

Eyeopener – daily update

Happy New Year

2 January 2006

The first week of the New Year is likely to be peaceful for the financial market in Poland. Bargains between PiS and its informal allies may be continued by the occasion of the final phase of work over the 2006 budget draft in Sejm's committees. There will be no domestic data releases, only auctions of treasury bills and bonds are scheduled. In the absence of important domestic events, the Polish market is likely to follow trends abroad.

Despite lazy first days, in general a beginning of the new year will be interesting for investors, as it could bring more information on 2006 budget, government's tax reform, and possibly on changes in FinMin's management.

Quarterly balance of payments data released on Friday showed little surprises and continuation of positive tendencies in Q3 2005, with both export and import growth accelerating substantially and current account deficit shrinking in relation to GDP to 1.5%.

Another calm week ahead in the financial markets

Polish market likely to be following trends abroad

What's hot today

As expected, the last week of 2005 was calm in the financial markets. The first week of the New Year is likely to be similar. Bargains between PiS and its informal coalition partners may be continued by the occasion of the final phase of work over the 2006 budget draft in Sejm's committees. There will be no domestic data releases, only auctions of treasury bills and bonds are scheduled. In the absence of important domestic events, the Polish market will probably follow developments on the international markets. US data due over the week are expected to confirm the economy remains on a steady growth path, supporting expectations for further rate hikes in 1H06. The key focus of attention will be December's payroll numbers, which are due on Friday. Besides economic data, markets will be paying close attention to comments from Fed officials and the minutes of the December FOMC meeting. In terms of euro zone data, markets will pay attention to both economic activity indicators (both manufacturing and services PMI) as well as to flash HICP, given the ECB's concerns about underlying inflation pressures.

Bottom line: *This week, in absence of important domestic events, the Polish market is likely to follow international markets.*

What's hot today

Couple of news from the government

Prime Minister declared tax reform should be ready in January

Polish Prime Minister Kazimierz Marcinkiewicz said on Friday in interview with *Puls Biznesu* daily that the government would present an outline of changes in tax system at the end of January, and by March it would prepare relevant draft bills that should be approved by the parliament in June-July. Changes will refer to PIT, CIT and VAT, however in the latter case "no revolutionary changes" are expected.

Maciej Reluga Chief Economist 022 586 8363

Piotr Bielski 022 586 8333

Piotr Bujak 022 586 8341

Cezary Chrapek 022 586 8342

Email: ekonomia@bzwbk.pl

Social bills approved by the parliament last week will cost the budget PLN1.5bn per year

Before that, the cabinet will have to tackle a problem of higher social spending that arose after the parliament approved bills inconsistent with government’s proposals in the last voting in 2005. While more generous child benefit will cost the budget “only” PLN360m on top of ca. PLN264m already secured in the budget bill, the parliament also reduced an income threshold on social subsidies for farmers, which would generate additional cost of over PLN1bn. In sum, the decisions made by the parliament in the last week of 2005 will increase 2006 spending by PLN1.5bn, which is a serious problem for the Ministry of Finance. It should be expected that the Ministry will present a way to finance those subsidies in the very beginning of new year, as on 10 January the Sejm holds the second reading of the 2006 budget draft.

More rumours about finance minister’s dismissal

Meanwhile, it is not so certain who will be preparing those tax proposals, as Polish media keep speculating about possible reshuffle in the Ministry of Finance. According to those rumours, current finance minister Teresa Lubińska will be dismissed soon. While such plans have not been confirmed officially and the government’s speaker said “We are not planning anything of the sort”, the private channel TVN24 informed last week that according to unnamed sources in parliament the post of finance minister had been offered to prof. Zyta Gilowska, one of former leaders and economic experts of the opposition Civic Platform. Gilowska did not want to comment on that matter.

