

# Poland's Economy. Financial Markets

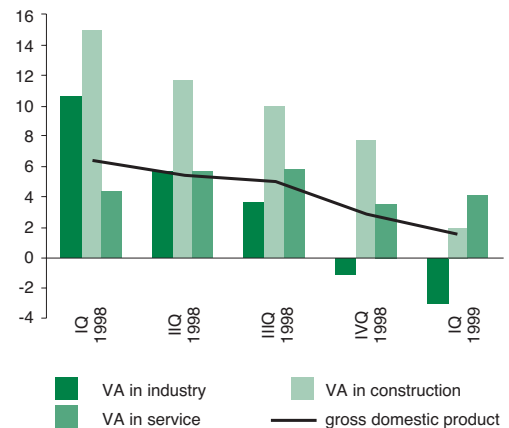
26 July 1999

No 2

## Main Tendencies in the Economy:

- In the January-May 1999 period the current account deficit amounted to USD 3.8bn and was up USD 43.9% on the same period last year. The current account deficit was funded by the financial account surplus and loans from abroad. An insignificant outflow of the official gross reserves means that in the first few months of this year there were not net capital outflows from Poland. The trade balance improved as a result of a stronger fall in import volumes (by USD 1,093bn) than export volumes (by USD 0,761bn).
- An inflation increase in June by 0.2% up to 6.5% on annualised basis, as in the previous month, was triggered by a large increase in the prices of services and a lower than expected fall in food prices.
- Industrial output in June did not change, which meant slower growth compared to May when industrial output increased by 1.2%. In the first half of 1999 industrial output was down 0.9% on the same period last year.
- In the January-June 1999 period the average employment rate was down 0.6% on the same period last year. The unemployment rate in June was 11.6% and was the same as that in May - there was no seasonal fall in employment numbers in June.
- Given strong consumer lending growth, more relaxed than expected fiscal policy, increasing inflation and a reduction in the obligatory reserve requirement to take effect in September, an interest rate cut seems quite unlikely this year. Due to a strong zloty and the increasing current account deficit, there is not much room left for an interest rate increase.
- Gross domestic product in Q 1 1999 was up 1.5% (year on year) compared to 2.9% in Q 4. It is likely that in Q2 1999 gross domestic product grew by 3.0%.
- Although the state budget seems to be under control, the public finances deficit including, et al., local authority budgets, may increase.
- The largest output decline in the January-May period was experienced in the metal manufacturing area. A large fall in the production of fabrics was also reported. Out of twenty one manufacturing sector categories, nine experienced increases and twelve experienced falls in their profits compared to the same period in 1998.
- This year, enterprises are experiencing downward tendencies. In the January-May 1999 period the number of people employed in this sector decreased by 0.4% compared to the same period last year.

Gross domestic product



### In this Issue:

|  |    |
|--|----|
| Main Tendencies in the Economy   | 1  |
| No Change in NBP Official Interest Rates in 1999                             | 2  |
| Strong Zloty Due to Privatisation  | 5  |
| Increase in Longer-Term Yields<br>Decline in Money Market Short -Term Rates  | 6  |
| Further Increase in the Budget Deficit                                       | 7  |
| Recession Tendencies Overcome  | 8  |
| Decreasing employment numbers in the corporate sector                        | 9  |
| Look at the Economy  | 10 |
| Statistical Calendar and Contacts in the Treasury and International Division | 11 |

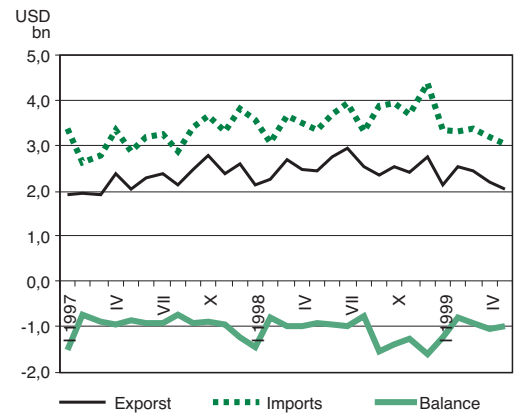
## Balance of Payments - Current Account

Poland's current account deficit totalled USD 641m in May, after a USD 938m deficit in April. *In the January-May 1999 period the current account deficit amounted to USD 3.8bn and was up 43.9% on the analogous period last year.* The trade deficit in the same period amounted to USD 4,841bn and was down 6.4% on the January-May 1998 period. *The improved balance of payments was triggered by stronger imports (by USD 1,093bn) than exports (by USD 0,761bn).* In the January-May 1999 period both exports and imports fell by 6.4% compared to the analogous period last year causing the trade balance to improve by 6.4%. Since March 1999 both exports and imports have been declining while the trade deficit continued to remain more or less at the same level. It should be noted that the balance of services fell by 126% to a negative USD 653m in the January-May 1999 period compared to the same period last year. In the January-May 1999 period, the unregistered current account balance reduced to USD 1,331bn and was down 42.8% on the analogous period last year. This downward trend is likely to continue, but we expect exports to increase in the second half of 1999. We expect the current account deficit to be 5.6% of GDP in 1999 and to increase.

