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Eyeopener – daily update

New cabinet must lower deficit

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Civic Platform (PO) deputy chairman said yesterday the party would set the strategy and timeframe of the euro zone entry soon after election, while their economic programme will be presented in June. It will be interesting to see common economic programme of the new government, as the most likely PO's coalition partner (PiS) leaders declared recently that the euro zone entry should not be Poland's priority (and should be delayed beyond 2010). However, one should remember that the new coalition will have to prepare the next convergence program (in December this year) and the EU's excessive deficit procedure will force Poland to lower general government balance below 3% of GDP by 2007 (if not, cohesion funds from EU might be blocked). This would allow adopt the euro in 2009, assuming fulfilment of other entry criteria.

One of the most dovish MPC members, Miroslaw Pietrewicz, gave an interview for *Rzeczpospolita* daily. This included two important quotes. First, if zloty appreciates further the NBP will have to think about something more than verbal intervention (we think that even if the NBP considers such possibility, it should not talk about it openly). Second, the MPC might wait with next monetary policy decision (bias change) until Q4 2004 GDP data will be published (in March) and it is difficult to cut rates when CPI inflation is rising (Q1 2005).

What's hot today

EcoFin Council will assess the Polish convergence programme very soon

... and the new government will have to prepare new convergence programme (in December 2005)

... which will have to include lowering general government deficit to below 3% of GDP

What the most likely coalition partner (PiS) thinks about it?

Between the devil and the deep blue sea

Last week, the European Commission said Poland convergence program is not enough so that Poland meet Maastricht criteria in 2007 (EcoFin Council will refer to this issue in the near future). While the 2006 budget will most likely be prepared by the current government (assuming parliamentary election will take place in fall), the next convergence program (to be published in December this year) and the 2007 budget will be prepared by the new cabinet. The latter documents will be crucial for fulfilling recommendation of the European Commission (to bring general government deficit down to below 3% of GDP until 2007), which are equal to meeting Maastricht criteria in 2007. In this context, it is crucial what the economic program of the next government will be. The public opinion polls show the power will most likely be taken by the Civic Platform (PO) in a coalition government with the Law and Justice (PiS). Deputy chairman of the PO Zbigniew Chlebowski said yesterday that the party would present its program in June. He announced the new cabinet would want to talk to the central bank on how to improve the policy mix and set the strategy and timeframe for ERM2 and euro zone entry. Chlebowski added that the focus on the euro zone strategy did not mean it would meddle in the central bank's policy, including hands-off exchange rate policy. Chlebowski declared they will seek a common line with the central bank. Well, the problem may be to find a common line with the PO's coalition partner PiS. Let us recall that PiS leaders said that euro zone entry should not be Poland's priority and it should be rather delayed even much beyond 2010. However, PiS probably forgot

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The new cabinet will have to remember about the excessive deficit procedure

PO plans to fasten privatisation

Poland was obliged to enter the euro zone soon during accession negotiations and the European Commission started the excessive deficit procedure towards Poland, which forces the country to reduce budget deficit to below 3% not later than in 2007 (if not, cohesion funds from EU might be blocked). As a result, Poland would be able to adopt the euro in 2009 - assuming fulfilment of other entry criteria, including the two-year presence in the ERM2. Yesterday Chlebowski also declared that the PO would speed up privatisation. He said the government would keep significant stakes in a few companies, such as oil refiners PKN and Lotos, the country's biggest insurer PZU, and retail bank PKO. PO is expected to draw up two lists of companies that should either be 100% owned by the state or in which the treasury should continue to hold a significant stake. "Everything else will be up for sale. We plan to liquidate the treasury ministry by the time our term in office is over," Chlebowski said.

Bottom line: The PO announces that soon after taking power it will set strategy and timeframe of the euro zone entry. They may find themselves between the devil and the deep blue sea, i.e. between the coalition partner who does not want fast euro adoption and obligations towards the European Commission.

Market monitor

The zloty continued its downward movement in morning trade mainly against the euro. It bounced back from 3.14 mark versus the dollar hit on Monday, but crossed 4.00 mark against the euro stabilising just above that level. However later during a day the Polish currency achieved its technical barrier of 3.15 to the dollar amid relatively stable range trading in EURUSD. The zloty approaching the close regained the ground advancing to the levels below 4.00 to the euro and rebounding to 3.13 to the dollar.

