Poland's Economy. Financial Markets

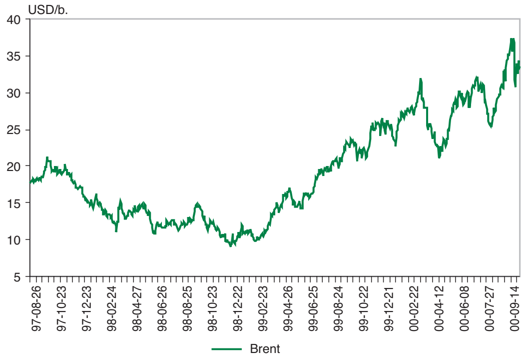
September 2000 No. 15

Major macroeconomic trends:

- In August, the CPI decreased by 0.3% m/m, falling to 10.7% y/y. August's inflation was much better than expected as analysts projected it to hit 11.0 to 11.2% y/y. For the first time this year, deflation took place as a result of three factors: a seasonal drop in food prices of 1.1% m/m, a fall in non-food goods prices of 0.2% and a low rise in services prices of 0.4%. (p. 4)
- In August, industrial output grew by 6.1% m/m after a fall of 6.9% in July. Annual industrial output growth reached 9.3% after 7.8% y/y in July. Growth in manufacturing industry output (6.5% m/m and 9.3% y/y) was reinforced by a seasonal increase in the output of utilities and a seasonal increase in mining output (0.7% and 8.9% m/m). (p. 4)
- July's current account gap running at USD 676m was much below market expectations. The major reason for this improvement in the current account deficit was an improvement in the income account arising from the lack of payments for external debt service and growth in exports. Exports grew by 4.8% m/m and 20.0% y/y whereas imports inched up 2.0% m/m and 2.7% y/y. The current account gap reduced to 7.4% of GDP. (p. 5)
- Indicators warning against a foreign exchange crisis remain at safe levels. (p. 5)
- August's money supply increased by 15.2% y/y and 0.5% m/m. Money supply is still under control, its annual growth reaching 15% is not exerting any pressure on inflation. (p. 5)
- Owing to a drop in sentiment for emerging markets and the discontinuance of TP S.A. flows, the zloty weakened to 1.87% of deviation from old parity, hitting PLN/USD 4.60. A weak euro and strong US dollar are likely to have a negative impact of Poland's economy. (p. 6)
- Money market stays under the influence of the recent interest rate hike. (p. 7)
- The NBP prepares the market for removing overliquidity in the Banking System. (p. 8)
- NBP interest rates are likely to be kept unchanged for the next two quarters. (p. 8)
- Faster growth in the budget deficit. (p. 9)
- Exports and imports stabilise. The share of intermediate goods imports in total imports increases. (p.10)
- Slight deterioration in business trends in August. (p. 11)

Arkadiusz Krześniak

Oil prices



Source: Reuters

In this issue

Current economic situation

The exchange rate is the most important economic price growing in importance in a small open economy like Poland's. A large share of foreign trade in GDP and no impact of domestic demand changes on foreign trade transaction prices means that economic growth in Poland is very sensitive to business trend changes of its major trading partners. In the medium term, exchange rate movements have an impact on domestic and external competitiveness and influence directly the trade exchange balance. Owing to substantial sensitivity of producer prices to zloty exchange rate movements and a very effective exchange rate channel of the transmission of monetary impulses, zloty rate movements are one of the major factors determining monthly inflation. At the end of August and in September, Poland's economy found itself in a very interesting situation. On the one hand, all macroeconomic fundamentals improved: the current account gap reduced to 7.4% of GDP in July largely due to good export performance; inflation fell unexpectedly to 10.7% y/y from 11.6% in July, money supply was under control, industrial output was stable in August growing at 9.3% y/y, real wages increased only slightly, industrial business trends did not significantly decelerate. On the other hand, however, Poland's economy again entered a high interest rate environment with strong signals of a fall in domestic demand, both in consumer and investment terms. The costs of bringing down inflation too hastily at the beginning of last year are now surfacing as high foodstuffs prices stemming from an agricultural supply shock are exacerbated by the government's pro-cyclical interventionist policy. A very strong rise in oil prices, independent of the government's economic policy, and a continuing decrease in the euro rate against the US dollar made the zloty weaken progressively in September, which was further aggravated by closing short foreign exchange positions after the discontinuance of privatisation inflows. After a fall of the euro below USD 0.85, the exchange rate of the zloty against the US dollar shifted to around PLN 4.60. The continuing drop in the euro against the US dollar must last a few months longer to bring about significant disruptions in the export sector of the US economy and bring closer the possibility of a joint intervention of the FED, ECB and potentially Bank of Japan in defence of the euro. The present weakening of the zloty will not improve exporters' situation given that the weak euro extracts reductions in export prices and considerably reduces export profitability. At the same time, high oil prices, coupled with the strong US dollar, will be putting cost pressure on intermediate goods imports thereby reducing Polish producers' profits. In 4Q this year, producer prices will be limited by weak domestic demand in the domestic market.

Tab. 1. Inflation indicators

	04 2000	05 2000	06 2000	07 2000	08 2000	*09 2000F*
Consumer Price Index (m/m %)	0.4	0.7	0.8	0.7	-0.3	*0.8*
Consumer Price Index (y/y %)	9.8	10.0	10.2	11.6	10.7	*10.1*
Producer Price Index (m/m %)	0.7	0.9	1.0	0.6*	0.3	*0.7*
Producer Price Index (y/y %)	7.4	7.9	8.8	9.0*	8.3	*8.1*
Average monthly FX rate (USD, y/y %)	5.8	14.3	11.6	11.3	10.3	-

Tab. 2. Activity indicators

	03 2000	04 2000	05 2000	06 2000	07 2000	08 2000
Retail Sales Index (m/m %)	17.2	2.2	-0.6	2.8	-0.7	-
Retail Sales Index (y/y %)	16.9	19.9	15.1	14.8	10.3	-
Household loans (y/y %)	52.1	49.8	49.9	79.4	45.7	42.9
Industrial Output (m/m %)	11.6	-8.5	7.7	1.2	-6.9	6.1
Industrial Output (y/y %)	6.8	5.3	12.1	13.4	7.8	9.3
Exports, current prices (in payment terms, y/y %)	--3.7	-5.9	21.0	13.0*	20.1	-
Imports, current prices (in payment terms, y/y %)	7.3	-2.8	9.3	0.4*	2.7	-
Foreign trade Balance (NBP, USD m)	-1 241	-1 075	-894	-1 041*	-994	-
State Budget Balance (PLN m)	-6.9	-8.9	-10.0	-10.8	-11.3	-13.0

Tab. 3. Poland's Economy

	1996	1997	1998	1999	*2000F*
Gross Domestic Product (y/y %) (fixed prices) of which:	6.0	6.8	4.8	4.1	***5.0***
Individual Consumption (y/y %)	8.3	6.9	4.9	5.1	***4.1***
Gross expenses on fixed assets (y/y %)	19.7	21.7	14.5	6.9	***6.0***
Exports, constant prices (y/y %)	9.7	13.7	9.4	2.0	***11.9***
Imports, constant prices (y/y %)	28.0	22.0	14.6	4.4	***7.0***
Inflation (average annual %)	19.9	14.9	11.8	7.3	***10.1***
Inflation (year end, y/y %)	18.5	13.2	8.6	9.8	***8.9***
Unemployment Rate (year end, y/y %)	13.2	10.3	10.4	13.0	***14.1***
Current Account Balance/GDP (%)	-1.0	-3.2	-4.2	-7.6	***-7.3***
Public Debt/GDP (%)	51.1	47.9	43.1	44.6	***43.6***

y/y - year on year m/m - month to month F - forecast
Sources: CSO, NBP, WBK forecasts
* corrected data

Tab. 4. Poland – medium-term forecast (average in period unless otherwise stated)