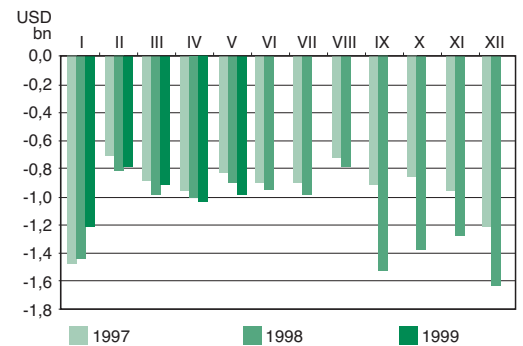
## Balance of Payments - Capital and Financial Account

*In the first five months of this year FDI totalled USD 1.9bn and was 7.0% higher than in the first five months of 1998.* In the period concerned, the balance of portfolio investments decreased to a negative amount of USD 574m. In the period concerned, the balance of portfolio investments decreased to a negative USD 574m, and was 233% lower than in the same period last year when it was USD 431m. The balance of other investments fell by 70% to a positive USD 772m from USD 2.6bn in the January-May 1998 period. *As a result, in the January-May 1998 period, the capital account surplus funded 56.3% of the current account deficit. The residual percentage of 43.3 of the current account deficit was funded by the balance of errors and omissions, which largely reflects derivative transactions with non-residents.*

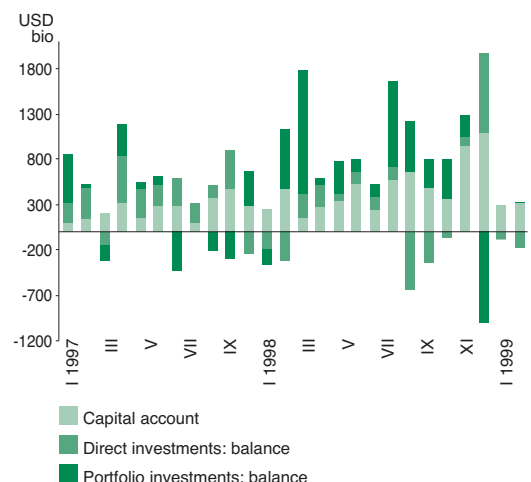
Foreign Trade (NBP)



Trade balance (NBP)



Financial account





### Inflation - Consumer Prices

Consumer inflation in June increased by 0.2% (month on month) and was 6.5% (year on year) compared to 6.4% inflation year on year in May. *The rise in inflation, as a month ago, was triggered by a large increase in the prices of services* (0.6 percent m/m 11.2 percent y/y), which reflects increases in the prices of petrol and confirms a relatively good standing of this sector. The prices of alcohol and tobacco increased in June by 0.9% (m/m) and by 9.1% year on year. The decline in food prices was relatively insignificant (0.7% m/m and 0.2% y/y). Higher than expected by the market inflation in June confirms our consumer price forecast of 7.4% year on year in December 1999.

### Inflation - producer prices

*Producer prices in June increased by 0.1% month on month and 5.3% compared to the same month last year.* The producer price rise was driven by a steady increase in production prices in the processing industry (0.1% month on month) and prices in the utilities sector (0.2%). Sold industrial production price growth in June was lower than that in May when the monthly price rise was 0.4%.

### Industrial Output

*Industrial output in June did not change, which meant slower growth compared to May when industrial output grew by 1.2%.* In June industrial output in June grew by 1.0% year on year. *In the first half of 1999 industrial output declined by 0.9% compared to the analogous period last year.* Such a poor production performance was triggered by weaker than expected processing industry performance (up 1.7% y/y vs. 6.8% in June 1999) and lower production results in the utilities sector.

Construction and installation production was not as high as a year ago. In June it increased by 4.9% year on year vs. a 9.6% increase in June 1998.

### Internal Demand

*Large growth in retail sales in June, supported by strong household credit growth, means that internal demand continues to be at a high level.* An increase in the trade deficit by USD 300m in June indicates that supply imports have increased and this would mean that enterprises expect export-related orders to increase in the near future.

| Inflation Indicators                |         |         |         |         |         |          |
|-------------------------------------|---------|---------|---------|---------|---------|----------|
|                                     | 02 1999 | 03 1999 | 04 1999 | 05 1999 | 06 1999 | 07 1999F |
| Consumer Price Index (m/m %)        | 0,6     | 1,0     | 0,8     | 0,7     | 0,2     | -0,2     |
| Consumer Price Index (y/y%)         | 5,6     | 6,2     | 6,3     | 6,4     | 6,5     | 6,5      |
| Sold Industrial Output Index (m/m%) | 0,6     | 1,1     | 0,6     | 0,5     | 0,1     | 0,0      |
| Sold Industrial Output Index (y/y%) | 3,7     | 4,7     | 5,0     | 5,2     | 5,3     | 5,3      |
| Monthly Average FX Rate (y/y%)      | 7,2     | 14,0    | 17,0    | 15,2    | 13,0    | -        |
| Import Price Index in PLN (y/y%)    | 1,6     | 5,6     | -       | -       | -       | -        |

| Activity Indicators             |         |         |         |         |         |         |
|---------------------------------|---------|---------|---------|---------|---------|---------|
|                                 | 01 1999 | 02 1999 | 03 1999 | 04 1999 | 05 1999 | 06 1999 |
| Retail Sales Index (m/m %)      | -25,6   | 6,4     | 25,5    | -0,9    | 3,1     | 2,1     |
| Retail Sales Index (y/y%)       | 7,9     | 12,5    | 25,6    | 16,3    | 19,3    | 25,3    |
| Personal Loans (y/y %)          | 31,3    | 33,2    | 35,2    | 37,4    | 39,4    | 41,6    |
| Industrial Output (m/m%)        | -11,0   | -0,4    | 21,8    | -7,0    | 1,2     | 0,0     |
| Industrial Output (y/y %)       | -5,1    | -5,6    | 3,5     | 0,3     | 2,2     | 1,0     |
| Exports. current prices (y/y %) | -0,1    | 11,3    | -7,8    | -13,5   | -16,7   | -       |
| Imports. current prices (y/y %) | -6,5    | 7,4     | -7,9    | -8,6    | -9,7    | -       |
| Foreign Trade Balance (USD mio) | -1212   | -783    | -904    | -1036   | -984    | -1300*  |

