

Weekly economic update

6 March – 12 March 2006

After extremely lengthy discussion, the MPC's made the decision, which was in line with our view – reference rate down by 25 bps to 4%. Record-breaking length of the meeting and course of the press conference showed clearly differences in views within the Council, although the outcome of the meeting itself showed that the balance of strength within the MPC remains unchanged for now. In our opinion, risks for economic growth and inflation in the medium run are almost in balance and, while market is partly pricing-in another 25 bp cut in the short time, we expect that after two cuts at the start of the year (and 250 bp cumulative reduction within last 12 months), rates should stay unchanged for some time unless the scenario of future economic situation changes under the influence of stream of new economic data and information.

GDP data for 4Q05 did not bring major surprises, showing economic growth accelerating to 4.2% amid investment rise by almost 10% and consumption growth of more than 3%. The data did not change our view on economic prospects.

The nearest week should pass in quite calm atmosphere. There are no important releases of economic data planned in Poland, and thus the market will have time for peaceful review of economic situation and will probably attach more attention to trends abroad. However, on main international markets a calendar of economic data releases will be also relatively thin. The key importance will have report on non-farm payroll number in the US that will appear on Friday. Before, we will get to know data on US industrial orders and trade deficit that could have some impact on EURUSD exchange rate.

The Sejm meeting starting on Wednesday could be an opportunity for new events in the politics, which will be also observed with interest, especially that stability of the “stabilisation pact” could be in question, after recent comments of Samoobrona and LPR leaders. Undoubtedly, investors will also impatiently wait for first interviews with MPC members after February rate cut that could direct market expectations regarding future actions in monetary policy, however it is impossible to guess whether such interviews will appear this week.

Economic calendar

TIME GMT	REGION	INDICATOR (importance level*)	PERIOD		FORECAST		LAST VALUE
					MARKET	BZWBK	
MONDAY (6 March)							
10:00	POL	Auction of 52-week PLN1.0bn T-bills (M)					
15:00	US	Factory orders (H)	Jan	%	-5.0	-	1.1
TUESDAY (7 March)							
13:30	US	Unit labour costs (H)	Q4	%	3.1	-	3.5
13:30	US	Labour productivity (H)	Q4	%	-0.3	-	-0.6
WEDNESDAY (8 March)							
10:00	POL	Auction of PLN1.0-2.0bn 20Y WS0922 bonds (H)					
THURSDAY (9 March)							
13:30	US	Trade balance (H)	Q4	USD bn	-66.5	-	-65.68
FRIDAY (10 March)							
13:30	US	Non-farm payrolls (H)	Feb	'000	200	-	193
13:30	US	Unemployment (M)	Jan	%	4.8	-	4.7
15:00	US	Wholesale inventories (M)	Feb	%	0.5	-	1.0
19:00	US	Fed budget (M)	Feb	USD bn	-120.0	-	-113.94

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

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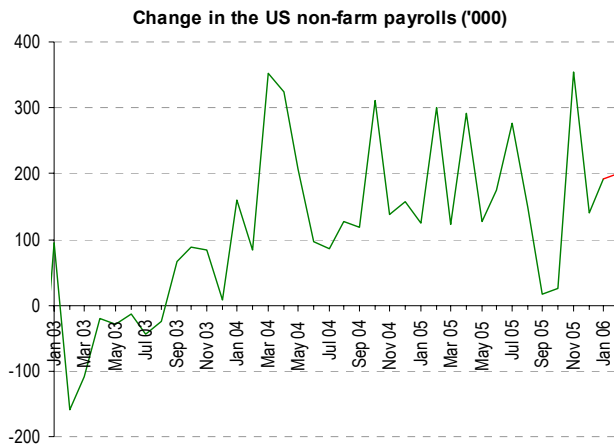
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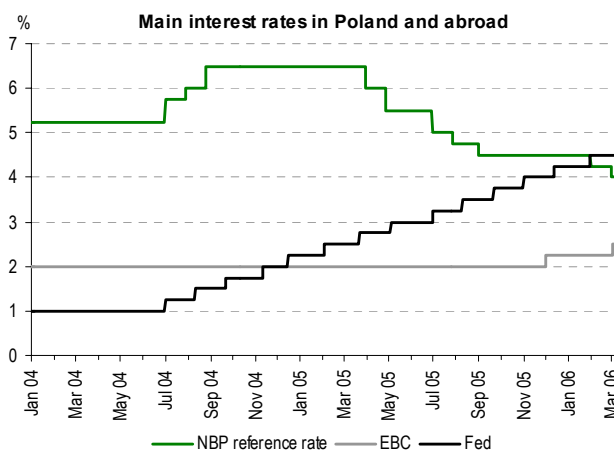
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What's hot this week – Week for deliberation