CATEGORY	1999	1Q 2000	2Q 2000	3Q 2000	4Q 2000	2000	2001	2002	2003	2004	2005
Interest rates											
1M	14.56	17.59	18.14	18.38	19.27	18.23	17.8	13.8	11.4	9.2	8.4
3M	14.71	17.84	18.50	18.52	19.42	18.41	18.0	14.0	11.6	9.4	8.6
6M	14.60	17.85	18.67	19.05	19.50	18.72	17.9	14.1	11.7	9.5	8.7
12M	14.80	18.05	18.86	19.20	19.65	18.94	18.1	14.3	11.8	9.6	8.8
Lombard rate	17.59	21.17	21.50	22.00	23.00	21.92	20.7	16.0	13.2	11.0	10.2
Intervention rate	13.72	17.17	17.50	18.00	19.00	17.92	16.7	13.5	11.2	9.0	8.2
Treasury bonds yields											
3L (bid)	11.87	14.62	16.30	16.90	17.20	16.26	15.9	11.9	9.5	8.5	8.0
5L (bid)	11.12	12.78	14.01	14.30	14.40	13.87	13.4	10.2	9.0	8.2	7.8
10L (bid)	9.63	10.41	11.69	12.49	12.30	11.72	10.0	9.3	8.5	8.1	7.6
T-bills yields											
13-week	13.12	16.25	16.72	17.05	17.70	16.93	15.8	13.3	11.0	8.7	7.7
52-week	12.97	16.94	17.68	18.10	18.40	17.78	16.7	13.7	11.2	8.9	7.9
Exchange rates											
USD/PLN	3.9650	4.1132	4.3762	4.395	4.577	4.365	4.57	4.94	5.30	5.55	5.80
EUR/PLN	4.2260	4.0629	4.0872	3.965	4.008	4.031	4.30	4.95	5.39	5.49	5.56
EUR/USD	1.0660	0.9878	0.9344	0.902	0.876	0.925	0.94	1.00	1.02	0.99	0.96
Average depreciation (currency basket)	-	-	-	-	-	2.5%	5.7%	11.5%	8.1%	3.3%	2.8%
USD/PLN (end of period)	4.1483	4.1428	4.3907	4.510	4.550	4.550	4.67	5.20	5.40	5.70	5.90
EUR/PLN (end of period)	4.1689	3.9650	4.2075	3.888	4.095	4.095	4.58	5.32	5.45	5.53	5.58
EUR/USD (end of period)	1.0050	0.9571	0.9583	0.862	0.900	0.900	0.98	1.02	1.01	0.97	0.95
Macroeconomic indicators (end of period unless otherwise stated)											
Real GDP (y/y %)	4.1	6.0	5.2	4.7	3.9	5.0	5.2	5.2	5.1	5.5	6.0
Inflation (y/y %)	9.8	10.3	10.2	10.0	8.9	8.9	6.9	5.7	4.3	3.8	3.6
Inflation (y/y %) (average)	7.3	10.3	10.1	10.7	9.1	10.1	7.7	6.3	5.0	4.1	3.7
Current account/ GDP (%)	-7.6	-7.9	-7.7	-7.5	-7.3	-7.3	-7.2	-7.0	-6.8	-6.4	-5.9
Budget deficit/GDP (%)	-2.1	-2.8	-2.3	-1.9	-1.7	-2.2	-2.0	-1.9	-1.6	-1.4	-1.2
Public debt/GDP (%)	44.6	-	-	-	-	43.6	40.0	37.7	35.7	33.5	31.2
Foreign public debt/GDP (%)	20.7	-	-	-	-	20.4	18.5	17.5	16.6	15.4	14.2
Total foreign debt/ GDP (%)	39.0	-	-	-	-	39.4	36.8	33.2	29.5	28.3	27.1

Forecast date: 20.09.2000

Notice: Forecasts based on information currently available. WBK Treasury and International Division cannot guarantee that the indicators will follow the patterns as shown above.

Deflation in August

In August, the CPI declined 0.3% m/m, reducing to 10.7% y/y. August's inflation was much better than expected by analysts, who projected it to hit 11.0% to 11.2% y/y. For the first time this year, deflation occurred as a result of three factors: a seasonal drop in foodstuffs prices of 1.1% m/m, a drop in non-food goods prices of 0.2% and a low rise in services prices of 0.4%. Over the past few months, inflation has been highly volatile, and very good results of August's inflation stemmed from a fall in the prices of certain food categories and a decrease in fuel prices in the domestic market a month before. In September, inflation may be close to 10% y/y and in December it is likely to fall to 9% y/y. Dariusz Rosati, an MPC member, expects inflation to hit 8% y/y in December and reach a one-digit figure in October. We share his view that a one-digit inflation figure is achievable in two months' time, however, a drop in inflation to 8% would require the customs duties protection of the food market to be abolished and oil prices to fall in the world market.

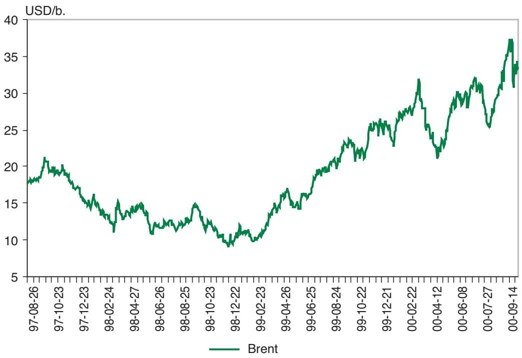
Moderate rise in producer prices

After the release of low consumer inflation for August, good producer inflation results were not surprising. Producer prices inched up 0.3% m/m and 8.3% y/y. For the next time, the CSO revised upwards last year's producer prices data, thereby reducing the monthly price index in August. However, the major reason for low producer inflation was weak domestic demand. It is clear in a very moderate increase of only 0.2% in sold processing industry output. The low CPI was also affected by a drop in fuel prices in the domestic market and a strengthening of the zloty in August. As the zloty weakens in September and fuel prices go up, pressure will be put on raising producer prices. But this pressure will be balanced by weak domestic demand due to a low increase in real wages and a tightening of the monetary policy last month.

Industrial output stabilises

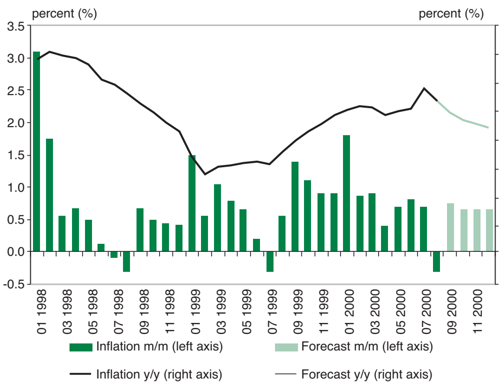
August's industrial output increased by 6.1% m/m after a fall of 6.9% in July. Annual industrial output growth reached 9.3% after 7.8% y/y in July. The increase in manufacturing industry output (6.5% m/m and 9.3% y/y) was reinforced by a seasonal increase in the output of utilities and a seasonal increase in mining (0.7% and 8.9% m/m respectively). Despite good annual growth, in the second and third quarter this year, industrial output has been stabilising. Given weak domestic demand, the major factor supporting industrial output are exports. Taking into account the number of business days in August, the increase in its output would amount to only 1.3% m/m. Given a close correlation between the seasonally unadjusted industrial output and exports and imports on a customs basis, the industrial output index can also be treated as coincident indicator of a trade index indicating an improvement in exports in the third quarter this year.

Oil prices



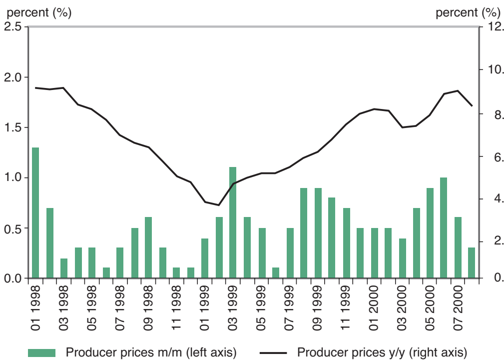
Source: Reuters

Inflation - consumer prices



Source: CSO, own forecast

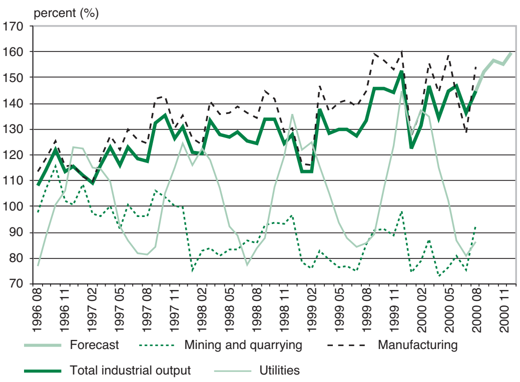
Producer prices 1998-2000



Source: CSO

Industrial output

(monthly average, 1995=100)



Source: CSO, own forecast

Improvement in the current account deficit

The current account deficit running at USD 676m in July was much below market expectations. The main reason for the improvement in the current account gap was a better income balance given no payments for external debt service and growth in exports. Exports grew by 4.8% m/m and 20.0% y/y whereas imports inched up 2.0% m/m and 2.7% y/y. At the same time, unclassified flows and service balances were stable totalling USD 300m and minus USD 150m respectively. This data proves, on the one hand, increasing external demand for Polish exports, and on the other hand, a continuing fall in domestic demand growth. The current account deficit shrank to 7.4% of GDP and it seems likely to stabilise in the second half of this year in a range of between 7.0 to 7.3% of GDP. Polish exports will be supported by good business trends in European markets while the weak euro will be a limiting factor, at least over the next couple of months. High oil prices will lead to an increase in import payments. In July, there was an increase in portfolio investments which reached the same level as direct investments, i.e. USD 340m. From January to July this year, both direct and portfolio investments funded 48% of the current account gap, the balance of other investments stayed negative making the capital and financial accounts cover 57% of the current account deficit. Balance-of-payments data is good showing that positive export trends continue.

