

Eyeopener – daily update

First minister out

4 January 2006

Treasury minister Andrzej Mikosz resigned yesterday, and the decision met with little reaction of the market. PM Marcinkiewicz denied that other changes, including at FinMin's post, are considered, however media keep speculating about next dismissals. If reshuffles in the government get more common it could be a hint that a honeymoon period for the ruling administration is coming to an end.

Deputy finance minister Cezary Mech said yesterday that the state's public debt, including state's guarantees, amounted to 49.5% of GDP at the end of 2005. This means that a procedure, provided for in the Public Finance Act in case the threshold of 50% is breached, will not be launched. According to ESA standards, the ratio was 47.8% counting with OFE outside the public finance sector and 42.5% with OFE treated as a part of public finance sector. Mech also said yesterday Poland will issue €3bn bonds on January 24, but depending on market conditions, the amount may be increased.

Yesterday, the Sejm said in a communiqué that the third reading of the 2006 budget draft, the last one before sending the bill to the Senate, was rescheduled from 13 to 14 January.

What's hot today

Treasury minister dismissed

Yesterday, treasury minister Andrzej Mikosz has submitted his resignation that was accepted by the Prime Minister Marcinkiewicz in the evening. The decision followed a report in *Rzeczpospolita* daily that in 2002 Mikosz's wife made a personal loan to the mother of one of Poland's leading investors who is facing charges of stock manipulation. In fact, Mikosz's resignation may be convenient for PiS in a sense, as he was earlier accused by opposition parties in the parliament for conducting improper policy, and rumours of his dismissal have been repeating for some time. The financial market's reaction to the news about minister's resignation was limited. This probably reflected the fact that although for some Mikosz was seen as a guarantee that privatisation would continue under the new government, in fact he was not a recognized authority and probably most of investors realise that policy conducted by this cabinet does not depend a lot on the names of its ministers.

It seems that Mikosz's dismissal could be not the last one on the horizon. According to today's *Gazeta Wyborcza* daily, labour minister Krzysztof Michałkiewicz is also mulling a resignation and will step down from the post in a few days time. Also, media have been speculating for some time about dismissal of finance minister Teresa Lubieńska, and yesterday Samoobrona caucus announced a no-confidence motion against defence minister Radek Sikorski. It seems that often changes in the government line-up could become a real trouble for PM Marcinkiewicz.

Bottom line: First change in the government met with little reaction of the market. PM denies that other changes, including at FinMin's post, are considered, however media keep speculating about next dismissals.

Treasury minister resigned

... but market did not react

New dismissals around the corner?

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

NBP helps the government

The National Bank of Poland said earlier this week that its 2005 profit was set to come in much higher (by ca. PLN750m) than the initial forecast. This will boost state budget revenues that have been stretched by recent increase in social spending. According to Grażyna Gielecinska, head of the bank's operations and accounting department, the higher bank's profit reflects different than expected development of currency exchange rates, interest rates and liquidity in the banking sector. Higher NBP profit is a godsend for the government who desperately needs additional revenues for higher social spending passed by MPs recently, not to mention ambitious revenue growth target set in the budget draft.

Bottom line: Higher NBP profit will help the government to find financing for higher social spending passed by deputies.

Market monitor

Yesterday Polish currency appreciated against the euro as well as the greenback with better moods of foreign investors towards the region. EURPLN rate dropped from 3.8680 to 3.8385 while USDPLN rate plunged from 3.2525 to 3.2280, which was boosted by euro strengthening move. Polish currency did not react to treasury minister's resignation. Zloty appreciation came along with new foreign inflows to Warsaw Stock Exchange, which indices set new records. EURUSD rate fluctuated around 1.188 throughout the day and soared to 1.1953 on manufacturing weak ISM figure. On Fed minutes from December meeting and stronger expectations on sooner end of rate hikes in U.S. the dollar extended its slide against the euro to 1.205.

Interest rate market strengthened on Tuesday session with positive sentiment of investors towards the Polish debt market. Initially bond prices fell slightly, however on strengthening on core bond markets yields dropped by 1-4 bps in comparison to Monday's closing. Bonds may be supported by late deputy finance minister Cezary Mech's statement on his hope and expectation that ratings of Poland will be improved as well as by information that public debt in 2005 remained below 50% of GDP. 10Y U.S. Treasuries weakened in the first part of the day from 4.39% to 4.44% amid release of FOMC minutes though on weaker than expected manufacturing ISM data debt strengthened to 4.37% and 4.35% on Fed minutes. German Bunds were quite stable with yields around 3.33%

At today's tender Poland will offer PLN2.5bn of 2Y OK0408, which is the upper limit of the earlier given range PLN2.0-2.5bn and after positive results of T-bills auction may attract higher interest. MF informed that euro denominated bonds are going to be issued 24th January, i.e. later than previously planned.

Bottom line: Zloty strengthened with good moods of foreign investors towards the region, WSE set new records and bonds strengthened though mainly on core bond markets strengthening.

The zloty trading ranges (03.01.2006)

	Min	Max	Fixing
EUR	3.8330	3.8600	3.8618
USD	3.2000	3.2540	3.2488

F/X rates (today's opening)

EURUSD	1.2044	CADPLN	2.7133
USDPLN	3.1793	DKKPLN	0.5051
EURPLN	3.8287	NOKPLN	0.4694
CHFPLN	2.4189	SEKPLN	0.3979
JPYPLN*	2.7171	CZKPLN	0.1302
GBPPLN	5.5115	HUFPLN*	1.4997

*per 100 units

Treasury yield curve (03.01.2006)

T-bills	Yield	Change (bp)
3M	4.28	6
6M	4.33	3
9M	4.33	3
12M	4.33	-5
Bonds	Yield	Change (bp)
2Y	4.56	-1
3Y	4.60	-4
4Y	4.81	-3
5Y*	4.98	-4
8Y	5.05	-3
10Y	5.08	-4

*DS1110

WIBOR rates (03.01.2006)

Term	Rates	Change (bp)
O/N	4.58	-2
T/N	4.60	-1
SW	4.60	-1
2W	4.60	-1
1M	4.60	0
3M	4.60	-1
6M	4.60	0
9M	4.60	0
1Y	4.60	0

International update

Eurozone PMI index jumped in December to 53.6 pts from 52.8 pts in the previous month, and was stronger than expectations at 53.3 pts. This together with new orders component at 56.0 were the highest readings since July 2004. Employment sub-index rose to 50.3 pts and showed the first time factory jobs growth since May 2001.

December ISM index showing activity in manufacturing sector in U.S. fell from 58.1 pts to 54.2 pts and was much weaker than expectations at 57.5 pts. Prices paid component eased from 74.0 pts to 63.0 pts and manufacturing employment sub-index declined from 56.6 pts to 52.7.

FOMC minutes signaled that Fed officials see room for only a few more rate increases in tightening of monetary policy and economic data will weigh.

Today manufacturing figures in the euro zone and United States will be published.

TIME GMT	REGION	INDICATOR	PERIOD	MARKET	LAST VALUE
10:00	EMU	Preliminary HICP (H)	Dec	%	2.2
15:00	USA	Factory orders (H)	Nov	%	2.2

Source: Reuters

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