# Poland's economy – Financial Markets

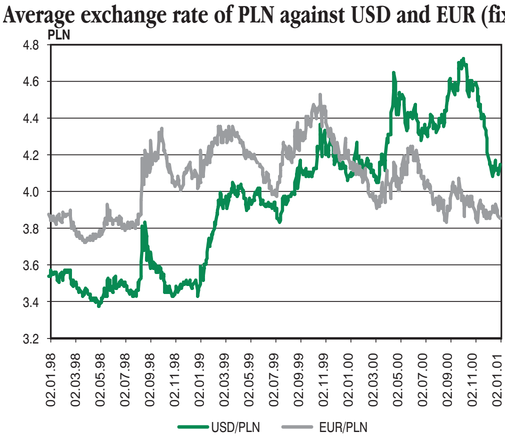
January 2001 No. 19

## Major economic trends

- In 2000 policy mix changed substantially. Fiscal policy was not tightened and restrictiveness of monetary policy increased considerably. In 2001 policy mix will be similar. (p. 2)
- Current account deficit in November amounted to mere USD 320m, significantly lower than market expectations of USD 800m. An improvement in the current account comparing to October resulted mainly from very good exports, which increased by USD 230m. (p. 4)
- GDP growth in 3Q2000 amounted to 3.3% y/y only, much less than market expected. In the first three quarters 2000 GDP growth was 4.8%, comparing to 3.2% in the corresponding period previous year. (p. 4)
- Inflation in December amounted only to 0.2% m/m and 8.5% y/y, much below market expectations that were at 8.7-8.8% y/y. Such a low increase in prices in December was due chiefly to decrease in fuel prices and strengthening of the zloty. (p. 5)
- Industrial output in December fell by 1.4% m/m and 2.2% y/y, which was much better than 5% m/m fall expected by the market. After adjusting for number of working days, industrial output would have increased in December. This is a good signal, probably indicating that weak domestic demand is substituted by exports. (p. 5)
- Last month the zloty strengthened in line with demand on Polish Treasury bonds – FX rate correction is possible, taking into account fundamental overvaluation of the zloty. (p. 6)
- Since 20 December, the yield curve moved down by 125 basis points in sectors 2Y and 4Y, by 110 bp in 3Y sector, by 80 bp in 5Y sector and by 65 bp in 10Y sector. The market is currently discounting interest rate cut by ca. 300-350 bp in 2001, of which 200 bp will be in the first half of this year. (p. 8)
- Monetary policy in 2001 will remain restrictive. (p. 9)

Arkadiusz Krześniak

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




*Source: NBP, Reuters*

**In this issue:**

## Year 2000

The beginning of the previous year brought high economic growth that was a result of loosening the fiscal policy in 1999 and an excessive rate cut in January 1999. Policy mix changed substantially after hiking interest rates by 350 bps in 2H1999 and by another 250 bps in 2000 (100 bps in February and 150 bps in August). The expected tightening of fiscal policy did not take place in 2000. Tightening monetary policy in 2000 was an answer to very unfavourable set of macro-economic conditions, that manifested itself in 4Q1999: (i) rapidly rising inflation, that stemmed from accumulated supply shocks on fuel and food markets and (ii) widening current account gap, that resulted from loose financial policy and strong growth in credit to households triggered by lower nominal interest rates. In 2000 domestic demand was effectively cooled down by an increase in real interest rates, high consumer inflation and an increase in the unemployment rate. Slowdown in domestic demand led to stabilisation of imports. In 2000 world economic growth was strong, which led to an improvement in Polish exports in 2H2000. A fall in oil prices and the ceasing of supply shocks in 2H2000 led to decrease in inflation rate. In 2000 the zloty firmed by 0.1 pct against the USD and by 7.5 pct against EUR. Firming of the zloty stemmed from strong inflow of foreign direct investments (related mainly to TP S.A. privatisation) and from portfolio capital inflows on hopes for a rate cut in 2001. The Policy of high real interest rates brought fruit at the end of 2000, since inflation fell to 8.5% y/y in December, but at the cost of GDP growth decline to 4.2-4.3%. If fiscal policy were more restrictive and if monetary policy were looser it would be possible to achieve economic growth of 5 pct in 2000.

## Polish economy in 2001

We expect the following trends in 2001:

- Policy mix will still be unfavourable – this year economic deficit will be reduced only slightly, which will translate to high real interest rates.
- Probably as early as in 1Q2001 the inflation target of monetary policy (6 to 8%) will be met. However, we do not exclude that inflation will be slightly rising at the year-end.
- A fall in inflation would allow for some 300 bps cut in interest rates in 2001. There is a risk, however, that in case of difficulties in realisation of 2001 budget, interest rate cuts will be delayed.
- In 2001 economic growth will amount to 4,3-4,4 per cent. Domestic demand will continue to be weak and economic growth will be supported by exports.
- Current account deficit will stabilise at the level of 6 per cent of GDP.
- The zloty will be strong in 1H2001 due to high real interest rates. In 2H2001 depreciation of the zloty by some 7% is possible, as more and more negative signals from fiscal side will be revealed.

*Tab. 1. Inflation indicators*

| | 08 2000 | 09 2000 | 10 2000 | 11 2000 | 12 2000 | *01 2001 F* |
|---|---|---|---|---|---|---|
| Consumer Price Index (m/m, %) | -0.3 | 1.0 | 0.8 | 0.4 | 0.2 | *1.3* |
| Consumer Price Index (y/y, %) | 10.7 | 10.3 | 9.9 | 9.3 | 8.5 | *7.9* |
| Producer Price Index (m/m, %) | 0.4 | 0.8 | 0.6 | 0.0* | -0.8 | *0.3* |
| Producer Price Index (y/y, %) | 8.4 | 8.3 | 8.0 | 7.2* | 5.7 | *5.5* |
| Average monthly FX rate (USD, y/y, %) | 10.3 | 10.1 | 12.8 | 7.2 | 3.5 | – |

*Tab. 2. Activity indicators*

| | 07 2000 | 08 2000 | 09 2000 | 10 2000 | 11 2000 | 12 2000 |
|---|---|---|---|---|---|---|
| Retail Sales Index (m/m, %) | -0.7 | 1.4 | -0.8 | 1.5 | -3.4 | – |
| Retail Sales Index (y/y, %) | 10.3 | 11.2 | 10.4 | 7.2 | 5.8 | – |
| Household loans (y/y, %) | 45.7 | 42.9 | 40.9 | 38.9 | 34.8* | 32.0 |
| Industrial Output (m/m, %) | -6.9 | 6.1 | 5.0 | 2.1 | -3.1* | -1.4 |
| Industrial Output (y/y, %) | 7.8 | 9.2 | 5.0 | 7.1 | 4.7* | -2.2 |
| Exports, current prices (in payment terms, y/y, %) | 18.2 | 9.3 | 18.6 | 13.5* | 26.4 | – |
| Imports, current prices (in payment terms, y/y, %) | 3.0 | 8.6 | 1.3 | 6.5* | -4.4 | – |
| Foreign Trade Balance (NBP, USD m) | -1042 | -1324 | -972 | -1058* | -828 | – |
| State Budget Balance (PLN m) | -11.3 | -13.0 | -14.0 | -15.4 | -14.9 | – |

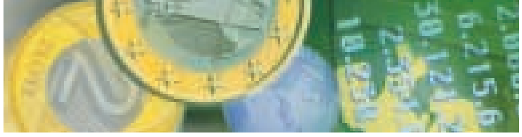
*Tab. 3. Poland's Economy*

| | 1997 | 1998 | 1999 | 2000 E | *2001 F* |
|---|---|---|---|---|---|
| Gross Domestic Product ( fixed prices, y/y, %) | 6.8 | 4.8 | 4.1 | 4.3 | *4.3* |
| Individual Consumption (y/y, %) | 6.9 | 4.9 | 5.4 | 2.0 | *3.9* |
| Gross expenses on fixed assets (y/y, %) | 21.7 | 14.5 | 6.5 | 2.5 | *5.6* |
| Exports, constant prices (y/y, %) | 13.7 | 9.4 | -2.6 | 15.5 | *9.2* |
| Imports, constant prices (y/y, %) | 22.0 | 14.6 | 1.0 | 7.6 | *7.3* |
| Inflation (average annual, %) | 14.9 | 11.8 | 7.3 | 10.1 | *7.1* |
| Inflation (year end, y/y, %) | 13.2 | 8.6 | 9.8 | 8.5 | *6.6* |
| Unemployment Rate (year end, %) | 10.3 | 10.4 | 13.0 | 15.0 | *16.3* |
| Current Account Balance/ /GDP (%) | -3.2 | -4.2 | -7.6 | -6.2 | *-6.2* |
| Public debt / GDP (%) | 47.9 | 43.1 | 44.6 | 43.7 | *40.0* |

