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Upbeat ending of the year

▪ After we have revised up our GDP growth forecasts for Poland last month due to revision in forecasts for the euro zone, this time we revise up our predictions again due to domestic factors. It seems that the Polish economy may expand at pace of clearly above 2% next year. The structure of GDP data for Q3 proved better than expected (acceleration in individual consumption growth and slight fall in investment), confirming that the Polish economy is on a path of recovery. An optimistic signal for next quarters is significant rise in PMI manufacturing (more orders, restocking), which suggests clear rise in industrial output and weakening of negative tendencies in the labour market. While one should still expect a rise in the unemployment rate in the next months, it seems that contrary to earlier expectations it will not reach the level of 13%. The highest uncertainty is still connected with consumption demand. Also due to the positive working days effect, the GDP growth in Q4 2009 and Q1 2010 may be close to 3%YoY.

▪ The business cycle clock updated for recently released data show that the Polish economy is in the recovery stage. The business cycle clock for aggregated quarterly indicator confirmed that we bottomed out in Q3 while the aggregated monthly indicator showed that economic recovery was continued in October, although its pace waned and we slightly moved towards the recession quadrant of the business cycle clock. However, one may expect that in November-December the business cycle clock will show a move towards strengthening of positive trends in the economy. This is suggested by much stronger than expected rise in PMI in November and optimistic output forecasts for last months of this year.

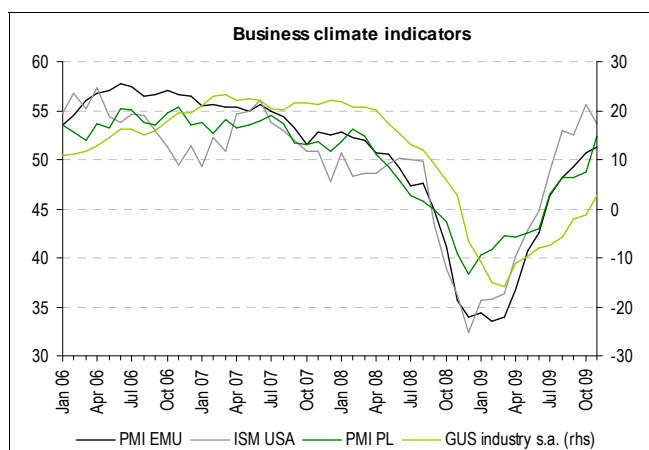
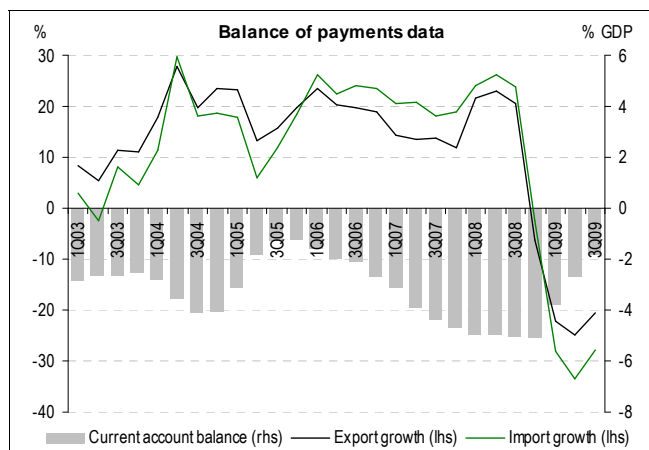
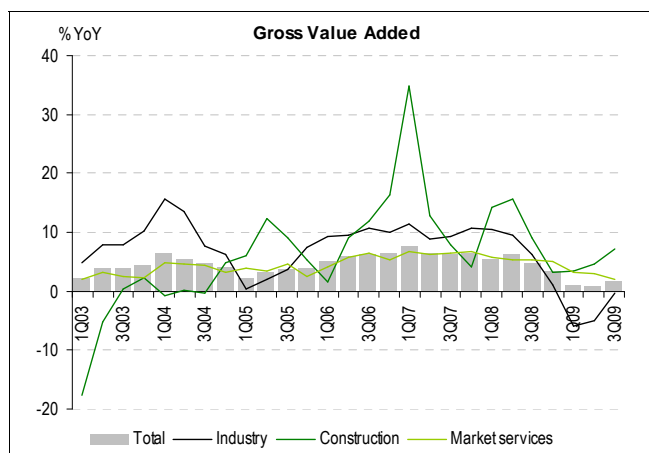
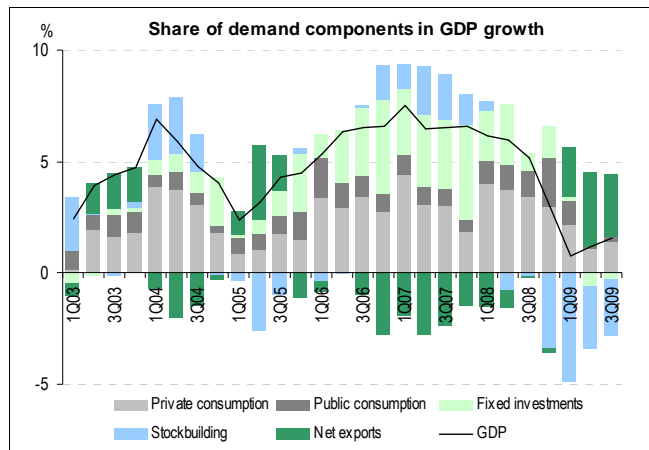
▪ We know the full set of candidates for the new MPC proposed by the ruling coalition in the Sejm and Senate. President Lech Kaczyński is due to announce his nominees in early January. The proposed candidacies and expected nominees from the President indicate that the new Council will be equally (or even more) divided than the current one. Expected balance of strength between hawkish and dovish factions in the new MPC indicate that the key swing voter may be the Peasants' Party candidate, Elżbieta Chojna-Duch. Her first comments suggest that she will be rather careful in hiking interest rates, but at the same time will be an advocate of swift entry to the euro zone. Time will show what exact preferences in monetary policy Elżbieta Chojna-Duch will have.

▪ Last month the zloty was highly volatile due to swinging moods in the global markets. First, a deterioration in market sentiment took place to information about Dubai debt problems. Then, a temporary euphoria was seen after publication of much better than expected data from the US labour market. Finally, we saw next wave of increased credit risk related to renewed concerns about Dubai debt problems and in reaction to negative decisions on ratings of Greece and Spain. Moods in the global markets are likely to be swinging also the next year. However, we do not change our FX forecasts. The current correction should not be continued (resistance level for EURPLN at 4.18-4.20 should not be broken) and the zloty exchange rate to the euro may gradually go towards the psychological level of 4.00.

Financial market on 30 November 2009:					
NBP deposit rate	2.00	WIBOR 3M	4.19	USDPLN	2,7966
NBP reference rate	3.50	Yield on 2-year T-bonds	4.93	EURPLN	4,1266
NBP lombard rate	5.00	Yield on 5-year T-bonds	5.64	EURUSD	1,4756

This report is based on information available until 10.12.2009

Economic update



Source: CSO, Reuters, own calculations

GDP growth gathering momentum

▪ GDP growth in Q3 2009 accelerated to 1.7%YoY from 1.1% in Q2, in line with our forecast but above market expectations. A clear positive surprise was a structure of GDP growth. Individual consumption growth accelerated to 2.2%YoY from 1.7% in Q2, and at the same time fixed investment growth improved from -3%YoY to -1.5%YoY. Domestic demand fell by 1.2%YoY, largely due to continuing reduction in inventories. Contribution of net exports was positive and amounted to 3.0 pp.

▪ While acceleration in consumption growth is a good news, one has to remember that it was under influence of transitory factors in Q3, like holiday shopping of Poles who resigned from vacation abroad. As regards investment growth, a source of positive surprise may be, in line with suggestions of CSO officials, growing scale of realisation of EU-financed projects, which causes that related growth in public investment largely offsets a strong contraction in private investment spending.

▪ While the headline data showed a clear acceleration in GDP growth in Q3, seasonally adjusted GDP growth remained flat at 0.5% QoQ.

▪ Summing up, the data for Q3 showed that Polish economy is on a path of revival. In Q4, a further rise in GDP growth will be supported by low base effect. An optimistic sign is a rebound in (negative) investment growth rate, which may be continued, taking into account an improvement in enterprises' financial results visible in statistical data, and deceleration in drop of capacity utilisation. Moreover, expected process of rebuilding inventories will be supporting higher GDP growth, although one should keep in mind that this may be partly offset by a related revival in import growth. The biggest uncertainty seems to persist as regards prospects of individual consumption.