| Poland's Economy                                       |      |      |        |       |
|--|------|------|--------|-------|
|  | 1996 | 1997 | 1998   | 1999F |
| Domestic Gross Product (y/y%) (fixed prices) of which: | 6,0  | 6,8  | 4,8    | 4,0   |
| Individual Consumption (y/y%)                          | 8,3  | 6,9  | 4,9    | -     |
| Gross Fixed Assets Expenditures (y/y %)                | 19,7 | 21,7 | 14,5   | -     |
| Exports (y/y %)  | 12,0 | 12,2 | 2,9**  | -     |
| Imports (y/y %)  | 28,0 | 21,4 | 13,7** | -     |
| Inflation (yearly average %)                           | 19,9 | 14,9 | 11,8   | 6,8   |
| Inflation (year on year %)                             | 18,5 | 13,2 | 8,6    | 7,4   |
| Unemployment Rate (year end %)                         | 13,2 | 10,3 | 10,4   | 11,4  |
| Current Account Deficit / GDP (%)                      | -1,0 | -3,2 | -4,2   | -5,6  |
| Public Debt / GDP (%)                                  | 51,1 | 47,9 | 43,1   | -     |

\* - estimated ; \*\* - estimated, according to SNA ;

F - forecast y/y- year on year

## Labour Market

The average gross salary in June increased by 3.4% to PLN 1 827 vs. PLN 1 767 z in May. Real wages increased approx. 3.6% compared to the same period last year. In June average employment in enterprises totalled 5 771.4k persons and fell by 0.1% compared to May and by 1.5% compared to June 1998. *In the January-June 1999 period average employment was 0.6% lower than in the same period last year. The unemployment rate in June 1999 was 11.6% and was the same as that in May - there was no seasonal fall in the unemployment rate.*

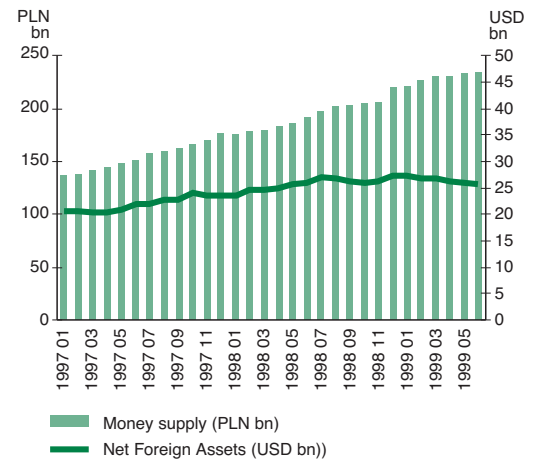
## Money Supply

Money supply in June increased by 0.6% following a 1.1% increase in May. *Increased money supply was driven by large business deposit growth (2.0% growth vs. 3.1% in May) on the one hand and 4.9% personal credit growth on the other hand (vs. 3.9% in May).* These factors indicate that corporate finances continue to improve and consumer demand will continue to remain at the existing level in the forthcoming months.

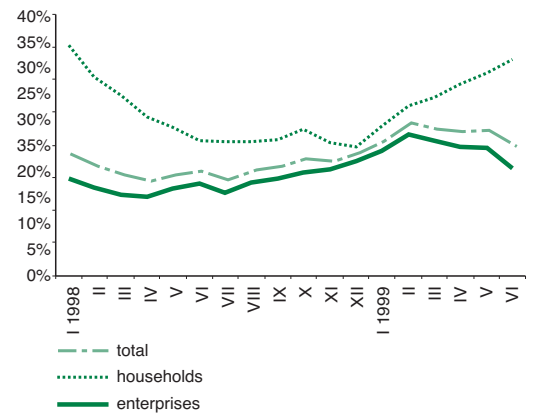
Nominal money supply in the January-June period increased by 6.3% and was driven by 8.5% zloty personal deposit growth and 10.6% fx personal deposit growth, which was mainly triggered zloty depreciation. *Real money supply in the January-June period was 1.4%. In the first 6 months of 1999 total loans increased by 11.7% in nominal terms and 6.6% in real terms.*

## Interest Rate Change Very Unlikely This Year

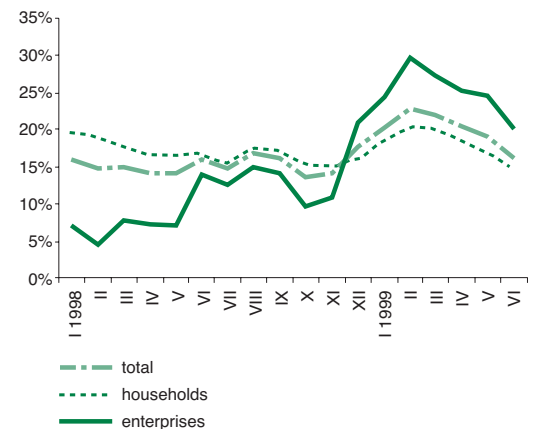
*Given strong consumer credit growth, more relaxed than expected fiscal policy, rising inflation and a reduction in the obligatory reserve requirement to take effect from September, an interest rate cut is very unlikely this year.* On the other hand, privatisation revenues will cause the zloty to strengthen. *We see no evidence to indicate that official interest rates will increase as this might strengthen the currency, substantially raising the zloty above the long-term level of equilibrium and resulting in further tensions in the balance of payments.* Given excess liquidity in the banking system, after the obligatory reserve rate is reduced to 5% on all deposits from 30 September, we do not rule out that the open market operations rate will be increased up to 14% on an annualised basis. This would probably cause personal deposit interest rates to increase, bolstering domestic savings.



