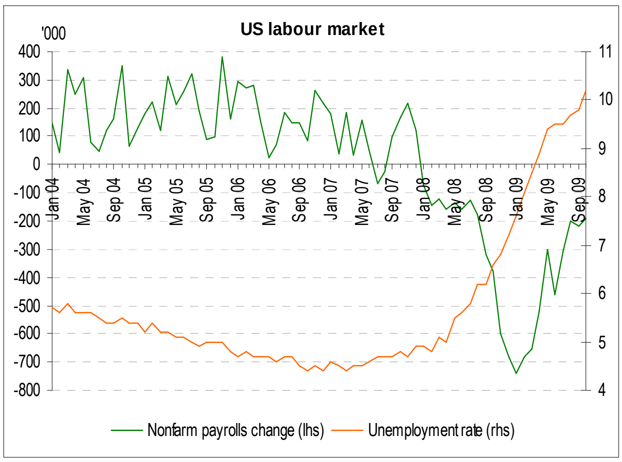
Source: Ministry of Finance, Reuters, BZ WBK

International review









Source: Reuters, ECB, Federal Reserve

Low rates in the US for extended period

- In November Fed kept interest unchanged maintaining assessment that the rate will stay at low level for extended period. FOMC's statement signalled that the exit from monetary policy easing measures and conditions tightening will depend on factors including capacity utilisation, low inflation and stable inflation expectations. Improvement of situation in the US labour market will be also important for the timing of interest rate hike. Fed's communiqué limited market expectations the interest rates will be raised in 1H 2010.
- In November the ECB Council decided to keep interest rates on hold. The refinance rate remained at 1%. ECB President J.C. Trichet said that interest rates in the euro zone are at appropriate level and the bank has no plan to increase them. Trichet stressed that the ECB is going to withdraw some measures implemented for the time of the crisis, but the withdrawal will take place in the proper time and gradually.
- As expected the Bank of England left interest rates unchanged and raised the programme of asset purchases but only by £25bn, much less than the market expected.
- Norgesbank raised interest rates as the first bank in Europe (by 25 bp, to 1.5%).
- The euro zone HICP inflation in October rose from -0.3%YoY to -0.1%. The price pressure was visible also in producer prices (PPI: -0.4%MoM and -7.7%YoY), despite increase in manufacturing activity.
- US CPI inflation was at 0.2%MoM in September from 0.4%MoM in August. Annual growth rate rose to –1.3%YoY from –1.5%. The core CPI rose by 1.5%YoY. Core prices index, in Fed's view the best reflecting the price pressure in the economy was in Q3 at 1.4% against 2% in Q2.

Further improvement in activity, higher US unemployment

- PMI activity index for Chinese manufacturing rose in October again to 55.2 pts from 54.3 pts, which shows that the economic recovery in China is quite strong.
- Positive tendencies in the in the manufacturing sector are noticeable also in the euro zone and the US. Euro zone PMI rose in October above 50 pts for the first time since May 2008, mainly due to new orders. Meanwhile, the ISM index in the US manufacturing rose in October to 55.7 pts from 52.6 pts in September, significantly exceeding market expectations. The prospect of ending of the stimulus packages rises concerns about the durability of the recovery.
- In the services sector the euro zone PMI index rose to 52.6 pts from 50.9 pts. Meanwhile, the US ISM unexpectedly fell to 50.6 points.
- Data from the housing market give mixed signals. Data on new home sales unexpectedly fell in September to 402k. Meanwhile pending home sales surprisingly rose in September by as much as 6.1%. US Congress prolonged the period of tax credit for house purchases.
- GDP growth in the US in Q3 rose by 3.5%, exceeding forecasts of analysts at 3.3%. The consumer spending (+3.4%, strongest in 2 years) was motor growth of the US economy, which was supported by government stimulus programmes.
- Data from the US labour market were mixed. Improvement of weekly data on new jobless claims was continued. However, the non-farm payrolls in October fell by 190k more than market expected (175k). The rate of unemployment in the US rose as much as to 10.2% from 9.8% in September, much above expectations (9.9%).