Continuing improvement in balance of payments

▪ Current account deficit in September and in entire Q3 was much lower than expected. There was a significant rebound in foreign trade turnover in September as compared to previous month, and its annual growth rate bottomed out (although remaining deep below zero); much stronger improvement was recorded in case of exports than imports. Possibly, this heralds further recovery in foreign trade resulting from a revival in demand abroad amid still competitive zloty exchange rate.

▪ Moreover, the structure of financing of decreasing deficit has improved considerably. Inflow of long-term capital (FDI plus EU funds) in the last 12 months covered ca. 160% of cumulated current account gap in this period, which is the highest level of this ratio since November 2006.

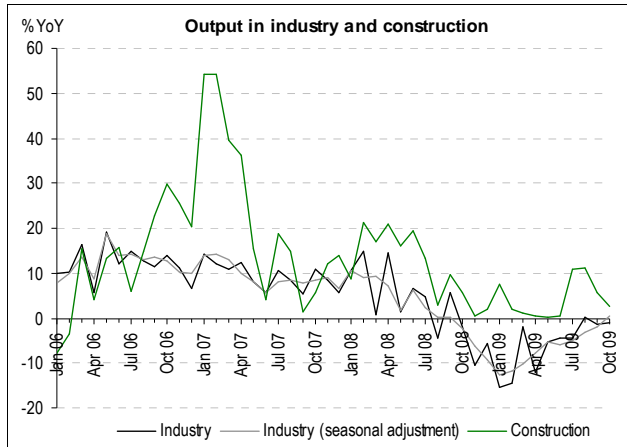
Leading indicators herald continuation of recovery

▪ Results of business climate surveys heralded further improvement of situation in enterprises at the end of the year.

▪ PMI index in Polish manufacturing sector rose in November to 52.4, the highest level for 22 months, pointing to a rise in activity for the first time since April 2008. Seasonally adjusted CSO index of business climate rose above zero for the first time in a year.

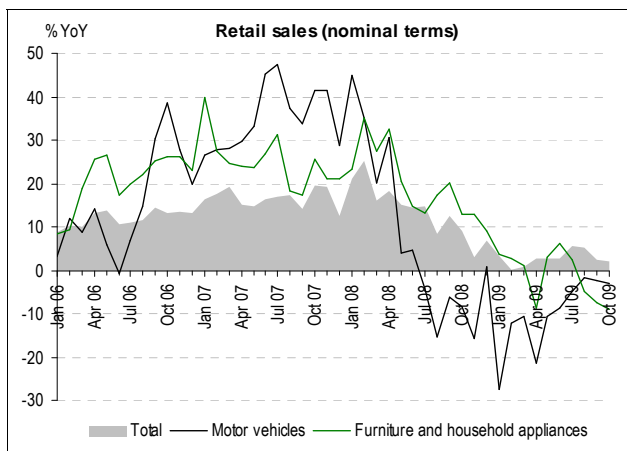
▪ Moods of consumers are also improving, which suggests that the last quarter of the year should not be bad in terms of consumption demand, although the optimism is still much lower than a year ago. Interestingly, seasonally adjusted index of business climate in trade improved only slightly and assessment of sales fell in November to the lowest level since the beginning of the crisis.

Economic update



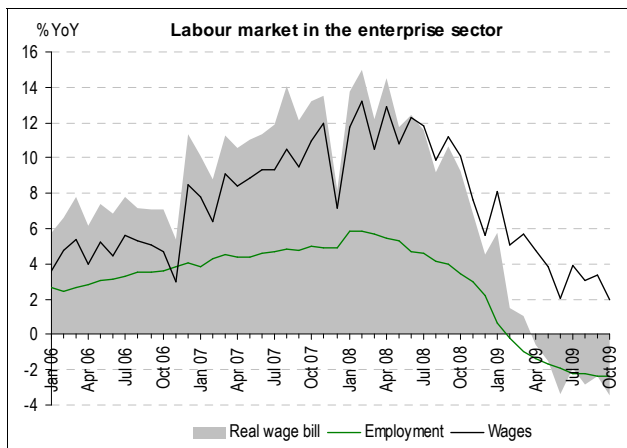
Not so bad news from industry

- Fall in industrial production in October was smaller than expected (-1.2%YoY) and after seasonal adjustment the output recorded the first annual growth since September 2008 (0.6%YoY). The data confirmed revival of activity in Polish firms, most likely connected largely with upturn in external demand.
- At the same time, growth in construction output was weaker than expected (2.7%YoY, and after seasonal adjustment 5.3%). Nevertheless, one may assume that in the next months growth in construction sector will be supported by realisation of infrastructure projects co-financed by the EU funds.
- In the last two months of the year the difference in the number of working days will have positive impact on output growth, and thus the data should be significantly better than in recent months.



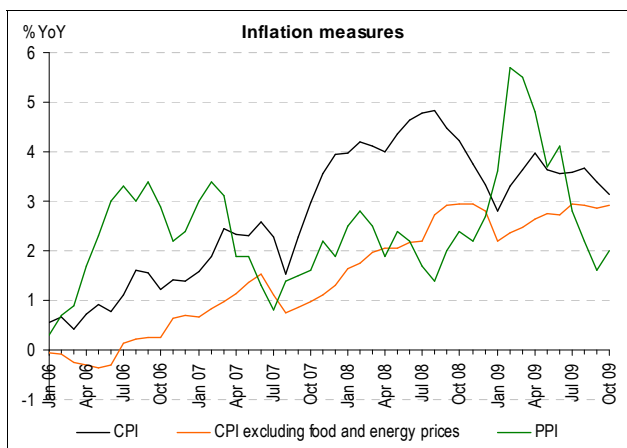
... however consumers remain cautious

- Nominal growth in retail sales slowed down in October to 2.1%YoY from 2.5% in September, confirming that after temporary revival during the holiday period (growth above 5%), there was a deterioration, most likely related to worsening financial situation of households. In real terms the growth of sales was the same as in September and reached 0.7%YoY.
- According to our estimate, growth of retail sales excluding autos and fuels reached 2.6%YoY, and was the lowest since February. Demand for durable goods has weakened as well (sales of furniture and households appliances fell 10%YoY).
- Growing consumer optimism and very low base effect may trigger a rebound in sales growth at the end of the year. However, the biggest risk factor for consumption demand is still unclear labour market prospects.



What about labour market?

- Wage growth in October slowed down more than expected (to 2.0%YoY from 3.3% in September), and employment fell less than forecast (by 2.4%YoY). Nominal wage bill in the enterprises sector decreased by 0.5%YoY (first time below zero in 6 years), and in real terms its drop deepened to 3.5%YoY. Registered unemployment rate rose to 11.1%, while seasonally adjusted LFS unemployment rose to 8.4%, the highest level for 2 years.
- Signals concerning labour market prospects are unclear. On the one hand, the number of declared redundancies in firms remains at very high level (over 30,000) which may (but does not have to) herald a new wave of unemployment.
- On the other hand, latest surveys (by BCC, TNS OBOP) showed that vast majority of firms do not plan to cut employment and growing number of them plans hiring new staff.

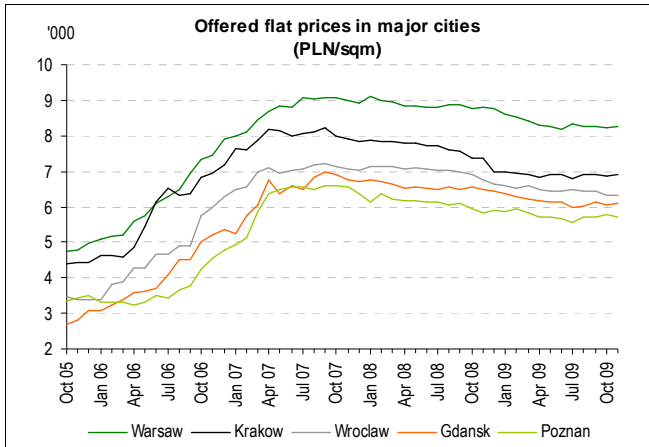


Inflation will be falling next year, but will rise before that

- CPI inflation fell in October to 3.1%. The biggest positive surprises were a drop in fuel prices and small rise in food prices. The data did not change substantially inflation prospects for the next months (rise until December, then a clear decline next year) nor the outlook for main interest rates.
- Core inflation excluding prices of food and energy persistently stays at 2.9%YoY since July, however most of other core inflation measures fell in October, showing some weakening in inflationary pressure.
- PPI growth accelerated in October to 2%YoY due to higher prices of commodities, however a negative output gap and strengthening of the zloty should stop a rise in producer prices in the following months.