Real growth of loans (y/y)



Real growth of deposits (y/y)





## Strong Zloty Due to Privatisation

In the last month, the zloty has appreciated reaching 6% of deviation on the stronger side of the parity on 8 July. Zloty appreciation was driven by on-going inflows of foreign currencies due to the privatisation of Pekao S.A. and Bank Zachodni. *Fundamental factors indicate that the zloty should actually be weaker and therefore in the event of changed expectations in relation to fx payments from abroad the zloty rate may be expected to be more volatile.* While the zloty is well supported by privatisation at the end of Q 3 and 4 1999, the holiday season may cause appreciation pressure to ease.

## The Euro Rebounds

Following a long downward period, driven by stagnation in the euro zone, due to increased expectations in relation to an economic turnaround in the euroland, particularly in Germany, the euro started to appreciate relative to the dollar and the pound sterling. On 26 July. at the close of business, the euro cost US\$ 1.0657, or 5.5% more above the EUR/USD historical low of 1.0104. A weak euro had a positive impact on exports causing it to increase and acted as a stimulant to weak external demand. *Given a long-awaited change in the business climate in the euro land and a stronger European currency, it is also hoped that that Polish exports will largely grow, and this will result in an improved business climate in Poland.*

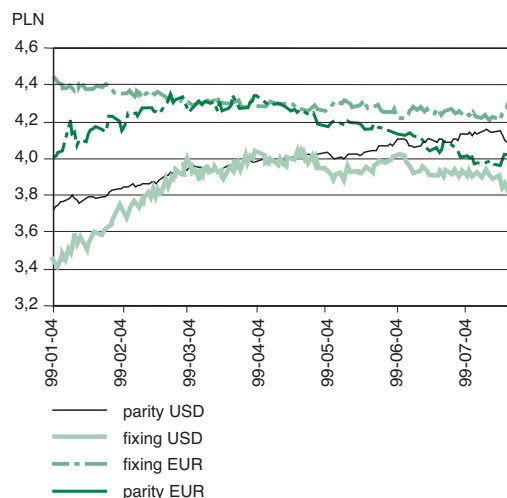
## Foreign Currency Reserves

Poland still has a high stock of foreign currency reserves that cover 7.2 months of imports.

In June fx reserves totalled USD 25.848bn, which represents a 1% decline (or USD 297m) from USD 26.145bn in May. In the January-May period, in terms of flows, declined marginally (USD 14m) due to the funding of 0.45 of the current account deficit. In relation to the stock of reserves from the end of 1998, official gross reserves have fallen by approx. 5.6% to USD 25.848bn from USD 27.382bn in December 1998. The decline was totally brought about by a 13.4% depreciation of the euro relative to the US\$. Approximately 40 percent of Polish fx reserves is held in euros. *Therefore, there have been no net capital flows out of Poland since the start of 1999.*

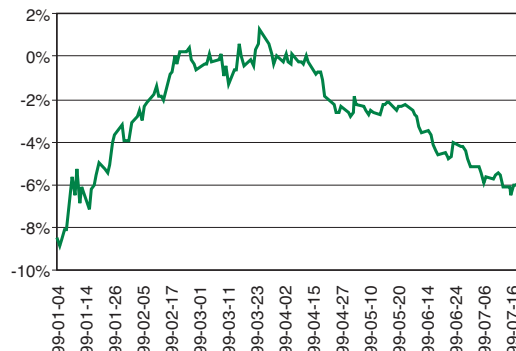
Before June 7, the level of the reserves changed due to the lack of equilibrium between bid and ask orders placed by commercial banks at the NBP fixing session. From 7 June, the level of the reserves may be subject to change only in the wake of EUR/USD rate movements, direct interventions by the NBP in the fx market and transactions between the NBP and the State Treasury outside the market.

Exchange rates



|       | Fixing USD/PLN weekly change | Fixing EUR/PLN weekly change percentage | Fixing USD/PLN change since 99/01/04 | Fixing EUR/PLN change since 99/01/04 |
|-------|------------------------------|---|--------------------------------------|--------------------------------------|
| 04/23 | 0,00                         | -0,37                                   | 16,32                                | 6,43                                 |
| 04/30 | -1,47                        | -1,85                                   | 14,61                                | 4,46                                 |
| 05/07 | -1,37                        | 0,45                                    | 13,04                                | 4,94                                 |
| 05/14 | 0,85                         | -0,21                                   | 14,00                                | 4,71                                 |
| 05/21 | 0,14                         | -0,82                                   | 14,16                                | 3,85                                 |
| 05/28 | 1,12                         | 0,16                                    | 15,43                                | 4,01                                 |
| 06/04 | 0,67                         | -0,83                                   | 16,20                                | 3,15                                 |
| 06/11 | -2,15                        | -0,27                                   | 13,71                                | 2,87                                 |
| 06/18 | -0,14                        | -2,05                                   | 13,55                                | 0,77                                 |
| 06/25 | -0,03                        | 1,41                                    | 13,52                                | 2,19                                 |
| 07/02 | 0,03                         | -2,15                                   | 13,55                                | 0,00                                 |
| 07/09 | -0,21                        | -0,70                                   | 13,31                                | -0,70                                |
| 07/16 | -0,48                        | -0,34                                   | 12,76                                | -1,04                                |
| 07/23 | -1,22                        | 1,68                                    | 11,39                                | 0,62                                 |

Deviation of exchange rate from parity (weighted average of USD and EUR)



## Interest Rates

The likelihood of an interest rate cut is now very little and within the last few weeks the market has accepted the view that there will be no interest rate cut this year. In the interbank market, it has been reflected in 6M WIBOR, which increased by 10 basis points in early July to a level of 13.30%. In the first three weeks of July WIBOR rates up to 6 months flattened. From Wednesday, 21 July, there is some differentiation in WIBOR rates due to the Y2K effect. 6M and 3 M rates went up by 30 and 10 basis points and rates greater than 1 month started to gradually come down, which resulted from shifting liquidity to shorter terms. In consequence, the WIBOR-WIBID spread for 3M and 6M terms increased.

