

# Weekly economic update

12 September – 18 September 2005

After a one week break in publication of macroeconomic data, there will be a few key data releases in the coming days that will be followed by the financial market. Already on Monday, the zloty could get a stimulus from balance of payments figures for July. We expect they will again show slight surplus on the current account (€58m) amid healthy rise in exports (21%YoY) and imports (15%YoY). Such result would imply that cumulated 12-month current account balance was in surplus for the first time in ten years, reaching 0.3% of GDP. Nevertheless, inflation figure will be the most important this week, as it will probably show a rise to ca. 1.6%YoY because of significant hikes in fuel prices and smaller than last year seasonal drop in prices on the food market. For the MPC it would be crucial to judge if and to what extent high energy costs will feed up into price hikes in other goods and services, however this month it could be still too early for such assessment. Despite increase in August, inflation rate is likely to remain at safe level (close to 1.5%) until the end of year, which could allow the MPC for another gentle rate cut after the election if next economic data do not show signs of higher risks for future inflation. Growth in wages and employment in enterprises sector will be a hint about perspectives of private consumption growth. Measured acceleration predicted by us (wages 3.4%, employment 1.9%) allows for foreseeing gradual pickup in demand.

## Economic calendar

Time GMT	COUNTRY	INDICATOR (importance level*)	PERIOD	FORECAST		LAST VALUE	
				MARKET	BZWBK		
<b>MONDAY (12 September)</b>							
14:00	POL	Current account balance (H)	Jul	€ m	20	58	222
14:00	POL	Trade balance (H)	Jul	€ m	-200	-242	29
<b>TUESDAY (13 September)</b>							
12:30	US	Foreign trade (H)	Jul	US\$bn	-59.5	-	-58,8
12:30	US	PPI inflation (H)	Aug	%MoM	0.7	-	1.0
<b>WEDNESDAY (14 September)</b>							
09:00	POL	Auction of 20-year bonds PLN1.0-2.0bn (H)					
14:00	POL	CPI inflation (H)	Aug	%YoY	1.5	1.6	1.3
14:00	POL	Money supply (M)	Aug	%YoY	10.3	10.3	10.4
12:30	US	Retail sales (H)	Aug	%MoM	-0.5	-	1.8
13:15	US	Industrial production (H)	Aug	%MoM	0.2	-	0.1
13:15	US	Capacity utilization (M)	Aug	%	79.8	-	79.7
<b>THURSDAY (15 September)</b>							
14:00	POL	Employment in corporate sector (H)	Aug	%YoY	1.9	1.9	1.8
14:00	POL	Wages in corporate sector (H)	Aug	%YoY	3.5	3.4	3.2
12:30	US	CPI inflation (H)	Aug	%MoM	0.6	-	0.5
<b>FRIDAY (16 September)</b>							
09:00	EMU	Final HICP (M)	Aug	%YoY	2.1	-	2.2
12:30	US	Current account balance (H)	2Q	US\$bn	-192.75	-	-195.05
13:00	US	Net capital flows (H)	Jul	US\$bn	-	-	71.2
13:45	US	Preliminary Michigan Index (H)	Sep	pts	85.5	-	89.1

\* Importance level: (H)igh, (M)oderate; Source: Parkiet Reuters, BZ WBK

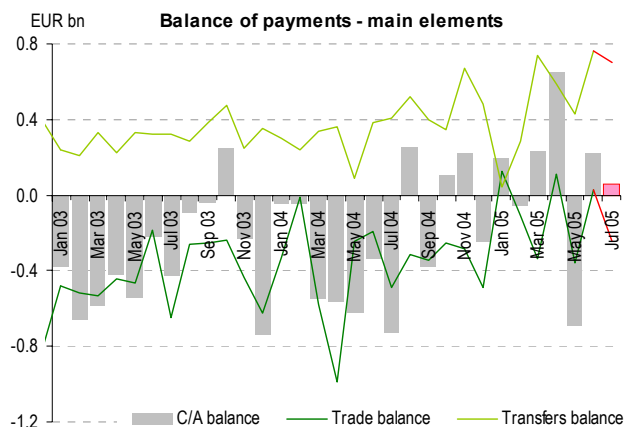
**Maciej Reluga** Chief economist (+48 22) 586 8363