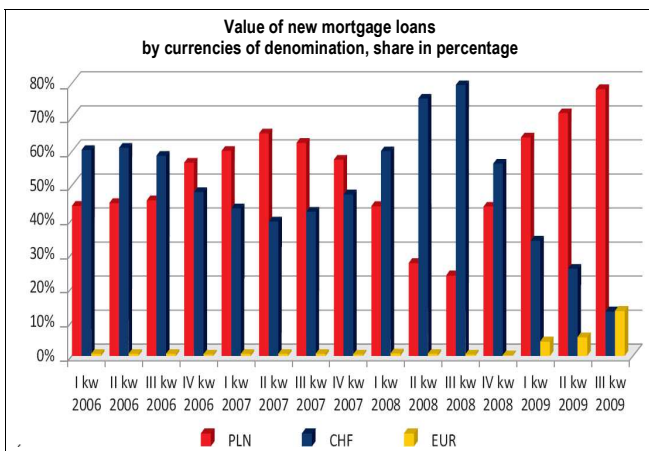
Source: CSO, NBP, own calculations

Housing market update



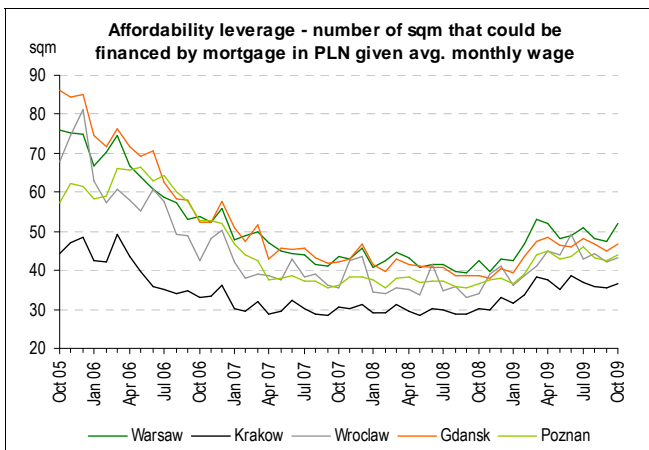
No major changes in house prices

- In November the Polish Bank Association (ZBP) published the first AMRON-SARFiN report on housing market, including data on transactional house prices. Conclusions from the report have broadly confirmed trends signalled by data on offered home prices, that we have used so far – after moderate falls in 2008, there is stabilisation of home prices since the start of this year. At the same time, the volume of transactions is gradually rising.
- According to ZBP data, transactional prices in Warsaw in Q3 were lower by ca. 10% than offered prices. The relation was the same in 2008.
- According to Szybko.pl, the rental prices of housing are quickly falling, especially in big cities, mainly due to growing number of houses for rent available in the market.



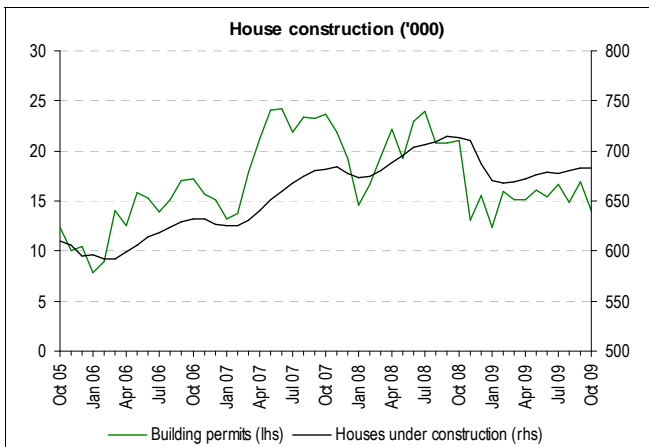
Revival in the mortgage loans market?

- Although banks' credit policy is still much more tight than before the outbreak of the financial crisis, in recent months some signs of revival in the mortgage market can be seen.
- Since October the average credit margins and interest on mortgage loans have been falling. More and more banks are introducing promotions on mortgage loans.
- However, annual growth rate of mortgage loans (adjusted by FX fluctuations) is still falling – in October it fell to ca. 14%YoY.
- The zloty-denominated loans are clearly predominating in the market (they represent over 76% of new loan agreements according to ZBP). However, the popularity of loans in euro is growing – in Q3 their share in new loans exceeded a share of loans in the Swiss franc for the first time.



Home availability slightly up

- Fall in cost of financing related to slight decrease in credit margins and loans' interest, and stabilisation, or even slight decrease of average home prices in some cities, translated into a slight rise in home availability for average household.
- It is too early to say whether it is a start of a more persistent trend. The key factor for households' demand in the housing market will be situation in the labour market. Although there are some signals suggesting that the negative trends may reverse pretty soon (which is discussed on the previous page), but our forecasts show that in the nearest quarters the households' financial situation will be deteriorating.



Fewer building permits and new investment

- In the first ten months of the year the number of houses completed was 4% higher than in corresponding period of the last year. However in October, the number of house completions fell by almost 14%.
- The clear fall in the number of building permits has been maintained (by 33%YoY), as well as a fall in new house starts.
- As we wrote in the previous month, there are signals from developers about planned new investments in response to improving expectations concerning future demand. However, it seems that the supply of new houses in the next several years will be much lower than record-high level which will be achieved this year (ca. 170,000 according to our estimates).

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

Central bank watch

Selected comments from first official candidates for the new MPC

Andrzej Bratkowski, candidate for MPC;

Parkiet, Nov 30; [Will the new MPC advance the ECB with rate hikes?] Rather not significantly. But some advance will be desirable. (...) One should play in such a way so that the zloty appreciation, likely to be coupled with larger difference between our rates and in the euro zone, would be used as a factor stabilising inflation and not something that would decelerate economic growth. (...) Now the inflation expectations are quite stable, at relatively low level and there is no risk that if inflation goes above the target the whole strategy will crumble into ruin. Therefore, one should try to reach the middle of the inflation target and not try to be closer to the lower end of the target band, as the perspective of euro adoption suggests.

[About the ERM2 entry date] It will be rather 2012. This means that the euro adoption will take place in 2014-2015.

ISB, Dec 9; I am a hawk in the sense that I am not too much worried that inflation could fall below the target - definitely not more than worried about overshooting the target. I also think that the recent developments have shown that monetary policy should include - apart from its basic strategy of inflation target - also elements of financial stability and in such a situation one has to take a risk in the other direction.

Elżbieta Chojna-Duch, candidate for MPC;

PAP, Dec 2: I think that the current level of rates reflects situation in the economy and is adequate for macroeconomic situation.

Reuters, Dec 7: We will try (...) so that the euro adoption took place under favourable conditions as soon as possible. It seems that we can enter the ERM2 not earlier than in 2011-2012 and after meeting the criteria we could join the euro zone in 2015 (...) Monetary policy should be conducted carefully, taking into account the inflation criterion but at the same time interest rates level should not restrain economic growth. The fiscal criterion is particularly important in the current situation. However, the primary goal is price stability.

Anna Zielińska-Głębocka, candidate for MPC, Reuters, Dec 9;

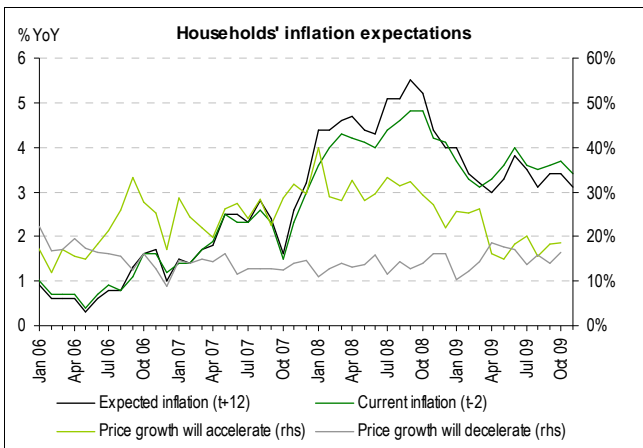
Interest rate hikes may prove needed the next year, but I do not think there is a necessity of radical actions. In the H2 2010 it may turn out there is a need of reaction, but I do not think that more decisive move than one or two hikes of 25bps would be necessary.