y/y – year on year; m/m – month to month; E – estimation; F - forecast

*Source: CSO, NBP, own forecasts and estimations*

* 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 | *1Q 2001* | *2Q 2001* | *3Q 2001* | *4Q 2001* | *2001* | *2002* | *2003* | *2004* | *2005* |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Interest rates | | | | | | | | | | | | | | | |
| 1M | 14.55 | 17.63 | 18.14 | 18.55 | 19.65 | 18.50 | 19.40 | 18.40 | 18.40 | 17.10 | 18.33 | 15.0 | 12.0 | 9.7 | 8.6 |
| 3M | 14.73 | 17.87 | 18.50 | 19.06 | 19.70 | 18.78 | 18.90 | 18.20 | 18.20 | 16.80 | 18.03 | 15.2 | 12.2 | 9.9 | 8.8 |
| 6M | 14.57 | 17.87 | 18.67 | 19.36 | 19.75 | 18.92 | 18.50 | 18.20 | 18.10 | 16.80 | 17.90 | 15.3 | 12.3 | 10.0 | 8.9 |
| 12M | 14.77 | 18.07 | 18.86 | 19.51 | 19.60 | 19.01 | 18.00 | 17.00 | 16.80 | 16.00 | 16.95 | 15.5 | 12.4 | 10.1 | 9.0 |
| Lombard rate | 17.59 | 21.08 | 21.50 | 22.01 | 23.00 | 21.90 | 23.00 | 22.00 | 22.00 | 20.50 | 21.88 | 16.5 | 13.8 | 11.5 | 10.4 |
| Intervention rate | 13.72 | 17.08 | 17.50 | 18.17 | 19.00 | 17.94 | 19.00 | 18.00 | 18.00 | 16.50 | 17.88 | 14.0 | 11.8 | 9.5 | 8.4 |
| Treasury bonds yields | | | | | | | | | | | | | | | |
| 3L (bid) | 11.89 | 14.60 | 16.28 | 17.04 | 16.85 | 16.20 | 14.50 | 14.20 | 14.20 | 13.50 | 14.10 | 11.9 | 9.5 | 8.5 | 8.0 |
| 5L (bid) | 11.12 | 12.77 | 13.98 | 14.39 | 14.85 | 14.00 | 12.80 | 12.40 | 12.40 | 11.80 | 12.35 | 10.2 | 9.0 | 8.2 | 7.8 |
| 10L (bid) | 9.63 | 10.36 | 11.64 | 12.55 | 12.59 | 11.79 | 10.30 | 10.10 | 10.10 | 9.70 | 10.05 | 9.2 | 8.5 | 8.1 | 7.6 |
| T-bills yields | | | | | | | | | | | | | | | |
| 13-week | 13.16 | 16.24 | 16.74 | 17.33 | 17.53 | 16.96 | 17.00 | 16.10 | 16.10 | 15.40 | 16.15 | 13.5 | 11.1 | 8.9 | 7.9 |
| 52-week | 13.00 | 16.92 | 17.68 | 18.25 | 18.24 | 17.77 | 17.50 | 17.00 | 16.80 | 16.10 | 16.85 | 13.9 | 11.4 | 9.1 | 8.1 |
| Exchange rates | | | | | | | | | | | | | | | |
| USD/PLN | 3.9675 | 4.1132 | 4.3762 | 4.3897 | 4.5033 | 4.3465 | 4.153 | 4.192 | 4.300 | 4.370 | 4.254 | 4.64 | 5.10 | 5.46 | 5.72 |
| EUR/PLN | 4.2270 | 4.0629 | 4.0872 | 3.9781 | 3.9179 | 4.0110 | 3.990 | 4.084 | 4.224 | 4.348 | 4.162 | 4.69 | 5.18 | 5.40 | 5.49 |
| EUR/USD | 1.0660 | 0.9878 | 0.9344 | 0.9062 | 0.8700 | 0.9450 | 0.961 | 0.974 | 0.982 | 0.995 | 0.978 | 1.01 | 1.01 | 0.99 | 0.96 |
| Average depreciation (currency basket) | – | -0.1% | 3.5% | -1.2% | 0.5% | 2.0% | -3.3% | 1.6% | 3.0% | 2.3% | 0.8% | 10.9% | 10.1% | 5.7% | 3.2% |
| USD/PLN (end of period) | 4.1483 | 4.1428 | 4.3907 | 4.5404 | 4.1432 | 4.1432 | 4.180 | 4.200 | 4.350 | 4.380 | 4.380 | 4.90 | 5.30 | 5.62 | 5.82 |
| EUR/PLN (end of period) | 4.1689 | 3.9650 | 4.2075 | 3.9960 | 3.8544 | 3.8544 | 4.034 | 4.108 | 4.285 | 4.380 | 4.380 | 5.00 | 5.35 | 5.45 | 5.53 |
| EUR/USD (end of period) | 1.0050 | 0.9571 | 0.9583 | 0.8801 | 0.9303 | 0.9303 | 0.965 | 0.978 | 0.985 | 1.000 | 1.000 | 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 | 3.3 | 2.5 | 4.3 | 2.8 | 3.5 | 5.0 | 5.8 | 4.3 | 5.1 | 5.2 | 5.5 | 6.0 |
| Inflation (y/y, %) | 9.8 | 10.3 | 10.2 | 10.3 | 8.5 | 8.5 | 7.6 | 7.4 | 6.4 | 6.6 | 6.6 | 5.7 | 4.3 | 3.8 | 3.6 |
| Inflation (y/y, %) average | 7.3 | 10.3 | 10.1 | 10.8 | 9.2 | 10.1 | 7.7 | 7.6 | 6.5 | 6.4 | 7.1 | 6.2 | 5.0 | 4.1 | 3.7 |
| Current account/GDP (%) | -7.6 | – | – | – | – | -6.2 | – | – | – | – | -6.2 | -6.5 | -6.6 | -6.4 | -5.9 |
| Budget deficit/ /GDP (%) | -2.0 | – | – | – | – | -2.2 | – | – | – | – | -2.6 | -1.9 | -1.7 | -1.5 | -1.3 |
| Public debt/ /GDP (%) | 44.6 | – | – | – | – | 43.7 | – | – | – | – | 40.0 | 38.4 | 36.6 | 34.6 | 32.4 |
| Foreign Public debt/ /GDP (%) | 20.7 | – | – | – | – | 20.4 | – | – | – | – | 17.5 | 16.8 | 16.3 | 15.4 | 14.3 |
| Total foreign debt/ /GDP (%) | 39.0 | – | – | – | – | 39.4 | – | – | – | – | 36.2 | 33.4 | 31.8 | 29.8 | 27.2 |

Forecast date: 22.01.2001

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

## Current account deficit in November

Current account deficit in November amounted to merely USD 320m, significantly lower than market expectations of USD 800m. An improvement in the current account comparing to October resulted from very good exports, which increased by USD 230m, and improvement in income balance, which was due to the lack of interest payments on Polish foreign debt in November.

The trade deficit decreased to USD 828m with increased exports and slightly smaller imports. Exports reached USD 2.719bn, disclosing the largest figure since June 1998. Imports slightly decreased to USD 3.547m. In November exports increased by 26.4% y/y, whereas imports decreased by 4.4% y/y. Balance of unclassified current flows decreased to USD 300m but was still high.

Further significant improvement on the export side is a very good signal, confirming that Polish companies managed to re-direct sales from internal market to foreign markets. Stabilisation in imports is a result of weak domestic demand.

The current account deficit in November fell to 6.8% of GDP after 7.3% of GDP in October. In December it is likely that current account deficit will decrease to ca. 6.2-6.3% of GDP. In 2001 current account deficit should stabilise around 6% of GDP, which will be driven by strong zloty on the one hand and weak domestic demand on the other.

## GDP in the third quarter 2000

GDP growth in 3Q2000 amounted to 3.3% y/y only, much less than the market expected. In the first three quarters 2000 GDP growth was 4.8%, compared to 3.2% in the corresponding period of the previous year.

The fall in GDP growth was a result of rapid weakening of domestic demand that increased by mere 1.3% in 3Q2000. This followed from very low increase in private consumption (0.8% y/y only) and fall in investment growth.

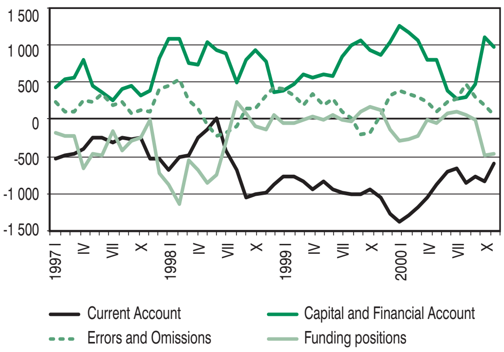
While domestic demand was very weak, GDP growth was supported by foreign demand. GDP growth in 3Q was 2 percentage points higher than domestic demand growth, which stabilised the current account in that period.

On the GDP creation side, the most worrying is a fall in gross value added in the construction industry and the strong deterioration in gross value added growth in market services. This reflects a slowdown in sectors that were resilient to any adverse changes in business cycles until now.

GDP growth in 4Q2000 probably amounted to 2.5% y/y. Due to very weak GDP growth in 3Q2000 we revise our GDP growth forecast for 2000 from 4.8% to 4.3%.

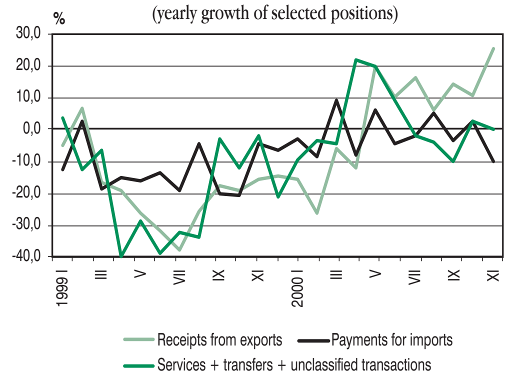
High real interest rates and base effect (high GDP growth in H1 2000) will cause GDP growth to be at the level of about 3% in H1 2001. GDP growth in 2001 will probably amount to ca. 4.3-4.4%.

**Balance of Payments**
(3M average)



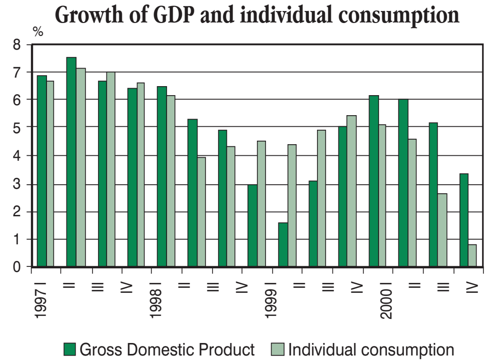

*Source: NBP, own calculations*

**Current Account**
(yearly growth of selected positions)




*Source: NBP*

**Growth of GDP and individual consumption**

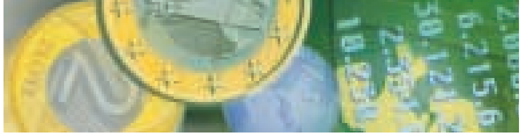



*Source: CSO*

*Tab. 5. GDP growth*

| GDP (%) y/y | 1Q 2000 | 2Q 2000 | 3Q 2000 | 1-3Q 2000 | 1-3Q 1999 |
|---|---|---|---|---|---|
| GDP growth | 6.0 | 5.2 | 3.3 | 4.8 | 3.2 |
| Gross Value Added | 5.8 | 5.0 | 3.1 | 4.5 | 3.0 |
| Industry | 10.2 | 9.4 | 6.5 | 8.6 | 0.6 |
| Construction | 4.3 | 0.8 | -2.2 | 0.4 | 2.7 |
| Market services | 5.5 | 5.3 | 3.5 | 4.8 | 6.0 |
| Domestic demand | 5.1 | 3.3 | 1.3 | 3.2 | 4.5 |
| Total consumption | 3.9 | 2.3 | 0.9 | 2.4 | 4.4 |
| Individual consumption | 4.6 | 2.6 | 0.8 | 2.7 | 5.2 |
| Gross capital formation | 11.5 | 6.8 | 2.6 | 6.3 | 5.1 |
| Fixed investments | 5.5 | 2.9 | 2.4 | 3.4 | 6.2 |

*Source: CSO*



## Rapid decline in inflation in December

Inflation in December amounted to only 0.2% m/m and 8.5% y/y, much below market expectations that were at 8.7-8.8% y/y.