Economic calendar

Monday	Tuesday	Wednesday	Thursday	Friday
9 November DE: Export (Sep)	**10** ***PL: Balance of payments (Sep)*** ***PL: Bonds auction*** DE: ZEW index (Nov)	**11** ***PL: Independence Day***	**12** EZ: Industrial production (Sep)	**13** ***PL: CPI (Oct)*** ***PL: Money supply (Oct)*** DE: Preliminary GDP (Q3) EZ: Preliminary GDP (Q3) US: Trade balance (Sep) US: Preliminary Michigan (Nov)
16 EZ: Final HICP (Oct) US: Retail sales (Oct)	**17** US: Capacity utilisation (Oct) US: Industrial production (Oct) US: Capital flows (Sep) US: PPI (Oct)	**18** ***PL: Wages and employment (Oct)*** US: CPI (Oct) US: New home sales (Oct) US: Building permits (Oct)	**19** ***PL: MPC minutes*** ***PL: Industrial output (Oct)*** ***PL: PPI (Oct)*** US: Philadelphia Fed index(Dec) US: Leading indicators (Oct)	**20** ***PL: Core inflation (Oct)*** ***PL: Business climate indicators (Nov)*** JP: BoJ decision
23 ***PL: Treasury Bills buyback auction*** JP: Market holiday EZ: Flash manufacturing PMI (Nov) EZ: Flash services PMI (Nov) US: Home sales (Oct)	**24** ***PL: MPC meeting*** DE: Ifo index (Nov) US: Preliminary GDP (Q2) US: Case/Shiller (Sep) US: Consumer confidence (Nov) US: House prices (Sep)	**25** ***PL: MPC meeting decision*** ***PL: Retail sales (Oct)*** ***PL: Unemployment rate (Oct)*** DE: Gfk index (Dec) GB: GDP (Q3) US: Core PCE (Oct) US: Durable goods orders (Sep) US: Final Michigan (Nov) US: New home sales (Oct) US: Fed minutes	**26** ***PL: Switch auction*** US: Market holiday EZ: M3 money supply (Oct)	**27** EZ: Economic sentiment index (Nov)
30 ***PL: GDP (Q3)*** EZ: Flash HICP (Nov) US: Chicago PMI (Nov)	**1 December** ***PL: PMI (Oct)*** EZ: Manufacturing PMI (Nov) US: Manufacturing ISM (Nov) US: Pending home sales (Oct)	**2** ***PL: Bond auction*** EZ: PPI (Oct) US: ADP report (Nov)	**3** EZ: Manufacturing PMI (Nov) EZ: Retail sales (Oct) EZ: Revised GDP (Q3) EZ: ECB decision US: Labour productivity & unit labour costs (Q3) US: Manufacturing ISM (Nov)	**4** US: Non-farm payrolls (Nov) US: Unemployment rate (Nov) US: Factory orders (Oct)
7 ***PL: Treasury Bills auction***	**8** GB: Industrial output (Oct)	**9** US: Wholesale inventories (Oct)	**10** GB: BoE decision CH: SNB decision US: Trade balance (Oct)	**11** ***PL: Balance of payments (Oct)*** US: Import prices (Oct) US: Retail sales (Nov) US: Preliminary Michigan (Dec)

Source: CSO, NBP, Ministry of Finance, 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	20	22	21	20	22
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	24	27	26	25	23	25	23	23	25	-
Gross wages, employment	19	17	17	17	19	18	16	18	16	16	18	16
Unemployment	29	24	24	27	26	25	23	25	23	23	25	-
Foreign trade	about 50 working days after reported period											
Balance of payments*	-	-	31	-	-	30	-	-	30	-	-	30
Balance of payments	15	12	13	14	15	17	14	11	11	13	10	11
Money supply	14	13	13	14	14	12	14	13	14	14	13	14
NBP balance sheet	7	6	6	7	7	5	7	7	7	7	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

