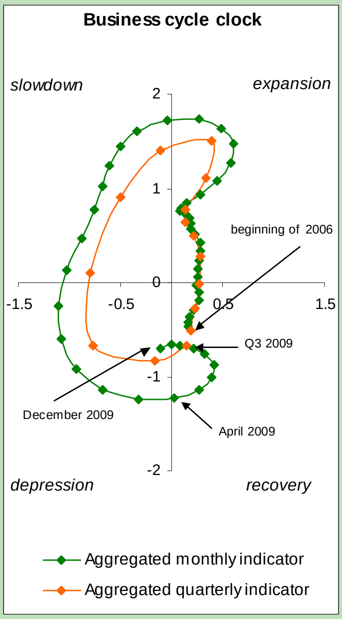
Bank Zachodni WBK

MACROscope

Polish Economy and Financial Markets

February 2010



Note: construction of business cycle clock, including concepts and methodology used for its creation was presented in November's MACROscope
http://english.bzwbk.pl/_items/english/doc/m_eng_2009_11.pdf

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

Sharp moves at year-start

- **Last month we wrote that during 2010 we still see high, though lower than in 2009, foreign exchange volatility. It turned out to be true already in January.** In line with our expectations, the EURPLN rate broke temporarily the level of 4.0 at the beginning of the year, though another wave of global risk aversion brought a correction to above 4.10. We do not change our forecasts for the following quarters and in the next couple of weeks we see a horizontal trend around 4.0 level (if correction take place, EURPLN should not rise above 4.14-4.15).
- **What is interesting, zloty strengthening at the end of January – beginning February took place despite falling EURUSD on global markets.** The euro remains under negative influence of fiscal situation in the so-called peripheral countries of the euro zone, as market assessment of these economies deteriorated as a result of Greece's problems. In a sense, fiscal situation in Greece was an excuse to play on financial markets against such countries like Spain, Portugal and Italy. Credit default swaps for these countries' debt rose significantly, while one has to remember that economic fundamentals and advance in reforms are different. For example, Spanish public debt to GDP is only a half of Greek. Italy has high level of debt but fiscal deficit is much lower (as well as current account deficit). It is possible that in the next following months the markets will change the approach and start differentiate more similarly as it was the case a year ago with CEE countries. After a sharp sell-off across the whole CEE region (Poland in the same basket as Ukraine and Baltic countries), the differentiation became the key word.
- **Our forecasts for the Polish economy remains unchanged.** GDP growth for 2009 was in line with our forecast, implying ca. 3% growth in 4Q09. Latest monthly data were mixed, but low growth in production and lower business climate indicators (PMI) suggest that the pace of recovery looses some momentum. Our business cycle clock (see margin chart) suggests the same as this indicator moved back to the depression phase (in our opinion, only temporarily). Data for January as regards production may surprise negatively again, though fortunately this would be driven by weather condition, at least partly.
- **Data for industrialised countries show that the last recession caused if not the dusk then, in any event, the crisis of consumerism and a strong increase in the saving rate of households.** But the Poles are not scared enough to change their habits. However, the nearest quarters will bring worsening growth of employees' compensation, which creates a downward risk for the dynamics of individual consumption. This is confirmed by results of our analysis (this month's *Special focus*). For now we maintain forecasts of individual consumption unchanged, but the data on the turnover of retail trade and the mood of consumers should be followed closely to see whether risks are materialising or not.

Financial market on 29 January 2010:

NBP deposit rate	2.00	WIBOR 3M	4.19	USDPLN	2,9083
NBP reference rate	3.50	Yield on 2-year T-bonds	5.09	EURPLN	4,0616
NBP lombard rate	5.00	Yield on 5-year T-bonds	5.55	EURUSD	1,3966

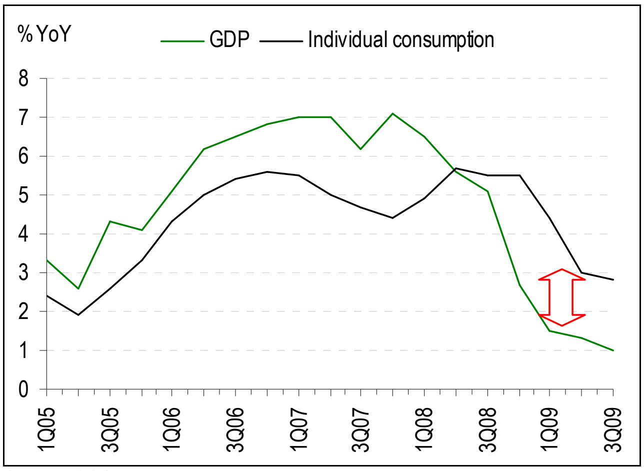
This report is based on information available until 10.02.2010

Special focus

Consumption in crisis

The global economy is now slowly recovering from a severe crisis. Poland has relatively smoothly navigated through fierce turmoil in the global economy, being one of the very few countries that has avoided a recession. Factors that have contributed to this phenomenon were discussed by us many times. It goes without saying that one of the important “stabilisers” of the economic growth in Poland was consumer behaviour.

GDP and individual consumption growth, seasonally adjusted



Source: CSO

Economic recovery has already started and economic activity pace has been accelerating for several quarters. However, there are many doubts as to how fast GDP might return to a potential growth path. A major concern is whether this economic recovery outside Poland will be persistent. However, what also raises questions are prospects of domestic demand, including consumer behaviour. Improvement on the labour market will be delayed as compared to an overall business cycle and household income will perhaps not grow too fast for some time. Given these conditions, will consumer demand remain an important driving force for the economy? Or will it rather slow down the economic upturn? We wish to answer these questions this month taking a closer look at individual consumption in Poland: consumption behaviour and prospects for the next quarters.

Consumption of great importance

What we usually mean by “consumption” is individual consumption and essentially its part which in the terminology of national accounts is referred to as *Individual consumption expenditure in the households sector*. This is the biggest component of GDP value in terms of distribution; in many countries (Poland included), it represents nearly two thirds of the Gross Domestic Product. Therefore, assessment of the individual consumer sector is usually essential for the assessment of condition and prospects of the overall economy.

Total consumption expenditure of households

	As a proportion of GDP (%)		
	1996	2001	2006 (1)
EU-27	57.0	57.4	56.3
Euro area	56.8	56.9	56.0
Belgium	52.5	52.3	50.5
Bulgaria	76.1	73.8	73.9
Czech Republic	53.2	54.0	50.8
Denmark	50.0	46.7	47.5
Germany	55.4	56.5	53.9
Estonia	64.8	59.5	56.2
Ireland	52.1	45.3	43.2
Greece	:	75.8	73.9
Spain	62.7	62.4	59.5
France	56.2	55.5	56.0
Italy	59.0	60.1	59.7
Cyprus	81.8	82.8	75.3
Latvia	65.1	60.8	63.2
Lithuania	66.6	66.2	65.6
Luxembourg	47.5	46.6	39.3
Hungary	55.9	56.5	53.9
Malta	78.8	77.3	68.9
Netherlands	49.1	48.8	45.7
Austria	58.5	58.1	56.3
Poland	61.3	64.5	61.5
Portugal	65.4	64.2	65.9
Romania	:	69.0	67.8
Slovenia	61.3	57.8	55.5
Slovakia	53.9	58.8	56.2
Finland	50.6	47.4	48.4
Sweden	47.7	46.6	45.4
United Kingdom	61.4	62.1	59.9
Turkey	67.3	74.9	73.9
Iceland	54.7	52.2	52.5
Norway	47.0	41.7	39.8
Switzerland	59.1	59.5	57.3

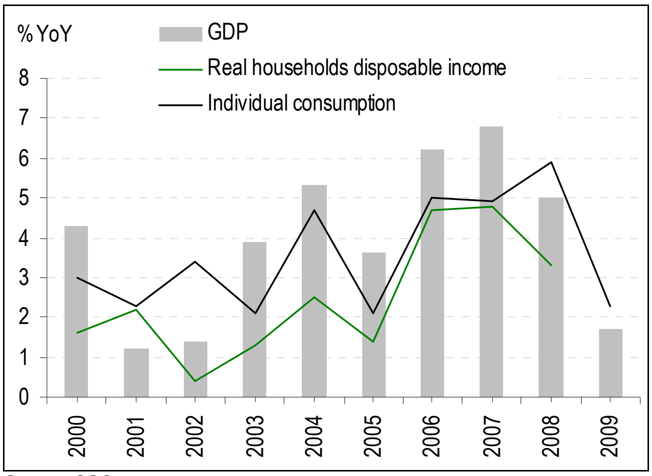
(1) Germany, Greece, France, Italy, Malta, the Netherlands, Turkey, Norway 2007; Bulgaria and Sweden 2005; Denmark 2004
Source: Eurostat

Empirical evidence shows that individual consumption is not only the biggest, but also the relatively most stable component of GDP. Its fluctuations are usually moderate as compared to other components of aggregated demand. In the times of rapid economic growth, consumption rises more slowly than household income whilst during economic downturn, consumer demand fall is often less rapid than income slump. Economists call it “consumption smoothing” as it results from consumers’ endeavours to stabilise a consumption path in a longer-term perspective.

Rising consumption drive

When we look at historical data on Poland’s economy, it appears that Poles increased their consumer spending faster than their actual income grew not only during the economic downturn, but throughout the last decade. In other words, for many years the ratio of individual spending to disposable income of households (disposable income is the part of total households’ income that remains after paying taxes and social security contributions) has been gradually growing and thus the savings to income ratio (saving rate) has been decreasing.

GDP, real household disposable income and individual consumption in Poland



Source: CSO

We might suspect that one of the key factors leading to such a noticeable consumption growth was a structural change over the recent years in Poland resulting in loans playing an increasingly important role in Poland. This was attributed to rapid growth of the banking product market and relatively low inflation rate as well as exceptionally soft monetary policy. Similar phenomena were visible in other countries which were trying to bridge development gaps. Growth in loan financed consumption drove down saving rates especially in the Baltic states where saving rates tumbled nearly to or even below zero.

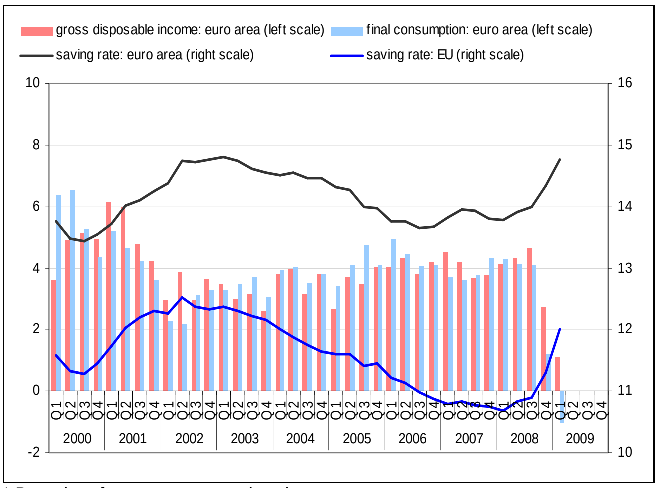
Consumerism crisis?

The last crisis, which severely hit the world economy and financial markets, was perceived by many as proof of failure of the consumer society model in the free market economy. There were many opinions saying that this will radically and permanently change consumer patterns and behaviours globally.

Macroeconomic data from recent quarters shows that in the world's biggest economies the global economic and financial crisis has indeed seriously shook this usually stable component of GDP, which is individual consumption. Rapid slump in prices of stocks and properties, freeze on credit markets, surge in unemployment rate and uncertain future translated into strong limitation of consumer spending in many developed economies, among others in the US, where after a few decades of strong downward trend, the household saving rate dynamically grew in 2009 to reach the level from the early 90s.

Eurostat data point to similar trends in Europe. The economic slump was followed by a noticeable and rapid growth in the household saving rate. Data for the euro zone and the European Union as a whole show that the household sector behaviour during the last crisis did not alleviate its effect at all, but was procyclical, deepening the scale of slump in aggregate demand. What is interesting, a similar phenomenon, although on a smaller scale, was visible also during the previous economic downturn in the years 2001-2002 (see chart below).