## Treasury Bills

Over the last months, in the secondary market, treasury bill yields have been continuously growing, which is reflected particularly 6M and 9M maturities, which was a function of interest rate movements in the interbank market.

In the primary market, treasury bill have also been gradually growing over the last month despite insignificant supply. On Monday, 26 July, treasury bill yields rose significantly in response to sales in the secondary market.

## Treasury Bonds

In the treasury bond secondary market, prices significantly fell, which was caused by weaker than expected economic performance in June and uncertainty about an increase in the budget deficit. The largest yield increases occurred in relation to 2 and 3-year bonds even though significant increases took place across the longer-term end of the yield curve. We expect yields in this end of the yield curve to continue to increase.

**Average Auction T-Bill (365-day basis)**

|               | 13-week | 26-week | 52-week |
|---------------|---------|---------|---------|
| 21/06/99      | 12,41   | 12,37   | 12,27   |
| 28/06/99      | 12,41   | 12,51   | 12,27   |
| 05/07/99      | 12,45   | 12,57   | 12,27   |
| 12/07/99      | 12,45   | 12,62   | 12,44   |
| 19/07/99      | 12,49   | 12,78   | 12,48   |
| 26/07/99      | 12,57   | 12,83   | 12,52   |
| <b>Change</b> |         |         |         |
| 21.06-26.07   | 0,16    | 0,46    | 0,25    |

**T-Bill Yields (Secondary Market)**

| Date     | 3M    | 6M    | 9M    | 12M   |
|----------|-------|-------|-------|-------|
| 21/06/99 | 12,30 | 12,30 | 12,30 | 12,15 |
| 28/06/99 | 12,25 | 12,30 | 12,35 | 12,15 |
| 05/07/99 | 12,35 | 12,45 | 12,45 | 12,20 |
| 12/07/99 | 12,40 | 12,45 | 12,60 | 12,30 |
| 19/07/99 | 12,30 | 12,50 | 12,60 | 12,31 |
| 26/07/99 | 12,40 | 12,65 | 12,60 | 12,30 |

**T-Bond Yields (Secondary Market)\***

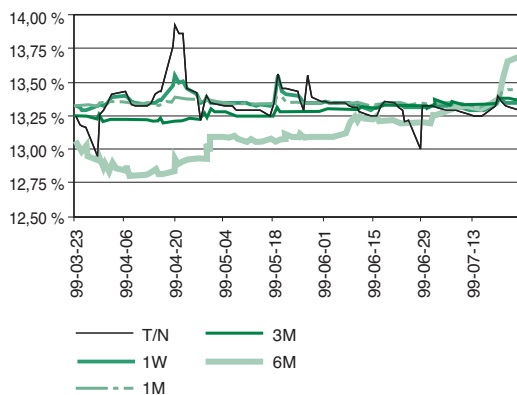
| Date     | 2Y    | 3Y    | 4Y    | 5Y    | 10Y  |
|----------|-------|-------|-------|-------|------|
| 21/06/99 | 11,41 | 10,87 | 10,59 | 10,17 | 8,79 |
| 28/06/99 | 11,80 | 11,31 | 11,08 | 10,48 | 8,94 |
| 05/07/99 | 11,61 | 11,20 | 10,79 | 10,51 | 9,01 |
| 12/07/99 | 11,87 | 11,50 | 11,11 | 10,56 | 9,05 |
| 19/07/99 | 12,21 | 11,84 | 11,52 | 11,07 | 9,15 |
| 26/07/99 | 12,46 | 12,10 | 11,42 | 11,01 | 9,05 |

\*internal rate of return (IRR)

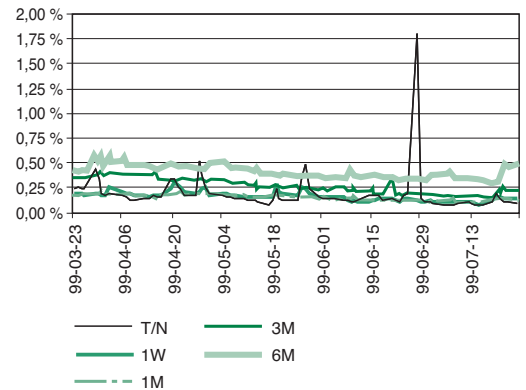
**Interest Rates (WIBOR)**

| Term | Currently<br>26/07/99 | Week<br>Ago<br>19/07/99 | Month<br>Ago<br>26/06/99 |
|------|-----------------------|-------------------------|--------------------------|
| T/N  | 13,30                 | 13,32                   | 13,36                    |
| 1W   | 13,35                 | 13,33                   | 13,35                    |
| 1M   | 13,37                 | 13,34                   | 13,35                    |
| 3M   | 13,45                 | 13,35                   | 13,32                    |
| 6M   | 13,71                 | 13,35                   | 13,22                    |