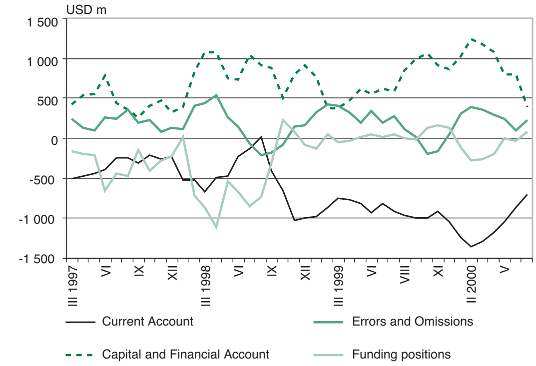
Indicators warning against a foreign exchange crisis remain at safe levels

Official reserve assets were reduced by USD 90m in August, falling to USD 25.5bn, but still covered 7.4 months of imports. In spite of a decrease in 2000 in official reserve assets of USD 1.8bn, the import coverage indicator fell by 0.6 month staying at a safe level of 7.4 to 7.5. In the period from 1998 to 2000, a safe level of foreign exchange reserves was maintained. The share of external debt in GDP, after an increase to 41% of GDP in 4Q1999, fell to 38% at the beginning of this year. Simultaneously, the share of short term debt (up to 1 year) in GDP dropped from 6.8% in 4Q1999 to 5.3% of GDP in 1Q this year. This year, the share of the current account gap in GDP also fell from 7.6% in December 1999 to 7.4% in July 2000. Indicators warning against a foreign exchange crisis are at a safe level.

Money supply under control

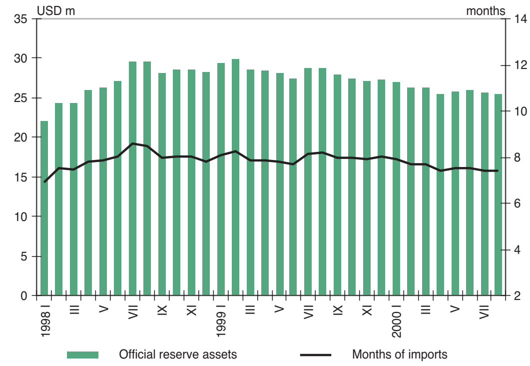
In August, money supply grew by 15.2% y/y and 0.5% m/m. Money supply is still under control, its annual growth amounting to 15% is not putting pressure on inflation. Growth in personal credits of 2.5% m/m was probably prompted by increased demand for holiday loans. In year-on-year terms, personal credit growth was 42.9%. Personal deposit growth stood at 1.0% m/m and 18.4% y/y representing a safe level. Corporate deposits amounted to 2.0% m/m and 15.2% y/y. In August, net foreign assets fell by USD 838m to USD 27.3bn. The NBP interest rate hike of 250 to 350 basis points in November last year reversed the downward trend in household propensity to save. Although monthly personal PLN deposit growth has been gradually decreasing since January this year, since December 1999 annual personal deposit growth has been growing.

Balance of Payments
(average for last 3 months)



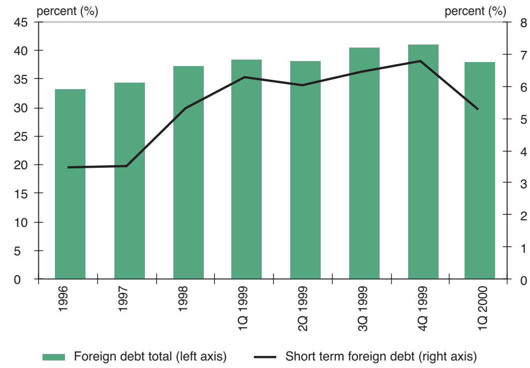
Source: NBP, own calculations

Import Cover Ratio



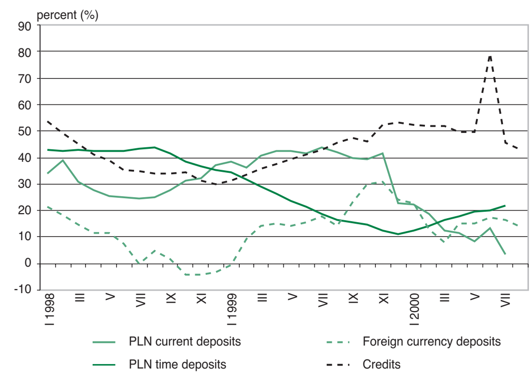
Source: NBP, own calculations

Poland's foreign debt (% of GDP)



Source: NBP, CSO, own calculations

Personal deposits and credits
(y/y growth)

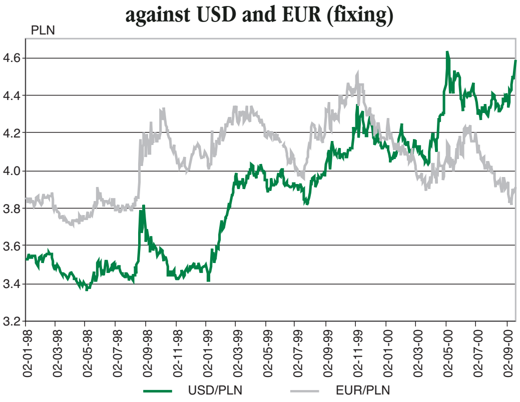


Source: NBP, own calculations

The zloty weakens on the weak euro

Following an NBP interest rate hike on 30 August this year, the strengthening of the zloty was short-lived despite being reinforced by good current account deficit data. The zloty firmed slightly over 1%. As it turned out, the hike of 150 basis points did not lead to an inflow of short term capital as investors feared high inflation and a risk of a weakening of the zloty. In the first week of September, the zloty weakened against the US dollar and euro, after hitting a 5% deviation from old parity. In August and at the beginning of September, the zloty was supported by small foreign exchange proceeds from the TP S.A. privatisation. No large transactions were observable, although French banks demonstrated certain activity. In the following weeks, owing to a weakening of the euro against the US dollar, the zloty firmed against the euro while simultaneosly weakening against the US dollar. On Thursday, September 14, the zloty fell to a 2.6% deviation from parity. After the release of good inflation data, on Friday, September 15, the zloty firmed by 0.5%. On Monday and Tuesday, September 18 and 19, the zloty lost 0.7% and 0.8% respectively, reaching a 1.9% deviation from old parity. Over the past 30 days, the zloty has weakened by 6.4% against the US dollar and strengthened by 1.0% against the euro, weakening against the foreign currency basket by 2.3%. The recent weakening of the zloty was induced by a fall in sentiment for emerging markets as a result of high oil prices and the weak euro. The drop in the value of the zloty was amplified by closing of the short foreign exchange positions given concern over the discontinuance of TP S.A. privatisation flows. The recent decrease in the zloty was then prompted by two overlapping negative external trends and a technical reaction to the discontinuance of privatisation flows. The Treasury Ministry is to receive payment for TP S.A. by the end of September. Another important source of foreign exchange revenues of the same nature as privatisation receipts are proceeds from the tender of UMTS third generation mobile phone licences. This tender is to be held on a beauty-contest basis where, apart from the bid, other criteria will be taken into consideration, like reliability of participating companies. Documents need to be submitted for the tender on October 2. The initial assessment of bids will be carried out on November 6 while the final decision will be taken on November 27. The first inflows may be expected at the beginning of March 2001. Provided that next year UMTS receipts and the privatisation of the power industry has a positive impact on the zloty, in the immediate future, the attitude to the zloty, just like to the currencies of other emerging markets, may be negative. A decrease in the value of the euro against the zloty may have quite serious repercussions to Poland's economy. In the first half of this year, there was an essential improvement in the exports to European Union states, prompted, among others, by acceleration of economic growth in the euro zone and a weakening of the zloty in 2Q this year. The decrease in the value of the euro dilutes the competitiveness of Polish exports 71% of which was directed to EU countries in the first half of this year. At the same time, the increasing USD/PLN rate and rising oil prices in the world's markets boost the costs of enterprises as a result of an increase in supply import prices. For the past year, Poland's economy has become more dependent on the imports of intermediate goods. In consequence, growth in industrial output will entail growth in imports even if domestic demand remains weak and economic growth follows from external demand. Owing to high oil prices and an increasing share of supply imports in total imports, shrinkage in the current account gap should not be expected soon despite weak domestic demand. In September, the effective exchange rate increased, which means a weakening of the zloty against the foreign currency basket weighted with shares in exports, albeit not as strong as in 2Q this year. It means that the last weakening of the zloty will not significantly improve the competitiveness of Polish exports.