First official candidacies for the new MPC

As official candidates from the Sejm for the new MPC (J. Czekaj and M. Pietrewicz end their term on Jan. 9 and S. Nieckarz on Feb. 7) the Civic Platform proposed Andrzej Bratkowski (former NBP deputy governor and chief economist of Pekao bank) and Anna Zielińska-Głębocka (PO's deputy and economics professor at Gdańsk University) while the Peasants' Party proposed Elżbieta Chojna-Duch (current deputy FinMin and professor in law). Candidates from the Senate are Leszek Pawłowicz (deputy head of the Gdańsk Institute for Market Economics and lecturer at Gdańsk University), Andrzej Rzońca (deputy president of FOR think tank and lecturer at Warsaw School of Economics) and Jan Winiecki. Their comments suggest that they are going to make revolutionary changes in monetary policy (although they differ as regards the proffered degree of monetary policy restrictiveness) and at the same time are unanimously supporting euro adoption as soon as possible.

It is noteworthy that in the past candidates of the Peasants Party were clearly dovish and if this is repeated, Chojna-Duch would probably often join there three likely dovish MPC members expected to be nominated by the President at the beginning of January (term of presidential members of the current MPC ends on Feb. 18). Thus, vote of Chojna-Duch together with casting vote of NBP governor in case of equal number of votes will be of crucial importance. Her comments indicate that she is not likely to support restrictive monetary policy and will be careful with interest rate hikes.

Comments from potentially clearly hawkish Andrzej Bratkowski are not much hawkish. Also comments from potentially clearly hawkish Zielińska-Głębocka seem moderate.

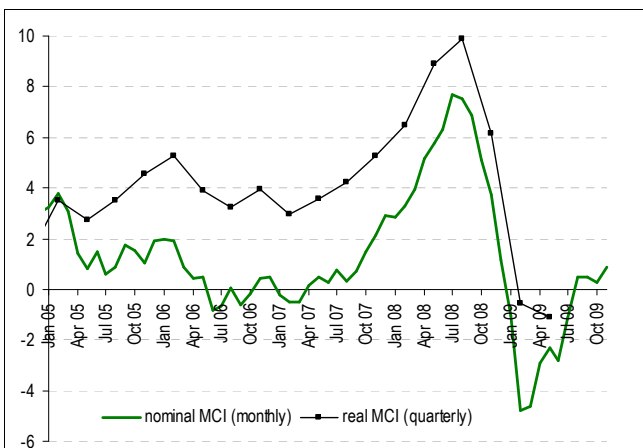


Expected inflation still below the current inflation

New MPC will inherit from the old MPC quite low level of households' inflation expectations, which should facilitate effective realisation of monetary policy goals.

Households inflation expectations measured by the NBP are of strongly adaptive nature (i.e. are strongly dependent on current inflation level), but it is worth to note that apart from first months of this year, when the rapid zloty depreciation and rise in current inflation increased inflation expectations, the indicator of expectations was below the current inflation for the remainder of the year.

The fact that more households predict inflation drop than its rise is a factor constraining the inflationary pressure and may be an argument against swift interest rate hikes.



Continued rise in nominal MCI

October wave of the zloty weakening led to fall in nominal MCI (EURPLN upward deviation from its long term trend widened and WIBOR3M downward deviation from the term trend narrowed), but November brought continuation of the tendency observed since March of rise in monetary policy restrictiveness measured by the nominal MCI (EURPLN for the first time since November 2008 above its long-term trend and WIBOR3M downward deviation from its trend again narrower).

Real MCI, following fall in Q1 in line with the monthly nominal MCI, in Q2 slightly fell again, despite a rise in nominal MCI. The discrepancy was related to increase in inflation, which more than offset rise in nominal market interest rates, as well as to stabilisation of REER, despite nominal appreciation of the zloty exchange rate at that time.

Source: NBP, Reuters, own calculations

Government and politics

Comments from government's officials regarding the fiscal consolidation plan

Michał Boni, head of Prime Minister's strategic advisors team; DGP, Dec 7; We have to discuss it [the spending rule] until March or April. Such a rule should be countercyclical.

This is a good idea [change in definition of public debt], because it shows in a clear way how different elements of the public debt are generated. (...) Implementation of such solution would give the economy a breathe for 2 or 3 years as regard the public debt level and during this time one could step by step and credibly introduce several reform in public finance area, including changes in the pension system, which are important in the long run. If one adds the effect of new classification of public debt (PLN12-13bn), good results of privatisation (PLN18-20bn in 2010) or new way of cash management in state's agencies and funds (possibly above PLN10bn of savings), the borrowing needs would be lower and the public debt could be stopped at the level lower by 3.5-4% of GDP. It is worth trying!

[Q: Is a reform of the farmers' pension system possible in the next 2 years?] As regards preparation of the decision, yes. However, as regards making the decision I would look for a better moment.

[Q: Are tax hikes possible?] No. We have the highest economic growth in the EU, but this is not strong enough to drain taxpayers pockets.

PAP, TVN24, Dec 9; We have to make a decision - in a time of one, two or three years - when we will start with gradual rise in the retirement age so that until 2030 it would be different and we were secure from the demographics' point of view.

Jacek Rostowski, finance minister;

PAP, Nov 26: I am convinced that in 2015 Poland will have one of the lowest relation of public debt to GDP, if one excludes costs of the pension reform. We have estimates indicating that in 2013-2014 France and Germany will have public debt to GDP ratio at around 100%. At the same time we will have around 35%, excluding costs of pension system reform.

PAP, Nov 30; The plan of fiscal consolidation will be presented until the year-end. As regards the key direction, we already know that it will assume decisive constrain on public spending growth with simultaneous increase in budget revenues amid accelerating economy.

Elżbieta Suchocka-Roguska, deputy FinMin, PAP, Dec 2;

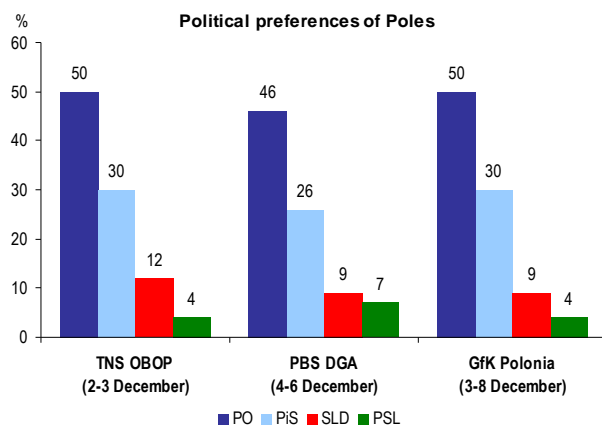
Without a plan of fiscal consolidation, a risk that public debt to GDP ratio will exceed 55% is large. Therefore, there are currently works at the ministry to avoid it. At the same time I do not know about any works regarding a rise in disability pension contribution.

What about the plan of fiscal consolidation?

■ Finance minister said that plan of public finance consolidation will be presented until the year-end. Comments from head of PM's advisors, Michał Boni, indicate the plan will assume annual savings of PLN23bn. However, PLN13bn will be an effect of changes in public debt classification, which is supported by some reasonable arguments, but it is hard to regard it as savings. PLN10bn worth of real savings is going to be achieved through centralisation of cash management.

■ The fiscal consolidation plan will include (apart from centralisation of budget cash management and earlier announced introduction of a spending rule and increase in the retirement age) an elimination of some of the privileges in the pension system and a reform of the farmer's pension system. A part of the plan will also be a new model of open pension funds functioning and comments from Boni suggest that luckily it will not be the changes proposed earlier by the FinMin and ministry of labour. All the actions to be included in the plan are desirable, and we were mentioning many times in the past they are necessary, but comments from Boni indicate one should not expect fast and radical steps. The elimination of pension privileges is going to concern only the new workers, a decision on final shape of KRUS reform will be made in two years, and gradual increase in the retirement age may begin not earlier than in three years. All in all, it seems that the main change in public finance in 2010 will be change in classification of the public debt.

■ As regards possible rise in fiscal burden there are no clear signals. Minister Boni said there will be no tax hikes, but he did not exclude rise in disability pension contribution for the richest, while FinMin officials said there are no plans to increase the disability pension contribution.