**WIBOR rates**



**Spread WIBOR-WIBID**





## Gross Domestic Product

Poland's gross domestic product increased by 1.5% (year on year) in Q 1 1999 compared to a 2.9% increase in Q4 1998 and a 4.8% increase in 1998. GDP growth in Q1 1999 was driven by high individual consumer consumption growth (4.2% in real terms) and gross expenditures on fixed assets (up 0.6%) *Accumulation was not a growth factor due to a reduction in the level of stocks that were accumulated in Q3 and 4 1998.* Under the institutional sector category, the main source of growth was the market services sector (up 4.1%) and the construction industry (up 2.0%). *The gross added value in industry fell by 3.0% in real terms. It should be noted that the rate of expenditures on fixed assets significantly fell from 14.5% in 1998 to 6.0% in Q1 1999 and that industry-generated GDP strongly fell.*

The Finance Minister estimated GDP growth in the first half of 1999 at 2.3% and 5.2% in the second half of 1999. *This means that Q2 1999 GDP was still low, approx. 3%, and that it is not certain that 4% growth in 1999 will be achieved. According to our estimates, GDP in 1999 will grow by 3.9%.*

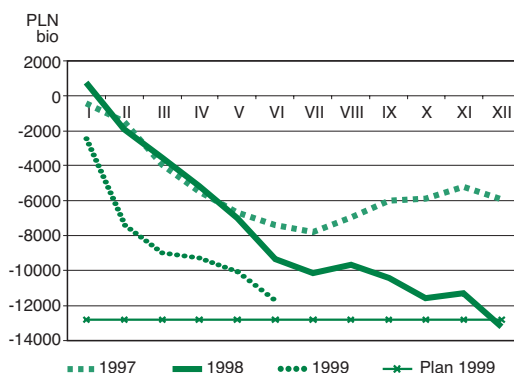
| The real growth of gross domestic product's components (year on year) |      |        |         |          |         |      |        |
|---|------|--------|---------|----------|---------|------|--------|
|   | 1997 | I Q 98 | II Q 98 | III Q 98 | IV Q 98 | 1998 | I Q 99 |
| Final consumption   | 6.1  | 5.5    | 3.5     | 3.8      | 3.8     | 4.2  | 3.7    |
| - of which: individual consumption                                    | 6.9  | 6.4    | 4.1     | 4.5      | 4.5     | 4.9  | 4.2    |
| Gross capital formation   | 20.8 | 17.1   | 14.7    | 14.4     | 12.5    | 14.1 | 1.1    |
| - of which: outlays on fixed assets                                   | 21.7 | 17.5   | 14.9    | 14.6     | 13.1    | 14.5 | 6.0    |
| Domestic demand   | 9.3  | 7.4    | 5.8     | 6.2      | 6.7     | 6.5  | 3.2    |
| Gross domestic product  | 6.8  | 6.4    | 5.4     | 5.0      | 2.9     | 4.8  | 1.5    |
| Gross value added   | 6.5  | 6.2    | 5.1     | 4.7      | 2.7     | 4.5  | 1.3    |
| Of which:   |      |        |         |          |         |      |        |
| Industry  | 10.3 | 10.6   | 5.6     | 3.6      | -1.1    | 4.4  | -3.0   |
| Construction  | 13.6 | 15     | 11.7    | 9.9      | 7.7     | 10.2 | 2.0    |
| Market services   | 4.4  | 4.3    | 5.6     | 5.8      | 3.5     | 4.7  | 4.1    |

Source: CSO

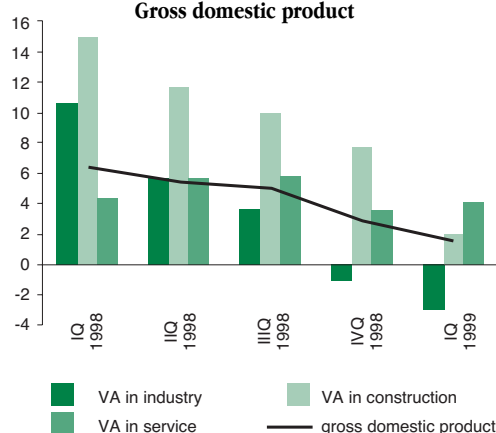
## State Budget

The budget deficit in June increased by PLN 1.318bn up to PLN 11.373bn, which accounts for 88.8% of the amount planned for 1999 of PLN 12.813bn. *This amount is neutral for the zloty as the deficit was lower but relatively close to 90% of the total value planned for 1999.* After a 10% increase in the excise duty on fuels to take effect from 1 August, the Finance Ministry will run out of its measures to increase revenues and will try to cut down on spendings. An expected improvement in the business climate in the second half of 1999 will without doubt help increase VAT revenues. However, it cannot be excluded that the deficit will further deepen temporarily in the coming months. *In our opinion, it will not be necessary to revise the budget even if the deficit increases later on in the year. From this perspective, the June figure may be perceived as moderately positive as an increase in spendings was restricted. Although the state budget seems to be under control, the public finances deficit including, et al., local authority budgets, may increase. We expect local authorities to take significant loans in the course of the year.*

Budget balance (cumulative)



Gross domestic product



## Production Results in the January-May Period

In the first five months of this year, industrial output on a fixed price basis reduced by 1.4% compared to the same period last year. *Worse production results were particularly visible in January and February when monthly production falls were 11.0% and 0.4% respectively. In March there was a significant improvement. Compared to February, sold industrial output increased by as much as 21.8% and compared to March 1998 it increased by 3.5%.* This month should be regarded as a turning point even though it seems that production growth this year will not be as large as assumed earlier.

*In the January-May period, manufacturing activity fell by 1.5%.* Out of 21 manufacturing sector categories, nine categories experienced growth and twelve a fall in their performance compared to the same period last year. First of all, production increased in the following areas:

- publication and printing (up 17.5%).
- production of wood and wooden goods as well as straw and wicker articles ( up 9.4%).
- production of rubber and plastics (up 7.1 %).