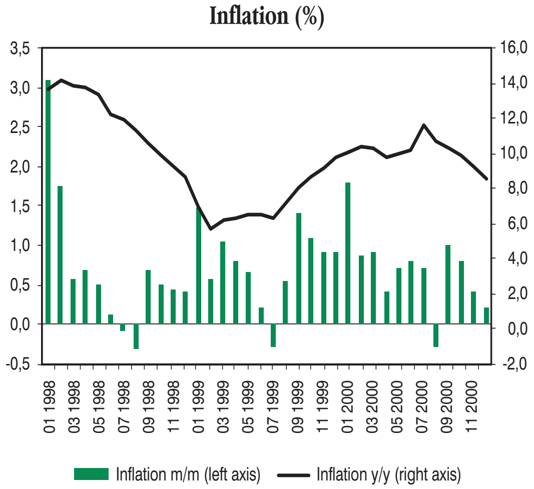
Such a low increase in consumer prices in December was due chiefly to a decrease in fuel prices and strengthening of the zloty. These factors led to a fall in prices of non-foodstuffs of ca. 0.6% m/m. Average annual consumer prices growth amounted to 10.1%.

December CPI data point also to very weak domestic demand, that translated to very low (0.3%) increase in prices of services. If it was not for the high (1%) increase in food prices, the consumer price index would have fallen in December.

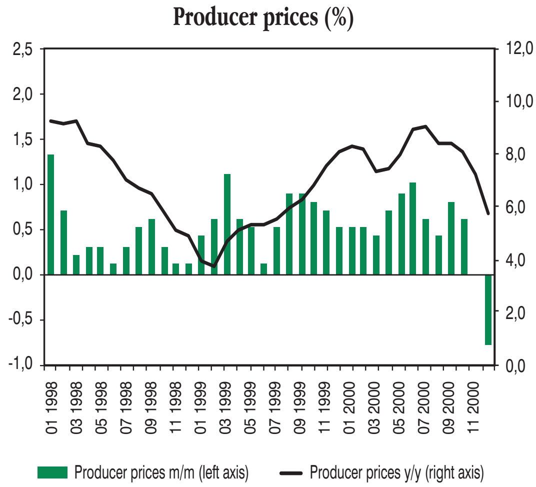
On the one hand, CPI data are good, since inflation falls at a fast pace. On the other hand these data point to very weak domestic demand. Low inflation in December is an effect of very high real interest rates that limit domestic demand and lead to an excessive appreciation of the zloty. For consumers, the fall in inflation is not so easilly visible, because prices of primary goods, such as food, increased by as much as 1%.

As in 1999, the Monetary Policy Council overshot the inflation target, which amounted to 5.4-6.8% y/y in December. Inflation in January will decline quickly as well. Our estimates (at consumer goods basket from 2000) show that consumer price increases in January may amount to 1.2-1.3% m/m and 7.9-8.0% y/y. It means that inflation goal for 2001 (6.0-8.0%) may be met already in January. It seems that MPC will not have problems to keep inflation in this band until the end of this year.

Currently, from an economic stabilisation perspective, there are no reasons to keep high real interest rates (9.7% at present) that will exceed 10% in January. Likelihood of interest rate cut in the 1st quarter is quite high, despite some loosening in fiscal policy. A 100 bps. cut would not have much impact on domestic demand but would alleviate the effects of economic slowdown in coming months.




*Source: CSO*




*Source: CSO*

## Good industrial output data in December

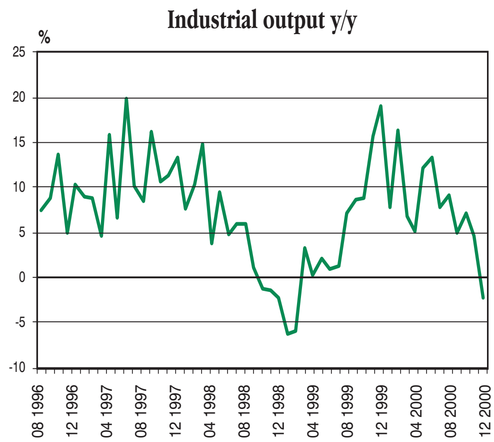
Industrial output in December fell by 1.4% m/m and 2.2% y/y, which was much better than 5% m/m fall expected by the market.

After adjusting for number of working days, industrial output would have increased in December. This is a good signal, probably indicating that weak domestic demand is substituted by exports.

In 2000 industrial production growth amounted to 7.1% (annual average) comparing to 4.3% in 1999. Last year industrial output growth weakened – partially due to high base in 2H1999 and partially due to weaker domestic demand in 2H2000 caused by high interest rates.

Producer prices fell by 0.8% m/m and were 5.7% up on December 1999. A fall in PPI was due to strengthening of the zloty, fall in oil prices and weak internal demand.

Relatively good data on industrial output would probably prompt the MPC to delay the rate cut – to February or March, when it is known whether 2001 budget is finally approved.




*Source: CSO*

## The zloty strengthens parallel with demand for Polish T-bonds – FX rate correction possible

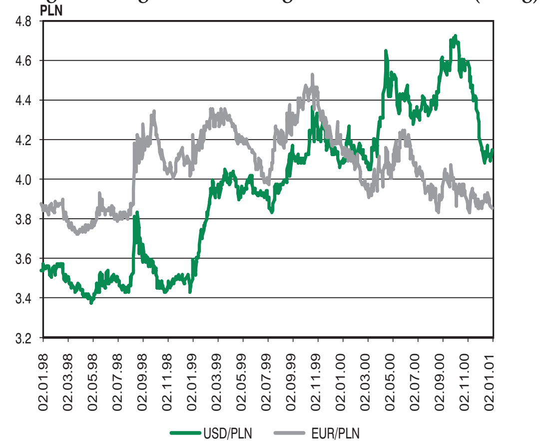
During the last two weeks of December, the zloty was still strengthening against the US dollar, remaining quite stable against the euro. Reasons for strengthening of the zloty at the end of December were good inflation data for November, low money supply and low industrial output in November. After reaching a deviation of ca. 7.5% on the stronger side of old parity, following a very low current account deficit for November, the zloty exchange rate was corrected by about 0.5%. At the beginning of January's second week, after the information on the increase in the planned economic deficit for 2001 to 1.8% and on the conversion for the zloty of the sales proceeds from US T-bonds, which backed the Brady bonds redeemed last year, the zloty weakened by another 0.5-0.7%. However, very low December inflation led to a strengthening of the zloty in the third week of January, with the zloty oscillating between 7% and 8% on the stronger side of the old parity. During last five weeks the US dollar traded in the interbank market between PLN 4.0550 (January 5) and PLN 4.1720 (January 11). The euro traded in a band of between PLN 3.8200 (December 20) and PLN 3.9310 (January 11).

During last five weeks the zloty was supported by both good macroeconomic indicators and the euro strengthening against the US dollar. Current correction of the exchange rate of the euro against the US dollar, uncertainty about the date of interest rate cut in Poland and re-shuffling on the Polish political arena due to the establishment of new conservative-liberal movement will be factors that may weaken the zloty in coming weeks. The zloty is currently overvalued and profit taking is likely on the information that may weaken the zloty. After interest rate cut, the zloty should weaken by about 1.5%-2%.

## The euro weakens against the USD after strong increases during last two months

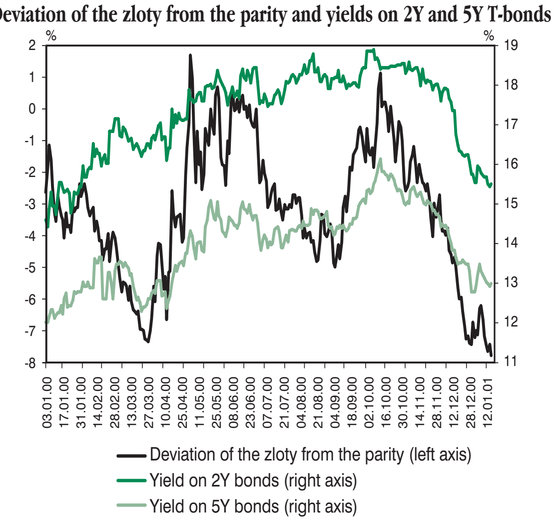
Last month brought several indicators reflecting quite fast slowdown in American economy. This strengthened the euro and encouraged Fed to loosen the monetary policy at the meeting on December 19 and to introduce an unexpected cut in the Federal Reserves Rate by 50 bp between regular sessions on January 3rd. In the short term, there will be no negative signals from USA – at the Fed meeting on January 31, a 25-50 bp cut is expected, which should be positive for US dollar. After reaching USD 0.9590 at the beginning of January, the euro stayed over 94 cents for about two weeks, which was followed by a correction. After low IFO indicator for December, the euro weakened to 92.90 cents. In the short-run, a further fall of the EUR against the USD may be witnessed. This would be a correction of excessively fast growths for last two months. If the euro does not weaken significantly against the USD and JPY, and if oil prices do not rise again, the euro-zone should also begin a phase of interest rate cuts. However, cuts in the euro-zone will have a limited range, because the euro-zone witnesses currently quite high economic growth.