Growth in nominal disposable income, nominal consumption and saving rate* in the EU and the euro zone



* Based on four-quarter-cumulated sums.
Source: Eurostat (The European sector accounts)

...but not in Poland!

It is worth taking a look at the Polish consumer behaviour. We have estimated changes in the saving rate in the analogical manner as data published by Eurostat, using data on non-financial quarterly accounts by institutional

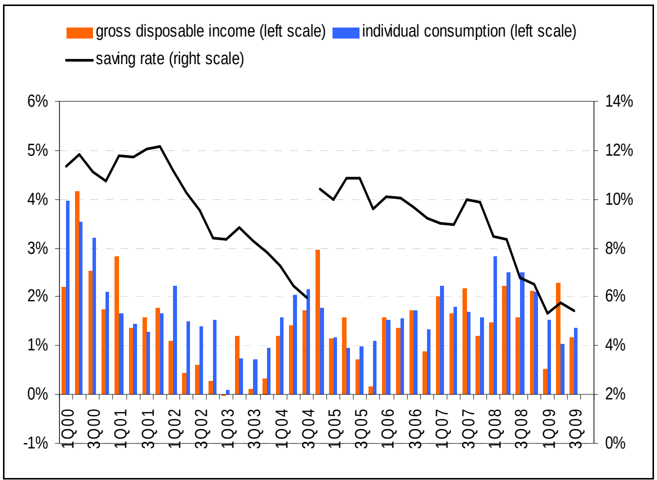
Gross household savings (% of gross disposable income)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
BE (Belgium)	20.0	18.5	17.7	17.0	17.2	15.4	16.4	15.8	14.7	13.3	12.6	12.9	13.7
CZ (Czech Republic)	15.1	11.2	11.0	9.2	8.5	8.5	7.4	8.1	7.4	5.7	8.1	9.1	8.8
DK (Denmark)	7.6	7.3	5.0	6.3	3.8	4.9	8.8	8.8	9.4	6.3	4.5	6.4	5.1
DE (Germany)	16.6	16.3	15.9	15.9	15.3	15.1	15.2	15.7	16.0	16.1	16.3	16.2	16.7
EE (Estonia)	10.2	8.0	6.5	4.5	2.6	4.1	3.1	0.5	-1.6	-4.8	-3.8	-3.0	0.8
IE (Ireland)	:	:	:	:	:	:	:	10.3	10.6	13.7	11.6	10.3	9.2
ES (Spain)	:	:	:	:	:	11.1	11.1	11.4	12.0	11.3	11.3	11.2	10.2
FR (France)	15.8	14.9	15.8	15.4	15.1	14.9	15.6	16.7	15.6	15.6	14.6	14.9	15.6
IT (Italy)	21.9	22.7	20.2	16.8	15.8	14.2	16.0	16.8	16.0	16.0	15.9	15.1	14.2
LV (Latvia)	-2.3	-0.7	1.8	0.7	-0.7	2.9	-0.4	1.5	3.0	4.7	1.2	-3.6	-4.3
LT (Lithuania)	1.3	-1.3	3.4	7.2	7.8	6.5	4.9	4.7	2.9	1.3	1.3	1.2	0.1
HU (Hungary)	:	:	:	:	:	13.9	13.7	11.4	9.2	11.6	11.4	12.0	:
NL (Netherlands)	18.6	17.1	17.6	16.6	13.8	11.9	14.5	13.7	13.0	13.0	12.2	11.5	13.4
AT (Austria)	16.2	13.9	12.6	13.3	14.5	13.9	12.9	12.9	14.0	14.1	14.5	15.4	16.3
PL (Poland)	16.9	14.2	14.1	14.4	13.3	12.4	14.2	10.4	10.0	10.1	9.8	8.6	8.8
PT (Portugal)	13.1	11.9	10.8	10.5	9.8	10.2	10.9	10.6	10.5	9.7	9.2	8.1	6.6
SI (Slovenia)	:	:	:	:	:	14.0	15.5	16.1	13.9	15.4	17.0	17.1	16.4
SK (Slovakia)	10.0	13.5	13.9	12.4	11.2	11.1	9.1	8.9	7.1	6.3	6.9	6.1	7.7
FI (Finland)	11.1	7.8	9.1	7.9	9.3	7.6	7.8	7.9	8.4	9.4	8.0	5.6	5.5
SE (Sweden)	11.5	9.5	7.2	6.4	6.0	7.4	11.8	11.6	11.4	10.3	9.5	10.5	12.0
UK (United Kingdom)	10.3	9.4	9.6	7.4	5.2	4.7	6.0	4.8	5.1	4.0	5.1	4.2	2.2
CH (Switzerland)	17.9	16.2	15.8	15.8	16.0	16.9	17.1	16.1	14.8	14.4	15.3	17.1	:
NO (Norway)	9.9	7.7	8.1	10.5	9.5	9.2	8.2	12.7	13.3	11.8	14.5	5.6	4.6
EA15 (Euro area)	**16.7**	**16.1**	**15.6**	**14.7**	**14.3**	**13.5**	**14.3**	**14.8**	**14.6**	**14.5**	**14.0**	**13.7**	**13.9**
EU27 (European Union)	**15.5**	**14.8**	**14.1**	**13.0**	**12.1**	**11.4**	**12.4**	**12.2**	**12.2**	**11.8**	**11.7**	**11.1**	**10.8**
US (United States)	9.0	8.2	7.7	8.4	6.6	6.5	6.1	6.6	6.6	6.6	5.8	5.5	5.2

Source: Eurostat/OECD

sectors released by the Central Statistical Office. Serious revisions of Polish quarterly data on gross savings in the household sector suggest that these indicators should be treated with some caution, however the trend seems to be clear: Poles have not been scared enough by the global crisis as to significantly curb their propensity to consume. Only the downward trend in the saving rate, very strong in 2008, has slightly slowed down in recent quarters.

Growth in nominal disposable income, nominal consumption and saving rate* in Poland



* Based on four-quarter-cumulated sums.
Interrupted continuity of calculations is caused by a major revision by the Central Statistical Office of data on non-financial quarterly accounts by institutional sectors and lack of comparable (revised) data for the whole analysed period.
Source: own calculations based on CSO data

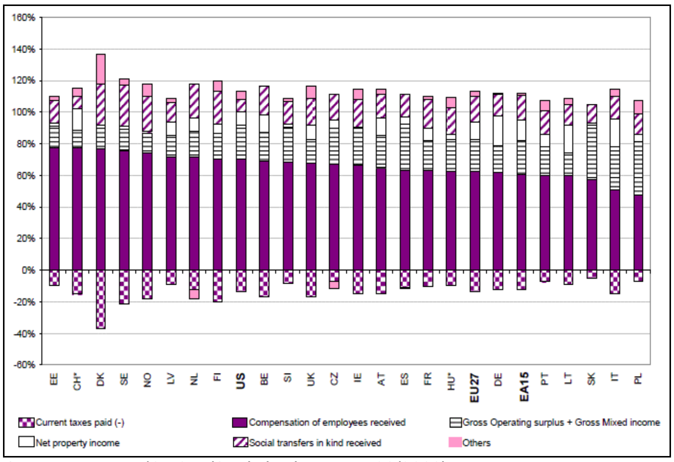
It does not mean that individual consumption growth remained at the pre-crisis level. Consumption dynamic decelerated in 2009 quite clearly (to 2.3%YoY from 5.9%YoY in 2008) in response to slowdown in income growth. However, the above results suggest that the global crisis was not followed by any deep and abrupt change in the consumer behaviour, but rather there was a continuation of long-term trends.

These findings are essential for the assessment of the immediate prospects of consumption. As accumulation of negative information and events over the last few quarters have not led to shock disturbance of relations between household income and individual consumption in Poland, we can hope that there will be no significant changes in this regard in the upcoming quarters, given the ongoing recovery in economic activity and slowdown of negative trends on the labour market. Therefore, accuracy of predictions concerning individual consumption behaviour should depend largely on whether we will have good projections of household disposable income.

What we know about income

When analysing household income on an ongoing basis, we often focus on data on wages and employment in the enterprises sector. Important as it is, this is only part of a full picture. Compensation of employees is only a part of total disposable income, while wage bill in enterprises sector is only a fraction of total compensation. In Poland this issue is especially important, as according to Eurostat survey, income from paid employment represent here much smaller proportion of total households' income than in any other European country.

Structure of the nominal adjusted gross disposable income of households in 2007



Source: Eurostat/OECD (Statistics in Focus, 29/2009)

On the other hand, the Central Statistical Office data on disposable income of the entire household sector are available a long time after the period they refer to (this delay is bigger than in the case of GDP data). What is more, quarterly estimates of disposable income show exceptionally high volatility which is difficult to explain and interpret and which raises concerns about the reliability.

To have a more comprehensive and up-to-date picture of changes in the consumer income, it is worth gathering information from multiple sources. For this reason, we have designed own measure of households' income, based on the following information:

- payroll fund in the economy, estimated based on average employment and average monthly salary in the domestic economy;

- social benefits fund based on the Central Statistical Office data on pensions, disability pensions and other benefits;

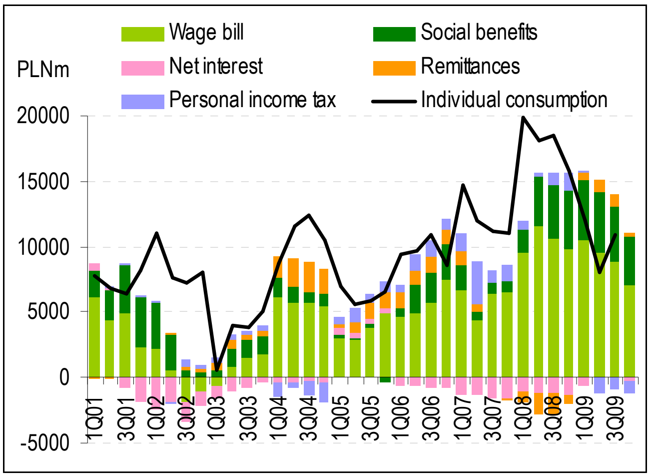
- net interest income (interest earned on banking deposits net of interest paid on household loans, calculated based on NBP data on liabilities and receivables in the banking sector and average interest rates);

- remittances (data from balance of payments regarding salaries of temporary and permanent workers transferred to Poland by individuals working abroad);

- (net of) state budget income from personal income tax.

It should be noted that such a measure also provides only pieces of information on disposable income. In particular, payroll fund that we are able to track refers only to companies employing more than 9 people. We also have no information on revenues of self-employed, freelancers, farmers. There measure also lacks information on property income other than deposit interest. Those gaps in observation may have particularly high significance in periods of high turbulences in the economy, like the one we witnessed recently, as one may suspect that for example households revenue from self employment is generally much more dependent on economic climate than revenue from paid employment or social benefits. Nevertheless, such measure is still much better indicator of households' financial situation than simple wage bill in the enterprise sector.

Structure of changes in households' income versus nominal growth in private consumption (PLNm, YoY)



Source: own calculations based on CSO data

Consumption model

The graph above shows that our calculated measure of households' income is important factor affecting changes in consumption, however it is not enough to fully explain its fluctuations. To some extent, this may result from the mentioned above fact that the measure does not cover a significant part of households' revenue. Moreover, households' decisions concerning consumption spending are affected, apart from income, also by other changes in macroeconomic situation and financial market trends. Thus, in order to forecast the path of private consumption we used a simple econometric model based on cointegration analysis and error correction mechanism. The results of estimation showed that helpful in explaining changes in private consumption in the last couple of years were variables representing, apart from income, changes in loans and deposits, interest rates, and also behaviour of stock prices at Warsaw Stock Exchange (details concerning the construction of the model and results of estimations are included in the *Technical appendix* at p. 6).

The estimates seem to confirm a significant impact which the credit market growth has on consumer demand in Poland. In particular, in the estimated long-term equation of consumption, not only the level of household income, but also a variable reflecting net debt of households towards banks plays an important role (although the impact of this factor is much smaller) as well as the level of real interest rate. A high negative value of the estimated parameter with this last variable shows that the long-term consumption is very sensitive to loan and deposit interest rates.