Bonds found support ahead CPI-linked bonds auction, as positive sentiment came from Bund market. DS0509 retained 5.94% amid limited turnover. In the afternoon bonds lost a few basis points, as real bonds tender failed to lend support the market and Bunds stopped gaining. DS0509 hit 5.97%. On Civic Platform representative comments 5y benchmark recovered to 5.96%

Ministry of Finance sold the entire PLN800m offer of 12y inflation-linked bonds on Wednesday's tender, as investors submitted bids for PLN2.33bn. The average price was set at 100.21. Additionally issuer offered PLN160m at a non-competitive supplementary tender, which was also easily absorbed by the market.

During the day on Wednesday the zloty, taking into account its relative strength against the basket of the euro and the dollar, reverted to the levels from the middle of last week. In the absolute terms the zloty resisted on 3.15 barrier, which may be breached lastingly, if EURUSD rate would decline below current support zone of 1.2730-90. But it would not be easy, as the exchange rate of the two most important world currencies is currently located on 50% Fibonacci retracement that ought to entail at least consolidation. Recent developments on f/x market point to high efficiency of signals generated by Fibonacci numbers. The zloty following crossing December's low of 4.04 (currently is constitutes strong resistance for the market) to the

The zloty trading ranges (09.02.2005)

	Min	Max	Fixing
USD	3.1200	3.1560	3.1321
EUR	3.9930	4.0215	4.0062

F/X rates (today's opening)

EURUSD	1.2813	CADPLN	2.5057
USDPLN	3.1270	DKKPLN	0.5384
EURPLN	4.0063	NOKPLN	0.4782
CHFPLN	2.5718	SEKPLN	0.4418
JPYPLN*	2.9615	CZKPLN	0.1339
GBPPLN	5.8220	HUFPLN*	1.6408

*per 100 units

Treasury yield curve (09.02.2005)

T-bills	Yield	Change (bp)
3M	6.20	0
6M	6.17	2
9M	6.08	1
12M	6.07	2
Bonds		
2Y	6.01	4
3Y	5.96	-1
4Y	5.99	3
5Y	5.96	2
8Y	5.87	0
10Y	5.82	-1

WIBOR rates (09.02.2005)

Term	Rates	Change (pb)
O/N	6.44	-12
T/N	6.46	-12
SW	6.58	1
2W	6.60	0
1M	6.60	0
3M	6.60	0
6M	6.51	-3
9M	6.40	0
1Y	6.31	-3

euro seems to continue the upward trend (even taking into consideration of yesterday's correction), but one should bear in mind the political risk, which was heralded at the beginning of the week. It's worth noticing that recent zloty strength was seen amid simultaneous euro depreciation what demolish latest high correlation between those two currencies and reduces the efficacy of signals for speculative trades.

Bonds yesterday kept declining despite favourable external factors and warm reception of real bonds tender. Clean price of 5y benchmark approached to parity (100) that constitutes certain psychological barrier (investors tend to like round numbers calculating market movement ranges or levels for stop-loss orders). But more significant support for the market will be only a zone around 6.10%, i.e. the lowest yields recorded in December last year. Only next week will bring release of portion of data, that may change the picture of the market. Until then clients orders, short-term players positions and core markets will generate price fluctuations.

Bottom line: Slight declines in f/x market pared at the end of the session. Interest rate market slid despite buoyant Bunds' performance. Today investors will eye US trade data.

International update

Wholesale inventories in US rose a smaller-than-expected 0.4% in December as sales of durable goods like cars accelerated at lower pace. Economists had expected wholesale inventories to rise 0.9% in.

As we indicated in previous reports data on trade balance in US will be released today, which will crucial for EURUSD market. Moreover, the Labour Department will disclose initial jobless claims data that show improvement contrary to payrolls figures which instantly fail to attain forecasted numbers.

TIME GMT	COUNTRY	INDICATOR	PERIOD	FORECASTS	LAST VALUE	
12:00	UK	BoE decision (M)	-	%	4.75	4.75
13:30	US	Trade balance (H)	Dec	\$bn	-57.0	-60.3
13:30	US	Jobless claims (H)	w/e	k	325	316
19:00	US	Monthly budget report (M)	Jan	\$bn	5.2	-1.4
19:00	US	Fed's Stern Speaks (M)				

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