Average exchange rate of PLN against USD and EUR (fixing)

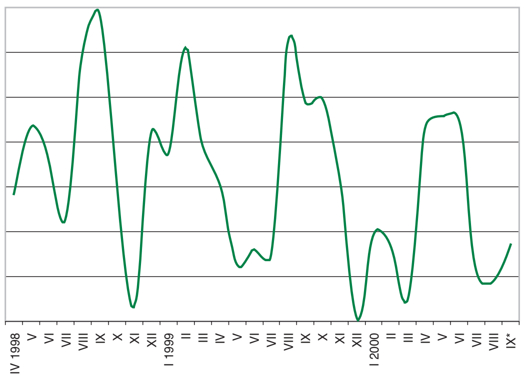


Source: NBP, Reuters

EUR/USD

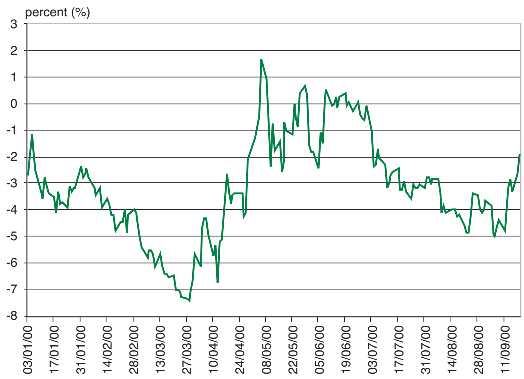
Source: Reuters

Effective exchange rate



Source: NBP, CSO, own calculations
** until 19 September*

Deviation from parity



Source: NBP, own calculations

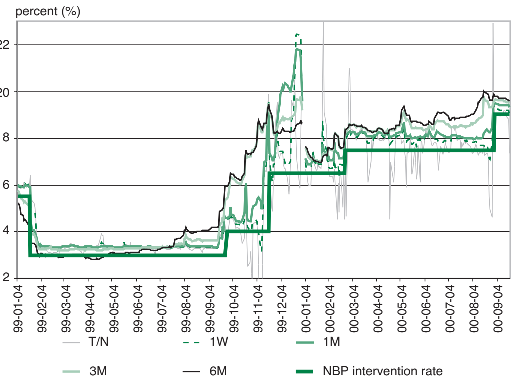
Interest rates

In the fourth week of August, short term overliquidity prevailed in the market due to the impending month end and concern over an NBP interest rate hike. After the release of good food price data for 1-15 August, the market responded with a fall of 20 basis points in WIBOR rates longer than 1 month. After the continuing short term overliquidity, there was a shortage of funds generating a temporary increase in O/N rates to 24.00%. On Friday, September 1, after obligatory reserves had been cleared, short term rates stabilised. Prior to the NBP interest rate hike, longer term WIBOR rates increased by roughly 30 basis points and 15 basis points for 3M and 6M terms respectively. The market had discounted a hike of 150 basis points as a result of which the 1M WIBOR rate rose after the hike by only 5 basis points. In the first week of September, O/N rates were stable staying at the level of open market operations. The WIBOR 1 M rate fell by 7 basis points reaching 19.41%. In addition, longer term rates were affected by a small fall – 3M and 6M WIBOR rates reduced by 4 and 7 basis points respectively, hitting 19.61% and 19.72%. In the first half of the second week of September, O/N rates climbed slightly to 19.10% on Wednesday, September 13. At the end of the week, overliquidity prevailed in the market given that the NBP refrained from carrying out open market operations. On Friday, September 15, O/N rates fell to 17.90%. The 1M WIBOR rate lost 1 basis point decreasing to 19.41%. Longer term rates still continued to fall – 3M and 6M WIBOR rates reduced by 6 basis points, standing at 19.55% and 19.66% respectively. The short term overliquidity carried on into the third week of September. It is worthwhile for the NBP to keep short term overliquidity as it decreases the issue of NBP bills and may induce banks to accept lower yields on the operations of outright sale of NBP bonds, commenced on September 19.

Treasury bills

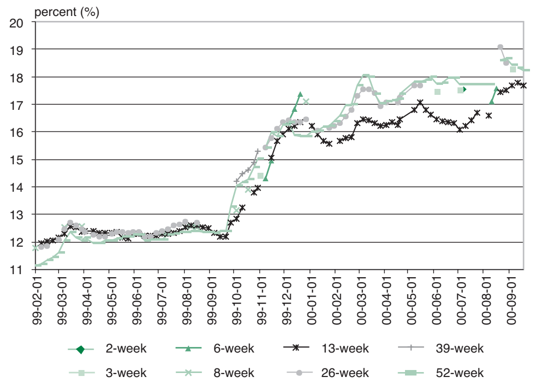
Because the interest rate hike was then discounted, at the auction on August 21, there was a very strong increase in the average yields on offered bills: the average yield on 52-week bill picked up to 18.605% - by 89 basis points compared to the auction on August 7, the yield on 26-week bills increased to 19.095% - by 141 basis points compared to the auction on May 15 and that on 13-week bills stood at 17.439%, i.e. 84 basis points more than on August 7. At the auction on August 28, the Finance Ministry sold PLN 496m worth of treasury bills of which PLN 98.62m of 13-week bills, PLN 97.07m of 26-week bills and PLN 300m of 52-week bills. The bid for these bills was: PLN 323.23m, PLN 970.57m and PLN 931.10m respectively while their average yields reached 17.517%, 18.507% and 18.676%, increasing by 8 and 7 basis points for 13- and 52-week bills and falling by 59 basis points for 26-week bills. As the Finance Ministry commenced selling converted NBP bonds, it reduced its treasury bill offer for September to PLN 2.6-2.8bn (PLN 6.6bn in August). At the auction, September 4, the Finance Ministry sold PLN 200m of 13-week treasury bills and PLN 192.39m of 52-week treasury bills with the offer of PLN 200m for both types of bills. The bid was significant totalling PLN 1062.64m for 52-week bills and PLN 478.66m for 13-week bills. In comparison with the previous auction, August 28, the average yield on 52-week bills fell by 18.420% - by 26 basis points and that on 13-week bills increased to 17.682% - by 17 basis points. At the additional auction on Tuesday, September 5, the Finance Ministry sold PLN 1.186bn of 3-week treasury bills. The bid for them amounted to PLN 3.983bn and the average yield hit 18.277%. At the auction on Monday, September 11, the Finance Ministry sold PLN 190.8m of 52-week treasury bills and PLN 183.9m of 13-week treasury bills. The bid for these bills was PLN 983.1m and PLN 434.65m respectively. The average yield on 52-week bills dropped by 9 basis points to 18.331% and that on 13-week bills rose by 12 basis points to 17.800%. At the auction on September 18, yields on treasury bills continued to fall due to a small offer and good macroeconomic fundamentals. In the secondary market, after the interest rate hike, yields on treasury bills decreased.

WIBOR rates



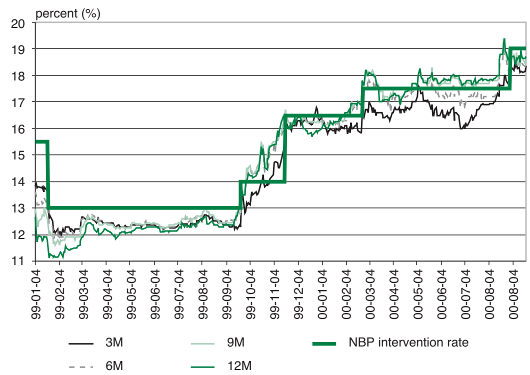
Source: NBP, WBK SA Treasury & International Division

T-Bill yield (primary auctions)



Source: NBP, WBK SA Treasury & International Division

T-Bill yield
(secondary market)



Source: NBP, WBK SA Treasury & International Division

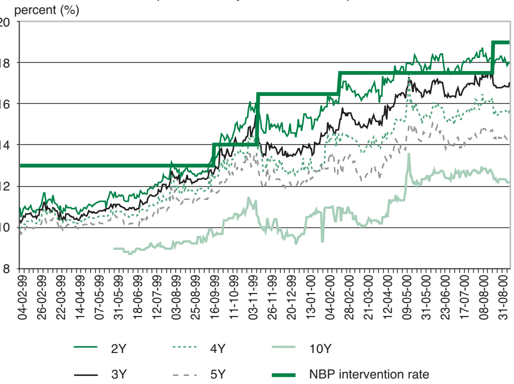
Treasury bonds

On Thursday, August 24, the Finance Ministry converted PLN 424m of the health-care sector's debt into fungible bonds (PLN 41m into 2-year bonds and PLN 383m into 3-year bonds). Banks bid PLN 1.185bn for conversion. The next auction will be held on September 22 before the Ministry buys up the rest of the debt for cash (September 29). In banks, approximately PLN 2bn of the debt remains to be purchased. After a fall in food prices in the first half of August was released, the secondary market responded with a decrease in yields. The yield on 1-year treasury bills lost 10 basis points reducing to 18.70% in the secondary market on Thursday, August 24. Similarly, yields on treasury bonds fell all along the yield curve by roughly 20-30 basis points. In the last week of August, yields on treasury bonds decreased in the secondary market losing most on 10-year bonds (31 basis points) and least on 2-year bonds (14 basis points). The yield on 3-month treasury bills gained 50 basis points and that on other treasury bills fell by 15 basis points. On Monday, September 4, after very good balance-of-payments data was released, the yield curve shifted 20 to 50 basis points down in short and middle terms. The long end of the yield curve remained unchanged. On the following days of the week, the yield curve moved upwards, altogether by 10-20 basis points. At the auction on Wednesday, September 6, the Finance Ministry sold PLN 600m worth of 5-year fixed rate bonds with an 8.5% coupon and PLN 596.5m worth of 2-year zero-coupon bonds. The bid was very large totalling PLN 2.8bn and PLN 2.1bn respectively. The average yield on 5-year bonds stood at 13.913% compared to 14.324% at the auction on August 2, and the average yield on 2-year bonds amounted to 17.658% compared to 17.389% on August 2. Peak yields hit 14.037% and 17.768% respectively. In the second week of September, after an increase at the beginning of the week, starting from Thursday yields on treasury bills fell. At the beginning of last week, yields on treasury bonds were stable following positive inflation projections in August announced on Thursday by Minister Kropiwnicki while the yield curve shifted down 10 to 15 basis points. Very good inflation data for August did not further reduce yields on Friday, September 15. The sale of converted NBP bonds on September 19, intended to probe the market owing to a small offer and spread of the offered bonds all along the yield curve, was successful given that the yields on these non-liquid papers were just 10 to 30 basis points up on market yields. Short term overliquidity continuing, the odds are that the operation to eliminate overliquidity by means of the sale of converted NBP bonds may succeed. However, it is likely to be spread over a couple of quarters.