As regards the equation explaining short-term consumption fluctuations, variables which were significant from the statistical point of view were: impact of income growth, changes in net debt, interest rate changes, as well as fluctuations of Warsaw Stock Exchange index. What is interesting, the estimated parameter with this last variable is negative, which can be interpreted as confirmation of the so-called risk aversion hypothesis in the context of consumer behaviour. Negative rates of return on assets make some investors spend more on consumption whilst high returns on investment encourage them to save more at the expense of current consumption.

Both in the short- and long-term equation, the variable which had the biggest impact on consumption was the real interest rate. Perhaps this is good news for new members of the Monetary Policy Council. On the other hand, they should remember that a projected inflation slump in the upcoming quarters will trigger a significant increase in the real interest rate even without their direct intervention.

Risk for consumption growth

Using the estimated equations, we have tried to assess the prospects for private consumption this year, based on our forecasts of developments in the labour market and macroeconomic environment.

Although economic growth has bottomed out and started accelerating already in 2009, changes in the labour market are delayed in comparison to the main business cycle. Our forecasts indicate that wage growth in the economy will reach a bottom at the beginning of this year, and only in subsequent quarters will gradually accelerate. Indexation of social benefits will be less generous this year than last year. We also expect lower transfers of income from abroad (due to the impact of the appreciation of the Polish zloty and the return of emigration). As a result, our forecasts indicate a clear deterioration in the dynamics of household income in the first half of the year and improvement only in the second half of the year.

The second key factor affecting the dynamics of consumption in the model, real interest rate, also is not likely to support the growth of consumer spending, growing under the influence of rapidly declining inflation. More conducive should be predicted by us improvement of situation in the credit market and the gradual easing of lending policies by banks.

Forecast made on the basis of our estimated model and the provided assumptions, implied deceleration of the individual consumption growth in 2010 to an average of about 1%YoY. The first quarter of the year may be particularly difficult, in which the dynamics of labour income is likely to deteriorate quite clearly. This indicates a downward risk to our previous forecasts, which assumed the maintenance of private consumption growth this year at around 2%. However, based on expert evaluation and observation of non-modelled factors, it seems to us that indications of the model for the next few quarters may be too pessimistic. In particular, we hope that the financial situation of households will not worsen in the scale indicated by our calculations, among others thanks to the improvement of (not incorporated in the model) household income from self-employment and business activity, as well as income generated in grey economy (which usually grows more rapidly in the times of economic slowdown). Also, improving consumer sentiment indicators create a sense of optimism (according to business cycle clock calculated by us, the WOK index of consumer optimism is in the recovery phase, gaining momentum). As a result, we remain moderately optimistic with regard to private consumption outlook, although certainly the results of the retail trade in the next few months will be an important indication whether risk factors identified by the model are likely to materialise.

Technical appendix

To analyse behaviour of individual consumption in Poland we employed a simple, single equation linear regression model. Quarterly statistical data that were a source of estimation covered period 2001:Q1 – 2009:Q3.

Econometric analysis based on Engle-Granger procedure confirmed existence of long-term cointegrating relationship between variables representing individual consumption in constant prices, relation of households' loans to deposits in constant prices, and ex-post real interest rate (Johansen's procedure also suggested existence of at most one cointegrating vector):

$$c_t = \underset{(0,07)}{0,542} \cdot y_t + \underset{(0,02)}{0,115} \cdot kd_t - \underset{(0,15)}{0,576} \cdot r_t + \underset{(0,81)}{5,797} - \underset{(0,004)}{0,025} \cdot s(4)_t$$

$R^2 = 0,991$; Adj. $R^2 = 0,989$; DW = 2,19

Estimated standard errors are presented in the parentheses below equation, while variables (log-transformed) are defined as follows:

c_t individual consumption in 2000 prices.

y_t households' income in 2000 prices (earlier defined measure including: gross wage bill in the national economy, gross social benefits, net interest income, less budget revenue from personal income tax).

kd_t measure of net households' net debt in the banking sector (value of households loans divided by households deposits) in 2000 prices.

r_t real interest rate, i.e. average WIBOR 3M, deflated by CPI inflation rate.

$s(4)_t$ seasonal dummy variable equal 1 in the fourth quarter and zero otherwise.

Estimated short-term equation explaining fluctuations of individual consumption has a form:

$$\Delta_4 c_t = \underset{(0,07)}{0,463} \cdot \Delta_4 y_t + \underset{(0,03)}{0,094} \cdot \Delta_4 kd_t - \underset{(0,13)}{0,474} \cdot \Delta_4 r_t - \underset{(0,01)}{0,03} \cdot \Delta w_t -$$
$$- \underset{(0,14)}{0,585} \cdot ECM_{t-4} + \underset{(0,004)}{0,008}$$

$R^2 = 0,751$; Adj. $R^2 = 0,708$; DW = 2,15

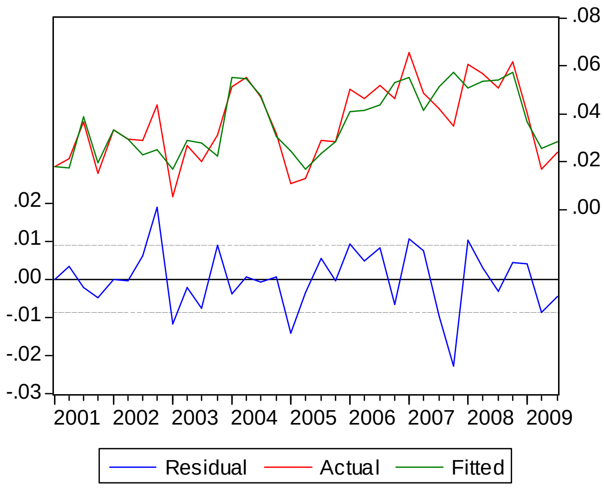
where:

Δ is differencing operator,

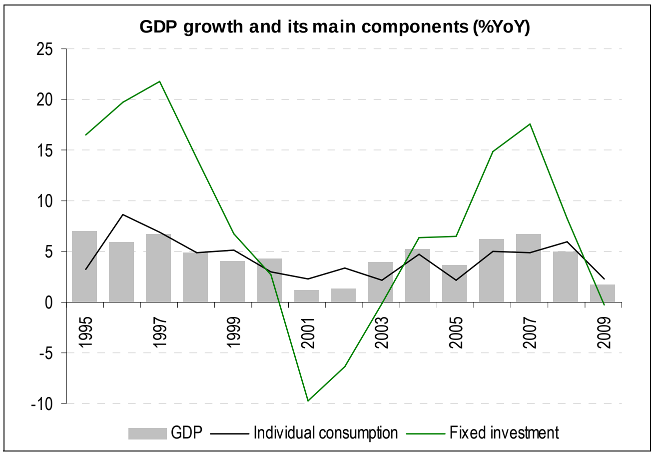
w_t represents WIG index of stock prices at Warsaw Stock Exchange,

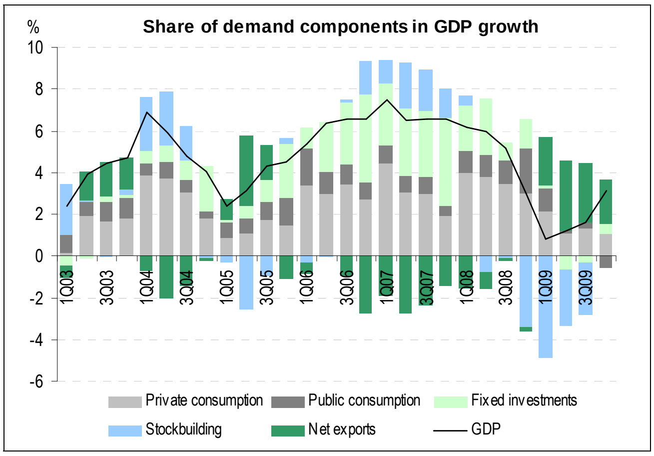
ECM_{t-4} "error correction" term, i.e. lagged residuals from the long-term equation.

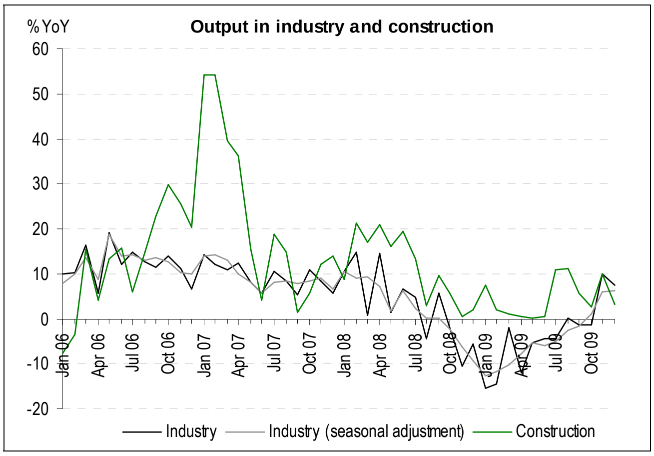
The graph below plots fitted values and residuals from the short-term equation:

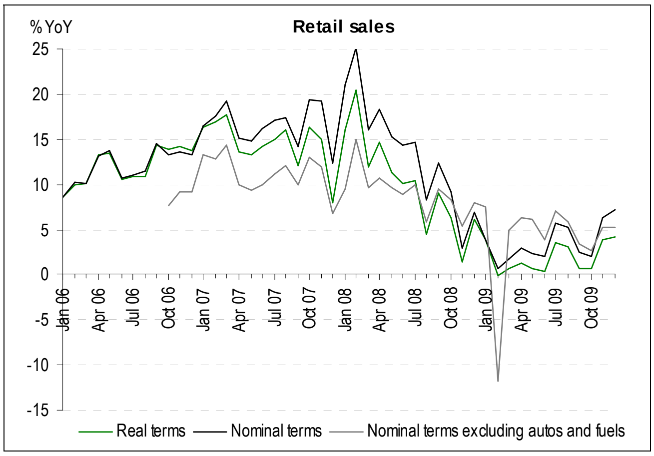


Economic update









Source: CSO, own calculations

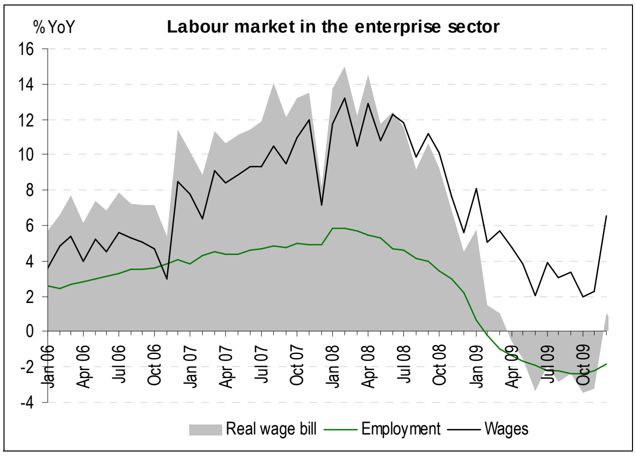
Good tentative GDP figures for 2009, but risks remain

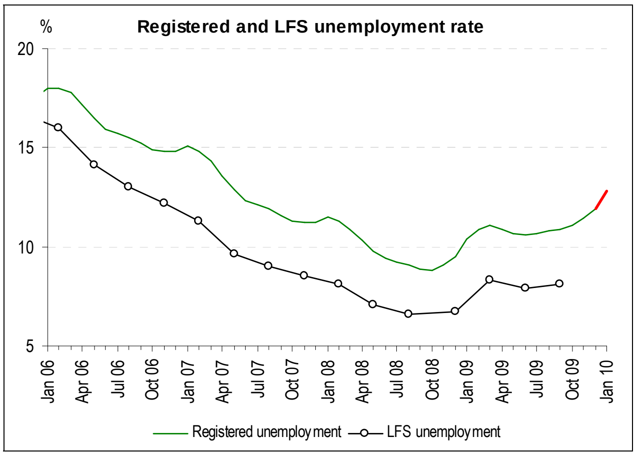
- According to the tentative data, real GDP growth in 2009 reached 1.7% while market consensus was 1.6% and recently some market analysts and MinFin revised their expectations down after the disappointing output figures for December (see details on output figures below). From this point of view, the data can be viewed as positive. The positive feature of the data is also the structure of GDP growth. Growth rate of fixed investments in the whole year was -0.3%, and was better than our estimate of -2.8%. The increase in private consumption was 2.3% against our estimate of 2.2%. Total domestic demand fell by 0.9% while we estimated that it fell by 1.2%. The contribution of net exports to GDP growth was positive at 2.6pp, and we estimated 2.9 pp.
- Assuming lack of revisions of quarterly data for Q1-Q3 2009, we estimate that GDP growth in Q4 reached 3.1%YoY, investment growth was 1.5%YoY (we had forecasted –5.0%, but it seems that strong activity in public investment, with higher weight in Q4, more than offset weak investment activity in the private sector), private consumption growth was 2.0%YoY (our estimate was 1.7%YoY) and total domestic demand grew by 0.9%YoY (we had expected fall of 0.1%YoY). Amid stronger than expected domestic demand, estimated contribution of net exports to GDP growth in Q4 was 2.1pp versus expected 3.2pp.
- All in all, GDP figures suggests that pace of economic growth in Q4 2009 was faster than predicted while breakdown of the growth indicates that quality of economic recovery was better than expected. We wait with a change in our GDP forecasts for official quarterly GDP data due for release on March 2. Anyway, the data would not influence the assessment of the probability of second wave of economic slowdown in the global economy, which is the main source of risk for medium-term prospects of economic growth in Poland.