Average growth in the manufacturing growth sectors was 7.2% with the largest growth being 17.5% and the lowest one being 2.4%.

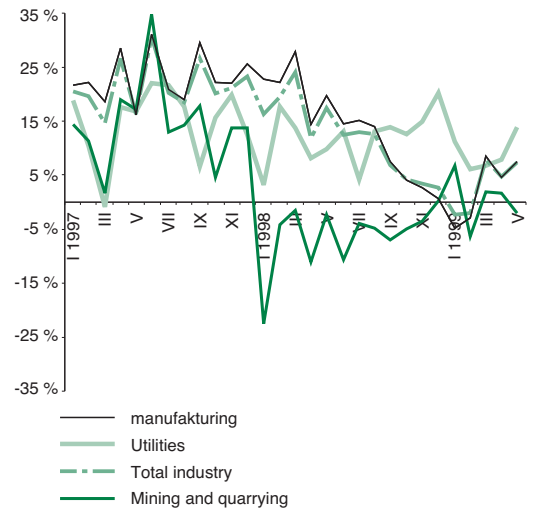
The largest fall in production in the January-May period occurred in relation to the production of metals. Compared to the same period last year, it decreased by 23%. A large fall was also experienced in the production of fabrics, production activity in this sector reduced by nearly 12% compared to last year. The average fall in the manufacturing fall sectors in the first five months was a negative 7.4%.

## Sectoral Performance in May

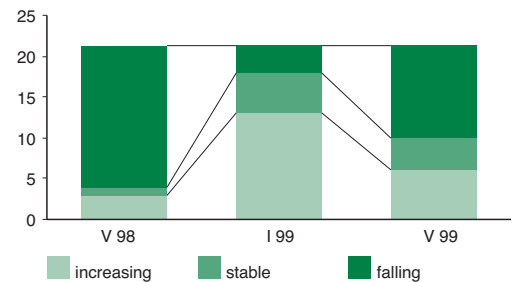
*Having analysed May's sold industrial production results, one can indicate signs of recovery leading back to a growth path.* Annual dynamics in 31 sectors was positive. In the case of manufacturing activity it was 3.0%. The largest production increases occurred in relation to: tobacco goods (28.9%), other transport equipment (28.8%) and publication and printing activity (21.7%). The largest fall, compared to May last year, was experienced by the following sectors:

- production of radio and TV and communication equipment and appliances (17.5%).
- production of medical, precise and optical instruments, clocks and watches (16.9 %).
- production of metals (16.5%).
- processing of leather and production of leather goods (11.5%).

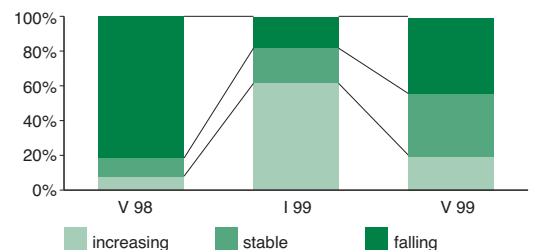
**Growth of Industrial Output (y/y)**



**No of branches of industry in which production was ...**



**Share of branches in manufacturing**







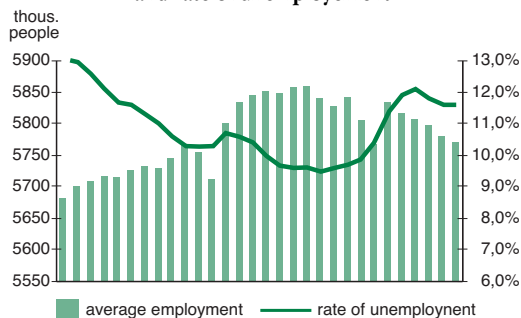
## Labour Market

As a result of lower sold industrial output, there was a small increase in average employment in enterprises. In 1998 Polish companies employed an average 5 856k persons, or up 111% on the previous year. *This year, average employment in enterprises exhibits a strong downward tendency.* This is a postponed result of restricting manufacturing growth last year due to a worse business climate in Western Europe, the Russian crisis, the policy of cooling the Polish economy and the restructuring of heavy industry and mining.

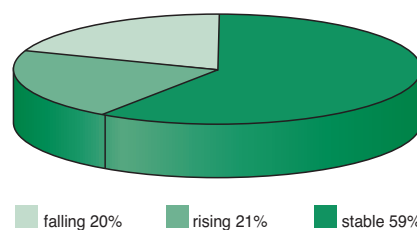
In 1998, the following changes occurred in relation to average employment in individual sectors. Out Of 21 manufacturing sectors under scrutiny, *ten sectors were characterised increased numbers of employees.* The average number of employees primarily rose in enterprises involved in the production of rubber goods and plastics (up 10.4%). A high increase in employment numbers was also recorded in relation to the production of metal goods (8.3%) and publication and printing activity (7.7%). And the largest falls in employment numbers in 1998 compared to the previous year affected companies involved in the production of tobacco articles. This fall was greater than 10% while a two-percent fall in sold industrial output occurred in enterprises. Average employment numbers significantly decreased in companies involved in the production of fabrics (9.3%) and the processing of leather and production of leather goods (9.2%). These two sectors had trading relationships with the Russian market.

*In the January- May 1999 period the number of employees in enterprises reduced by 0.4% compared to the same period last year.* There was a further increase in average employment numbers in the above mentioned publication and printing sector (8.8%). Moreover, more people were involved in the production of rubber goods and plastics (up 5.0%) and the production of metal goods (3.2%). There were fewer and fewer people involved in the processing of leather and the production of leather goods and the production of fabrics. Average employment numbers also fell in companies involved in the production of coal-related products, oil-related products and derivative products. The three sectors employed a total 30k less than in the same period in 1998.