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




*Source: NBP, Reuters*

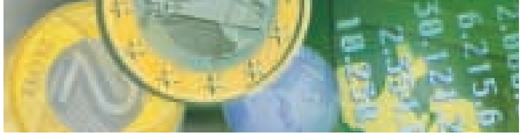
**Deviation of the zloty from the parity and yields on 2Y and 5Y T-bonds**




*Source: NBP, Reuters, own calculations*

**EUR/USD**

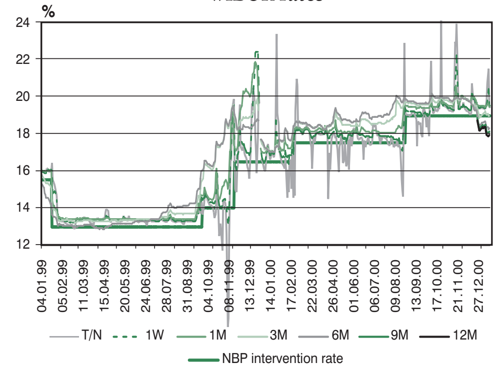

*Source: Reuters*



## Interest rates

As of 2 January 2001, three new WIBOR rates were introduced: O/N, 9M and 12M. In this way, WIBOR rates embrace an entire yield curve of the money market. This change will positively influence the liquidity of the money market in longer terms. In the third week of December, the money market saw a liquidity shortage in short terms. This pegged O/N rates at 20-21%. In the last week of December, there was overliquidity in the market. However, on 29 December O/N rates rose to 24% due to the turn of the year. In the first two weeks of January, daily rates were at the level of open market operations. In the third week of January, as of 16 January, there was the lack of liquidity in the market, which caused increases in O/N rates to the lombard rate level. As of the last week of December, the 1M deposit price started to fall quickly from the level of about 19.90% to about 19.40% in the mid-January. This resulted from closing the old year and beginning the new one, and from the anticipated interest rate cuts in January. 3M deposits reached the lowest price on 4 January – about 18.80%. In the second week of January, after unfavourable data on the public finances were released, 3M deposits rose to 19.13% (15 January). However, in the subsequent days their price fell by about 20 bps since the market recognised that the interest rate cut in the first quarter 2001 was highly probable.

**WIBOR rates**

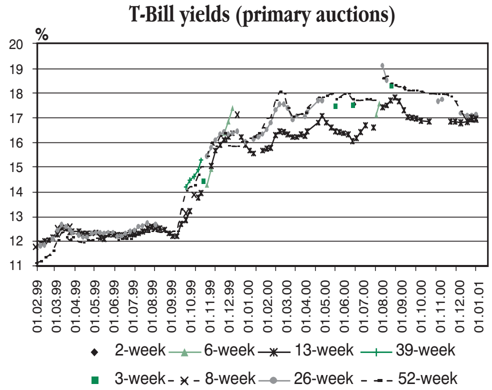



*Source: NBP, WBK S.A. Treasury and International Division*

## Treasury bills

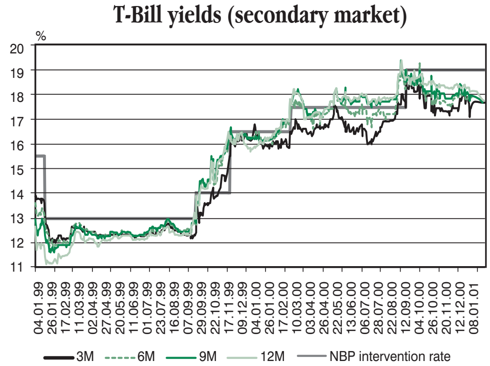
In December, the Ministry of Finance sold PLN 260m of 13-week T-bills, PLN 89m of 26-week bills and PLN 1.3bn of 52-week bills obtaining the average yield at 16.81%, 17.19% and 17.65% respectively. In the first three weeks of January, the Ministry of Finance sold PLN 247m of 13-week bills, PLN 697m of 26-week bills and PLN 1.967bn of 52-week T-bills at the average weighted yield of 16.90%, 17.10% and 16.84% respectively. A planned supply of T-bills in January was significantly increased as compared with December (PLN 4.1bn in January against PLN 1.7bn in December), which resulted from difficulties in closing the 2000 budget and from moving some expenditures to January. In December, the yields on 52-week and 13-week T-bills on the primary market decreased and in January there was a stabilisation in the yield on 52-week bills and an increase in the yield on 13-week bills. The changes in the yield on 52-week bills were caused by changes in expectations concerning the scope of NBP interest rate cuts in 2001 and by changes in supply, while the yields on shorter T-bills were influenced primarily by changes in supply. Within the last five weeks, the yields on T-bills on the secondary market fell by 40, 60, 70 and 80 basis points for 3M, 6M, 9M and 12M bills respectively. In the near future, a slight fall in yields on longer T-bills is still possible if interest rates are cut soon. Given the present problems with the state budget's liquidity, the Ministry's supply of T-bills and T-bonds will increase.

**T-Bill yields (primary auctions)**




*Source: NBP, WBK S.A. Treasury and International Division*

**T-Bill yields (secondary market)**



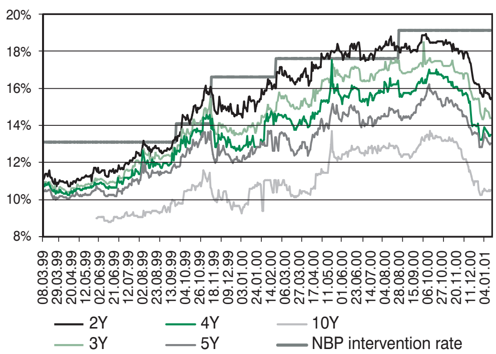

*Source: NBP, WBK S.A. Treasury and International Division*

## Treasury bonds

Over the last five weeks, the yields on Treasury bonds were still falling. At the beginning of the second week of January, due to information on the increase in economic deficit in 2001 and information about the sale of Brady bonds collateral, yields on T-bonds rose by 40-60 bp. However, in the second half of that week, before the December inflation data, yields declined again.

Since 20 December, the yield curve moved down by 125 basis points in sectors 2Y and 4Y, by 110 bp in 3Y sector, by 80 bp in 5Y sector and by 65 bp in 10Y sector. In the coming weeks, yields on T-bonds should be stable, a slight fall is possible. The market is currently discounting interest rate cut by ca. 300-350 bp in 2001, of which 200 bp in the first half of this year.

**T-Bond yields (secondary market, bid)**




*Source: NBP, WBK S.A. Treasury and International Division*

## Government's self-amendment to the state budget in 2001

In the self-amendment to the 2001 state budget, the budget deficit for 2000 decreased by 0.1% of GDP to 2.6% of GDP, but economic deficit was increased by 0.2% to 1.8% of GDP. Lowering the budget deficit by 0.1% of GDP, that is by PLN 1.2bn is a result of including PLN 3.13bn revenues from UMTS in the budget and cutting the budget spending by PLN 670m. This more than compensated for the budget revenues, which were lower by PLN 2.6bn and caused by a deterioration in indirect tax revenues, following a slower GDP growth (4.5% in 2001 instead of the previously planned 5.1%). Macroeconomic assumptions in the self-amendment are much more realistic than those in a draft of the 2001 budget. The most significant change concerned real GDP growth in 2000 – the government expects it will amount to 4.2%, instead of 5.0%. In 2001, the government assumes that economic growth will result from improvement in domestic demand, following interest rate cuts. Macroeconomic indicators point to the expediency of a considerable interest rate cut this year. However, in our opinion the budget remains still too tense and the economic deficit may deteriorate, which may lead to a smaller size of interest rate cuts this year. The market positively assessed passing the self-amendment to the budget. Currently, potential political changes related to the creation of the new conservative-liberal movement will be of growing importance, which may result in early parliamentary elections.

***Tab. 6. Economic deficit***

| in % of GDP | 2000 (forecasted execution) | | 2001 | |
|---|---|---|---|---|
| | Draft budget 2001 | Self-amendment 2001 | Draft budget 2001 | Self-amendment 2001 |
| Central government balance | -2.2 | -2.2 | -2.7 | -2.6 |
| Local government balance | -0.4 | -0.5 | -0.5 | -0.4 |
| Health sector balance | -0.1 | -0.1 | 0.0 | 0.0 |
| State agency balance | -0.5 | -0.5 | 0.0 | 0.0 |
| Other | 0.1 | 0.1 | 0.1 | 0.1 |
| Compensation scheme | -0.5 | -0.5 | -0.3 | -0.3 |
| Transfers to pension funds | 1.1 | 1.1 | 1.8 | 1.8 |
| Budget revenues from UMTS | | | | -0.4 |
| Treasury Ministry inflows correction | | -0.1 | | |
| **Economic deficit** | **-2.5** | **-2.7** | **-1.6** | **-1.8** |

*Source: Self-amendment to the 2001 budget*

***Tab. 8. Budget draft***

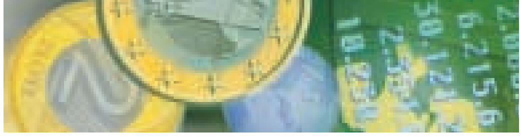
| | | 2000 (forecasted execution) | | 2001 | |
|---|---|---|---|---|---|
| | | Draft budget 2001 | Self-amendment 2001 | Draft budget 2001 | Self-amendment 2001 |
| Real growth | | | | | |
| GDP created | % | 5.0 | 4.2 | 5.1 | 4.5 |
| Exports | % | 13.1 | 15.5 | 9.5 | 9.6 |
| Imports | % | 9.4 | 7.6 | 7.7 | 7.2 |
| Consumption | % | 3.4 | 1.9 | 3.7 | 3.5 |
| – private | % | 3.7 | 2.0 | 4.2 | 3.9 |
| – public | % | 2.0 | 1.4 | 1.5 | 1.7 |
| GDP in current prices | PLN bn | 706.2 | 699.7 | 793.7 | 781.7 |
| Prices | | | | | |
| Average annual increase in goods and services prices | % | 10.0 | 10.0 | 7.2 | 7.0 |
| Wages | | | | | |
| Gross average wages in national economy | PLN | 1920 | 1920 | 2098 | 2094 |
| – in enterprise sector | PLN | 2062 | 2062 | 2259 | 2255 |
| – in budget sector units | PLN | 1875 | 1875 | 2018 | 2018 |
| Average retirement pay and pension | | | | | |
| – from non-agricultural social security system | PLN | 877 | 876 | 974 | 973 |
| – individual farmers | PLN | 600 | 601 | 660 | 658 |
| Labour market | | | | | |
| Unemployment | thous. | 2 650 | 2 715 | 2 726 | 2 826 |
| Unemployment rate | % | 14.6 | 14.9 | 14.9 | 15.4 |
| FX rates | average | | | | |
| PLN/USD | PLN | 4.38 | 4.35 | 4.66 | 4.45 |
| PLN/EUR | PLN | 4.03 | 4.01 | 4.10 | 4.22 |
| Nominal interest rates | average | | | | |
| open market operations | % | 17.9 | 17.9 | 16.8 | 16.4 |
| Balance of Payments | | | | | |
| Current Account | USD m | -11 258 | -9 954 | -11 486 | -10 386 |