Mixed monthly economic activity indicators

- Industrial output growth in December was 7.4% higher than a year ago while a two-digit growth of ca. 12% was expected (this was market consensus and our forecast). It is possible that positive working days effect was weaker than expected as holidays calendar encouraged to take a leave in the period between Christmas and New Year's Eve, which could lower the effective number of hours worked. Industrial production growth after seasonal adjustment was at 6.2%YoY, slightly above 6.1%YoY recorded in November. In our view this shows that revival of the economic activity in manufacturing, which to large extent resulted from rebound in external demand, is continued.
- Poland's PMI manufacturing fell to 51.0 in January from 52.4 in December. Despite the fall, the index is still above the 50.0 level, which means activity in the manufacturing keeps expanding. However, the output index fell and pointed to the weakest rise in output in 3 months, which support our forecast indicating significant slowdown in annual growth of industrial output in January (to a mere 0.1%YoY).
- Construction output growth in December slowed down to 3.1%YoY from 9.9% in November. Apart from the holiday factor mentioned for industrial output, this might have resulted from weather conditions, which significantly deteriorated in December, after very favourable November.
- Nominal growth in retail sales in December accelerated to 7.2%YoY from 6.3%YoY in November, stronger than expected. However, one should remember that to some extent this is a result of strong (stronger than we assumed) increase in fuel sales under influence of clear increase in fuel prices and probably increased use of fuels amid severe weather conditions. We estimate that retail sales excluding car and fuels increased by 5.2%YoY, slightly slowing down from 5.3%YoY in November.

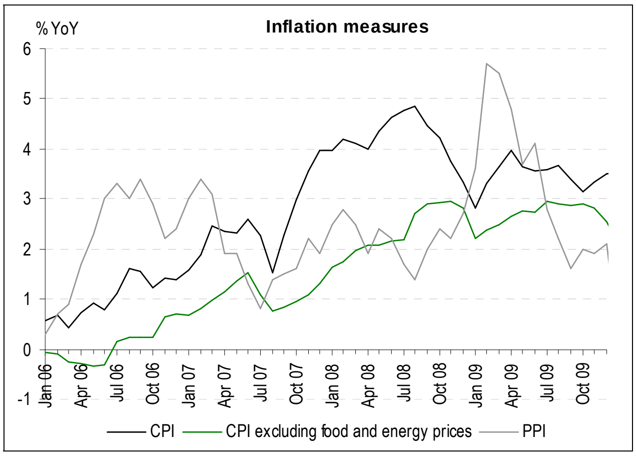
Economic update





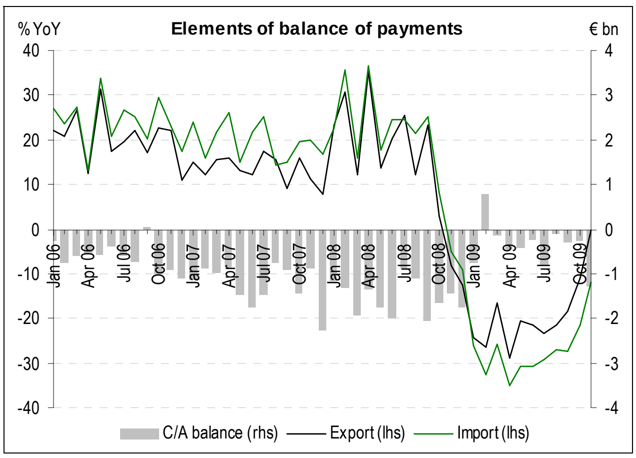
Positive surprise in wages and employment

- Annual rise in average wage in corporate sector accelerated to 6.5%YoY in December, much stronger than indicated by the market consensus (3.2%YoY) and our forecast (4.7%YoY). In real terms average wage grew 2.9%YoY after 4 months of a fall.
- Average wage growth in enterprises in December was positively affected by the effect of change in timing of payment of bonuses in the mining industry (improvement in the annual wage growth in this sector to 24.9% from -14.7% in November), but one should also note an improvement in annual wage growth in manufacturing (to 5.9% from 5.2%), although it could be affected to an extent by positive effect of low base.
- The positive tone of data from the labour market in the corporate sector is strengthened by the fact that employment decline in December was smaller than expected and reached 0.2%MoM (not much given seasonal effect), which improved the annual growth rate to –1.8% from –2.2% in November.
- Stronger than expected wage growth and smaller than forecast employment drop led to significant improvement of wage bill in the corporate sector. In nominal terms its growth rate was 4.6%YoY, and in real terms to 1.1%, reaching a positive value for the first time since March 2009. Overall, data somewhat improved assessment of tendencies in the labour market.
- The registered unemployment rate at the end of 2009 reached 11.9%. The result was clearly lower than expected a few months earlier, but this was probably artificially lowered by an effect related to hike in unemployment benefit since the beginning of 2010 – a large part of people loosing jobs in last months of 2009 waited with registration as unemployed until 2010 in order to get higher benefits. Tentative estimates of the labour ministry show the unemployment rate surged to 12.8% in January, also due to stronger than usual seasonal effect.



Inflation remains under control

- CPI inflation in December was 3.5%YoY, lower than expected 3.6%YoY thanks to large drop in prices of communication and recreation and culture. This does not change the medium-term inflation outlook. In H1 2010 the CPI inflation will drop significantly due to high base effect.
- Most of the core inflation measures declined in December. CPI excluding fuel and energy prices rose 2.6%YoY after 2.8% rise in November. Next months should bring further decline in core inflation, even clearly below 2%.
- PPI inflation rose to 2.1%YoY in December from downwardly revised (from 2.0%) 1.9%YoY in November. Next months will most likely see a significant decline in PPI inflation due to effect of very high base from the start of 2009 (when producer prices rose substantially due to sharp zloty depreciation).

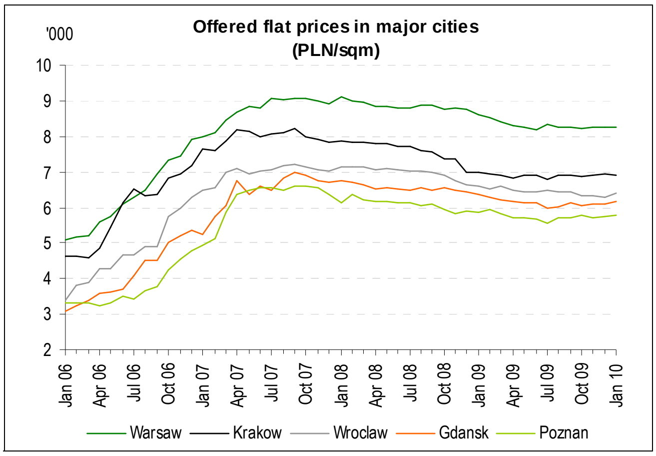


Balance of payments influenced by PZU insurer issue

- The C/A balance in November 2009 was -€1.27bn with trade gap of €292m, services surplus of €430m, income deficit of €1.1bn and the transfers deficit of €329m.
- Exports in November were €9.1bn or a mere 0.1% lower than a year earlier. Imports were €9.4bn decreasing by 11.9%YoY. The data indicate that reviving economic activity in Poland's main trading partners (including Germany) and still relatively weak zloty contribute to revival of the Polish export sector.
- November's balance of payments data were strongly affected by transaction between PZU, Eureko and State Treasury (this led to large deficit in transfers and fall in FDIs).
- The 12M C/A gap reached 1.8% of GDP and was still nearly two times smaller than inflow of long-term capital (FDIs plus EU funds on the capital account) in the same period.

Source: CSO, NBP, own calculations

Housing market update

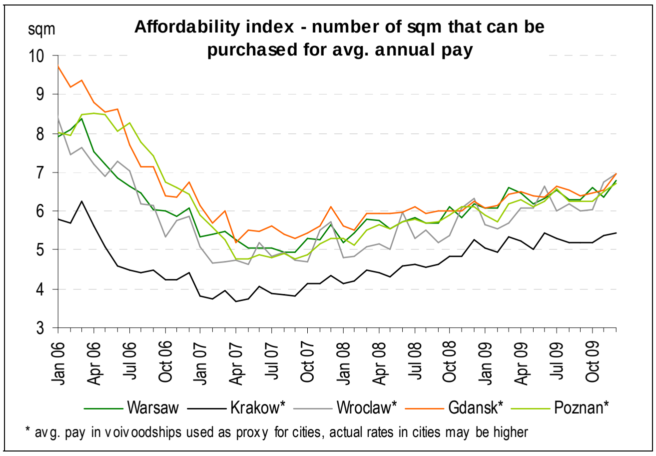


Prices still stable

▪ The start of 2010 did not bring a clear change in price trend on the domestic housing market. Average offered prices according to szybko.pl slightly fell in Warsaw and Cracow (where the level of prices is the highest among Poland's main cities) and rose in Gdańsk, Poznań and Wrocław.

▪ Assessing performance of prices over the past year it is clearly visible that after drop in 2008 and Q1 2009 there has been stabilisation of average offered prices in the Polish housing market since Q2 2009.

▪ Analysing information regarding the current demand in the housing market, terms on housing loans and developments on the supply side of the markets, one may assume that later in the year stabilisation of prices will be continued.



Reviving demand

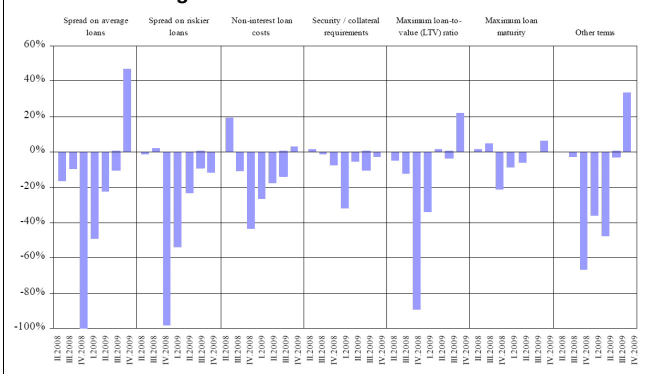
▪ New information from real estate agents and developers signal continuation of earlier seen tendency of a reviving demand in the housing market.

▪ Among factors fuelling demand for housing one may indicate improvement in prospects for the economic situation and labour market conditions.

▪ At the same time, it is important that there is continuation of improvement in relation between growth rate of wages and house prices, which leads to rise in the affordability index.

▪ Effective demand in the housing market is also positively affected by the recently seen tendency of an easing in terms on housing loans.