Bottom line: *Beginning of the new year will be interesting for investors, as it could bring more information on 2006 budget, tax strategy for next years, and possibly on changes in the FinMin’s management.*



Positive balance of payments data

Quarterly balance of payments data for 3Q05 released on Friday did not bring many revelations, and broadly confirmed trends shown earlier in monthly statistics. According to the figures, current account deficit in the third quarter reached €926m, while trade gap was at €612m. Cumulative four-quarter current account deficit fell to 1.5% of GDP after Q3 from 2.1% after the first half of the year. Export growth accelerated to 14.1%YoY from 12.2%YoY in Q2, while import growth picked up to 10.4%YoY from 5.7%. In general, the data validated positive trends in Polish foreign trade amid persistently strong external demand and clearly reviving domestic demand (boosting imports).

Bottom line: *Good quarterly figures on balance of payments, yet with little surprises, thus not so significant for the market.*

Market monitor

Friday session was very quiet likewise the entire last week of 2005. Zloty slightly strengthened versus the single currency and depreciated against the dollar. EURPLN dropped from 3.86 at the opening, fluctuated around 3.8550 and finished at 3.853 whereas USDPLN rose from 3.252 to 3.266, The greenback strengthened against the euro in the last trading day in 2005 as EURUSD fell from 1.1839 to 1.1788.

Polish debt was flat on Friday and the session closed earlier than usually amid coming New Year’s Day. Core bond markets strengthened and 10Y

The zloty trading ranges (30.12.2005)

	Min	Max	Fixing
EUR	3.8450	3.8640	3.8598
USD	3.2450	3.2730	3.2613

FX rates (today's opening)

EURUSD	1.1842	CADPLN	2.7712
USDPLN	3.2472	DKKPLN	0.5158
EURPLN	3.8451	NOKPLN	0.4795
CHFPLN	2.4706	SEKPLN	0.4063
JPYPLN*	2.7751	CZKPLN	0.1330
GBPPLN	5.6292	HUFPLN*	1.5317

*per 100 units

Treasury yield curve (30.12.2005)

T-bills	Yield	Change (bp)
3M	4.22	0
6M	4.30	0
9M	4.30	0
12M	4.32	0
Bonds	Yield	Change (bp)
2Y	4.53	0
3Y	4.64	0
4Y	4.80	0
5Y*	4.95	0
8Y	5.08	0
10Y	5.10	0

*PS0310

WIBOR rates (30.12.2005)

Term	Rates	Change (bp)
O/N	3.61	6
T/N	4.60	3
SW	4.60	0
2W	4.60	0
1M	4.60	0
3M	4.60	0
6M	4.60	0
9M	4.60	0
1Y	4.60	0

U.S. Treasuries traded at 4.34% as compared to 4.37% on Thursday closing, while yields of 10Y Bunds fell from 3,31% to 3.28%.

Ministry of Finance will offer at today's tender PLN1.1bn of 52-week, PLN 100m of 13-week and PLN2.0bn of 3-week T-bills.

Bottom line: FX and bond markets were calm on the last day of 2005. Zloty slightly strengthened and bonds remained flat. Higher liquidity should start coming back to the market gradually in the new year.

International update

On Friday there was no important figures published abroad. Today there is holiday on many important international markets and no crucial events are scheduled for today as well.

This publication has been prepared by Bank Zachodni WBK S.A. (a member of AIB Group) for information purposes only. It is not an offer or solicitation for the purchase or sale of any financial instrument. All reasonable care has been taken to ensure that the information contained herein is not untrue or misleading. But no representation is made as to its accuracy or completeness. No reliance should be placed on it and no liability is accepted for any loss arising from reliance on it. Bank Zachodni WBK S.A., its affiliates and any of its or their officers may be interested in any transactions, securities or commodities referred to herein. Bank Zachodni WBK S.A. or its affiliates may perform services for or solicit business from any company referred to herein. This publication is not intended for the use of private investors. Clients should contact analysts at and execute transactions through a Bank Zachodni WBK S.A. entity or an AIB Group entity in their home jurisdiction unless governing law permits otherwise. Copyright and database rights protection exists in this publication.

Additional information is available on request. Please contact Bank Zachodni WBK S.A. Treasury Division, Economic Analysis Unit, ul. Marszałkowska 142, 00-061 Warsaw, Poland, phone (+48 22) 586 83 63, email ekonomia@bzwbk.pl, http://www.bzwbk.pl



Bank Zachodni WBK is a member of Allied Irish Banks Group