Monetary policy after the NBP interest rate hike

At its meeting on August 30, the Monetary Policy Council decided to hike interest rates by 150 basis points. The intervention rate was raised to 19.00% from 17.50%, the rediscount rate to 21.50% from 20.00% and the lombard rate to 23.00% from 21.50%. This decision was expected by the market, but there was uncertainty about the size of the hike. The market discounted a hike in official interest rates of roughly this size. The major reason for the hike in interest rates by the MPC was the intention to counteract recently mounting inflation. Although the main reason for the increase in inflation over the past twelve months were supply shocks (rise in food and fuel prices) which could not be offset by monetary policy, the MPC decided to raise interest rates so as to prevent forming of excessive inflationary expectations. Monetary factors are under control, but the MPC highlighted the risk of a decrease in household propensity to save as a result of smaller real interest rate due to mounting inflation.

T-Bond yield
(secondary market, bid)



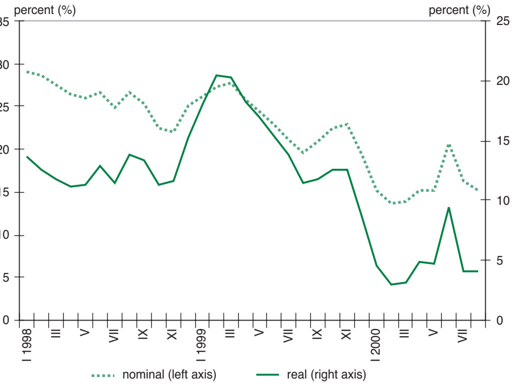
Source: NBP, WBK SA Treasury & International Division

Tab. 5. Treasury bonds – amount outstanding, interbank market

Series	Maturity date	Coupon	Amount sold
AS1000	12-10-00	13.0%	1 076.02
OS1000	12-10-00	13.0%	1 718.89
AS0201	12-02-01	13.0%	1 258.47
OS0201	12-02-01	13.0%	2 032.79
OS0601	12-06-01	16.0%	3 823.02
AS0601	12-06-01	12.0%	1 941.85
OS1001	12-10-01	16.0%	2 312.98
AS1001	12-10-01	12.0%	525.00
OK1201	21-12-01	0.0%	4 733.95
OS0202	12-02-02	16.0%	4 165.19
OK0402	21-04-02	0.0%	3 500.00
OS0602	12-06-02	12.0%	2 532.78
OK0802	21-08-02	0.0%	1 396.50
OS1002	12-10-02	12.0%	1 583.90
OS0203	12-02-03	12.0%	1 590.25
OS0603	12-06-03	12.0%	2 195.62
OS1003	12-10-03	12.0%	1 403.62
OS0204	12-02-04	10.0%	2 376.12
OS0604	12-06-04	10.0%	2 130.51
OS1004	12-10-04	10.0%	856.00
PS1004	12-10-04	8.5%	2 177.45
PS0205	12-02-05	8.5%	4 657.00
PS0605	12-06-05	8.5%	3 300.00
DS0509	24-05-09	6.0%	1 161.21
DS1109	24-11-09	6.0%	2 592.90

Source: Finance Ministry

Money supply y/y



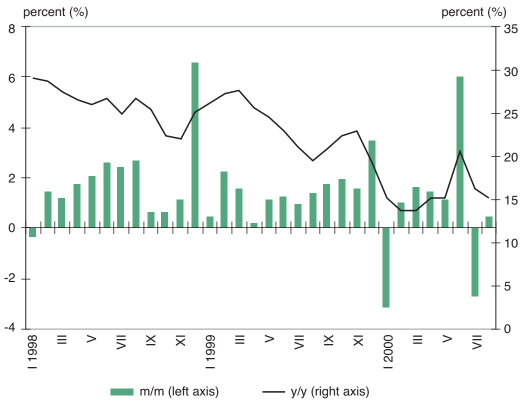
Source: NBP, own calculations

The Monetary Policy Council gave a strong signal to the government that it is determined to curb inflation even if it meant slower economic growth. However, the hike of 150 basis points proved that the MPC does not want to excessively worsen Poland's economic situation. At a press conference, Hanna Gronkiewicz-Waltz, the NBP Governor, called on the government to accept an anti-inflation package. The MPC will closely monitor this package. At present, it seems that it will be the last hike this year. However, a possibility cannot be ruled out that, in the event of adverse inflation developments, the MPC may decide to further tighten the monetary policy which was already implied by the fact that it decided to keep its tightening bias. In a statement after its meeting, the MPC admitted that this year's inflation target was no longer achievable. Yet, in the opinion of the MPC, the medium term inflation target of 4.0% in 2003 is still attainable. The MPC assumed an inflation target for 2001 in the range of between 6.0% and 8.0%. The fact that such a wide target was set means, on the one hand, that the MPC is not certain what course inflation developments will take in the future, and on the other hand, after overshooting the inflation target in 1999 and 2000, the Council is determined to meet the inflation target next year. The recent hike will not be very harmful to the economy given its moderate size. GDP growth is likely to decelerate to around 5% per annum, corporate financial costs will probably increase and demand for external loans will grow. An analysis of the Monetary Conditions Index (MCI) shows that the MPC's recent decisions to hike interest rates were taken while this index was falling on a weakening of the zloty and/or fall in real interest rates. It follows from comments by MPC members that the Council will be willing to keep its present tightening extent (measured by the MCI) for at least two quarters. The next MPC meeting will be held on 20 September this year. We do not expect any changes to the monetary policy.

Budget deficit grows faster in August this year

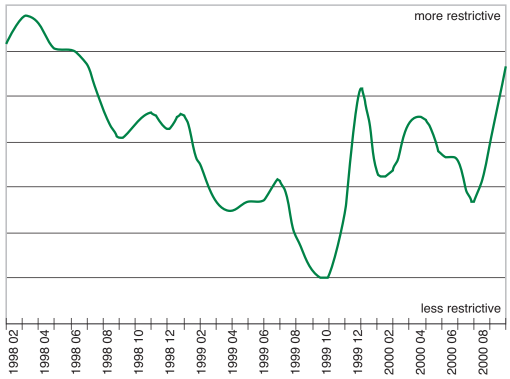
As at the end of August this year, the State Budget deficit totalled PLN 13.0bn, equivalent to 84.5% of the year-long budgeted figure (PLN 15.4bn) compared to 73.4% after July. After a few months, when budget deficit growth was decelerating, it was affected by a stronger increase. Over 8 months, budget proceeds of PLN 86.2bn were realised, equivalent to 61.2% of the year-long plan, compared to 53.1% a month before. At the same time, budget expenditures amounted to PLN 99.2bn in July, equivalent to 63.5% of the plan, compared to 55.1% in July. In August, the realisation of budget expenditures grew faster than the realisation of budget revenues. It was the second month in a row that a strong increase was observable in corporate tax income and the level of its realisations continues high. Indirect tax income grew at a pace similar to that of previous months and is still too low despite higher than assumed inflation. A projected fall in inflation in 4Q this year will not be beneficial to indirect tax income. The realisation of personal income tax revenues is also low, although their increase in August may be higher than so far this year which may mean a typical increase in these revenues in the second half of the year. In August, all positions on the expenditures side increased except for the costs of external debt service. The subsidy to the Social Insurance Fund increased most by PLN 1.9bn. Despite this increase, subsidies to the Social Insurance Fund and Farmer's Social Insurance Fund currently stand at 63% and 65% of plan. Expenditures on domestic debt service and on the subsidy to the Labour Fund and to local governments are highly advanced (73.3% and 84.8% respectively). Any potential difficulties in the coming months may result from low indirect tax proceeds and high expenses on domestic debt service and subsidies to local governments.

Money supply (nominal)



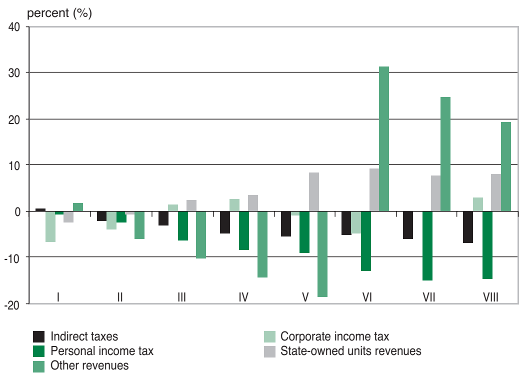
Source: NBP

Monetary Conditions Index



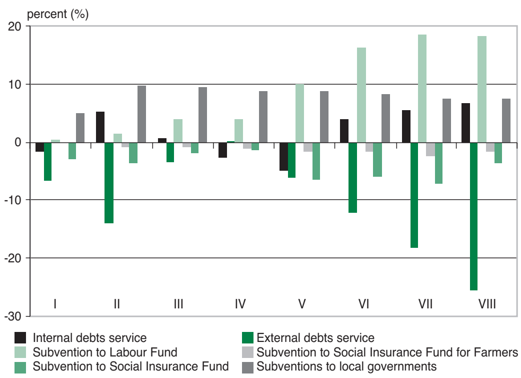
Source: NBP, CSO, own calculations

Revenues - deviation from trend*



Source: Finance Ministry, own calculations
** trend means the constant increase by 8.33% a month*