Terms on housing loans



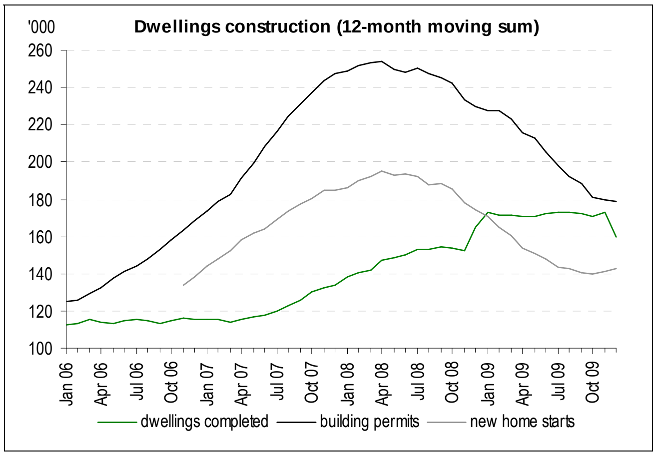
Note: values in % is difference between percentage of banks declaring easing in terms on housing loans and percentage of banks declaring tightening of the terms

Breakthrough in the housing loans market?

▪ Results of the latest NBP survey among senior loan officers in Polish banks suggest that there was a breakthrough in the domestic housing loans market.

▪ In Q4 2009 banks for the third straight quarter reported a rise in demand for housing loans and at the same time for the first time in many quarters more banks eased than tightened terms of housing loans. This was the most visible in case of the standard loan margin. The most frequently indicated reason for the easing in terms on housing loans was decrease in risk connected with the economic situation.

▪ Moreover, for the first time in many quarters, for Q1 2010 there is larger percentage of banks planning to ease terms on housing loans than percentage of banks planning to tighten them.



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

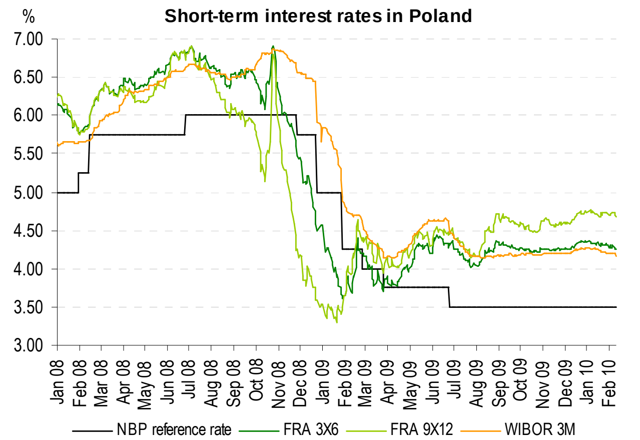
Supply reacts to revival in demand

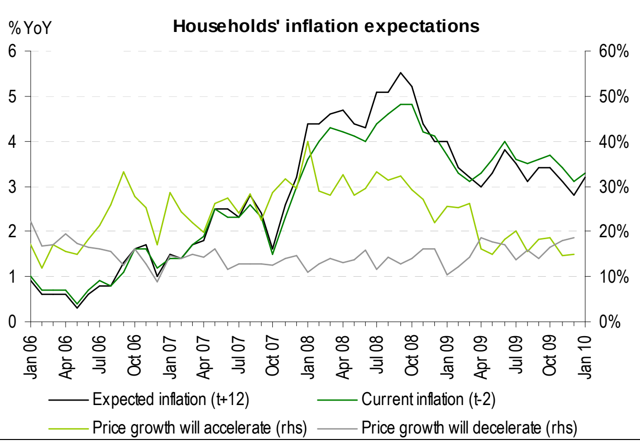
▪ In December 2009 there was unexpected strong decline in the number of dwellings completed. As a result, the number of dwelling completed in the whole 2009 was over 3% lower than in 2008. During 2010 the started downward tendency in the number of dwelling completed may be continued as a result of earlier clear drop in the building permits and house starts.

▪ At the same time, one should stress that supply in the market reacts to development on the demand side in quite a flexible manner. In response to signals of a rise in demand, we observe deceleration in the fall of building permits and it also seems that there was a start of an upward tendency in the house starts, which we signalled writing in the past months about new projects of developers.

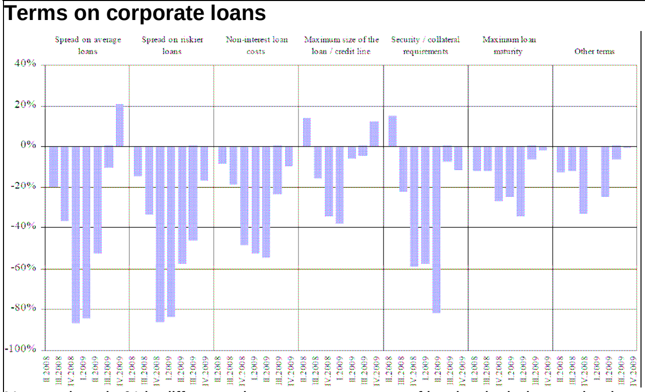
Central bank watch

Elements of information from the January meeting of the MPC
The latest data on the Polish economy indicate an improvement in economic activity. Despite increase in the unemployment rate, relative stabilisation of employment in the enterprise sector may signal a gradual deceleration of the unfavourable labour market tendencies. Lending to the enterprise sector is still shrinking and the growth in loans to the household sector remains considerably lower than in the past few years.
In the Council's assessment, in the months to come inflation will be lowered by negative base effects connected with the surge in administered prices and food prices at the beginning of 2009. Other factors conducive to lower inflation include: low demand pressure, previously observed moderate growth of labour costs and the previous zloty appreciation. In turn, inflation decline in 2010 may be curbed by rises in: commodity prices in the world markets, fees subject to local governments' decisions, excise duty, and administered prices.
An important factor affecting monetary policy is the situation of the public finance sector. Introducing measures aimed at permanently reducing the deficit of the general government sector would support maintaining macroeconomic stability and allow to meet criteria for euro adoption.





Terms on corporate loans



Note: values in % is difference between percentage of banks declaring easing in terms on housing loans and percentage of banks declaring tightening of the terms

Source: NBP, Reuters

The first MPC meeting for a few new members

- The Monetary Policy Council decided to leave main interest rates unchanged. The reference rate is still at 3.5%.
- During January meeting there were five new members of the MPC, including: Jerzy Hausner, Andrzej Rzońca and Jan Winiecki (chosen by the Senate) as well as Andrzej Bratkowski and Elżbieta Chojna-Duch (chosen by Sejm). Only at the next meeting there will be a full line-up of MPC of new tenure. The above-mentioned members will be accompanied by Anna Zielińska-Głębocka (third appointee by Sejm) and three, still unknown candidates of country's President.
- The content of the communiqué released by the MPC after the meeting did not change significantly as compared to the previous month. The Council assessed the probabilities of inflation running above and below the target in the medium term as balanced, maintaining the informal neutral bias in monetary policy. The Council recorded further improvement of the business climate domestically and abroad, but also it noted that in China "the risk connected with excessive lending and asset prices growth has recently increased".
- In the communiqué, one paragraph was added saying that an important factor conditioning monetary policy is the situation of public finances, and taking action to persistently reduce government deficit would be conducive to macroeconomic stability and the possible fulfilment of the criteria required for euro adoption. It is hard to object that statement, however we did not perceive it as a suggestion on the possible pace of monetary policy tightening.
- All in all, nothing has changed in our assessment of monetary policy prospects – we expect the new MPC will hike interest rates for the first time only in the final quarter of 2010.

Inflation expectations do not force swift decisions

- Inflation prospects for the following months suggest stable monetary policy and one can draw a similar conclusion from the data on inflation expectations of households.
- For a couple of quarters the expected inflation is below the inflation level observed of the moment of conducting a survey (i.e. inflation lagged by two months). In December it fell even below 3% for the first time since the end of 2007 (it was at 2.8%). Data for January showed a rise to 3.2%.
- The breakdown of answers from the opinion poll should not stir the policy makers either. The percentage of people expecting prices to rise faster than currently is stable at low level (15%) for some time. Also, there is rising number of households expecting prices at the slower rate (18%).

Easing of credit conditions in banking sector

- According to the NBP survey , credit policy tightening by banks was stopped in Q4 2009. In the case of households' credits, criteria of granting mortgage were eased (see previous page of the report for details), while there was further tightening of standard of granting consumer loans.
- As regards credit criteria for enterprises sector, the standards of granting loans to small and medium-sized enterprises and short-term loans to large enterprises were slightly eased. The banks lowered spreads on normal-risk loans.
- At the same time, banks noticed that demand for most types of loans increased (for firms especially in the case for short-term loans), which is expected to be continued in the first quarter 2010.

Government and politics

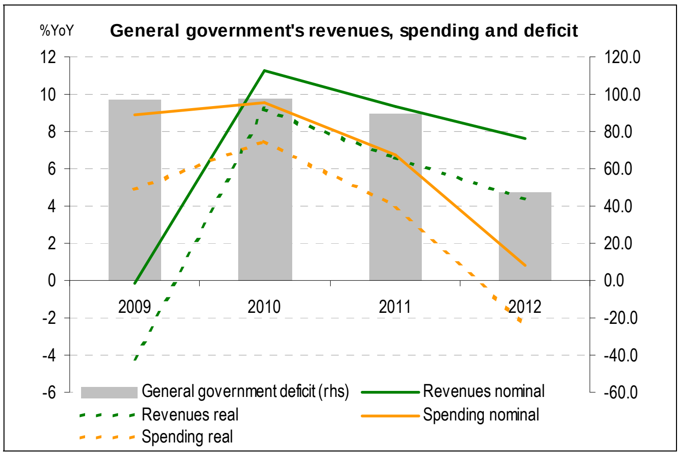
Main macroeconomic assumptions for 2010-2012 in Convergence Program (CP) against the background of BZ WBK forecasts

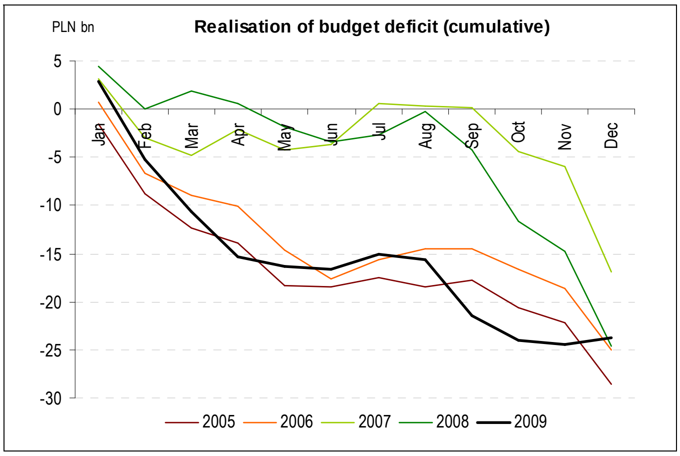
Annual average	2010		2011		2012	
	CP	BZWBK	CP	BZWBK	CP	BZWBK
GDP growth	3.0	2.6	4.5	3.5	4.2	4.9
Private consumption	0.8	2.0	3.0	3.1	4.8	4.5
Fixed investment	5.7	4.7	11.3	8.5	4.7	10.0
Exports	5.5	8.1	7.0	10.0	8.0	10.0
Imports	6.1	12.7	7.6	12.0	8.5	12.0
EURPLN	3.96	3.91	3.69	3.74	3.55	3.65
Inflation*	2.1	2.3	2.7	2.5	3.2	2.5
NBP reference rate	3.7	3.6	4.8	4.1	5.6	4.8

* in Convergence Program there is forecast for HICP inflation while BZ WBK forecast is for the CPI inflation

Balance and debt of the general government sector according to Convergence Program Update 2009, in % of GDP

	2008	2009	2010	2011	2012
Central government	-3.9	-5.6	-5.7	-6.1	-3.6
Local governments	-0.2	-0.5	-0.5	-0.1	0.0
Social security funds	0.4	-1.1	-0.7	0.4	0.7
Total balance	3.6	-7.2	-6.9	-5.9	-2.9
Total balance (PLNbn)	-45.8	-96.9	-97.6	-89.6	-47.4
Debt	47.2	50.7	53.1	56.3	55.8





Source: Ministry of Finance, Ministry of State Treasury, own calculations

Ambitious Convergence Programme

▪ In our opinion, assumptions for GDP growth, which were presented in the Convergence Programme, are possible to materialise, though it is hard to call them conservative. At the same time, it is worth to mention that forecasts of private consumption and import, which significantly affect budget revenues stream, are rather on the safe side.