PO keeps high popularity in public opinion polls

■ Recent results of public opinion polls has not brought major changes. Status quo on the political scene suggest the PO will keep its strategy of delaying any reform until after the presidential election in autumn 2010 and possibly even after the parliamentary election in spring 2011 (so far most of Polish political forces has expressed support for an idea to have the parliamentary election earlier than on standard date in autumn 2011 due to Poland's presidency in the EU in H2 2011).

■ The Peasants Party is still at the edge of the election threshold. The risk of losing presence in the parliament in case of early elections stabilises the ruling coalition. However, one may expect that closer to election there may be some tensions in the coalition amid fight for higher popularity.



Budget performance in line with the (amended) plan

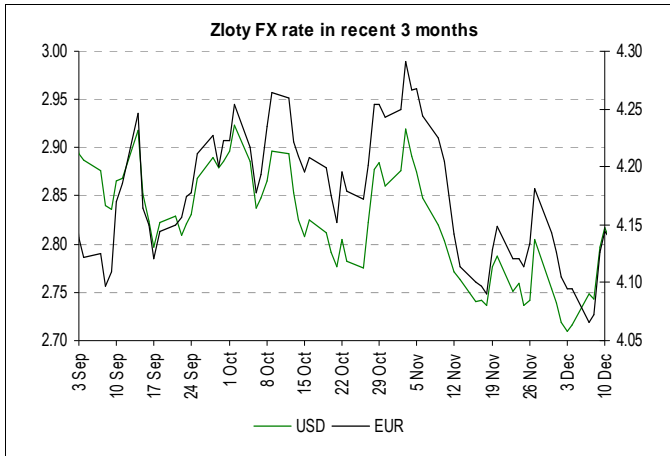
■ Data on central budget performance after October proved in line with earlier preliminary estimates of the FinMin and showed budget deficit of over PLN24bn. This was coupled with an improvement in budget revenues growth rate and weakening in growth of public spending.

■ The indirect revenues growth rate in January-October slightly improved as compared to January-September and currently is not much below zero (-0.7%). This suggests that domestic demand, particularly consumption performs quite well, although we expect that growth rate of private consumption in Q4 will somewhat lower.

■ Preliminary estimates of the FinMin indicate that budget deficit at the end of November will rise to PLN24.5bn and at the end of the year will be close to the targeted PLN27bn.

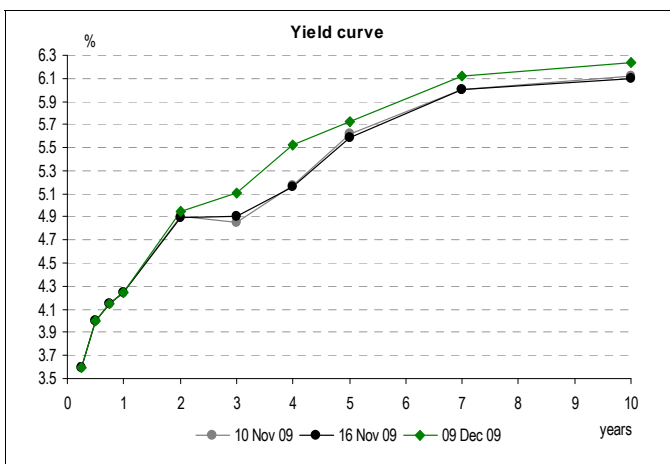
Source: Ministry of Finance, PAP, own calculations

Market monitor



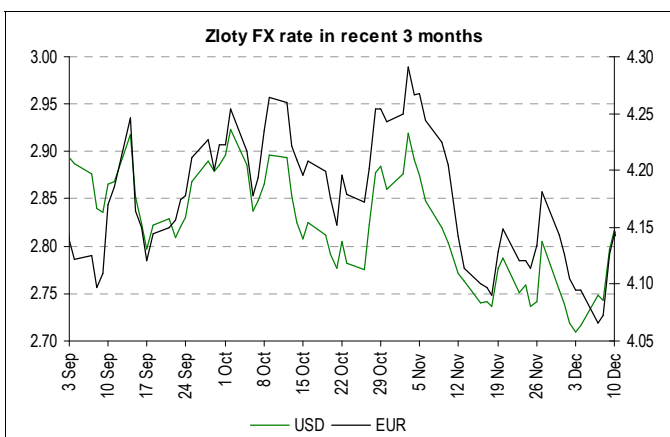
Zloty below 4.06 vs. euro, though temporarily

- The zloty strengthened after the release of the previous report due to weakening dollar. At the end of November news on credit problems of Dubai led to temporary jump in risk aversion. The zloty substantially appreciated breaking 4.06 vs. the euro after the Q3 GDP data, recommendations from foreign investors and much better than expected US labour market data, which increased risk appetite. Later the strengthening dollar led to significant zloty correction.
- After recent weakening the zloty may recover again and breaking 4.06 by the EURPLN opens more room for appreciation (next important support level is at 4.00). Profit taking and closing short positions in dollar, which is used to invest in risky assets, works against the zloty, though in the short term there may be an upward correction of the EURUSD rate.



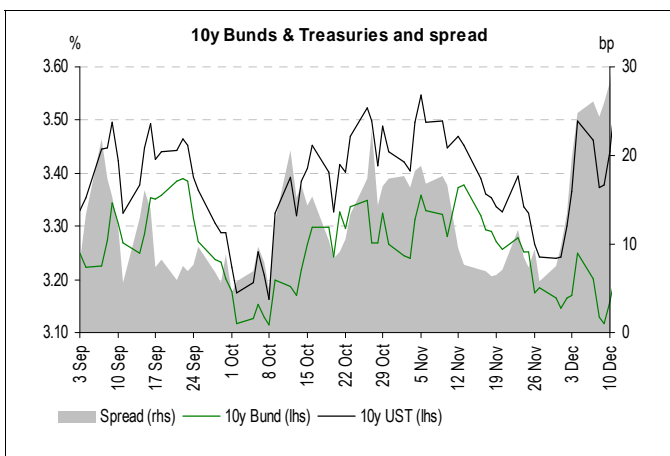
Small changes in the interest rate market

- After October inflation appeared to be much below forecasts there was a slight decline of FRA and IRS rates at the short end of the yield curve, while the bond yields did not change significantly. Soon afterwards there was a correction of swap curve and in the following weeks there were no significant changes of FRA and IRS. Long-term bond yields increased after lowering rating of Greece and rating outlook of Spain, which was accompanied by zloty weakening.
- Slight increase of current inflation for November should have limited impact on the markets. Meanwhile, industrial output and retail sales figures may negatively affect the market. However, before the year-end there should be no significant moves in the market interest rates. Investors wait for the full set of candidates to the new MPC in order to better assess monetary policy prospects for next year.