Expenses - deviation from trend*



Source: Finance Ministry, own calculations
** trend means the constant increase by 8.33% a month*

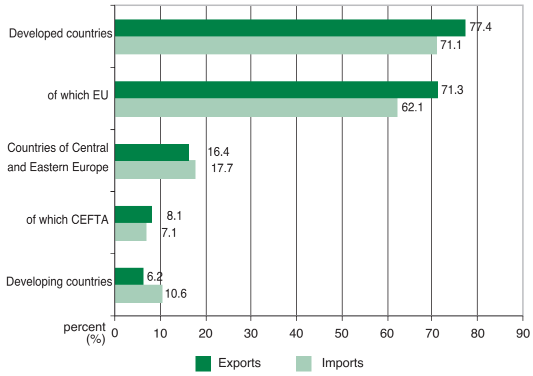
Geographical structure of foreign trade

Compared to the same period last year, the share in Polish foreign trade of developed countries dwindled in the first half of this year. A significantly greater drop affected imports (from 75.3% to 71.7%) than exports (from 77.9% to 77.4%). The contribution of Central and Eastern European countries to exports increased slightly (from 16.1% to 16.4%) while that to imports lifted much more (from 13.3% to 17.7%), which, above all, followed from growth in imports from Russia. The share of developing countries in exports increased (from 6.0% to 6.2%) and fell in imports (from 11.4% to 10.6%). In comparison with the previous month, the changes in the structure were insubstantial and consistent with trends over the past year. In June this year, compared to May, the scale of trade exchange with the European Union decreased. Exports fell by 4.8% and imports by 14.6% as a result of which the trade deficit shrank from USD 903.7m to USD 606.5m. In addition, 3-month averages show that exports and imports to the European Union are declining. Compared to June last year, exports grew by 4.6% and imports declined by 8.6%, and there was a fall in the trade deficit. Similarly, trade with Central and Eastern European countries weakened in the second quarter. In June, exports were 7.8% down and import 0.8% up on May, and consequently, the trade deficit grew from USD 266.2m to USD 304.1m. The 3-month export and import averages are decreasing. Compared to last year, exports grew by 1.1% and imports surged by 34.6% bringing about an increase in the trade deficit. Short term export and import trends prove that the demand of Poland's economy for imports is growing smaller and smaller and that exports are falling, implying a slowdown in economic growth in the second half of this year.

Foreign trade by product

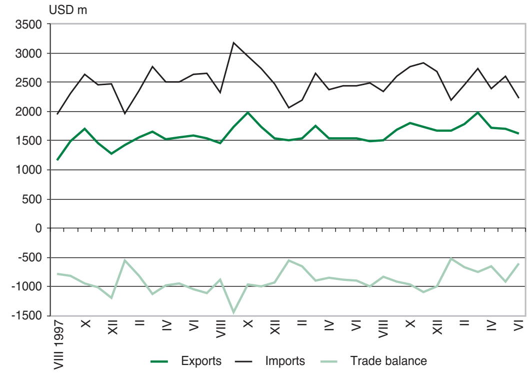
In Poland's foreign trade product structure (on USD basis, by SITC nomenclature) in the first half of 2000, both on the export and import side, the greatest share (33% and 37.5%) represents Machinery, Equipment and Transport Equipment. Industrial Goods Classified by Raw Material come in second (25.9% of exports, 20% of imports). In addition, Miscellaneous Industrial Goods have a significant share in exports (18.8%) while Chemicals and Related Products (14.5%) and Mineral Fuel, Grease and Related Products (10%) in imports. Compared to the first half of last year, three essential changes occurred in the export product structure: increase in the share of Machinery, Equipment and Transport Equipment from 29.5% to 33%, a fall in Miscellaneous Industrial Goods from 21.6% to 18.8% and a decrease in the share of Food and Livestock from 8.3% to 6.8%. The most important change in the import structure was an increase in the share of Mineral Fuel, Grease and Related Products from 5.9% to 10% related to a 100% rise in the average oil price with a 3.9% share of the imports of oil and related products in total imports in the first half of 1999. Compared to last month, the share in exports of Machinery, Equipment and Transport Equipment and Food and Livestock increased by 0.5 percentage points and 0.2 percentage points respectively while the share of Industrial Goods Classified by Raw Material and Inedible Raw Materials decreased by 0.7 percentage points and 0.2 percentage points respectively. In imports, there was a 0.2% increase in the share of Mineral Fuel and Related Products and a 0.3% increase in Industrial Goods Classified by Raw Material and a 0.4% fall in the share of Machinery, Equipment and Transport Equipment.

Geographical structure of Poland's foreign trade (I-VI 2000)



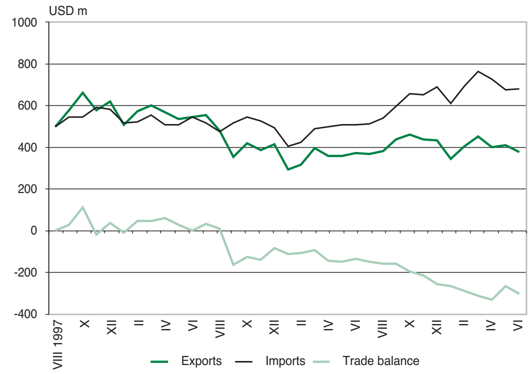
Source: CSO

Poland's foreign trade turnover with the European Union



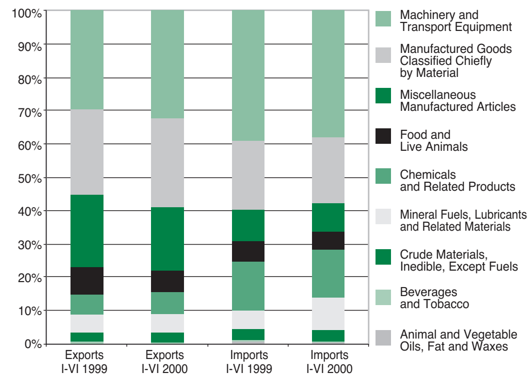
Source: CSO

Poland's foreign trade turnover with countries of Central and Eastern Europe



Source: CSO

Poland's foreign trade structure by products (by SITC nomenclature)



Source: CSO

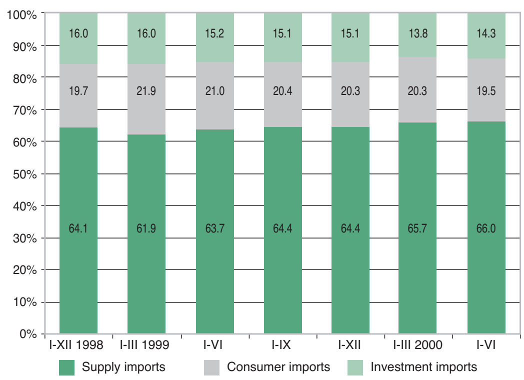
Imports by use

In the first half of this year, in the import structure, calculated based on current prices, supply imports represented 66% of total imports. Consumer imports covered 19.5% and investment imports 14.3% of total imports. Compared to the same period last year, the share of supply imports increased (from 63.7% last year) and that of consumer and investment imports fell (from 21% and 15.2% respectively). This trend has been observable since the first quarter 1999 when the three import categories were: 61.9%, 21.9% and 16% and at the end of following quarters there was an increase in the share of supply imports and a drop in the share of consumer and investment imports. The most important reason for these changes is a rise in oil prices in this period which led to an increase of 136.4% in the PLN value of the imports of fuel and electricity. As a result, according to the data of the end of 1Q2000, the value of supply imports increased by 27.9% y/y involving a rise in prices of 11.5% and growth in volume of 14.7%. A rise in oil prices had an 80% impact on the increase in supply import prices. The value of consumer imports increased by 11.9% (drop in prices of 2.5% and growth in volume of 14.7%) and the value of investment imports increased by 3.9% (rise in prices of 2.6% and volume of 1.3%). Changes in volumes indicate an increase in the share of supply and consumer imports and a fall in the share of investment imports.

Business trends in industry

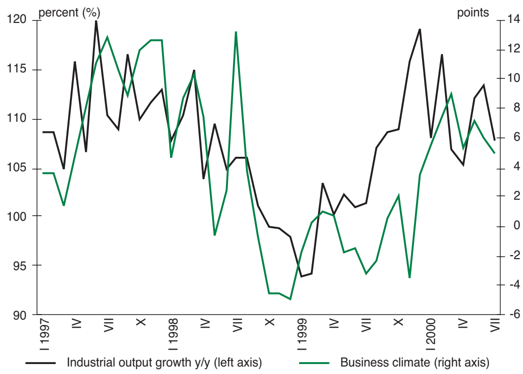
In August, business trends in the manufacturing industry were slightly weaker than in July, still entrepreneurs judged them positive and better than in the same month last year. Out of companies surveyed by the Central Statistical Office, 25% assessed business trends for their products as good whereas 18% viewed it as bad. Other enterprises regarded it as the same. The business trend indicator, calculated as the difference between positive and negative assessments, was then +7 points (in July +8 points). Since the end of 1998 when business trends in industry deteriorated quite radically in relation to the Russian crisis, the situation has gradually improved. The best business trend climate was observed in March this year following from an improvement in exports. In recent months, slight deterioration has ensued as a result of more cautious corporate projections for the next months. Private sector companies assessed the business trend climate much more optimistically than public ones. In August, producers experienced a substantial improvement in demand, especially domestic demand, leading to growth in current output. The forecasts concerning future demand are still optimistic, albeit more cautious than those formulated in July. In consequence, industrial output should continue to grow in September. The financial situation of companies was still viewed as negative, but an improvement is expected in the coming months. In the next quarter, staff dismissals should be expected on a slightly greater scale than forecast last month. The prices of industrial products may rise a bit faster than projected a month ago. The best business trends were reported by Printing and Publishing companies (index increased by 13 points to +30 points), Furniture (index +22 points - up 9 points) and Chemical companies (index +21 points - up 9 points). The worst assessments were formulated by: the manufacturers of Motor Vehicles, Trailers and Semi-Trailers (business trend index in this industry deteriorated radically, tumbling 23 points to -20 points), Metals (index -17 -down 11 points) and Clothes (index - 7 points - down 2 points).