▪ In terms of inflation assumptions, high level in 2010 seems the most problematic. This is especially the case, as the Ministry of Finance assumes stabilisation of oil price, appreciation of the zloty more significant than our forecast and more restrictive monetary policy. To some extent, the explanation may be connected with a change in rules as regards excise tax (since 2012 as regards coal for heating purposes). However, it seems that higher inflation was assumed to achieve higher nominal growth and as a result lower ratio of deficit to GDP (just below 3%).

▪ Overall, we think the government should have taken the same approach as during preparation of budget 2010 i.e. more conservative assumptions. The difference is that then the aim was to minimise the risk of another budget amendment (and showing better results of budget realization during the year), while in the Convergence Programme the aim was to show (at least on paper only to receive EU's acceptance of the plan) the deficit below 3% of GDP in 2012.

▪ Except macroeconomic assumptions, the weakness of the programme is shown by the fact that the whole fiscal adjustment takes place in 2012 (the year after elections).

▪ The ratio of public spending to GDP is stable at the level above 46% in 2010-11 period and in 2012 it falls sharply to 43.3% (the level observed in 2008). Taking into account assumptions of the ministry regarding nominal GDP, it looks like after the high nominal growth in spending assumed in 2009-10 (of some 9%), the growth in 2011 is not much slower (6.6% i.e. in real terms ca. 4%).

▪ The most significant step towards stabilizing public finance sector takes place only in 2012. This implies almost zero nominal growth of public expenditure, which means above 2% reduction in real terms. This would be possible amid limiting of public investments, after the accumulation of this kind of spending in the previous year. However, there is a lack of information in the plan about other ways of achieving the goal on the spending side. The programme mentions only "lowering and more flexible approach towards public spending through review of indexed expenditures and rationalisation". Also, some rules on the spending side are to be introduced (though their effectiveness will be limited).

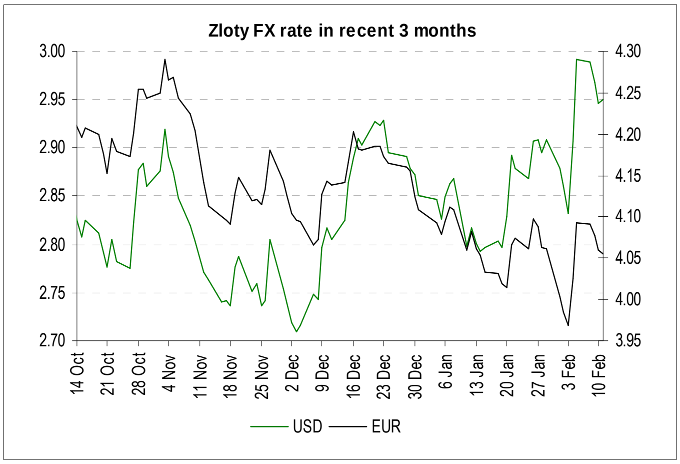
▪ From the bond market point of view, it is important to note high nominal deficit in 2011 amid lower privatisation flows.

Good realisation of amended budget for 2009

▪ Budget deficit in 2009 reached PLN23.8bn, while in the amendment it was assumed at PLN27.2bn. Revenues were higher than plan by 0.5% and spending was lower by 0.6%.

▪ What is important, the good result in revenues was achieved thanks to higher tax revenues, mostly in indirect taxes (5.1% above the plan). This means a chance for higher-than-planned revenues also this year, given conservative macroeconomic assumptions. This supports our view that central budget deficit in 2010 may be lower than the planned PLN52bn by at least PLN10bn. This was confirmed by some preliminary estimates presented by government's representatives. However, the Convergence Programme assumes anyway the general government deficit at very high level of close to 7% of GDP.

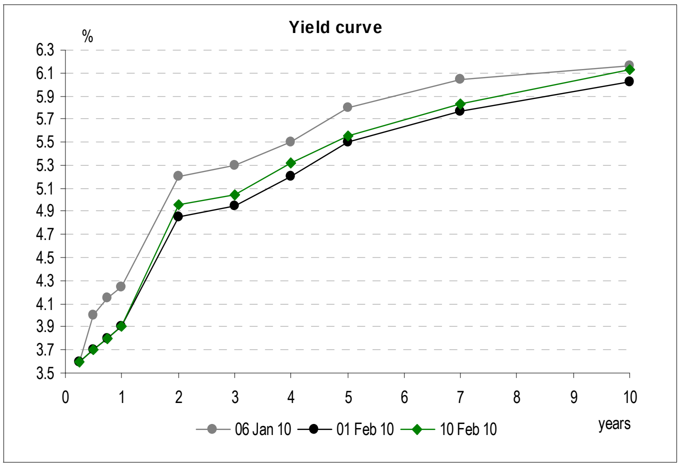
Market monitor



Significant correction of the EURPLN after fall below 4.00

▪ In the past month there was an increase of zloty rate volatility. As the year started and investors' new budgets were opened there was a clear zloty strengthening. The EURPLN broke significant technical level 4.00 and declined to ca. 3.95. After increase in risk aversion along with concerns over fiscal situation of peripheral euro zone countries the EURPLN rate rose in a few sessions to ca. 4.10. Clear zloty correction was accompanied by declines in the world stock markets and strong dollar recovery. Hopes for support for Greece improved moods and helped the zloty to recover.

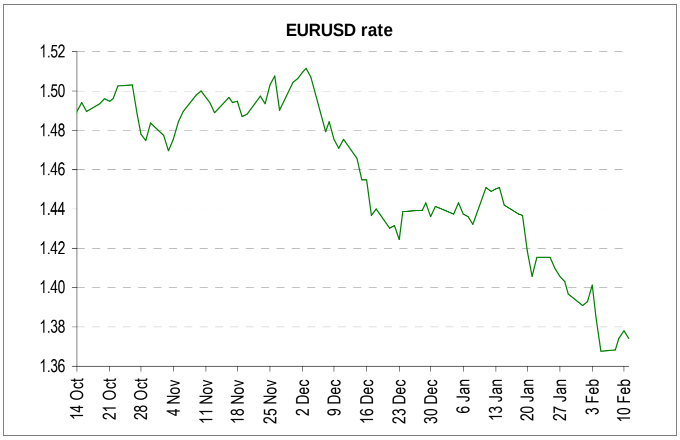
▪ In the coming weeks there should be zloty recovery toward 4.0 and below along with improvement in risk appetite and calming down of concerns over fiscal situation in the euro zone. Limiting of long positions in the dollar, which is strongly overbought, should support domestic currency.



First yields declines, later weakening

▪ Series of positive fiscal news signalling lower borrowing needs and smaller debt supply this year led to significant strengthening in the debt market. Additional support was zloty appreciation. At the end of January there was a slight correction though the strongest levels were reached at the start of February, amid zloty strengthening and positive data abroad. From the lowest levels the IRS rate and bond yield curve rose by ca. 10-15 bp.

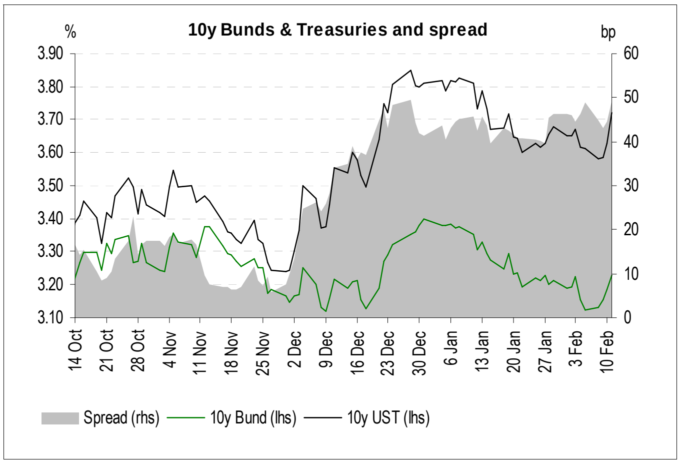
▪ In the coming month we expect bonds to recover in line with zloty appreciation. Macro data (output, sales) may negatively surprise the market, being additional factor supporting short end of the bond curve. Important will be also the first MPC meeting in full new squad after the president chooses next 3 members. Bond auction will be good test for investors' appetite for Polish debt amid fiscal problems of euro zone countries.



Euro weaker on fiscal worries over euro zone countries

▪ Although at the start of the year there was increase in risk appetite the dollar weakening was small. The EURUSD rate rose much less than we expected to ca. 1.45. Shortly after along with growing concerns over fiscal situation (Greece, Portugal) there was significant euro weakening. Additional factor supporting the dollar were higher risk aversion in the world markets and declines of the stock indices. EURUSD rate broke significant support levels and fell below 1.37.

▪ Technical analysis points that dollar is strongly overbought. Along with the global moods improvement and calming concerns over fiscal situation of peripheral euro zone countries there may be a recovery of the euro toward 1.40. In the next months the dollar should recover toward 1.35.



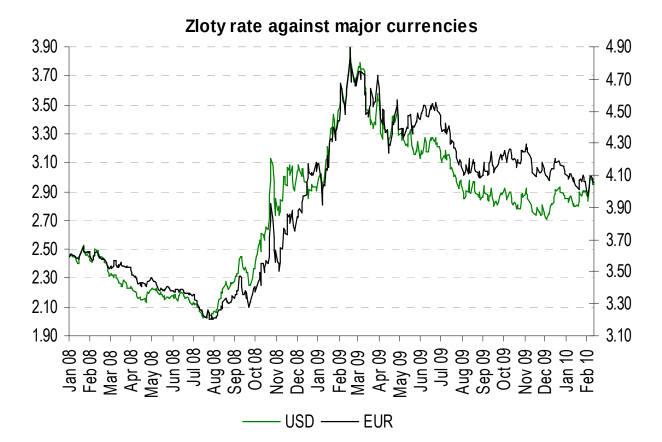
Deterioration of moods strengthens debt markets

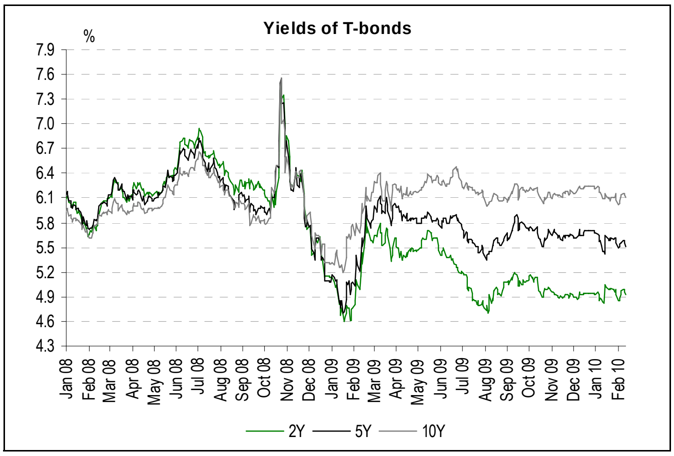
▪ After significant debt sell-off in the core debt markets at the end of the last year the start of 2010 was dominated by increase in bond prices. This was along with deterioration of global moods and declines in the stock markets. At the same time the concerns over high debt and fiscal deficit of some euro zone countries, which led to significant increase in spreads between yields of euro zone peripherals (Greece, Portugal, Spain) and German Bunds. During last month yields of 10Y Treasuries and Bunds fell to 3.58% and 3.15% from 3.81% and 3.37%.

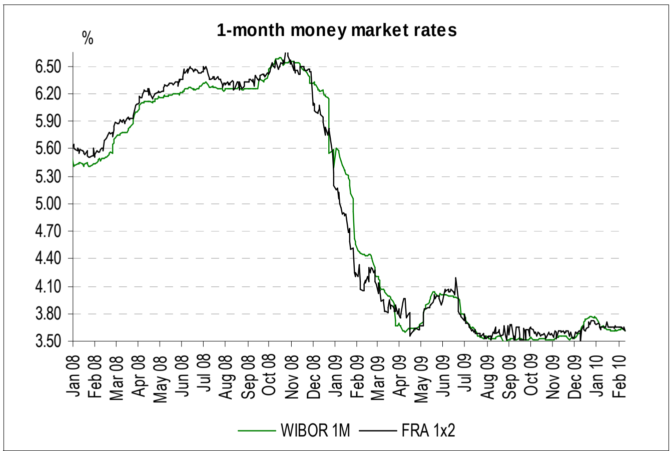
▪ Along with improvement in risk appetite we expect another weakening of core debt markets. In our view in the next weeks the IRS euro and dollar curves will gradually increase.