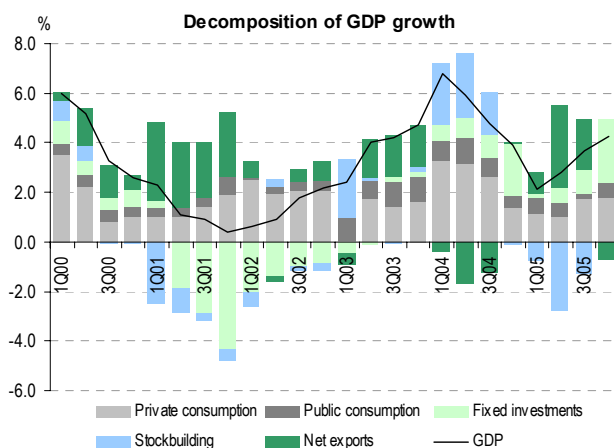


- This week no important data releases are planned in Poland, and thus the financial market will have more time for peaceful review of economic situation and will probably put more attention to trends abroad.
- Sejm session starting on Wednesday could be an occasion for new events in politics, especially that after recent comment of Samoobrona and LPR leaders some could question stability of the “stabilisation pact”.
- Surely, analysts will impatiently await first interviews with MPC members after February’s rate cut, however it is impossible to say whether such interviews will appear in the coming week.
- Calendar of economic data releases abroad will be quite empty as well. The most important will be report on non-farm payrolls in the US, to be released on Friday.

Economy last week – Faster economic growth did not deter rate cut



- In the last day of February, the MPC cut main interest rates by 25 bp, in line with our prediction. Decision was announced extremely late, because (according to NBP chief) it was preceded by unusually “intense” discussion.
- Difference in views between various MPC members became evident. It was also clearly visible during press conference, when NBP head Leszek Balcerowicz was emphasising arguments showing possibility of inflation rise while MPC member Andrzej Sławiński pointed to structural changes, supportive for maintaining low inflation in Poland.
- We expect that after two rate cuts at the start of the year (and total 250bps reduction in a year) interest rates will remain unchanged for some time, unless scenario of future inflation changes substantially under influence of upcoming new data.



- GDP data for 4Q05 were roughly consistent with estimates. GDP increased 4.2%, amid 3.1% rise in private consumption and investment acceleration to 9.8%. Rapid economic growth, promoted increasingly by improving performance of domestic demand, could imply closing up of output demand, which could in turn imply diminishing scope for further rate cuts. On the other hand, strong investment rise enhances potential growth, thus delays moment when output gap will be closed. In sum, GDP data was neutral for expectations regarding future decisions of the Monetary Policy Council.
- After reviewing new convergence programme, European Commission urged Poland to reduce fiscal imbalances faster and declared further disciplinary steps in excessive deficit procedure. In practice, it seems that imposing sanctions on Poland is still a quite distant perspective.

Quote of the week – Central bank reacts to media speculation

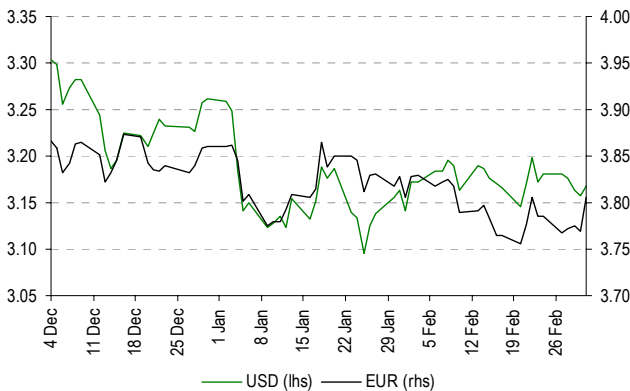
NBP Press Office; www.nbp.pl, 2 March

Explanation. NBP Press Office informs that speculations appearing in media saying that on February’s meeting of the Monetary Policy Council there was consideration on interest reduction by 0.5 pct. points, are not true.

We find it exceptionally strange that central bank’s press office can disclose details of debate from the MPC meeting. Especially that one day before, NBP chief warned one of MPC members during press conference that one should not reveal course of the MPC discussion. Does it mean the bank will always react to media speculation? Well, we think it would just encourage the media to speculate more intensively in future.