Distribution of imports by use



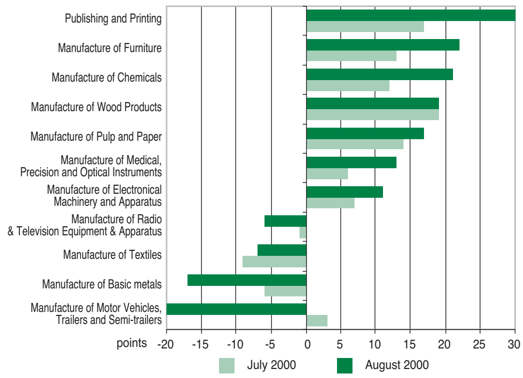
Source: CSO

Industrial output and business climate



Source: CSO

Business climate indicator in selected industry sectors



Source: CSO

Business trends in Poland (seasonally adjusted)

Source: CSO

Construction

In August, the general business trend index in the construction industry was viewed as positive (+25 points) despite being lower than last month (down 5 points) and similar to August's last year. Positive assessments of the portfolio of construction and assembly orders clearly overweighed those negative (index was +14 points). Over the coming three months, continuing growth in construction and assembly output is projected, although these projections are not as optimistic as last month. A decrease in optimism was reported especially by public companies. Over the coming three months, the prices of construction and assembly services will be rising at a pace as forecast last month. Growth in investment expenses on buildings is decelerating. In the first half of 2000, they were 2.2% up on the same period last year. And, for example, in 1999, construction investments increased by 7.6% compared to the previous year and in 1998 by 18.5%. As a result of a slowdown in the growth in the order and output portfolio awaited in the immediate future, construction and assembly companies forecast a reduction in employment, faster than expected in July. Given demand projected in the next half-year, 18% of construction companies view their output capacity as too high, 73% as sufficient and 9% as too low. These opinions are convergent with last month's assessments.

Retail trade

In August, the general business trend climate in retail trade did not change in comparison with the previous month, standing at a level close to zero. Out of the surveyed companies, a similar percentage (20%) judged business trends positive and negative. The fact that the business trade climate in retail trade stabilised was due to slightly better than in July assessments of the future economic situation and continuing negative assessments of the current situation. The future financial situation of companies may slightly improve despite no expectations of an increase in the pace of sales. As a consequence of these forecasts, growth in goods orders will stay at a level projected in the previous month. Additionally, the scale of staff dismissals will not reduce. The best business trends were reported by the largest companies (over 250 employees) – index +16 points and the worst in the smallest (up to 9 employees) – index –12 points. In terms of industries, business trends were assessed best by the manufacturers of Furniture and Radio and Television and other Household Goods (+26 points) while worst by the manufacturers of Motor Vehicles (index down –10 points). The retail sale index fell in August to 10.3% y/y from 14.8% in July. Its present level is one of the lowest over the past three years. At the beginning of 1998, retail sales were over 30% up on the previous year. After a year, partly due to a statistical effect, but also because of weak business trends, the annual index fell below 8%. The situation reversed at the end of 1999 when this index reached its peak (nearly 35%). Since then, it has progressively decreased as domestic demand was cooled after the NBP interest rate hike in November.

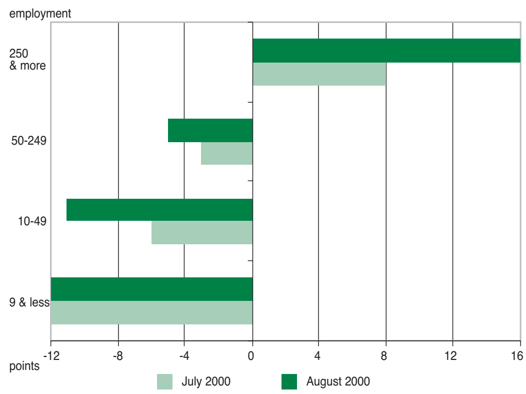
Employment expectations

Source: CSO

Price expectations

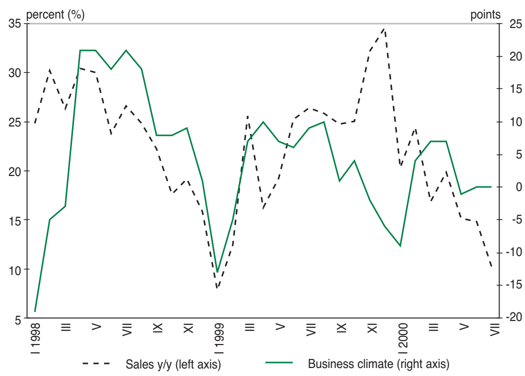
Source: CSO

Business climate indicator in retail trade by number of employees



Source: CSO

Retail trade - sales and business climate



Source: CSO

Economic Release Calendar September/October 2000

Monday	Tuesday	Wednesday	Thursday	Friday
18 September POL: Industrial output (VIII) POL: Producer price index in industry and construction (VIII)	**19**	**20** POL: Monetary Policy Council meeting POL: Unemployment (VIII) *USA: Foreign trade (VII)*	**21** *CZ: Foreign trade (VIII)*	**22** *GER: Producer prices (VIII*
25 POL: Food prices (I half of IX)	**26**	**27** *USA: Durable goods orders (VIII)*	**28**	**29** *CZ: Money supply (VII)* *USA: Consumer sentiment (IX)*
2 October POL: Balance of payments (VIII) POL: Foreign trade on a cash basis (VIII) *CZ: State budget (IX)*	**3** POL: Food prices (II half of IX) *USA: FED meeting*	**4** *USA: Factory orders (VIII)*	**5** *GER: Unemployment (IX)* *EUR: ECB meeting*	**6** POL: Economic trends in industry, construction and retail trade (IX) *GER: Factory orders (VIII)* *USA: Employment (IX)*
9 POL: Balance of NBP (IX) POL: Gross official reserves (IX) *CZ: Inflation (IX)* *CZ: Unemployment (IX)* *GER: Industrial output (VIII)*	**10**	**11**	**12** *USA: Money supply (IX)*	**13** POL: Employment and wages in corporate sector (IX) *USA: Retail sales (IX)* *USA: Producer prices (IX)*
16 POL: Inflation (IX) POL: State budget (IX) POL: Money supply (IX)	**17** *USA: Industrial output (IX)*	**18** POL: Industrial output (IX) POL: Producer price index in industry and construction (IX) *USA: Inflation (IX)*	**19** *USA: Foreign trade (VIII)* *EUR: ECB meeting*	**20** POL: Unemployment (IX)
23 POL: Food prices (I half of X)	**24**	**25** POL: Monetary Policy Council meeting	**26**	**27** *USA: Durable goods orders (IX)* *USA: Consumer sentiment (X)*
30	**31**	**1 November** **All Saints Day**	**2** *EUR: ECB meeting*	**3** POL: Food prices (II half of X) POL: Balance of payments (IX) POL: Foreign trade on a cash basis (IX) *USA: Factory orders (IX)* *USA: Employment (X)*