**Piotr Bielski** (+48 22) 586 8333

**Piotr Bujak** (+48 22) 586 8341

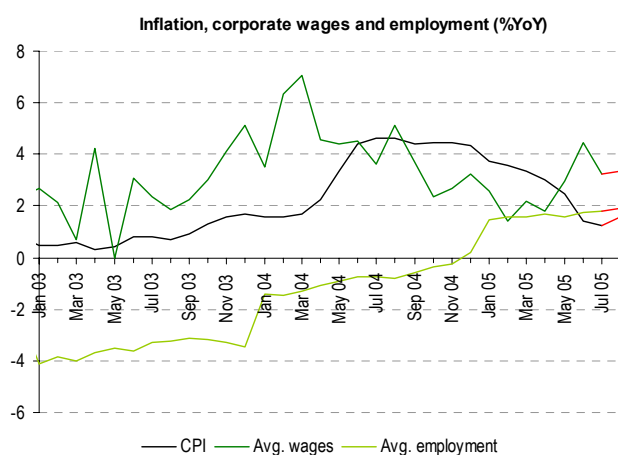
e-mail: ekonomia@bzwbk.pl

## What's hot this week – First data for August



- Balance of payments data for July should support the zloty at the beginning of new week. We expect the data to show another slight surplus in current account (€58m) amid strong rise in exports (21%YoY) and imports (15%YoY). According to our estimates, cumulated 12-month C/A balance should reach surplus 0.3% of GDP – for the first time in 10 years.

- We estimate money supply growth in August at 10.3%YoY, slightly lower than in July. There should be continuing improvement in demand for loans from enterprises and persistently strong rise in the market of households' credit. Such results would be supportive for prediction assuming revival in economic activity based on rise in domestic demand in the second half of this year. However, the data will have – as usually – limited significance for the financial market.



- CPI figures will be the most important for the market this week. Inflation level in August will be determined by prices of food and fuels. While the former probably recorded slight seasonal drop, fuel costs soared last month amid record-high oil prices. In effect, inflation rate is likely to grow to 1.5-1.6%, and remain in this range until the end of this year. Net inflation will remain low, and is even likely to drop slightly to 1.3% in August.

- Labour market data should keep on improving at steady pace – we predict acceleration of wage growth in corporate sector to 3.4%YoY and employment to 1.9%YoY, which would yield total wage bill in enterprises higher by 3.7%YoY in real terms, similarly to July.

- Both publications will be crucial for the MPC, giving hints about potential inflationary impact of high oil prices and chances for faster rise in private consumption in subsequent months.

## Economy last week – Government's budget draft not so important for the market

### Main parameters of 2006 budget, PLNm

	2005 P	2005 E	2006 P
Total revenue	174,703.7	178,870.0	189,228.0
- tax revenue	155,285.9	156,950.0	171,996.0
- indirect taxes	116,980.7	115,650.0	126,220.0
- CIT	14,690.6	17,300.0	20,126.0
- PIT	23,614.6	24,000.0	25,650.0
- non-tax revenue	16,641.5	19,085.6	15,083.0
- foreign revenue	71.1	336.9	105.7
- payments from EU	2,705.2	2,498.4	2,043.3
Total spending	209,704.0	209,704.0	221,803.0
Deficit	-34,999.967	-30,833.7	-32,575.0
GDP growth, %	5.0	3.3	4.3
CPI avg. %	3.0	2.1	1.5

P – planned in the budget bill/draft; E – estimated execution

- The government tentatively accepted 2006 budget draft. The deficit was set at PLN32.6bn, i.e. in the upper end of PLN30-33bn range declared earlier by the finance minister. General government deficit according to ESA95 rules was planned at 3.2% of GDP, the same as central budget gap according to the Polish methodology.