		Oct 08	Nov 08	Dec 08	Jan 09	Feb 09	Mar 09	Apr 09	May 09	Jun 09	Jul 09	Aug 09	Sep 09	Oct 09	Nov 09
Industrial production	%YoY	-2.0	-10.6	-5.6	-15.3	-14.6	-1.9	-12.2	-5.2	-4.5	-4.4	0.1	-1.3	-4.9	4.3
Retail sales [c]	%YoY	9.2	3.0	6.9	3.2	0.2	0.9	2.6	2.8	2.6	5.7	5.2	2.5	2.2	4.1
Unemployment rate	%	8.8	9.1	9.5	10.4	10.9	11.1	10.9	10.7	10.6	10.7	10.8	10.9	11.0	11.6
Gross wages [b c]	%YoY	10.1	7.6	5.6	8.1	5.1	5.7	4.8	3.8	2.0	3.9	3.0	3.3	2.8	2.9
Employment [b]	%YoY	3.5	3.0	2.2	0.7	-0.2	-0.9	-1.4	-1.7	-1.9	-2.2	-2.2	-2.4	-2.5	-2.6
Export (€) [d]	%YoY	3.0	-8.1	-12.6	-24.3	-26.3	-16.6	-30.3	-22.1	-21.4	-23.5	-20.8	-17.1	-13.4	-4.1
Import (€) [d]	%YoY	8.0	-5.2	-9.2	-26.2	-32.7	-25.9	-36.3	-31.9	-32.0	-29.5	-27.8	-26.4	-23.8	-15.4
Trade balance [d]	EURm	-1611	-1553	-1819	-483	-67	-214	-207	-44	-109	-488	-348	-4	-98	-282
Current account balance [d]	EURm	-1640	-1432	-1740	-754	790	-131	-428	-420	-11	-570	124	-57	52	-182
Current account balance [d]	% GDP	-5.1	-5.2	-5.0	-5.0	-4.5	-4.0	-3.8	-3.5	-3.0	-2.9	-2.6	-2.0	-1.5	-1.1
Budget deficit (cumulative)	PLNbn	-11.6	-14.8	-24.6	2.9	-5.3	-10.6	-15.3	-16.4	-16.7	-15.0	-15.6	-21.5	-24.2	-24.2
Budget deficit (cumulative) [e]	% of FY plan	47.1	60.3	100.0	-10.7	19.4	39.0	56.4	60.3	61.3	55.3	57.5	79.0	89.1	89.1
CPI	%YoY	4.2	3.7	3.3	2.8	3.3	3.6	4.0	3.6	3.5	3.6	3.7	3.4	3.3	3.4
PPI	%YoY	2.4	2.2	2.7	3.6	5.7	5.5	4.8	3.7	4.1	2.8	2.2	1.6	1.6	1.3
Broad money (M3)	%YoY	17.3	18.1	18.6	17.6	17.8	17.5	14.4	14.2	14.4	11.9	9.0	9.7	12.1	7.0
Deposits	%YoY	18.7	19.4	20.6	19.5	19.2	19.4	16.1	15.7	15.9	13.0	10.7	10.9	14.7	8.2
Loans	%YoY	32.8	31.7	36.0	35.8	37.2	34.5	30.3	29.3	26.8	23.3	19.8	18.6	15.4	9.2
USD/PLN	PLN	2.69	2.93	2.98	3.18	3.63	3.55	3.36	3.23	3.22	3.05	2.90	2.86	2.85	2.80
EUR/PLN	PLN	3.57	3.73	4.01	4.22	4.65	4.62	4.43	4.41	4.51	4.30	4.13	4.16	4.21	4.15
Reference rate [a]	%	6.00	5.75	5.00	4.25	4.00	3.75	3.75	3.75	3.50	3.50	3.50	3.50	3.50	3.50
Lombard rate [a]	%	7.50	7.25	6.50	5.75	5.50	5.25	5.25	5.25	5.00	5.00	5.00	5.00	5.00	5.00
WIBOR 3M	%	6.80	6.74	6.40	5.51	4.69	4.30	4.20	4.52	4.60	4.26	4.16	4.18	4.18	4.15
Yield on 52-week T-bills	%	6.45	6.52	6.10	4.85	4.62	4.78	4.80	4.91	4.73	4.43	4.23	4.33	4.25	4.25
Yield on 2-year T-bonds	%	6.46	6.26	5.43	4.81	5.37	5.60	5.44	5.60	5.34	4.93	4.92	5.10	5.05	5.10
Yield on 5-year T-bonds	%	6.48	6.21	5.42	4.96	5.57	5.97	5.88	5.85	5.83	5.55	5.53	5.74	5.65	5.70
Yield on 10-year T-bonds	%	6.39	6.25	5.57	5.43	5.94	6.21	6.17	6.30	6.34	6.19	6.08	6.18	6.15	6.15