Dollar recovery after sound US labour market data

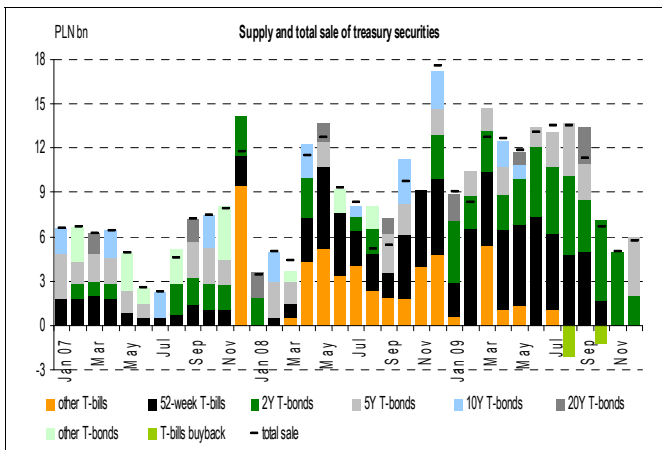
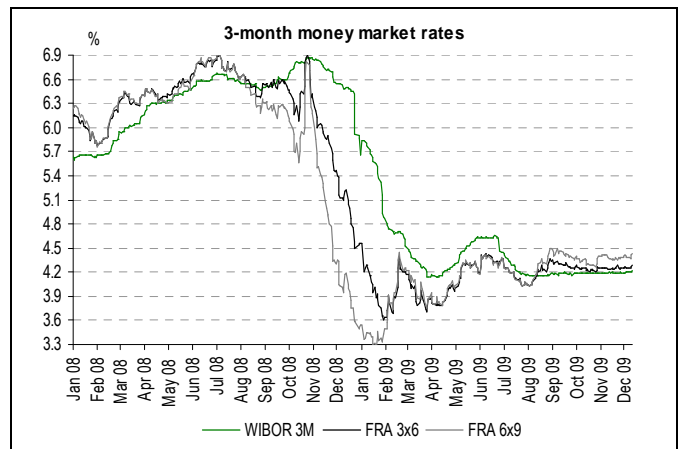
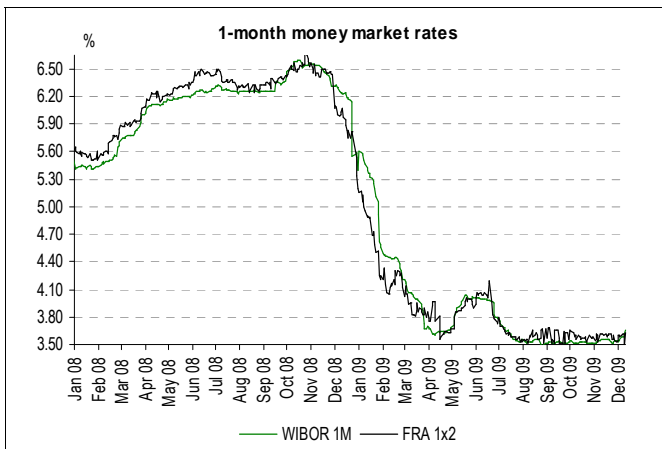
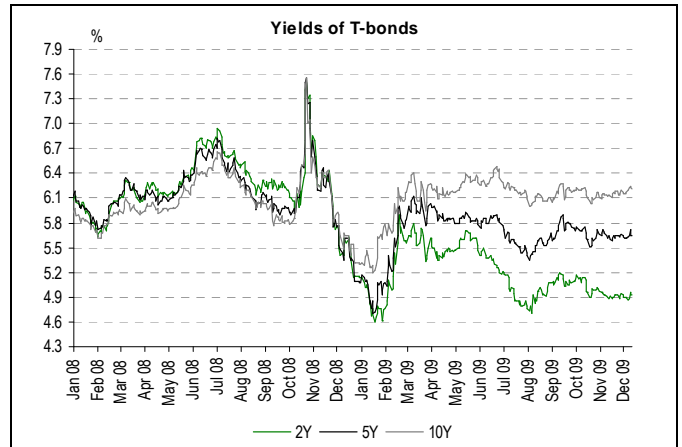
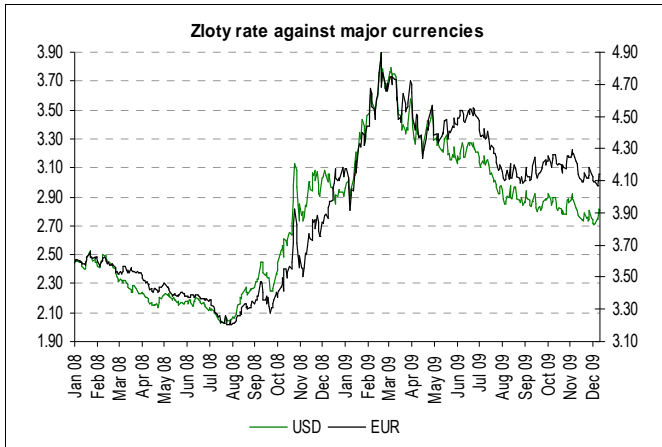
- Fed's communique suggesting maintaining rates at low level for a long time contributed to dollar sell-off. The euro was supported by ECB president comments on need to withdraw instruments increasing liquidity. After increase above 1.51 the dollar recovered on higher risk aversion on credit problems of Dubai. After another recovery of the euro above 1.51, the dollar rebounded on very good data on US non-farm payrolls and EURUSD fell again to 1.47 breaking support trend line.
- At the year-end investors may close short dollar positions. On the other hand the EURUSD is approaching oversold levels. Another important support for the EURUSD is 1.47 and 1.447. Current account deficit drop and economic recovery in the US should contribute to gradual recovery of the dollar next year.



Strengthening in the core debt markets

- Last month there was strengthening in core debt markets. After Fed declared rates would remain low for extended period investors were purchasing also bonds. Periods of higher appetite for safe haven assets (problems of Dubai) also contributed to prices increase. Good results of US bond auctions also supported debt markets. There was temporary rebound in yields after US non-farm payrolls. Since the previous report yields of 10Y Bunds and Treasuries fell to ca. 3.13% and ca. 3.40% from 3.32% and 3.50%. IRS curves in the euro zone and in the US steepened.
- Interest rates in the euro zone will remain low till 2H10 and in the US probably even till 2011 on low inflation, high unemployment and uncertainty regarding the economic recovery. We expect gradual increase in IRS rates in the euro zone and the US and an upward correction in yields.

Market monitor



Treasury bills auctions (PLN m)

Auction date	(OFFER)*SALE	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	-	-98
7.12.2009	-	-
14.12.2009	-	-
21.12.2009	-	-

* based on data of the Ministry of Finance

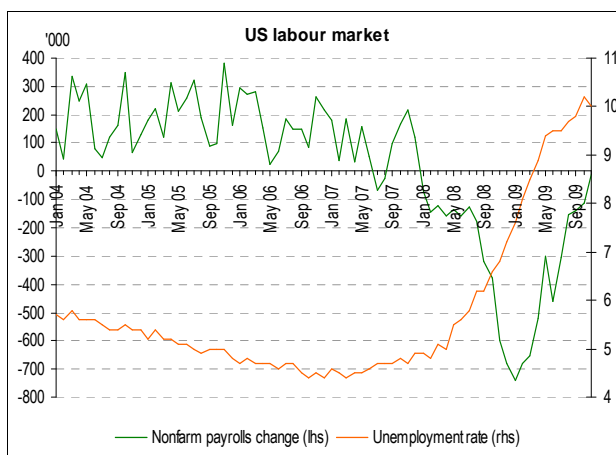
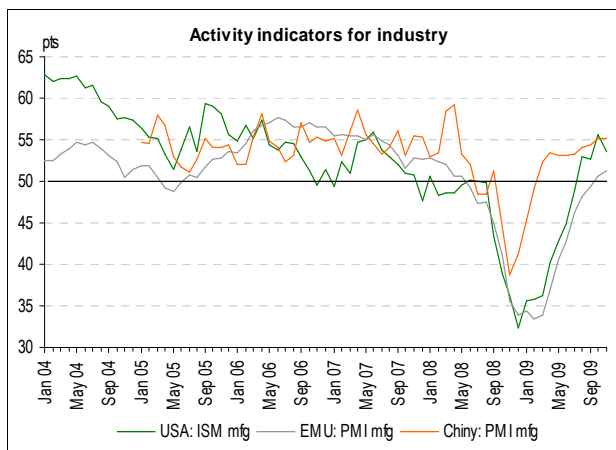
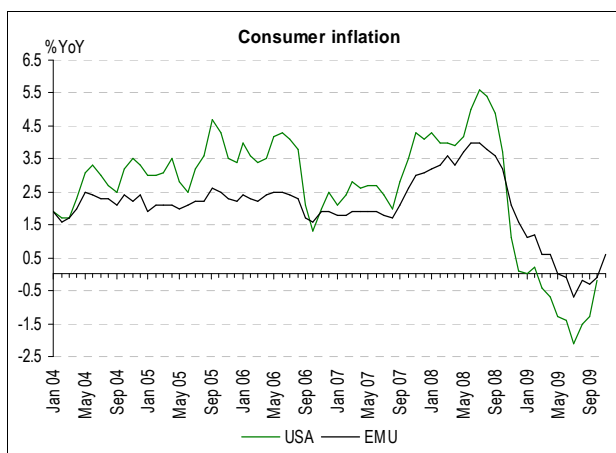
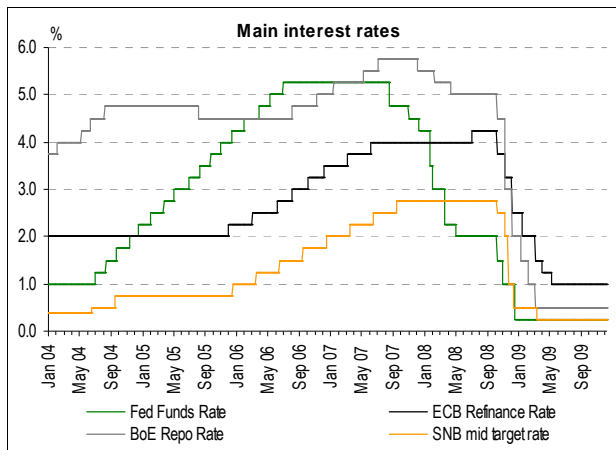
Treasury bond auctions in 2009 (PLNm)

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	OK0712/P0414	1121/2243
December	2.12	OK0712/PS0415	3000-6000	5651	-	-	-	-	16.12	-	-

* with supplementary auction, ** primary auction

Source: Ministry of Finance, Reuters, BZ WBK

International review



ECB gradually exits from liquidity measures

▪ According to the last FOMC minutes in the Fed's view the recovery in the US economy is durable though gradual, despite lack of improvement in the labour market. For the first time Fed members expressed the concerns about potential negative consequences of keeping interest rates at record low levels like excessive speculation in the financial markets. Although at the same time they did not have objections to weakening dollar they noticed this might lead to increase of inflation expectations.