- Minister Gronicki explained higher budget gap by unexpected costs (PLN3bn) that arose after the parliament rejected President's veto on VAT bill. Part of this amount raised the deficit, while part has been covered by cuts in some spending and excise tax hikes planned for 2006.

- Financial market received government's proposals with little interest, bearing in mind that they will be modified by the next cabinet after election. The Civic Platform declares cutting next year's budget gap below PLN30bn.

## Quote of the week – Contradicting MPC members' views not a surprise

### Stanisław Nieckarz, MPC member; PAP, 7 Sep

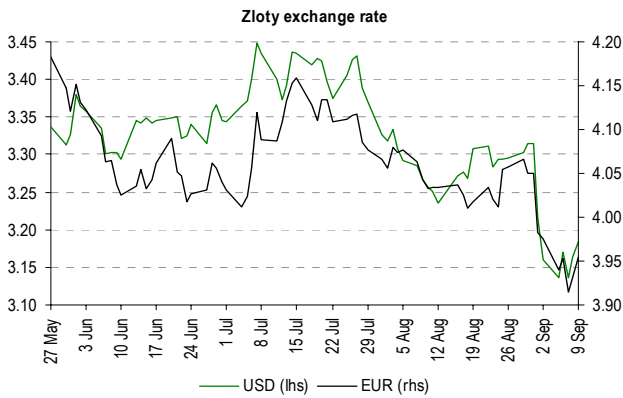
*If [next data] do not confirm a decisive breakthrough in making up for backlog in investment and thus in grounds for persistence of potential GDP growth, next rate cuts should come sooner than later.*

### Halina Wasilewska-Trenkner, MPC member; PAP, 8 Sep

*I still do not see a room for rate cuts. Such room used to be very small and it has already filled up.*

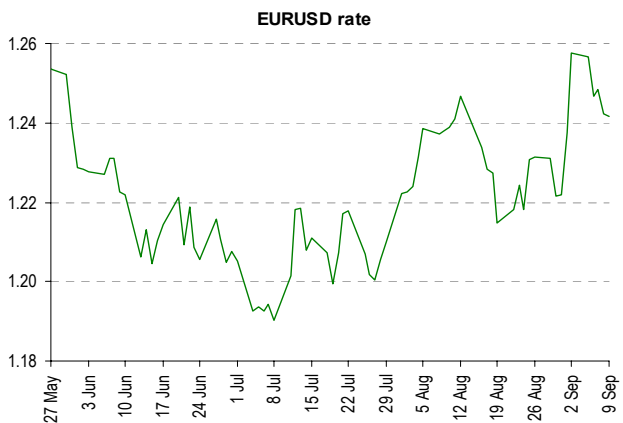
Recent comments of the MPC members did not bring many new elements to the market's state of knowledge about monetary policy perspectives. A split between "hawks" and "doves" factions has been known for some time and the next rate cuts will be most likely decided again by the stance of "mainstream" representatives. In fact, only comments from Owsiak, Sławiński or Wojtyna could alter market's moods significantly – if only they appear.