Market monitor

Zloty exchange rate

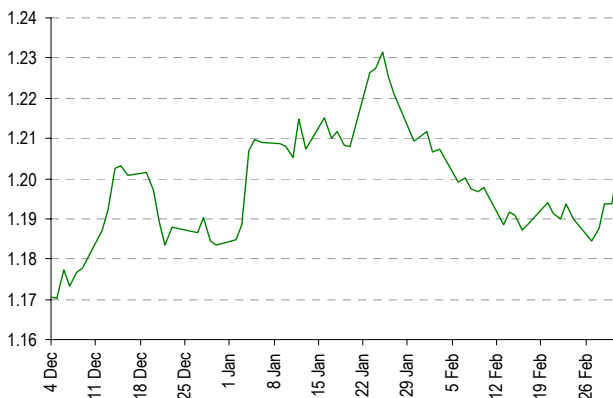


Zloty depreciated

▪ The beginning of the week was quite calm on the FX market as investors awaited MPC's decision. Initial weakening was followed by significant zloty appreciation, which went in line with a rise of indices on the Warsaw Stock Exchange and higher demand for Polish bonds, supported by strong Slovakian crown performance. At the end of the week a sell off came in after ECB's conference and return of early elections comments. Zloty fell in the last week ca. 0.7% against the euro and gained ca. 0.2% versus the dollar.

▪ Next week there will be no crucial data for the markets and investors may pay higher interest to politics again. We forecast that the zloty may fluctuate between 3.75-3.85 against the euro as well as 3.10-3.20 versus the dollar.

EURUSD rate

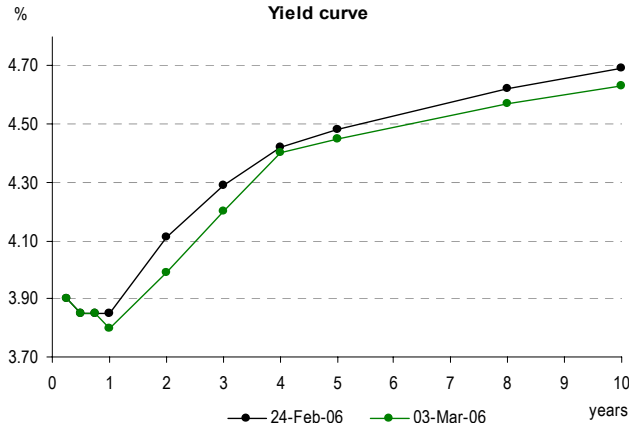


Euro recovers against the greenback

▪ Last week started from the euro appreciation against the greenback after strong economic sentiment data in EMU as well as soft U.S. Chicago PMI and consumer confidence figures. Stronger than expected ISM manufacturing index helped the dollar only temporarily as later global inflation fears expressed by the ECB as well as shown in Japan's inflation data supported the view for further rate hikes on the core markets. In the end euro gained ca. 1.0% versus the dollar within past week.

▪ Taking into consideration lack of release of important data in the euro zone the single currency may appreciate further supported by weaker data from United States. The most important for the EURUSD rate will be non-farm payrolls figure.

Yield curve

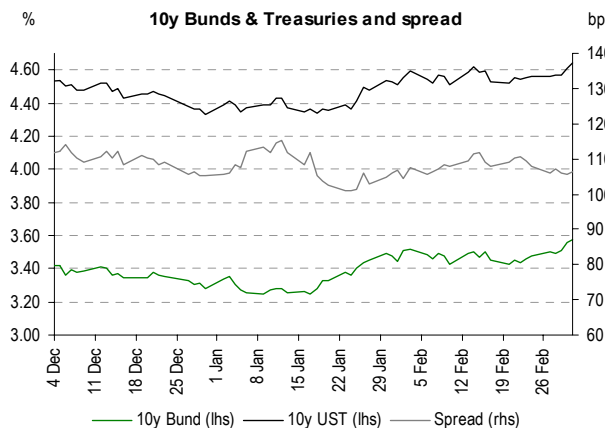


MPC cuts rate, yields record low

▪ Last Monday the yield curve flattened in reaction to situation on the core bond markets and awaited the MPC decision. As the Council cut the main interest rate by 25 bps Polish debt substantially strengthened. At the end of the week yields of Polish treasuries substantially jumped as the ECB raised main rate as well as its inflation forecast for the next year, which negatively affected core markets and influenced Polish market.

▪ In the incoming week there will be no important events nor essential data released on the domestic market. Thus the Polish fixed income market may follow the situation on the core bonds markets. Quite important may be results of 20Y bond auction as well as events on the political scene.

10y Bunds & Treasuries and spread



Inflation fears boost yields

▪ The 10Y yields of U.S. Treasuries and Bunds fluctuated around 4.56-4.58% and 3.49-51% almost throughout the whole week. The ECB raised main interest rate by 25 bps though the hawkish comments at the conference as well as Japan inflation fears resulted in a jump of 10Y German Bunds yields to the highest level since April 2005 (3.57%), while 10Y Treasuries reached 4.65%.

▪ Amid no essential information in the euro zone the yields of German Bunds may follow the U.S. market. Data from the labour market, especially the non-farm payrolls as well as Q4 unit labour costs and labour productivity will be of key importance for yields of U.S. Treasuries.

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