*Source: Self-amendment to the 2001 budget*

***Tab. 7. State budget revenues (PLN bn)***

| | 1st Budget draft | Self-amendment |
|---|---|---|
| TOTAL REVENUES | 160.51 | 161.05 |
| Tax revenues | 144.81 | 142.52 |
| Indirect taxes | 97.04 | 94.49 |
| VAT | 62.31 | 60.25 |
| Excise Tax | 33.66 | 33.16 |
| Gambling Tax | 1.08 | 1.08 |
| Corporate Tax | 17.04 | 17.59 |
| Personal Tax | 25.73 | 25.62 |
| Customs | 5.00 | 4.81 |
| Non-tax revenues | 14.13 | 17.04 |
| Dividend | 0.65 | 0.65 |
| NBP profit | 5.15 | 4.87 |
| Budget sector units revenues | 6.77 | 6.82 |
| Revenues from UMTS | 0.00 | 3.13 |
| Other non-tax revenues | 1.39 | 1.39 |
| Local government payments | 0.18 | 0.18 |
| Foreign revenues | 1.56 | 1.50 |

*Source: Self-amendment to the 2001 budget*



## Monetary policy in 2001

At the meeting on December 20, the Monetary Policy Council adopted a neutral stance in monetary policy. Despite a prior strong stress on the anti-inflationary stance and qualifications reported in terms of the level of restrictiveness in this year's fiscal policy, the MPC decided to abandon a tightening bias.

It was due to a significant inflation decrease, stabilisation of monetary aggregates and a substantial slowdown in the economic growth on one hand, and pressure on the MPC to cut very high real interest rates on the other hand. Decision to adopt the neutral stance paved the way to lowering interest rates in the first quarter of 2001. The MPC decision to change its stance to neutral was discounted by the market.

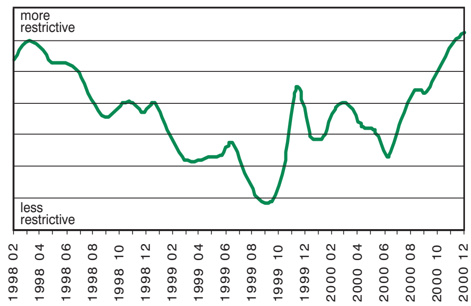
At the meeting on January 22, the Monetary Policy Council, in line with market expectations, changed neither NBP interest rates nor stance in monetary policy. The Council stated that despite the fall in inflation and significant improvement in the current account, there were no sufficient premises yet to cut interest rates. The MPC probably wants to wait for inflation data in January, preliminary estimates of GDP growth in the first quarter 2001, and above all, for voting over the 2001 state budget to be held on February 3. Increasing the economic deficit in 2001 to 1.8% of GDP and exchange for PLN revenues from the sale of Brady bonds collateral bought back last year had considerable impact on keeping interest rates at such a high level (9.7% in real terms).

Starting from February, MPC meetings will last two days. During the first day, MPC members will review current information on the economy and discuss it. On the second day, the discussion will be continued and potential MPC decisions will be voted. The next MPC meeting will be held on 27 and 28 February.

We expect interest rate cut by 300 bps in 2001. There may be two phases of the rate cut – first cut could be implemented in February (by 100 bps) or in March (by 100-150 bps). On the second occasion, rates could be cut in the fourth quarter and the cut could total 150-200 bps. The market has already discounted the bigger cuts in the rates in 2001 (about 300-350 bps). Taking into account the scale of potential problems that may occur on the fiscal side (increase in the deficits of Social Insurance Fund, of state agencies and of the healthcare sector, difficulties in effecting UMTS licenses, decrease in privatisation revenues and so on), a cut in rates by more than 3 percentage points is not very likely.

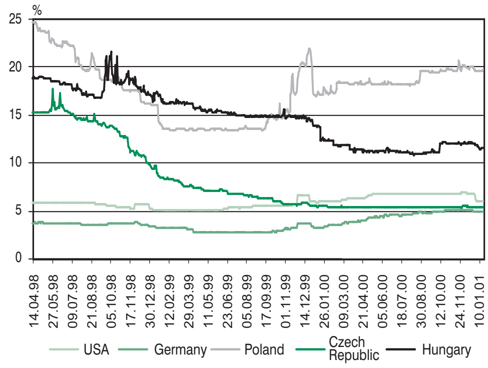
The MPC will be now very cautious while taking interest rates decisions, which means that it will react with some delay to indicators proving the fall in inflation (or its stabilisation) or decrease in domestic demand. It results from the fact that in utility function of the MPC (defined by law) the economic growth has a zero weight, while inflation, one. It will mean very high interest rates in 2001 and the danger of a too rapid (i.e. unsustainable) fall in inflation, which we already experienced in 1998. It will also mean a relatively low economic growth in 2001 and 2002 due to further cooling down of domestic demand.

**Monetary Conditions Index**




*Source: NBP, CSO, own calculations*

**1M interest rates in Poland and selected countries**



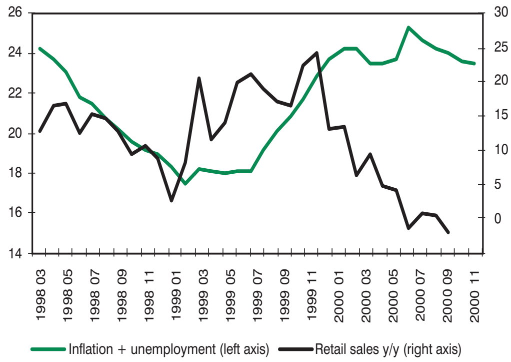

*Source: Reuters*

***Tab. 9. Recent MPC decisions***

| Date | Decision |
|---|---|
| 20 Jan 1999 | Intervention rate cut by 250 bps (13.0%)<br>Rediscount rate cut 275 bps (14.5%)<br>Lombard rate cut by 300 bps (17.0%) |
| 24 Mar 1999 | Monthly PLN devaluation rate decreased to 0.3%, PLN fluctuation band extended to do +/-15% |
| 22 Sep 1999 | Intervention rate up by 100 bps (14.0%) |
| 17 Nov 1999 | Intervention rate up by 250 bps (16.5%)<br>Rediscount rate up by 350 bps (19.0%)<br>Lombard rate up by 350 bps (20.5%) |
| 23 Feb 2000 | Intervention rate up by 100 bps (17.5%)<br>Rediscount rate up by 100 bps (20.0%)<br>Lombard rate up by 100 bps (21.5%) |
| 11 Apr 2000 | Full floating of the zloty |
| 30 Aug 2000 | Intervention rate up by 150 bps (19.0%)<br>Rediscount rate up by 150 bps (21.5%)<br>Lombard rate up 150 bps (23.0%) |
| 20 Dec 2000 | Neutral stance in monetary policy adopted |

*Source: WBK Treasury & International*

**Household purchasing power**




*Source: CSO, own calculations*

## Money supply

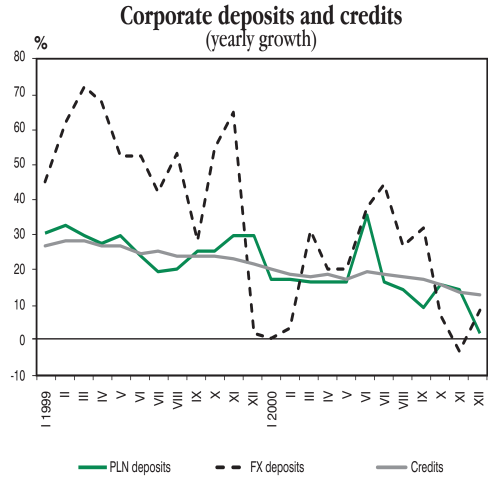
Money supply in December increased by 1.1% m/m, and 11.7% y/y (2.9% in real terms). Throughout 2000, the absolute increase in money supply and its percentage growth were lower than in 1999. In December, the pace of growth in personal deposits was still increasing – it amounted to 24.4 y/y against 22% y/y in November last year, and the deposit growth pace was much higher than at the end of 1999 when it totalled 13.2% y/y. The pace of growth in personal credits was still decreasing, from 34.8 y/y in November to 32% y/y in December. In December 1999, annual growth in personal credit was 53%. The growth in corporate credits was still falling. In December, it totalled 13.4% y/y against 14% in November and 21.6% in December 1999. Lower growth in credits results from MPC's keeping interest rates high and from weakening domestic demand due to growing unemployment rates. The interest rate cuts will start in 2001, but the increase in unemployment and possibly a decrease in the employment rates for the corporate sector will continue in 2001. In the fourth quarter of the last year, the growth in the money supply in real terms totalled 4% and was higher than the GDP growth, which probably amounted to 2.5%. The money supply is still under control and does not cause any inflationary pressure.