**Market monitor**



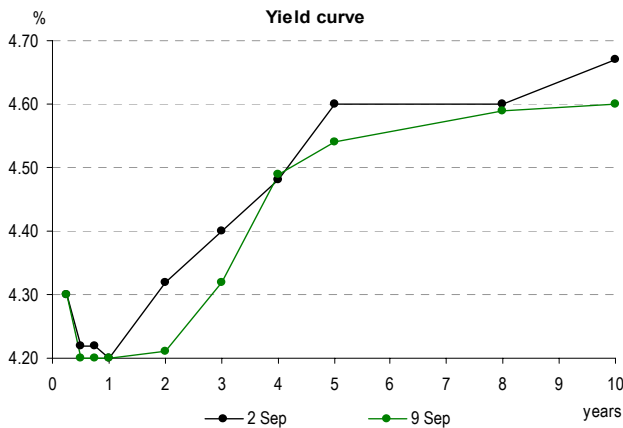
**Zloty stronger only in the first week-half**

- At the beginning of last week zloty returned to appreciation trend, which was caused by positive sentiment against currencies in the region and pre-election polls optimistic from markets' perspective. The strongest levels of the zloty were reached on Wednesday - 3,90 against the euro and below 3,12 against the dollar. However, during the later part of the week the trend reversed. All in all, after very volatile week on the FX market, the zloty value against the euro-dollar basket was roughly the same as a week ago.
- Last week the zloty fluctuated in the ranges we indicated of 3.90-4.00 against the euro and 3.10-3.20 against the dollar. We expect the same trading ranges in the following week.



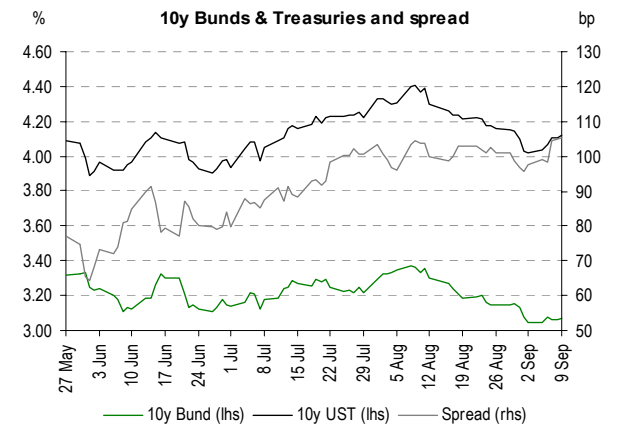
**A lot of data to influence EURUSD**

- At the beginning of last week the EURUSD rate was still above 1.25. However, positive ISM services data were supporting for the dollar and additionally expectations for another rate hike from Fed were reinforced again (after sharp oil prices rise and Katrina hurricane market speculated about a pause in tightening cycle). As a result, appreciation of the dollar was continued to below 1.24.
- In the following week the zloty rate against the euro and the dollar will depend on EURUSD changes, as a number of American economic data will be published. The data may be an indication for the market to adjust expectations as regards the next Fed meeting. We still think that a possible breaking of 1.25 will be temporary.



**Pace of yields decrease slowed down**

- Despite budget deficit for the next year was higher than previously indicated, yields recorded further fall, although it was quite moderate. At the beginning of the week Polish bonds were supported by positive sentiment towards fixed income abroad, and then it was immune to significant weakening that took place on the core markets.
- Low supply of two-year bonds was absorbed by the market easily. Although bid-cover ratio reached ca. 2.5 against over 3.0 last month and average yield was a bit higher than anticipated, correction after the auction was not substantial. However, it is possible that economic data, which will be released in the upcoming week (CPI inflation) and the week after (production) may be negative for Polish bonds.



**... and higher yields abroad**

- Foreign fixed income market remains under influence of oil prices as well as on changing expectations as regards next decision of Fed on rates.
- Bund yields recorded another record-low levels at the beginning of last week after statements from the ECB's representative and weaker than expected data on activity in services sector. However, after strong data on German factory orders and correction in global oil prices Bund yields rose quite substantially.
- Yields of US Treasuries rose even more and during the week it changed by almost 10 bp for 10-year paper (rise to 4.12%). As a result, the spread between Bunds and Treasuries rose to above 105 bp at the end of the week.

---

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](mailto:ekonomia@bzwbk.pl), <http://www.bzwbk.pl>



Bank Zachodni WBK is a member of Allied Irish Banks Group