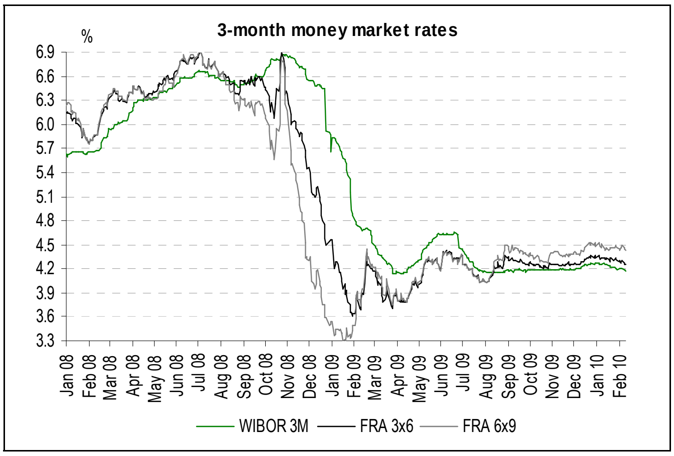
Source: Reuters, BZ WBK

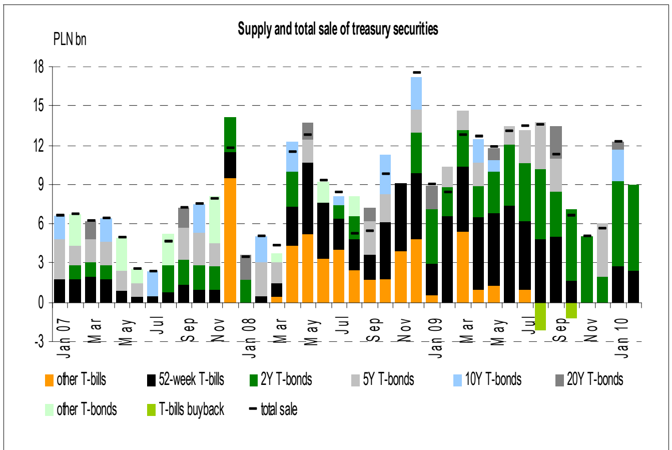
Market monitor











Treasury bills auctions (PLN m)

Auction date	OFFER	DEMAND/SALE
11.01.2010	500-700	2898/700
18.01.2010	500-700	3934/638
25.01.2010	1000-1300	4550/1300
1.02.2010	900-1200	3848/1200
8.02.2010	700-1200	3134/1090
15.02.2010	-	-
22.02.2010	-	-
1.03.2010	-	-
8.03.2010	-	-
15.03.2010	-	-
22.03.2010	-	-
29.03.2010	-	-
1.04.2010	-	-

** based on data of the Ministry of Finance*

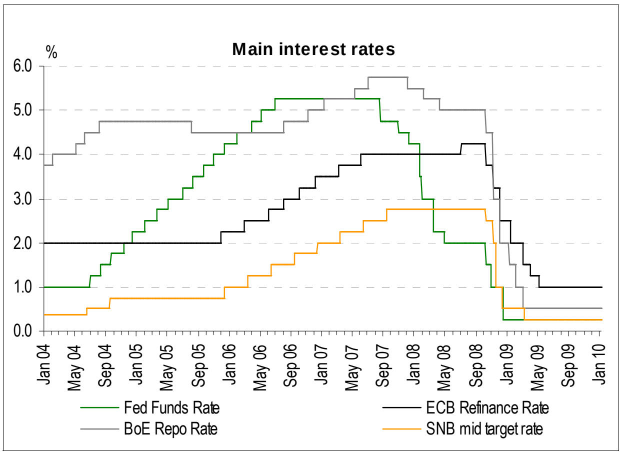
Treasury bond auctions in 2009/2010 (PLNm)

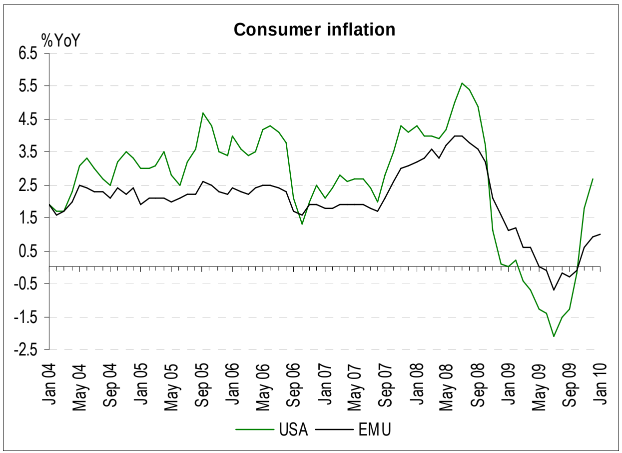
month	First auction				Second auction				Switch auction		
	date	T-bonds	offer	sale	date	T-bonds	Offer	sale	date	T-bonds	sale
April	1.04	OK0711/PS0414	2400/1800	2544/1814	8.04	DS1019	1000-1800	2120	15.04	PS0414/DS1019/WS0922	1437/3129/1158
May	13.05*	OK0711	3150	3286	20.05	DS1019|WS0429	1000-1800	1835	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	3000-4500	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	-	-
January	13.01*	OK0712	6600	6600	20.01*	DS1019/WS0429	2400/600	2409/591	6.01	PS0415/WZ0118	2494/2383
February	10.02*	OK/PS	6600	6600	17.02	DS/WS/WZ/IZ	-	-	3.02		-
March	10.03	OK/PS			17.03	DS/WS/WZ/IZ	-	-	3.03		-

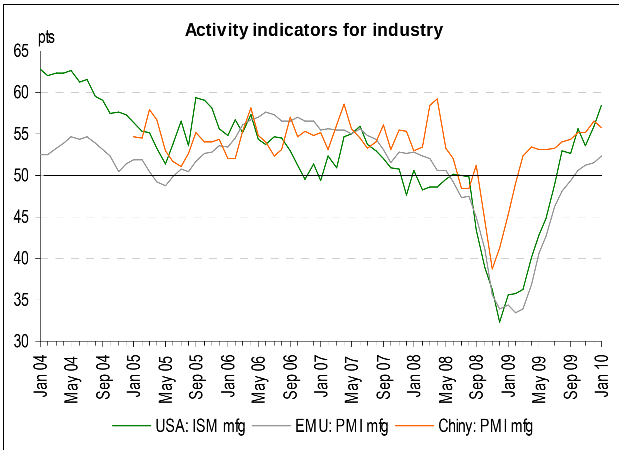
* with supplementary auction, ** primary auction

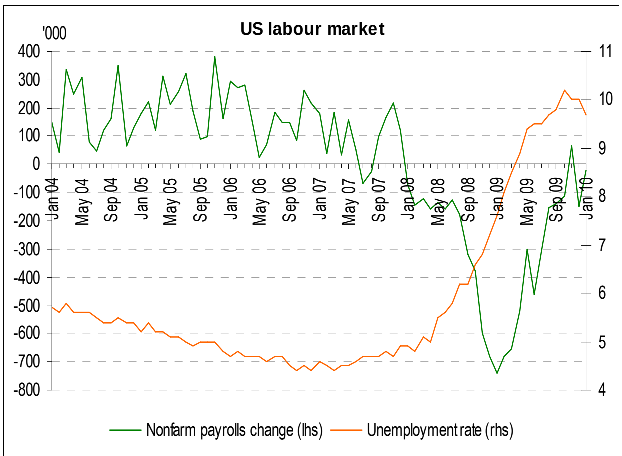
Source: Ministry of Finance, Reuters, BZ WBK

International review









Source: Reuters, ECB, Federal Reserve

Ben Bernanke re-elected, more exit strategies wording

- At the end of January the US Senate accepted Ben Bernanke as the Fed's chairman for second term.
- As expected the Fed left interest rates unchanged in January maintained its view to keep the interest rates at low level for an extended period, though one of the Fed voting members said it is time to change this promise. The FOMC members noted further improvement of economic situation also in the labour market. Fed confirmed the close of the mortgage backed securities purchases from March. The Fed president said in February that the discount rate hike would be a part of „normalisation" of Fed lending and one of the first steps to tighten monetary policy would be increasing interest rates paid for banks deposits in Fed and introduction of reverse-repo operations. At the same time, Ben Bernanke did not precisely indicate, when such actions will be introduced and underlined that the US economy still needs highly accommodative policy and rates will stay low for an extended period.
- In February the ECB did not change interest rates and the ECB president stated again that they are at appropriate level. The ECB president said also that the ECB Council expects that the euro zone growth recovery will be moderate and some factors supporting growth are of temporary nature. Jean Claude Trichet declared gradual exit from extraordinary measures increasing liquidity in the financial markets.
- US inflation data showed increase of CPI in December by 0.1%MoM (2.7%YoY) against expected 0.2%MoM. Core inflation was at 0.1%MoM (1.8%YoY), which was in line with market forecast.
- Inflation in the euro zone in December was as expected 0.9%. According to estimates of the Eurostat euro zone inflation rose in January to 1%YoY from 0.9%YoY in December, much less than it was expected by the market (1.2%YoY).

High activity indices

- Official Chinese ISM for manufacturing sector fell in January to 55.8 pts from 56.6 in December. Markit PMI rose in January to the highest level since the start of the survey (April 2004), i.e. 57.4 pts from 56.1 pts in December.
- PMI index for the euro zone rose in January to 52.4 pts, more than market expectations, which were in line with preliminary estimate at 52 pts. Moreover the ISM index reflecting activity in the US manufacturing sector rose as much as to 58.4 (the highest level in over 5 years), while the market expected small increase to 55.0 pts.
- PMI for services in the euro zone fell in January to 52.5 pts from 53.6 pts in December against early estimate of 52.3 pts. ISM for US services slightly disappointed and rose in January to 50.5 pts from 50.1 pts in December, below expected 51 pts.
- The US GDP growth in Q4 2009 was at 5.7%, the highest figure in 6 years against analysts' expectations of 4.7%.
- ADP report for January showed a clear drop in employment outside farming in the private sector by 22k against expected drop of 30k. Official report of the US Department of Labour had mixed tone. It said the non-farm payrolls in the US fell in January by 20k against a drop of 150k jobs after revision (from –85k) in the previous month. Data for November were upwardly revised from increase of 4k to increase by 64k. The market expected the non-farm payrolls rose in January by 5k. On the other hand, the rate of unemployment fell in January to 9.7%, much below 10.0% in December, while a stabilisation at December level was expected.
- The unemployment rate in the euro zone rose in December to 10% (the highest level since August 1998) from 9.9% in November.