Basic Macroeconomic Data

CATEGORY	unit	1999 September	October	November	December	2000 January	February	March	April	May	June	July	August
PRICES													
Consumer price index (y/y)	%	8.0	8.7	9.2	9.8	10.1	10.4	10.3	9.8	10.0	10.2	11.6	10.7
Consumer price index (m/m)	%	1.4	1.1	0.9	0.9	1.8	0.9	0.9	0.4	0.7	0.8	0.7	-0.3
Production price index (y/y)	%	6.2	6.8	7.5	8.0	8.2	8.1	7.3	7.4	7.9	8.9	9.0*	8.3
Production price index (m/m)	%	0.9	0.8	0.7	0.5	0.5	0.5	0.4	0.7	0.9	1.0	0.6*	0.3
Price index of assembly and construction production (y/y)	%	8.2	8.3	8.8	9.1	7.7	7.5	7.7	8.3	8.4	8.8	9.1	8.9
Price index of assembly and construction production (m/m)	%	0.9	0.7	0.8	0.5	0.6	0.6	0.9	1.1	0.7	0.7	0.4*	0.6
Exchange rate USD/PLN (y/y)	%	13.1	17.6	23.3	19.6	15.9	9.0	3.7	5.8	14.3	11.6	11.3	10.3
Exchange rate USD/PLN (m/m)	%	3.3	0.7	3.5	-2.0	-1.6	0.8	-1.1	3.5	6.2	-2.2	-1.7	0.8
Exchange rate EUR/PLN (y/y)	%	-	-	-	-	1.3	-3.9	-7.9	-6.6	-2.6	1.9	1.3	-5.9
Exchange rate EUR/PLN (m/m)	%	2.2	2.7	-0.1	-4.0	-1.4	-1.8	-3.3	1.3	1.8	2.4	-2.5	-2.9
Real gross wages in enterprise sector (y/y)	%	3.9	1.9	-0.3	2.3	6.5	6.8	3.1	5.2	1.8	1.3	-2.2	1.1
ACTIVITY INDICATORS													
Gross domestic product (y/y)	%	4.9	-	-	6.2	-	-	6.0	-	-	5.2	-	-
Industrial output (y/y)	%	8.6	8.9	15.9	19.1	7.9	16.4	6.8	5.3	12.1	13.4	7.8	9.3
Industrial output (m/m)	%	9.3	0.1	-0.9	5.7	-19.0	7.3	11.6	-8.4	7.7	1.2	-6.9	6.1
Construction and assembly production (y/y)	%	5.2	-0.1	5.9	12.3	4.6	5.6	4.2	-5.6	-0.6	1.2	-2.9*	-2.2
Construction and assembly production (m/m)	%	8.9	4.4	-18.2	49.3	-57.7	6.6	17.5	-0.1	16.8	11.6	-4.6*	7.0
Retail sales of goods (y/y)	%	24.8	25.1	32.2	34.6	20.3	25.4	16.9	19.9	15.1	14.8	10.3	-
Retail sales of goods (m/m)	%	0.4	4.6	-2.3	23.2	-32.1	5.0	17.2	2.2	-0.6	2.8	-0.7	-
Exports on a customs basis (y/y)	%	17.8	15.3	29.3	27.0	31.4*	35.4*	15.4*	20.2*	22.4*	18.0	-	-
Exports on a customs basis (m/m)	%	14.9	7.0	-0.5	-4.4	-8.0*	14.2*	5.1*	-7.1*	3.7*	-6.8	-	-
Imports on a customs basis (y/y)	%	12.5	15.1	30.4	34.7	31.2*	34.6*	11.9*	13.0*	30.6*	9.4	-	-
Imports on a customs basis (m/m)	%	15.9	6.2	4.1	-2.9	-19.4*	13.2*	9.2*	-8.2*	16.1*	-16.7	-	-
LABOUR MARKET													
Number of unemployed	thous. persons	2 178	2 187	2 257	2 350	2 478	2 528	2 534	2 490	2 446	2 437	2 478	2 496
Unemployment rate	%	12.1	12.2	12.5	13.0	13.6	13.9	13.9	13.7	13.5	13.5	13.7	13.8
Average employment in corporate sector	thous. persons	5 735	5 738	5 723	5 679	5 319	5 316	5 308	5 301	5 292	5 295	5 284	5 271
Average monthly gross wages in corporate sector	PLN	1 875	1 881	1 946	2 186	1 882	1 926	1 992	2 067	1 988	2 049	2 036	2 051
Nominal increase in wages (y/y)	%	12.3	10.9	9.0	12.3	17.2	17.9	13.7	15.5	12.0	11.5	9.2	11.9
STATE BUDGET													
Budget revenues	PLN bn	89.0	100.6	112.5	125.9	11.0	20.3	31.0	40.9	51.8	64.2	74.8	86.2
Budget expenditures	PLN bn	100.2	112.6	124.6	138.5	11.8	24.8	38.0	49.8	61.8	75.0	86.1	99.2
State budget deficit	PLN bn	-11.3	-12.1	-12.1	-12.6	-0.9	-4.5	-6.9	-8.9	-10.0	-10.8	-11.3	-13.0
Domestic government debt	PLN bn	130.9	-	-	134.7	-	-	141.9	-	-	-	-	-
Foreign government debt	PLN bn	130.5	-	-	129.7	-	-	128.2	-	-	-	-	-

Basic Macroeconomic Data

CATEGORY	unit	1999 September	October	November	December	2000 January	February	March	April	May	June	July	August
BALANCE OF PAYMENTS													
Current account	USD bn	-1 147	-849	-1 178	-1 683	-1 207	-954	-1 344	-850	-401	-860*	-676	-
Trade balance	USD bn	-1 309	-1 139	-1 561	-1 765	-1 458	-1 140	-1 241	-1 075	-894	-1 041*	-994	-
Exports	USD bn	2 044	2 221	2 151	2 470	1 922	2 038	2 371	2 032	2 407	2 397*	2 513	-
Imports	USD bn	3 353	3 360	3 712	4 235	3 380	3 178	3 612	3 107	3 301	3 438*	3 507	-
Services: net	USD bn	-127	-128	-140	-208	-174	-171	-202	-177	-105	-159*	-156	-
Unclassified transactions: net	USD bn	423	426	299	174	286	225	218	398	324	337	309	-
Capital and financial account	USD bn	877	863	834	1 405	1 485	647	1 074	672	653	-165*	304	-
Direct investments	USD bn	745	363	789	744	763	354	430	449	310	363*	342	-
Portfolio investments	USD bn	-432	451	809	256	244	587	1 598	131	20	90*	339	-
MONEY SUPPLY													
Money supply	PLN bn	246	251	255	263	255	258	262	266	269	285	277*	278
Money supply (y/y)	%	20.9	22.4	22.9	19.3	15.1	13.7	13.8	15.2	15.2	20.6	16.2*	15.2
Money supply (m/m)	%	1.7	1.9	1.5	3.5	-3.1	1.0	1.6	1.5	1.1	5.9	-2.7*	0.5
Total deposits (y/y)	%	22.3	23.5	24.2	18.3	15.7	14.7	15.5	16.6	16.8	23.3	18.5*	17.4
Total deposits (m/m)	%	1.9	1.8	2.1	2.4	-1.6	1.3	1.9	0.9	1.6	6.4	-3.1*	0.8
Household loans (y/y)	%	47.6	46.0	52.2	53.0	52.5	51.8	52.1	49.8	49.9	79.4	45.7	42.9
Household loans (m/m)	%	4.5	3.7	4.3	4.5	0.6	1.2	3.4	1.6	3.8	25.2	-15.0	2.5
Corporate loans (y/y)	%	23.8	24.5	23.7	21.6	20.8	18.8	18.1	19.1	17.9	19.7	18.8*	18.0
Corporate loans (m/m)	%	3.0	2.5	2.2	-1.5	2.5	1.0	0.9	2.0	0.6	2.2	0.1*	1.2
FINANCIAL INDICATORS													
Average deviation from the central parity [b]	%	-0.5	0.8	2.0	-1.3	-3.0	-3.7	-6.2	-5.1	-	-	-	-
Average exchange rate USD [a]	PLN	4.0799	4.1092	4.2527	4.1696	4.1036	4.1353	4.0902	4.2347	4.4988	4.3994	4.3229	4.3593
Average exchange rate EUR [a]	PLN	4.2881	4.4031	4.3974	4.2200	4.1608	4.0850	3.9507	4.0033	4.0758	4.1740	4.0684	3.9486
Average exchange rate DEM [a]	PLN	2.1925	2.2513	2.2484	2.1577	2.1274	2.0886	2.0200	2.0469	2.0839	2.1341	2.0801	2.0189
Average WIBOR T/N [a]	%	13.68	13.82	15.51	17.69	17.50	16.29	17.92	17.64	17.33	17.73	17.87	17.31
WIBOR 1M [a]	%	13.81	14.70	16.77	20.45	17.26	17.44	18.17	18.15	18.13	18.13	18.05	18.24
WIBOR 3M [a]	%	14.29	16.64	18.53	19.03	17.30	17.85	18.44	18.34	18.60	18.55	18.51	19.12
Average 3M T-bill yield [a]	%	12.56	13.68	15.35	16.28	16.03	16.13	16.56	16.72	17.01	16.49	16.48	17.38
Average 12M T-bill yield [a]	%	12.86	14.58	15.95	15.99	16.18	17.00	17.57	17.31	17.86	17.85	17.76	18.34
Average 2Y T-bond yield [a]	%	12.91	14.56	15.39	14.78	15.10	16.17	16.56	16.85	17.78	18.02	17.77	18.27
Average 10Y T-bond yield [a]	%	9.53	10.40	10.63	9.81	10.13	10.55	10.42	10.56	11.89	12.46	12.53	12.72
MONETARY POLICY INSTRUMENTS													
Intervention rate	%	14.0	14.0	16.5	16.5	16.5	17.5	17.5	17.5	17.5	17.5	17.5	19.0
Rediscount rate	%	15.5	15.5	19.0	19.0	19.0	20.0	20.0	20.0	20.0	20.0	20.0	21.5
Lombard rate	%	17.0	17.0	20.5	20.5	20.5	21.5	21.5	21.5	21.5	21.5	21.5	23.0
Monthly devaluation rate [b]	%	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	-	-	-	-

** data officialy corrected, [a] avarage including non-working days, [b] up to April 11 2000, Sources: CSO, NBP, Finance Ministry, Reuters, own estimations*

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