## Retail sales growth

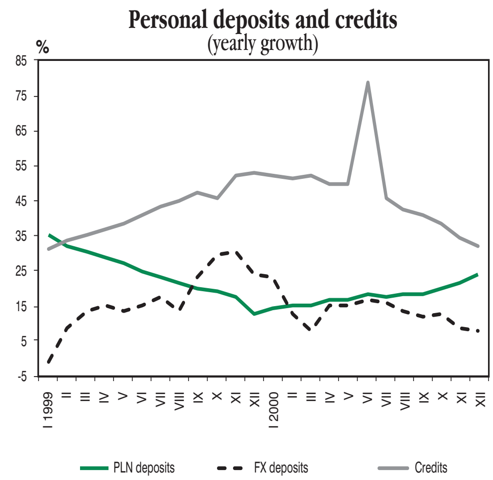
In the year 2000, annual growth of retail sales at current prices slowed down. In the first months, y/y growth totalled approximately 20%, but in October and November it fell below 10%, totalling 7.2% and 5.8% respectively, which meant a fall in sales in real terms.

Fuel sales were most adversely affected by the fall. The sale growth was extremely high at the beginning of the year – it amounted to almost 50% y/y, and by November it decreased to about 10%. The calculation of the sales growth indicator at current prices was the decisive factor for disclosing sales growth levels reported. The growth in the sales of motor vehicles was much lower - below zero, almost throughout the year. In November, motor vehicle sales fell by 20% y/y, though at the beginning of the year the percentage rate was just a single-digit figure. The growth in the sales of pharmaceuticals and cosmetics was also slower. In the first months of 2000, it totalled approximately 30% y/y, in the third quarter it fell to 10-15%, and in November it was only slightly above zero. Moreover, lower retail sales growth was observable in terms of furniture, consumer electronics and household appliances - from about 20% y/y in the first quarter to 5% in November.

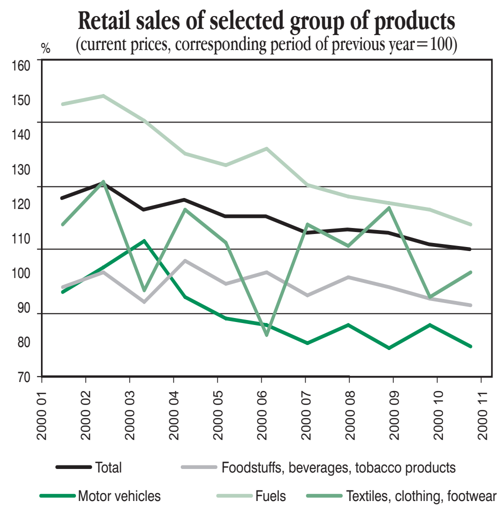
All above-mentioned groups of goods are not primary goods (except for some pharmaceuticals), and in a situation where the growth in total retail sales drops, the fall can be observed earlier and more severe in this group.



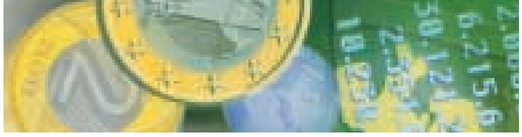

*Source: NBP*




*Source: NBP*




*source: CSO*



In case of foodstuffs, beverages and tobacco products, which are chiefly primary goods, the growth in retail sales was flat in subsequent months. For a group Non-specialised stores with a predominance of Foodstuffs, Beverages and Tobacco Products it amounted to 20-30% y/y and for Foodstuffs, Beverages and Tobacco Products it totalled -10% to 0%. The growth in sales of clothing and footwear was characterised by strong fluctuations, but some slowdown tendency in growth may be noticed, which may indicate that the fall in growth of individual demand is getting deeper.

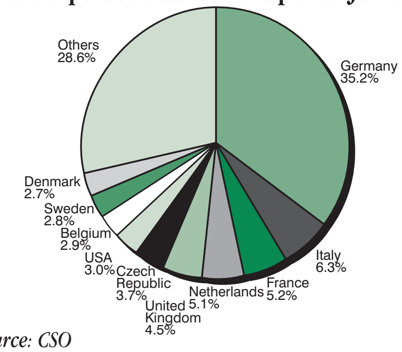
## Changes in geographical and product structure of Poland's foreign trade

From January to October 2000, compared to the corresponding period of 1999, imports from Russia rose strongly (by even 100.2% calculating in PLN), which resulted in the increase in Russia's share in imports from 5.5% to 9.2% and which made Russia move from third to second position, just behind Germany. It was mainly due to the rapid increase in oil prices during the period. The share of the European Union in Poland's foreign trade turnover decreased slightly. In the first ten months of 2000 exports to the European Union countries represented 70.6% of total exports, and imports from these countries accounted for 61.8% of total imports against 70.8% and 65.3% respectively a year ago.

According to data after the first three quarters of 2000, in comparison to the corresponding period of the previous year, there were four most significant changes in the product structure of Poland's exports. Firstly, the share of Machinery, Equipment and Transport Equipment increased from 29.1% to 33.1%. The share in exports of Chemicals and Related Products also rose from 6.1% to 6.7%. On the other hand, the share of Miscellaneous Industrial Goods decreased from 21.5% to 18.5% and there was a fall in share of Food and Livestock from 8.6% to 7.7%. In comparison to the structure of exports after the first half of 2000, an increase in the share of Food and Livestock from 6.9% to 7.7%, a decrease in the share of Industrial Goods Classified by Raw Material from 25.9% to 25.4% and a fall in share of Miscellaneous Industrial Goods from 18.8% to 18.5% can be noted.

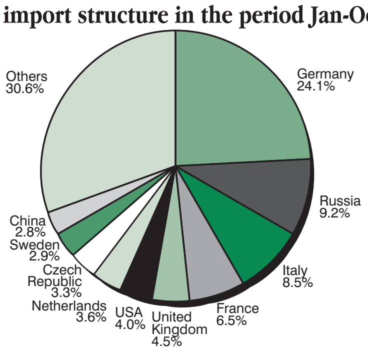
The largest change in Poland's import structure by products in the period of January-September 2000, compared to the corresponding period of previous year, was an increase in share of Mineral Fuel, Grease and Related Products from 6.5% to 10.5%. In contrast, the share in imports of Machinery, Equipment and Transport Equipment decreased from 38.2% to 36.8% and the share of Miscellaneous Industrial Goods fell from 9.6% to 8.5%. In comparison to the first six months of 2000 the share of Mineral Fuels and Related Products rose from 10.0% to 10.5% and the share of Machinery, Equipment and Transport Equipment decreased from 37.5 to 36.8%.

**Poland's export structure in the period Jan-Oct 2000**



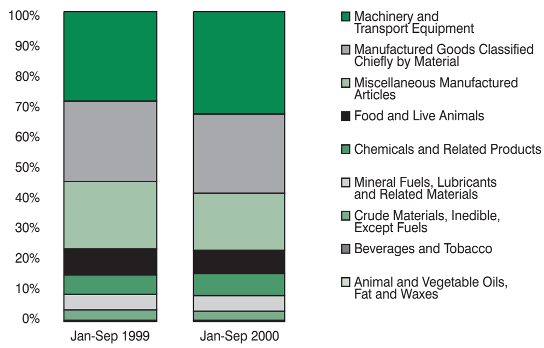

*Source: CSO*

**Poland's import structure in the period Jan-Oct 2000**



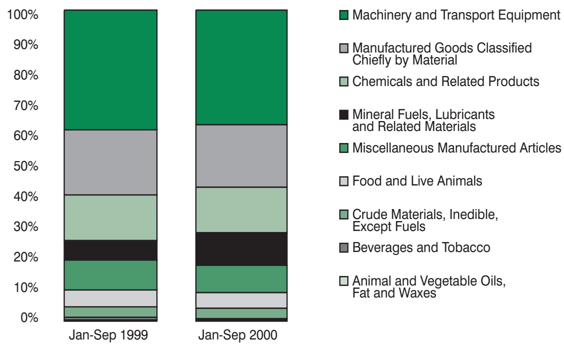

*Source: CSO*

**Poland's export structure by products (by SITC nomenclature)**




*Source: CSO*

**Poland's import structure by products (by SITC nomenclature)**




*Source: CSO*

## Foreign trade balance by sectors

In January-September 2000, the foreign trade balance totalled USD –12.96bn, which is a slight improvement against USD –13.05bn in the corresponding period of 1999.

Foreign trade balance for most goods by CPA classification was negative. The worst result was noted in the trade of Chemicals and Chemical Products – the deficit amounted to USD 3.4bn. Balance in Electrical and Optical Equipment trade amounted to USD –3.0bn, in trade of Machinery and Equipment USD –2.7bn and Electrical Raw Materials USD –2.5bn. Rubber and Plastics Products noted significantly lower deficit at USD –0.8bn. A deficit deeper than USD 0.5bn was also noted in two other sectors: Products of Agriculture, Hunting and Forestry together with Paper Products and Recorded Media.

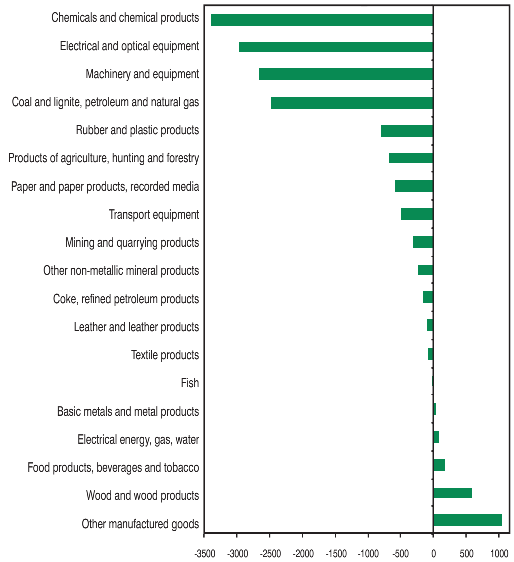
Only in five industry sectors, were exports higher than imports in the first three quarters of 2000. These branches were producing such products as: Wood and Wood Products (surplus of USD 594m), Food, Beverages and Tobacco (USD 163m), Electrical Energy, Gas and Water (USD 90m), Metals and Fabricated Metal Products (USD 30m) and Other Products (over USD 1bn). In the same period, employment declined in all industry sectors, which resulted from slower economic growth. However, it is observable that the smallest decrease in employment was witnessed in pro-export sectors. In companies producing Wood and Wooden Products, the headcount was reduced only by 1.9% against the end of 1999 and enterprises producing and supplying Electricity, Gas and Water reduced their employment by 3% in the period analysed. To compare, the average employment in the whole enterprise sector decreased by 7.2%.