▪ In line with expectations, the ECB left interest rates unchanged at its meeting in December, with the refinancing rate still at 1%. ECB President said that interest rates are currently at adequate level and new data confirm inflationary pressure remains subdued amid weak monetary statistics and rising unemployment. The ECB announced the 12M refinancing operations has been ended. The ECB president was trying to underline that the ECB decisions in this issue should not be treated as a signal of soon interest rate hikes. The ECB upwardly revised its GDP forecasts: this year it expects a decline between -4.1% and -3.9%, in 2010 it expects GDP growth between 0.1% and 1.5%, and in 2011 a growth between 0.2%-2.2%. According to the ECB the recovery in the euro zone will be moderate and some factors supporting growth are temporary.

▪ Inflation pressure in the major economies remains limited. As expected inflation in the euro zone was at -0.1%YoY in October. Meanwhile in November according to preliminary estimates of the Eurostat it rose to 0.6%YoY slightly above market forecasts. PPI rose by 0.2%MoM (-6.7%YoY). US inflation in October was at 0.3%MoM (-0.2%YoY), slightly above forecasts, while the core index rose by 0.2%MoM (1.6%YoY).

Very good data from the US labour market

▪ The official PMI index for Chinese manufacturing remained unchanged in November at 55.2 pts, while a HSBC PMI index rose to record high level of 55.7.

▪ PMI index in the euro zone was in November at 51.2 pts, the highest level since March 2008 and slightly above the preliminary estimate at 51.0. A clear increase was recorded by the new orders and output indices, reaching the highest levels in ca. 2 years. This improvement resulted mainly from better situation in manufacturing in Germany and France. PMI index for services rose to 53 from 52.6, slightly below market expectations (53.2).

▪ Data on activity in the US manufacturing sector slightly disappointed. US manufacturing index fell in November to 53.6 pts from 55.7 pts against expected 55 pts. ISM index for services unexpectedly fell below 50 pts to 48.7 pts from 50.6 pts in October, against forecasted increase to 51.5.

▪ According to revised US data GDP in Q3 rose by 2.8% vs. forecasted 3.0% and earlier estimate of 3.5%. GDP growth in the euro zone for Q3 09 rose by 0.4%QoQ and fell by 4.1%YoY, which was in line with flash estimate.

▪ Most of the US housing market data were better than forecasted. Pending home sales unexpectedly rose by 3.7%MoM. Existing home sales in the US rose in October as much as to 6.1m from 5.54m and the market expected 5.7m. Meanwhile the Case-Shiller index was slightly lower than forecasted.

▪ Non-farm payrolls fell in November by ca. 11k, while the market expected a drop by 140k against a decline by 190k in October. Data for the two previous months were revised up, showing a smaller by 160k drop of payrolls vs. previous estimates. At the same time the rate of unemployment in the US fell in November to 10% from 10.2% in October against forecasted no change.

Source: Reuters, ECB, Federal Reserve

Economic calendar

Monday	Tuesday	Wednesday	Thursday	Friday
14 December <i>PL: Money supply (Nov)</i> EZ: Industrial production (Oct)	15 <i>PL: CPI (Nov)</i> DE: ZEW index (Dec) US: NY Fed index (Dec) US: Capacity utilisation (Nov) US: Industrial production (Nov) US: Capital flows (Oct) US: PPI (Nov)	16 <i>PL: Switch bond auction</i> <i>PL: Wages and employment (Nov)</i> EZ: Flash manufacturing PMI (Dec) EZ: Flash services PMI (Dec) EZ: Final HICP (Nov) US: CPI (Nov) US: New home sales (Nov) US: Fed decision	17 <i>PL: MPC minutes</i> <i>PL: Industrial output (Nov)</i> <i>PL: PPI (Nov)</i> US: Philadelphia Fed index(Dec) US: Leading indicators (Nov)	18 JP: BoJ decision DE: Ifo index (Dec)
21	22 <i>PL: Core inflation (Nov)</i> <i>PL: Business climate indicators (Dec)</i> <i>PL: MPC meeting</i> DE: Gfk index (Jan) US: Final GDP (Q2) US: Home sales (Nov) US: House prices (Oct)	23 <i>PL: Retail sales (Nov)</i> <i>PL: Unemployment rate (Nov)</i> <i>PL: MPC meeting decision</i> JP: Market holiday US: Core PCE (Nov) US: Final Michigan (Dec) US: New home sales (Nov)	24 DE: Market holiday US: Durable goods orders (Oct)	25 Christmas Day
28 GB, CA: Market holiday	29 US: Case/Shiller (Oct) US: Consumer confidence (Dec)	30 <i>PL: Balance of payments (Q3)</i> EZ: M3 money supply (Nov) US: Chicago PMI (Dec)	31 DE, IT, JP: Market holiday	1 January New Year's Day
4 <i>PL: PMI (Dec)</i> EZ: Manufacturing PMI (Dec)	5 US: Factory orders (Nov) US: Pending home sales (Nov)	6 EZ: Non-manufacturing PMI (Dec) US: ADP report (Dec) US: Fed minutes	7 EZ: Retail sales (Nov)	8 US: Non-farm payrolls (Dec) US: Unemployment rate (Dec) US: Wholesale inventories (Nov)
11 JP: Market holiday	12 US: Trade balance (Nov)	13 EZ: Industrial production (Nov)	14 <i>PL: CPI (Dec)</i> <i>PL: Money supply (Dec)</i> EZ: ECB decision US: Import prices (Nov) US: Retail sales (Dec)	15 <i>PL: Balance of payments (Nov)</i> EZ: Final HICP (Dec) US: CPI (XII) US: NY Fed index (Jan) US: Industrial production (Dec)

Source: CSO, NBP, Ministry of Finance, Reuters.

MPC meetings and data release calendar for 2010

	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
MPC meeting	25-26	23-24	30-31	-	-	-	-	-	-	-	-	-
MPC minutes	22	19	19	23	21	18	23	20	24	22	19	17
GDP*	-	-	2	-	31	-	-	30	-	-	30	-
CPI	14	15 ^a	15 ^b	15	14	15	13	13	14	13	15	14
Core inflation	-	-	-	-	-	-	-	-	-	-	-	-
PPI	21	18	17	20	20	18	19	18	17	19	19	17
Industrial output	21	18	17	20	20	18	19	18	17	19	19	17
Retail sales	-	-	-	-	-	-	-	-	-	-	-	-
Gross wages, employment	19	16	16	19	19	17	16	17	16	18	18	16
Unemployment	-	-	-	-	-	-	-	-	-	-	-	-
Foreign trade	about 50 working days after reported period											
Balance of payments*	-	-	31	-	-	-	-	-	-	-	-	-
Balance of payments	15 ^c	12	12	-	-	-	-	-	-	-	-	-
Money supply	14	12	12	-	-	-	-	-	-	-	-	-
NBP balance sheet	7	5	5	-	-	-	-	-	-	-	-	-
Business climate indices	22	22	22	22	21	22	22	20	22	22	22	22