Economic calendar

Monday	Tuesday	Wednesday	Thursday	Friday
8 February ***PL: Auction of Treasury Bills***	**9** US: Wholesale inventories (Dec)	**10** ***PL: Auction of 2Y bonds***	**11** JP Market holiday US: Retail sales (Jan)	**12** ***PL: Money supply (Jan)*** ***PL: Balance of payments (Dec)*** EZ: Flash GDP (Q4) EZ: Industrial production (Dec) US: Preliminary Michigan (Feb)
15 ***PL: Auction of Treasury Bills*** ***PL: CPI (Jan)*** US: Market holiday	**16** ***PL: Wages and employment (Jan)*** DE: ZEW index (Feb) US: Capital flows (Dec)	**17** ***PL: Bond auction*** US: House starts (Feb) US: Building permits (Feb) US: Import prices (Jan) US: Capacity utilisation (Jan) US: Industrial production (Jan) US: FOMC minutes	**18** ***PL: Industrial output (Jan)*** ***PL: PPI (Jan)*** US: PPI (Jan) US: Philly Fed index (Feb)	**19** ***PL: MPC minutes (Jan)*** EZ: Flash manufacturing PMI (Feb) EZ: Flash services PMI (Feb) US: CPI (Jan)
22 ***PL: Auction of Treasury Bills*** ***PL: Business climate indicators (Feb)***	**23** ***PL: MPC meeting*** ***PL: Retail sales (Jan)*** ***PL: Unemployment rate (Jan)*** DE: Ifo index (Feb) US: Case/Shiller (Dec) US: Consumer confidence (Feb)	**24** ***PL: MPC meeting-decision*** US: New home sales (Jan) DE: Gfk index (Mar)	**25** EZ: M3 money supply (Jan) EZ: Economic sentiment (Feb) US: Durable goods orders (Jan) US: House price index (Dec)	**26** EZ: Final HICP (Feb) US: Advance GDP (Q4) US: Chicago PMI (Feb) US: Final Michigan (Feb) US: Retail sales (Jan)
1 March ***PL: Auction of Treasury Bills*** ***PL: PMI (Feb)*** EZ: Manufacturing PMI (Feb) US: Core PCE (Jan) US: Manufacturing PMI (Feb)	**2** ***PL: GDP (Q4)*** EZ: Flash HICP (Feb) EZ: PPI (Jan)	**3** ***PL: Bond switch auction*** EZ: Non-manufacturing PMI (Feb) EZ: Retail sales (Jan) US: ADP report (Feb) US: Non-manufacturing PMI (Feb)	**4** EZ: ECB decision EZ: Revised GDP (Q4) US: Labour productivity & unit labour costs (Q4) US: Factory orders (Jan) US: Pending home sales (Jan)	**5** US: Non-farm payrolls (Feb) US: Unemployment rate (Feb)
8 ***PL: Auction of Treasury Bills***	**9**	**10** ***PL: Bond auction*** US: Wholesale inventories (Jan)	**11** EZ: ECB decision CH: SNB decision (Q1) US: Trade balance (Jan)	**12** ***PL: Money supply (Feb)*** ***PL: Balance of payments (Jan)*** EZ: Industrial production (Jan) US: Retail sales (Feb) US: Flash Michigan (Mar)

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	21	19	18	-	-	-	-	-	-	-	-	-
GDP*	-	-	2	-	31	-	-	30	-	-	30	-
CPI	14	15[a]	15[b]	15	14	15	13	13	14	13	15	14
Core inflation	21	-	22	21	20	22	21	20	21	21	22	21
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	28	23	-	-	-	-	-	-	-	-	-	-
Gross wages, employment	19	16	16	19	19	17	16	17	16	18	18	16
Unemployment	28	23	-	-	-	-	-	-	-	-	-	-
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

		Jan 09	Feb 09	Mar 09	Apr 09	May 09	Jun 09	Jul 09	Aug 09	Sep 09	Oct 09	Nov 09	Dec 09	Jan 10	Feb 10
PMI	pts	40.3	40.8	42.2	42.1	42.5	43.0	46.5	48.2	48.2	48.8	52.4	52.4	51.0	51.4
Industrial production	%YoY	-15.3	-14.6	-1.9	-12.2	-5.2	-4.5	-4.4	0.1	-1.3	-1.3	9.9	7.4	0.1	5.5
Construction production	%YoY	7.4	1.9	1.2	0.5	0.3	0.5	10.7	11.0	5.7	2.7	9.9	3.1	-14.5	2.2
Retail sales [a]	%YoY	3.8	0.6	1.8	2.9	2.4	2.1	5.7	5.2	2.5	2.1	6.3	7.2	5.2	5.0
Unemployment rate	%	10.4	10.9	11.1	10.9	10.7	10.6	10.7	10.8	10.9	11.1	11.4	11.9	12.8	12.8
Gross wages in enterprises sector [a]	%YoY	8.1	5.1	5.7	4.8	3.8	2.0	3.9	3.0	3.3	2.0	2.3	6.5	2.2	3.2
Employment in enterprises sector	%YoY	0.7	-0.2	-0.9	-1.4	-1.7	-1.9	-2.2	-2.2	-2.4	-2.4	-2.2	-1.8	-2.7	-2.3
Export (€)	%YoY	-24.3	-26.3	-16.6	-28.9	-20.6	-21.3	-23.5	-21.3	-18.4	-10.9	-0.1	14.0	11.0	11.0
Import (€)	%YoY	-26.2	-32.7	-25.9	-35.1	-30.7	-30.6	-29.1	-27.2	-27.4	-21.5	-11.9	-2.5	9.3	17.7
Trade balance	EURm	-483	-67	-214	-205	-26	-279	-539	-470	-25	-103	-292	-600	-400	-584
Current account balance	EURm	-754	790	-131	-451	-405	-232	-833	-107	-308	-266	-1.272	-1000	-200	-534
Current account balance	% GDP	-5.0	-4.5	-4.0	-3.8	-3.5	-3.0	-3.1	-2.8	-2.3	-1.9	-1.8	-1.6	-1.4	-1.8
Budget deficit (cumulative)	PLNbn	2.9	-5.3	-10.6	-15.3	-16.4	-16.7	-15.0	-15.6	-21.5	-24.0	-24.4	-23.8	-0.5	-9.0
Budget deficit (cumulative)	% of FY plan	-10.7	19.4	39.0	56.4	60.3	61.3	55.3	57.5	79.0	88.4	89.8	87.5	1.0	17.2
CPI	%YoY	2.8	3.3	3.6	4.0	3.6	3.5	3.6	3.7	3.4	3.1	3.3	3.5	3.5	3.0
Core inflation excluding prices of food and energy	%YoY	2.2	2.4	2.5	2.6	2.8	2.7	2.9	2.9	2.9	2.9	2.8	2.6	2.1	2.0
PPI	%YoY	3.6	5.7	5.5	4.8	3.7	4.1	2.8	2.2	1.6	2.0	1.9	2.1	0.1	-2.6
Broad money (M3)	%YoY	17.6	17.8	17.5	14.4	14.2	14.4	11.9	9.0	9.6	11.9	8.0	8.1	7.3	6.4
Deposits	%YoY	19.5	19.2	19.4	16.1	15.7	15.9	13.0	10.7	10.9	13.5	10.3	9.8	8.9	7.5
Loans	%YoY	35.8	37.2	34.5	30.3	29.3	26.8	23.3	19.8	18.6	14.9	13.4	8.6	6.8	4.7
USD/PLN	PLN	3.18	3.63	3.55	3.36	3.23	3.22	3.05	2.90	2.86	2.85	2.79	2.83	2.85	2.91
EUR/PLN	PLN	4.22	4.65	4.62	4.43	4.41	4.51	4.30	4.13	4.16	4.21	4.17	4.14	4.07	4.02
Reference rate [b]	%	4.25	4.00	3.75	3.75	3.75	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50
Lombard rate [b]	%	5.75	5.50	5.25	5.25	5.25	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
WIBOR 3M	%	5.51	4.69	4.30	4.20	4.52	4.60	4.26	4.16	4.18	4.18	4.19	4.23	4.24	4.15
Yield on 52-week T-bills	%	4.85	4.62	4.78	4.80	4.91	4.73	4.43	4.23	4.33	4.35	4.26	4.25	4.01	4.00
Yield on 2-year T-bonds	%	4.81	5.37	5.60	5.44	5.60	5.34	4.93	4.92	5.10	5.03	4.92	4.92	4.95	4.95
Yield on 5-year T-bonds	%	4.96	5.57	5.97	5.88	5.85	5.83	5.55	5.53	5.74	5.65	5.64	5.67	5.58	5.55
Yield on 10-year T-bonds	%	5.43	5.94	6.21	6.17	6.30	6.34	6.19	6.08	6.18	6.15	6.14	6.21	6.12	6.10

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	1 176.7	1 272.8	1 347.9	1 407.1	314.1	326.3	331.5	376.0	330.7	339.4	341.9	395.2
GDP	%YoY	6.8	5.0	1.7	2.6	0.8	1.1	1.7	3.1	2.8	2.5	2.5	2.8
Domestic demand	%YoY	8.7	5.5	-0.9	3.6	-1.5	-2.1	-1.2	1.0	3.4	3.5	3.2	4.1
Private consumption	%YoY	4.9	5.9	2.3	2.0	3.3	1.7	2.2	2.0	2.0	2.0	2.0	2.0
Fixed investments	%YoY	17.6	8.2	-0.3	4.7	1.0	-3.0	-1.5	1.5	1.0	5.0	5.0	6.0
Industrial production	%YoY	9.7	3.5	-3.2	5.0	-10.0	-6.7	-1.3	5.3	5.1	5.1	5.6	4.4
Construction production	%YoY	22.5	11.4	4.6	4.7	3.5	0.4	9.1	5.2	1.0	7.0	2.8	8.0
Retail sales (real terms)	%YoY	14.0	9.6	2.1	4.5	0.4	1.4	3.7	2.9	3.0	5.0	4.6	5.5
Unemployment rate [a]	%	11.2	9.5	11.9	12.3	11.1	10.6	10.9	11.9	12.8	11.8	11.5	12.3
Gross wages in enterprise sector (real terms)	%YoY	6.7	5.9	0.9	2.1	3.2	0.2	0.5	0.3	-0.3	2.2	3.1	3.4
Employment in enterprise sector	%YoY	4.6	4.8	-1.2	-1.0	0.1	-1.0	-1.8	-2.2	-2.3	-1.1	-0.5	-0.3
Export (€)	%YoY	13.4	14.2	-17.4	8.1	-22.2	-23.8	-21.1	0.1	12.0	10.0	6.0	5.0
Import (€)	%YoY	19.5	17.2	-25.5	12.7	-28.2	-32.2	-28.0	-12.5	15.3	14.0	12.0	10.0
Trade balance	EURm	-12 369	-17 724	-3 291	-8 326	-744	-513	-1 039	-995	-1 656	-1 555	-2 676	-2 440
Current account balance	EURm	-14 696	-18 302	-4 920	-7 776	-30	-1 088	-1 264	-2 538	-1 556	-2 255	-2 376	-1 590
Current account balance	% GDP	-4.7	-5.1	-1.6	-2.2	-4.0	-3.0	-2.3	-1.6	-2.0	-2.3	-2.5	-2.2
General government balance	% GDP	-1.9	-3.6	-7.2	-7.0	-	-	-	-	-	-	-	-
CPI	%YoY	2.5	4.2	3.5	2.3	3.3	3.7	3.5	3.3	3.0	2.0	1.8	2.4
CPI [a]	%YoY	4.0	3.3	3.5	2.5	3.6	3.5	3.4	3.5	2.5	1.9	2.0	2.5
PPI	%YoY	2.0	2.2	3.3	-1.7	4.9	4.2	2.2	2.0	-1.8	-2.3	-1.3	-1.4
Broad money (M3) [a]	%YoY	13.4	18.6	8.1	6.2	17.5	14.4	9.6	8.1	6.5	6.3	6.9	6.2
Deposits [a]	%YoY	14.5	20.6	9.8	6.1	19.4	15.9	10.9	9.8	6.6	6.3	6.8	6.1
Loans [a]	%YoY	29.9	36.0	8.6	9.4	34.5	26.8	18.6	8.6	4.3	5.3	7.2	9.4
USD/PLN	PLN	2.77	2.41	3.12	2.85	3.45	3.27	2.94	2.83	2.88	2.86	2.84	2.82
EUR/PLN	PLN	3.78	3.52	4.33	3.91	4.50	4.45	4.20	4.17	4.02	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	3.50	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	5.00	5.50
WIBOR 3M	%	4.73	6.36	4.42	4.20	4.83	4.44	4.20	4.20	4.18	4.15	4.15	4.32
Yield on 52-week T-bills	%	4.69	6.26	4.54	4.27	4.75	4.81	4.33	4.29	4.02	4.25	4.30	4.50
Yield on 2-year T-bonds	%	5.23	6.22	5.17	5.10	5.26	5.46	4.98	4.96	4.97	5.05	5.20	5.20
Yield on 5-year T-bonds	%	5.52	6.15	5.65	5.57	5.50	5.85	5.61	5.66	5.58	5.60	5.55	5.55
Yield on 10-year T-bonds	%	5.56	6.06	6.11	6.05	5.86	6.27	6.15	6.17	6.11	6.10	6.00	6.00

Source: CSO, NBP, Finance Ministry, BZ WBK own estimates [a] at the end of period

Bank Zachodni WBK

This analysis is based on information available until 10.02.2010 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