## Foreign trade and production sold

During the first three quarters of 2000, the highest export share was in the Textiles sector. Exports represented 77% of the production sold. In this period 60% of Leather and Leather Products produced in Poland, 55% of Transport Equipment, 54% of Electrical and Optical Equipment as well as 72% of goods and products from the group “Other” were exported. These industrial sectors may be viewed as the most pro-export. The smallest export share was reported in the Electrical Energy, Gas and Water (only 1%), Food, Beverages and Tobacco (10%) and Coke, Refined Petroleum Products and By-products (12%) sectors.

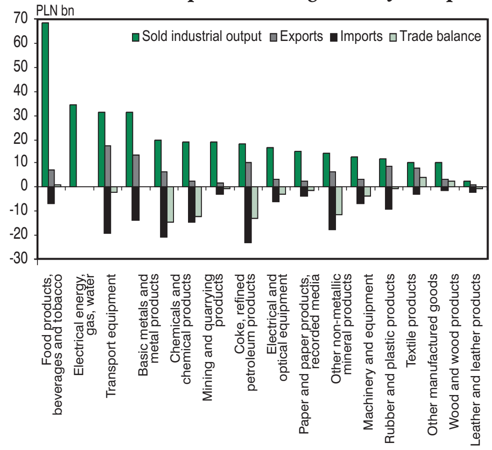
The highest share of imports in relation to production sold occurred in sectors producing Electrical and Optical Equipment (123.3%), Machinery and Equipment (122.9%), Chemicals and Chemical Products (106%). Imports were lowest comparing to production sold in the same branches as exports and in the Wood industry. It can be stated that products made by these sectors are mainly addressed to internal market and their export potential is low, but on the other hand they satisfy domestic market sufficiently and demand for imports is weak in these sectors.

**Foreign trade balances Jan-Sep 2000 (USD m)**



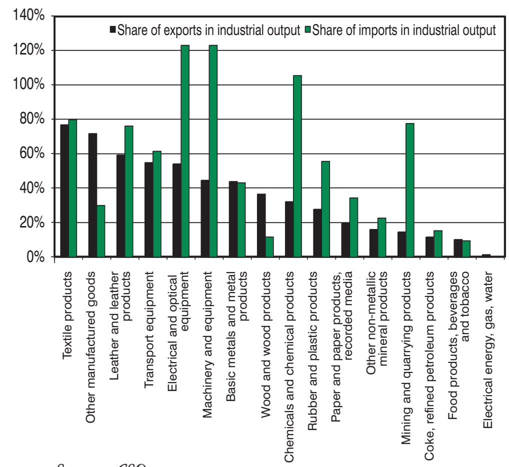

*Source: CSO*

**Sold industrial output and foreign trade Jan-Sep 2000**

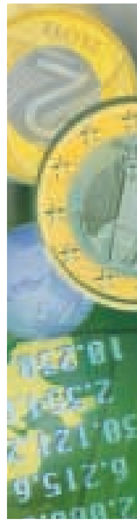



*Source: CSO*

**Share of exports and imports in industrial output Jan-Sep2000**




*Source: CSO*



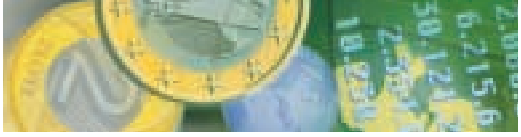
## Economic Release Calendar January / February 2001

| Monday | Tuesday | Wednesday | Thursday | Friday |
|---|---|---|---|---|
| **22 January**<br>POL: MPC meeting<br>*CZ: Foreign trade (Dec)*<br>*GER: Business climate IFO (Dec)* | **23**<br>POL: Unemployment (Dec) | **24** | **25** | **26**<br>*USA: Durable goods orders (Dec)* |
| **29** | **30**<br>*USA: FED meeting* | **31**<br>*USA: FED meeting* | **1 February**<br>POL: Balance of payments (Dec)<br>POL: Foreign trade on a cash basis (Dec)<br>*CZ: State budget (Jan)*<br>*EUR: ECB meeting* | **2**<br>*USA: Unemployment (Jan)* |
| **5**<br>POL: Economic trends in industry, construction and retail trade (Jan) | **6**<br>*GER: Unemployment (Jan)* | **7**<br>POL: Food prices (1st & 2nd half of Jan)<br>POL: Balance of NBP (Jan)<br>POL: Official reserve assets (Jan)<br>*GER: Factory orders (Dec)* | **8**<br>*CZ: Inflation (Jan)*<br>*CZ: Unemployment (Jan)*<br>*GER: Industrial output (Dec)* | **9** |
| **12**<br>*CZ: Industrial output (Dec)* | **13**<br>*CZ : Producer prices (Jan)*<br>*USA: Retail sales (Jan)* | **14**<br>POL: Employment and wages in corporate sector (Jan)<br>POL: Money supply (Jan)<br>*CZ: Construction output (Dec)*<br>*CZ: Retail sales (Dec)* | **15**<br>POL: Inflation (Jan – preliminary)<br>POL: State budget (Jan)<br>*EUR: ECB meeting* | **16**<br>*USA: Producer prices (Jan)* |
| **19**<br>POL: Industrial output (Jan)<br>POL: Producer price index in industry and construction (Jan) | **20**<br>POL: Unemployment (Jan) | **21**<br>*USA: Inflation (Jan)*<br>*USA: Foreign trade (Dec)* | **22**<br>*CZ: Foreign trade (Jan)* | **23**<br>POL: Food prices (1st half of Feb) |
| **26** | **27**<br>POL: MPC meeting<br>*USA: Durable goods orders (Jan)* | **28**<br>POL: MPC meeting | **1 March**<br>POL: Balance of payments (Jan)<br>POL: Foreign trade on a cash basis (Jan)<br>*EUR: ECB meeting* | **2** |

# Basic Macroeconomic Data

| Category | unit | January | February | March | April | May | June | July | August | September | October | November | December |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **PRICES** | | | | | | | | | | | | | |
| Consumer price index (y/y) | % | 10,1 | 10,4 | 10,3 | 9,8 | 10,0 | 10,2 | 11,6 | 10,7 | 10,3 | 9,9 | 9,3 | 8,5 |
| Consumer price index (m/m) | % | 1,8 | 0,9 | 0,9 | 0,4 | 0,7 | 0,8 | 0,7 | -0,3 | 1,0 | 0,8 | 0,4 | 0,2 |
| Production price index (y/y) | % | 8,2 | 8,1 | 7,3 | 7,4 | 7,9 | 8,9 | 9,0 | 8,4 | 8,3 | 8,0 | 7,2* | 5,7 |
| Production price index (m/m) | % | 0,5 | 0,5 | 0,4 | 0,7 | 0,9 | 1,0 | 0,6 | 0,4 | 0,8 | 0,6 | 0,0* | -0,8 |
| Price index of assembly and construction production (y/y) | % | 7,7 | 7,5 | 7,7 | 8,3 | 8,4 | 8,8 | 9,1 | 8,7 | 8,1 | 7,8 | 7,6* | 7,7 |
| Price index of assembly and construction production (m/m) | % | 0,6 | 0,6 | 0,9 | 1,1 | 0,7 | 0,7 | 0,4 | 0,5 | 0,2 | 0,5 | 0,4* | 0,9 |
| Exchange rate USD/PLN (y/y) | % | 15,9 | 9,0 | 3,7 | 5,8 | 14,3 | 11,6 | 11,3 | 10,3 | 10,1 | 12,8 | 7,2 | 3,5 |
| Exchange rate USD/PLN (m/m) | % | -1,6 | 0,8 | -1,1 | 3,5 | 6,2 | -2,2 | -1,7 | 0,8 | 3,0 | 3,3 | -1,6 | -5,4 |
| Exchange rate EUR/PLN (y/y) | % | 1,3 | -3,9 | -7,9 | -6,6 | -2,6 | 1,9 | 1,3 | -5,9 | -8,7 | -9,8 | -11,2 | -8,1 |
| Exchange rate EUR/PLN (m/m) | % | -1,4 | -1,8 | -3,3 | 1,3 | 1,8 | 2,4 | -2,5 | -2,9 | -0,8 | 1,4 | -1,7 | -0,6 |
| Real gross wages in enterprise sector (y/y) | % | 6,5 | 6,8 | 3,1 | 5,2 | 1,8 | 1,3 | -2,2 | 1,1 | 0,4 | 0,5 | 0,8 | -1,9 |
| **ACTIVITY INDICATORS** | | | | | | | | | | | | | |
| Gross domestic product (y/y) | % | – | – | 6,0 | – | – | 5,2 | – | – | 3,3 | – | – | – |
| Industrial output (y/y) | % | 7,9 | 16,4 | 6,8 | 5,3 | 12,1 | 13,4 | 7,8 | 9,2 | 5,0 | 7,1 | 4,7* | -2,2 |
| Industrial output (m/m) | % | -19,0 | 7,3 | 11,6 | -8,4 | 7,7 | 1,2 | -6,9 | 6,1 | 5,0 | 2,1 | -3,1* | -1,4 |
| Construction and assembly production (y/y) | % | 4,6 | 5,6 | 4,2 | -5,6 | -0,6 | 1,2 | -2,9 | -2,1 | -3,7 | -1,7 | -1,1* | -6,9 |
| Construction and assembly production (m/m) | % | -57,7 | 6,6 | 17,5 | -0,1 | 16,8 | 11,6 | -4,6 | 7,2 | 7,0 | 6,6 | -17,6* | 40,3 |
| Retail sales of goods [a] (y/y) | % | 20,3 | 25,4 | 16,9 | 19,9 | 15,1 | 14,8 | 10,3 | 11,2 | 10,4 | 7,2 | 5,8 | – |
| Retail sales of goods [a] (m/m) | % | -32,1 | 5,0 | 17,2 | 2,2 | -0,6 | 2,8 | -0,7 | 1,4 | -0,8 | 1,5 | -3,4 | – |
| Exports on a customs basis (y/y) | % | 31,9* | 35,5 | 15,9 | 21,1* | 24,0* | 34,5* | 39,7* | 28,9* | 23,6* | 23,1 | – | – |
| Exports on a customs basis (m/m) | % | -7,6* | 13,9 | 5,5 | -6,8* | 4,3 | 4,8 | 0,7* | -3,2* | 10,2* | 6,5 | – | – |
| Imports on a customs basis (y/y) | % | 31,3* | 34,7 | 12,2 | 13,5 | 31,7 | 24,1 | 21,5* | 15,9* | 7,9* | 13,5 | – | – |
| Imports on a customs basis (m/m) | % | -19,4 | 13,2 | 9,4 | -8,0* | 16,6 | -6,2 | -1,1* | -6,1* | 7,9* | 11,7 | – | – |
| **LABOUR MARKET** | | | | | | | | | | | | | |
| Number of unemployed | thous. | 2 478 | 2 528 | 2 534 | 2 490 | 2 446 | 2 437 | 2 478 | 2 496 | 2 529 | 2 548 | 2 613 | 2 703 |
| Unemployment rate | % | 13,7 | 14,0 | 14,0 | 13,8 | 13,6 | 13,6 | 13,8 | 13,9 | 14,0 | 14,1 | 14,5 | 15,0 |
| Average employment in corporate sector | thous. | 5 319 | 5 316 | 5 308 | 5 301 | 5 292 | 5 295 | 5 284 | 5 271 | 5 269 | 5 274 | 5 247 | 5 199 |
| Average monthly gross wages in corporate sector | PLN | 1 882 | 1 926 | 1 992 | 2 067 | 1 988 | 2 049 | 2 036 | 2 051 | 2 088 | 2 089 | 2 160 | 2 350 |
| Nominal increase in wages (y/y) | % | 17,2 | 17,9 | 13,7 | 15,5 | 12,0 | 11,5 | 9,2 | 11,9 | 10,7 | 10,4 | 10,2 | 6,4 |
| **STATE BUDGET** | | | | | | | | | | | | | |
| Budget revenues | PLN bn | 11,0 | 20,3 | 31,0 | 40,9 | 51,8 | 64,2 | 74,8 | 86,2 | 98,0 | 110,5 | 123,0 | – |
| Budget expenditures | PLN bn | 11,8 | 24,8 | 38,0 | 49,8 | 61,8 | 75,0 | 86,1 | 99,2 | 111,9 | 125,9 | 137,9 | – |
| State budget deficit | PLN bn | -0,9 | -4,5 | -6,9 | -8,9 | -10,0 | -10,8 | -11,3 | -13,0 | -14,0 | -15,4 | -14,9 | – |
| Domestic government debt | PLN bn | – | – | 141,9 | – | – | 143,7 | – | – | – | – | – | – |
| Foreign government debt | PLN bn | – | – | 128,2 | – | – | 135,8 | – | – | – | – | – | – |