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

Source: CSO, NBP

Economic data and forecasts

Monthly economic indicators

		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	Dec 09
Industrial production	%YoY	-10.6	-5.6	-15.3	-14.6	-1.9	-12.2	-5.2	-4.5	-4.4	0.1	-1.3	-1.2	9.4	10.8
Construction production	%YoY	0.4	2.0	7.4	1.9	1.2	0.5	0.3	0.5	10.7	11.0	5.7	2.7	9.9	7.1
Retail sales ^a	%YoY	3.0	6.9	3.2	0.2	0.9	2.6	2.8	2.6	5.7	5.2	2.5	2.1	4.6	5.0
Unemployment rate	%	9.1	9.5	10.4	10.9	11.1	10.9	10.7	10.6	10.7	10.8	10.9	11.1	11.4	12.0
Gross wages in enterprises sector ^a	%YoY	7.6	5.6	8.1	5.1	5.7	4.8	3.8	2.0	3.9	3.0	3.3	2.0	3.2	4.2
Employment in enterprises sector	%YoY	3.0	2.2	0.7	-0.2	-0.9	-1.4	-1.7	-1.9	-2.2	-2.2	-2.4	-2.4	-2.3	-2.2
Export (€)	%YoY	-8.1	-12.6	-24.3	-26.3	-16.6	-30.3	-22.1	-21.4	-23.5	-20.8	-17.1	-12.1	-2.7	10.1
Import (€)	%YoY	-5.2	-9.2	-26.2	-32.7	-25.9	-36.3	-31.9	-32.0	-29.5	-27.8	-26.4	-22.3	-12.8	-2.9
Trade balance	EURm	-1553	-1819	-483	-67	-214	-207	-44	-109	-488	-348	-4	-143	-424	-839
Current account balance	EURm	-1432	-1740	-754	790	-131	-428	-420	-11	-570	124	-57	7	-1204	-1589
Current account balance	% GDP	-5.2	-5.0	-5.0	-4.5	-4.0	-3.8	-3.5	-3.0	-2.9	-2.6	-2.0	-1.5	-1.4	-1.4
Budget deficit (cumulative)	PLNbn	-14.8	-24.6	2.9	-5.3	-10.6	-15.3	-16.4	-16.7	-15.0	-15.6	-21.5	-24.0	-24.5	-27.2
Budget deficit (cumulative)	% of FY plan	60.3	100.0	-10.7	19.4	39.0	56.4	60.3	61.3	55.3	57.5	79.0	88.4	90.3	100.0
CPI	%YoY	3.7	3.3	2.8	3.3	3.6	4.0	3.6	3.5	3.6	3.7	3.4	3.1	3.3	3.6
Core inflation excluding prices of food and energy	%YoY	2.9	2.8	2.2	2.4	2.5	2.6	2.8	2.7	2.9	2.9	2.9	2.9	2.8	2.7
PPI	%YoY	2.2	2.7	3.6	5.7	5.5	4.8	3.7	4.1	2.8	2.2	1.6	2.0	2.0	1.9
Broad money (M3)	%YoY	18.1	18.6	17.6	17.8	17.5	14.4	14.2	14.4	11.9	9.0	9.6	11.8	6.7	5.4
Deposits	%YoY	19.4	20.6	19.5	19.2	19.4	16.1	15.7	15.9	13.0	10.7	10.9	13.5	8.2	5.7
Loans	%YoY	31.7	36.0	35.8	37.2	34.5	30.3	29.3	26.8	23.3	19.8	18.6	14.9	11.5	6.4
USD/PLN	PLN	2.93	2.98	3.18	3.63	3.55	3.36	3.23	3.22	3.05	2.90	2.86	2.85	2.79	2.77
EUR/PLN	PLN	3.73	4.01	4.22	4.65	4.62	4.43	4.41	4.51	4.30	4.13	4.16	4.21	4.17	4.10
Reference rate ^b	%	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	3.50
Lombard rate ^b	%	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	5.00
WIBOR 3M	%	6.74	6.40	5.51	4.69	4.30	4.20	4.52	4.60	4.26	4.16	4.18	4.18	4.19	4.15
Yield on 52-week T-bills	%	6.52	6.10	4.85	4.62	4.78	4.80	4.91	4.73	4.43	4.23	4.33	4.35	4.26	4.25
Yield on 2-year T-bonds	%	6.26	5.43	4.81	5.37	5.60	5.44	5.60	5.34	4.93	4.92	5.10	5.03	4.92	4.95
Yield on 5-year T-bonds	%	6.21	5.42	4.96	5.57	5.97	5.88	5.85	5.83	5.55	5.53	5.74	5.65	5.64	5.70
Yield on 10-year T-bonds	%	6.25	5.57	5.43	5.94	6.21	6.17	6.30	6.34	6.19	6.08	6.18	6.15	6.14	6.18

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

^a in nominal terms, ^b at the end of period

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	1 347.7	1 402.7	314.1	326.3	331.5	375.8	331.0	338.8	342.5	390.4
GDP	%YoY	6.7	4.9	1.7	2.6	0.8	1.1	1.7	2.9	2.8	2.7	2.4	2.5
Domestic demand	%YoY	8.6	5.5	-1.0	3.4	-1.5	-2.1	-1.2	0.5	3.6	4.0	3.0	3.2
Private consumption	%YoY	5.0	5.4	2.2	1.8	3.3	1.7	2.2	1.7	2.0	2.0	1.7	1.5
Fixed investments	%YoY	17.6	8.1	-2.4	4.2	1.0	-3.0	-1.5	-4.0	-2.0	5.0	5.0	6.0
Industrial production	%YoY	9.7	3.5	-2.9	5.1	-10.0	-6.7	-1.3	6.3	6.7	5.6	5.3	2.9
Construction production	%YoY	22.5	11.4	4.9	5.7	3.5	0.4	9.1	6.6	3.0	6.6	3.5	9.7
Retail sales (real terms)	%YoY	14.0	9.6	1.9	3.8	0.4	1.4	3.7	2.3	2.6	4.9	4.3	3.3
Unemployment rate ^a	%	11.2	9.5	12.0	12.2	11.1	10.6	10.9	12.0	12.5	11.4	11.4	12.2
Gross wages in enterprise sector (real terms)	%YoY	6.7	5.9	0.8	1.0	3.2	0.2	0.5	-0.2	-1.4	1.1	1.9	2.5
Employment in enterprise sector	%YoY	4.6	4.8	-1.3	-1.4	0.1	-1.0	-1.8	-2.3	-2.5	-1.5	-0.9	-0.7
Export (€)	%YoY	13.4	14.2	-18.0	6.2	-22.2	-24.8	-20.5	-2.3	6.0	8.0	6.0	5.0
Import (€)	%YoY	19.5	17.2	-26.1	12.2	-28.2	-33.4	-28.0	-13.2	10.0	15.0	12.0	12.0
Trade balance	EURm	-12 369	-17 724	-3 350	-9 727	-744	-360	-840	-1 406	-1 760	-2 089	-2 465	-3 413
Current account balance	EURm	-14 696	-18 302	-4 164	-7 127	-30	-845	-503	-2 786	-1 460	-1 189	-1 565	-2 913
Current account balance	% GDP	-4.7	-5.1	-1.3	-2.0	-4.0	-2.9	-2.0	-1.3	-1.7	-1.8	-2.0	-2.0
General government balance	% GDP	-1.9	-3.6	-5.8	-6.3	-	-	-	-	-	-	-	-
CPI	%YoY	2.5	4.2	3.5	2.4	3.3	3.7	3.5	3.4	3.0	2.1	1.9	2.6
CPI ^a	%YoY	4.0	3.3	3.6	2.6	3.6	3.5	3.4	3.6	2.5	1.9	2.2	2.6
PPI	%YoY	2.0	2.2	3.3	-1.2	4.9	4.2	2.2	2.0	-1.5	-1.8	-0.8	-0.8
Broad money (M3) ^a	%YoY	13.4	18.6	5.4	6.2	17.5	14.4	9.6	5.4	4.4	4.2	5.7	6.2
Deposits ^a	%YoY	14.5	20.6	5.7	6.1	19.4	15.9	10.9	5.7	4.2	4.0	5.0	6.1
Loans ^a	%YoY	29.9	36.0	6.4	9.4	34.5	26.8	18.6	6.4	2.8	5.3	7.2	9.4
USD/PLN	PLN	2.77	2.41	3.12	2.71	3.45	3.27	2.94	2.80	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	4.16	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	4.18	4.08	4.05	4.19	4.43
Yield on 52-week T-bills	%	4.69	6.26	4.54	4.33	4.75	4.81	4.33	4.29	4.25	4.25	4.30	4.50
Yield on 2-year T-bonds	%	5.23	6.22	5.17	5.15	5.26	5.46	4.98	4.97	5.00	5.05	5.20	5.35
Yield on 5-year T-bonds	%	5.52	6.15	5.66	5.73	5.50	5.85	5.61	5.67	5.75	5.70	5.70	5.75
Yield on 10-year T-bonds	%	5.56	6.06	6.11	6.08	5.86	6.27	6.15	6.16	6.20	6.10	6.00	6.00

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

^a at the end of period

This analysis is based on information available until 10.12.2009 has been prepared by:

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