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	1 272.8	1 351.0	1 403.4	314.1	326.3	334.8	375.9	327.9	336.6	344.3	394.6
GDP	%YoY	6.7	4.9	1.4	2.0	0.8	1.1	1.7	1.9	2.0	1.8	1.7	2.5
Domestic demand	%YoY	8.6	5.5	-1.3	2.8	-1.5	-2.1	-1.5	-0.2	3.1	3.3	2.4	2.6
Private consumption	%YoY	5.0	5.4	2.0	1.5	3.3	1.7	1.5	1.5	1.5	1.5	1.5	1.5
Fixed investments	%YoY	17.6	8.1	-4.5	3.0	1.0	-3.0	-4.0	-8.0	-3.0	2.0	5.0	5.0
Industrial production	%YoY	9.7	3.5	-4.2	2.1	-10.0	-6.7	-1.3	1.2	0.4	3.0	3.0	2.2
Retail sales (real terms)	%YoY	14.0	9.6	1.6	1.2	0.4	1.4	3.7	0.9	-0.2	2.0	1.4	1.7
Unemployment rate [a]	%	11.2	9.5	12.2	13.3	11.1	10.6	10.9	12.2	13.3	12.5	12.5	13.3
Gross wages (real terms) [c]	%YoY	6.7	5.9	0.7	0.7	3.2	0.2	0.5	-0.4	-1.7	0.8	1.6	2.3
Employment [c]	%YoY	4.6	4.8	-1.3	-2.1	0.1	-1.0	-1.8	-2.5	-2.9	-2.2	-1.9	-1.5
Export (€) [b]	%YoY	13.4	14.2	-18.3	3.3	-22.2	-24.8	-20.5	-3.8	-2.0	1.0	2.5	11.0
Import (€) [b]	%YoY	19.5	17.2	-26.6	6.6	-28.2	-33.4	-28.0	-15.7	3.0	7.0	6.0	10.0
Trade balance [b]	EURm	-12 369	-17 724	-2 933	-6 373	-744	-360	-840	-989	-1 944	-1 821	-1 779	-829
Current account balance [b]	EURm	-14 696	-18 302	-1 917	-3 673	-30	-845	-503	-539	-1 344	-1 121	-879	-329
Current account balance [b]	% GDP	-4.7	-5.1	-0.6	-1.0	-4.0	-2.9	-2.0	-0.6	-1.0	-1.0	-1.1	-1.0
General government balance	% GDP	-1.9	-3.6	-5.9	-6.7	-	-	-	-	-	-	-	-
CPI	%YoY	2.5	4.2	3.5	2.3	3.3	3.7	3.5	3.4	3.0	2.0	1.9	2.4
CPI [a]	%YoY	4.0	3.3	3.7	2.4	3.6	3.5	3.4	3.7	2.4	1.9	2.2	2.4
PPI	%YoY	2.0	2.2	3.2	-1.7	4.9	4.2	2.2	1.4	-2.1	-2.3	-1.3	-0.9
Broad money (M3) [a]	%YoY	13.4	18.6	5.3	4.0	17.5	14.4	9.7	5.3	4.0	3.7	4.7	4.0
Deposits [a]	%YoY	14.5	20.6	5.2	3.3	19.4	15.9	10.9	5.2	2.6	2.3	2.8	3.3
Loans [a]	%YoY	29.9	36.0	3.9	4.0	34.5	26.8	18.6	3.9	-1.0	0.0	0.2	4.0
USD/PLN	PLN	2.77	2.41	3.12	2.71	3.45	3.27	2.94	2.81	2.69	2.71	2.72	2.72
EUR/PLN	PLN	3.78	3.52	4.33	3.90	4.50	4.45	4.20	4.15	3.98	3.93	3.87	3.82
Reference rate [a]	%	5.00	5.00	3.50	4.00	3.75	3.50	3.50	3.50	3.50	3.50	4.00	4.00
Lombard rate [a]	%	6.50	6.50	5.00	5.50	5.25	5.00	5.00	5.00	5.00	5.00	5.50	5.50
WIBOR 3M	%	4.73	6.36	4.41	4.19	4.83	4.44	4.20	4.16	4.08	4.05	4.19	4.43
Yield on 52-week T-bills	%	4.69	6.26	4.54	4.29	4.75	4.81	4.33	4.25	4.25	4.10	4.30	4.50
Yield on 2-year T-bonds	%	5.23	6.22	5.20	5.21	5.26	5.46	4.98	5.10	5.23	5.05	5.20	5.35
Yield on 5-year T-bonds	%	5.52	6.15	5.67	5.72	5.50	5.85	5.61	5.70	5.78	5.65	5.70	5.75
Yield on 10-year T-bonds	%	5.56	6.06	6.11	6.03	5.86	6.27	6.15	6.15	6.13	6.00	6.00	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

This analysis is based on information available until 10.11.2009 has been prepared by:

ECONOMIC ANALYSIS UNIT

TREASURY DIVISION

ul. Marszałkowska 142, 00-061 Warszawa, fax +48 022 586 83 40

Email: ekonomia@bzwbk.pl Web site (including Economic Service page): http://www.bzwbk.pl

Maciej Reluga – Chief Economist

tel. +48 022 586 83 63, Email: maciej.reluga@bzwbk.pl

Piotr Bielski	+48 022 586 83 33
Piotr Bujak	+48 022 586 83 41
Cezary Chrapek	+48 022 586 83 42

TREASURY SERVICES DEPARTMENT

Gdańsk

Długie Ogrody 10
80-765 Gdańsk
tel. +48 058 326 26 40
fax +48 058 326 26 42

Kraków

Rynek Główny 30/8
31-010 Kraków
tel. +48 012 424 95 01
fax +48 012 424 21 41

Poznań

pl. Gen. W. Andersa 5
61-894 Poznań
tel. +48 061 856 58 14
fax +48 061 856 55 65

Warszawa

ul. Marszałkowska 142
00-061 Warszawa
tel. +48 022 586 83 20
fax +48 022 586 83 40

Wrocław

ul. Rynek 9/11
50-950 Wrocław
tel. +48 071 370 25 87
fax +48 071 370 26 22