# Basic Macroeconomic Data



| Category | unit | January | February | March | April | May | June | July | August | September | October | November | December |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **BALANCE OF PAYMENTS** | | | | | | | | | | | | | |
| Current account | USD m | -1 207 | -954 | -1 344 | -850 | -401 | -860 | -701 | -961 | -592 | -852* | -320 | – |
| Trade balance | USD m | -1 458 | -1 140 | -1 241 | -1 075 | -894 | -1 041 | -1 042 | -1 324 | -972 | -1 058* | -828 | – |
| Exports | USD m | 1 922 | 2 038 | 2 371 | 2 032 | 2 407 | 2 397 | 2 473 | 2 271 | 2 424 | 2 520* | 2 719 | – |
| Imports | USD m | 3 380 | 3 178 | 3 612 | 3 107 | 3 301 | 3 438 | 3 515 | 3 595 | 3 396 | 3 578* | 3 547 | – |
| Services: net | USD m | -174 | -171 | -202 | -177 | -105 | -159 | -131 | -119 | -90 | -100 | -46 | – |
| Unclassified transactions: net | USD m | 286 | 225 | 218 | 398 | 324 | 337 | 309 | 350 | 420 | 485 | 295 | – |
| Capital and financial account | USD m | 1 485 | 647 | 1 074 | 672 | 653 | -165 | 343 | 725 | 357 | 2 192* | 359 | – |
| Direct investments | USD m | 763 | 354 | 430 | 449 | 310 | 363 | 488 | 169 | 242 | 4 653* | 486 | – |
| Portfolio investments | USD m | 244 | 587 | 1 598 | 131 | 20 | 90 | 232 | -234 | -72 | -345* | 422 | – |
| **MONEY SUPPLY** | | | | | | | | | | | | | |
| Money supply | PLN bn | 255 | 258 | 262 | 266 | 269 | 285 | 277 | 278 | 281 | 287 | 291 | 294 |
| Money supply (y/y) | % | 15,1 | 13,7 | 13,8 | 15,2 | 15,2 | 20,6 | 16,2 | 14,9 | 14,1 | 14,6 | 14,4* | 11,7 |
| Money supply (m/m) | % | -3,1 | 1,0 | 1,6 | 1,5 | 1,1 | 5,9 | -2,7 | 0,3 | 1,0 | 2,4 | 1,3* | 1,1 |
| Total deposits (y/y) | % | 15,7 | 14,7 | 15,5 | 16,6 | 16,8 | 23,3 | 18,5 | 17,1 | 16,1 | 17,4 | 17,0* | 15,4 |
| Total deposits (m/m) | % | -1,6 | 1,3 | 1,9 | 0,9 | 1,6 | 6,4 | -3,1 | 0,5 | 1,1 | 3,0 | 1,7* | 1,0 |
| Household loans (y/y) | % | 52,5 | 51,8 | 52,1 | 49,8 | 49,9 | 79,4 | 45,7 | 42,9 | 40,9 | 38,9 | 34,8* | 32,0 |
| Household loans (m/m) | % | 0,6 | 1,2 | 3,4 | 1,6 | 3,8 | 25,2 | -15,0 | 2,5 | 3,0 | 2,3 | 1,2 | 2,3 |
| Corporate loans (y/y) | % | 20,8 | 18,8 | 18,1 | 19,1 | 17,9 | 19,7 | 18,8 | 18,2 | 17,4 | 16,1 | 14,0* | 13,4 |
| Corporate loans (m/m) | % | 2,5 | 1,0 | 0,9 | 2,0 | 0,6 | 2,2 | 0,1 | 1,4 | 2,3 | 1,4 | 0,4* | -2,0 |
| **FINANCIAL INDICATORS** | | | | | | | | | | | | | |
| Average deviation from the central parity [b] | % | -3.0 | -3.7 | -6.2 | -5.1 | – | – | – | – | – | – | – | – |
| Average exchange rate USD [c] | PLN | 4,1036 | 4,1353 | 4,0902 | 4,2347 | 4,4988 | 4,3994 | 4,3229 | 4,3593 | 4,4900 | 4,6369 | 4,5606 | 4,3143 |
| Average exchange rate EUR [c] | PLN | 4,1608 | 4,0850 | 3,9507 | 4,0033 | 4,0758 | 4,1740 | 4,0684 | 3,9486 | 3,9152 | 3,9696 | 3,9035 | 3,8802 |
| Average exchange rate DEM [c] | PLN | 2,1274 | 2,0886 | 2,0200 | 2,0469 | 2,0839 | 2,1341 | 2,0801 | 2,0189 | 2,0018 | 2,0296 | 1,9958 | 1,9839 |
| Average WIBOR T/N[c] | % | 17,50 | 16,29 | 17,92 | 17,64 | 17,33 | 17,73 | 17,87 | 17,31 | 18,84 | 19,74 | 20,07 | 19,50 |
| WIBOR 1M[c] | % | 17,26 | 17,44 | 18,17 | 18,15 | 18,13 | 18,13 | 18,05 | 18,24 | 19,39 | 19,47 | 19,65 | 19,83 |
| WIBOR 3M[c] | % | 17,30 | 17,85 | 18,44 | 18,34 | 18,60 | 18,55 | 18,51 | 19,12 | 19,55 | 19,68 | 19,75 | 19,67 |
| Average 3M T-bill yield[c] | % | 16,03 | 16,13 | 16,56 | 16,72 | 17,01 | 16,49 | 16,48 | 17,38 | 18,17 | 17,53 | 17,44 | 17,60 |
| Average 12M T-bill yield[c] | % | 16,18 | 17,00 | 17,57 | 17,31 | 17,86 | 17,85 | 17,76 | 18,34 | 18,65 | 18,41 | 18,31 | 18,01 |
| Average 2Y T-bond yield[c] | % | 15,10 | 16,17 | 16,56 | 16,85 | 17,78 | 18,02 | 17,77 | 18,27 | 18,11 | 18,54 | 18,23 | 17,20 |
| Average 10Y T-bond yield[c] | % | 10,13 | 10,55 | 10,42 | 10,56 | 11,89 | 12,46 | 12,53 | 12,72 | 12,40 | 13,24 | 13,06 | 11,50 |
| **MONETARY POLICY INSTRUMENTS** | | | | | | | | | | | | | |
| Intervention rate | % | 16,5 | 17,5 | 17,5 | 17,5 | 17,5 | 17,5 | 17,5 | 19,0 | 19,0 | 19,0 | 19,0 | 19,0 |
| Rediscount rate | % | 19,0 | 20,0 | 20,0 | 20,0 | 20,0 | 20,0 | 20,0 | 21,5 | 21,5 | 21,5 | 21,5 | 21,5 |
| Lombard rate | % | 20,5 | 21,5 | 21,5 | 21,5 | 21,5 | 21,5 | 21,5 | 23,0 | 23,0 | 23,0 | 23,0 | 23,0 |
| Monthly devaluation rate [b] | % | 0,3 | 0,3 | 0,3 | 0,3 | – | – | – | – | – | – | – | – |

** data officialy corrected, [a] in current prices, [b] up to April 11 2000, [c] average including non-working days,*

*Sources: CSO, NBP, Finance Ministry, Reuters, own estimations*

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The following sources were used in preparing this bulletin: Cetral Statistical Office, National Bank of Poland, Finance Ministry, Reuters.