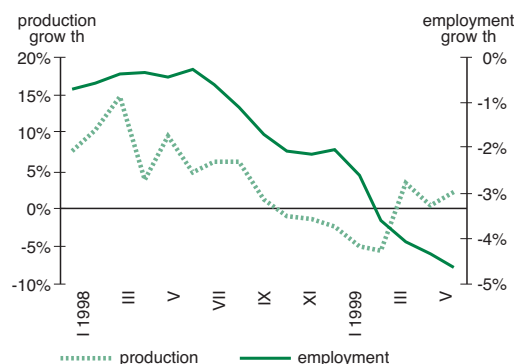
**Average employment in enterprise sector and rate of unemployment**



**Structure of average employment in May 1999 according to sectors of employment:**



**Growth of production and employment**



**Average employment in branches in which production was**



## Basic Macro-Economic Data

| CATEGORY  | 1998     |         |          | 1999    |         |         |          |
|---|----------|---------|----------|---------|---------|---------|----------|
|   | December | January | February | March   | April   | May     | June     |
| Consumer price index (m/m)  | 0,4%     | 1,5%    | 0,6%     | 1,0%    | 0,8%    | 0,7%    | 0,2%     |
| CPI non-food products (m/m)   | 0,5%     | 0,6%*   | 0,4%*    | 0,6%*   | 0,8%*   | 0,6%*   | 0,0%*    |
| CPI food products (m/m)   | 0,7%     | 0,2%    | 0,0%     | 0,5%    | 0,5%    | 0,6%    | -0,7%    |
| CPI services (m/m)  | 0,1%     | 3,3%    | 1,0%     | 2,0%    | 0,9%    | 0,8%    | 0,6%     |
| Consumer price index (y/y)  | 8,6%     | 6,9%    | 5,6%     | 6,2%    | 6,3%    | 6,4%    | 6,5%     |
| Consumer price index (December of the previous year= 100)             | 8,6%     | 1,5%    | 2,1%     | 3,1%    | 3,9%    | 4,6%    | 6,3%     |
| Price index of sold production of industry (m/m)                      | 0,1%     | 0,4%    | 0,6%     | 1,1%    | 0,6%    | 0,5%    | 0,1%     |
| Price index of construction and assembly production (m/m)             | 0,5%     | 1,6%    | 0,9%     | 0,7%    | 0,5%    | 0,6%    | 0,3%     |
| Price index of sold production of industry (y/y)                      | 4,8%     | 3,9%    | 3,7%     | 4,7%    | 5,0%    | 5,2%    | 5,3%     |
| Price index of construction and assembly production (y/y)             | 10,6%    | 9,8%    | 9,4%     | 9,0%    | 8,6%    | 8,4%    | 8,1%     |
| Sold production of industry (m/m)                                     | 2,7%     | -11,0%  | -0,4%    | 21,8%   | -7,0%   | 1,2%    | 0,0%     |
| Sold production of industry (y/y)                                     | -2,2%    | -5,1%   | -5,6%    | 3,5%    | 0,3%    | 2,2%    | 1,0%     |
| Construction and assembly production (m/m)                            | 41,8%    | -54,8%  | 5,7%     | 19,1%   | 10,3%   | 10,8%   | 9,6%     |
| Construction and assembly production (y/y)                            | 2,7%     | 3,9%    | -3,1%    | 1,2%    | 2,8%    | 4,2%    | 4,9%     |
| Unemployment rate   | 10,4%    | 11,4%   | 11,9%    | 12,1%   | 11,8%   | 11,6%   | 11,6%    |
| Average employment in enterprise sector (thous people)                | 5 769    | 5 835   | 5 818    | 5 808   | 5 799   | 5 780   | 5 771    |
| Average monthly gross salaries and wages in enterprise sector (PLN)** | 1 582    | 1 597   | 1 626    | 1 742   | 1 780   | 1 767   | 1 827    |
| The state budget balance (PLN mio)                                    | -13 193  | -2 476  | -7 386   | -8 992  | -9 299  | -10 055 | -11 373  |
| State budget revenues (PLN mio)                                       | 126 563  | 9 552   | 17 376   | 27 727  | 37 599  | 46 841  | 56 410   |
| State budget expenses (PLN mio)                                       | 139 756  | 12 029  | 24 762   | 36 719  | 46 898  | 56 896  | 67 783   |
| Trade balance in a cash basis (USD mio)                               | -1 630   | -1 212  | -783     | - 904   | -1 036  | -984    | -1300*** |
| Exports (USD mio)   | 2 744    | 2 119   | 2 522    | 2 463   | 2 159   | 2 041   | -        |
| Imports (USD mio)   | 4 374    | 3 331   | 3 305    | 3 367   | 3 195   | 3 025   | -        |
| Current account balance (USD mio)                                     | -1 220   | -894    | -488     | -844    | -938    | -641    | -        |
| Money supply (PLN mio)  | 220 765  | 221 754 | 226 759  | 230 256 | 230 751 | 233 265 | 234 772  |
| Gross official reserves of NBP (USD mio)                              | 27 382   | 27 085  | 26 807   | 26 598  | 26 407  | 26 145  | 25 848   |
| Rediscount rate   | 18,25%   | 15,5%   | 15,5%    | 15,5%   | 15,5%   | 15,5%   | 15,5%    |
| Lombard rate  | 20%      | 17%     | 17%      | 17%     | 17%     | 17%     | 17%      |

\* From January 1999 increase of total goods prices

\*\* From January 1999 according to new rules

\*\*\* estimated

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