WBK

Poland's economy
Financial Markets

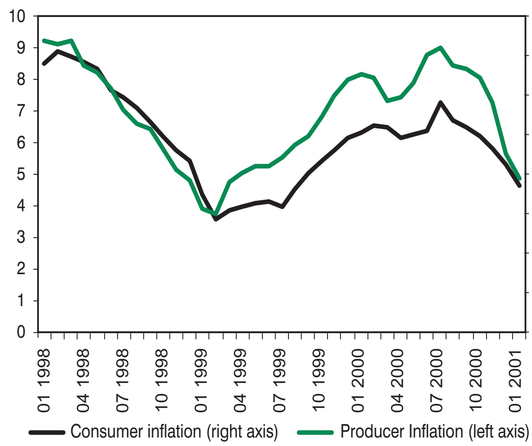
February 2001 No 20

Main economic trends

- December current account deficit amounted to USD 734m., significantly lower than USD 860m expected by the market. In 2000 the current account gap declined to USD 9.9bn, i.e. 6.2% of GDP in comparison to 7.5% of GDP at the end of 1999. The trade deficit decreased to 8.2% of GDP from 9.3% of GDP in December 1999. (p. 4)
- In 2000 Poland's Gross Domestic Product rose by 4.1% in real terms, which is the same as in 1999. Growth of domestic demand amounted to mere 2.8% against 4.9% in previous year, and consumption growth to 2.1% in comparison to 4.5% in 1999. Slowdown in GDP growth in the second half of 2000 resulted from weakening in domestic demand growth following high real interest rates and increase in unemployment rate. (p. 4)
- Inflation in January amounted to only 0.8% m/m and 7.4% y/y. Such low inflation was below market expectations that were at 7.5-8.0% y/y. Core inflation (in monthly terms) was higher than CPI, which proves that the fall in annual inflation in January resulted mainly from decrease in fuel prices. (p. 5)
- Relatively good data on industrial output in January will be an argument for the MPC to wait with interest rate cut until March. (p. 5, 8)
- The zloty remains quite stable in a band of between 8.5-9.5% on the stronger side of the old parity waiting for MPC decision at the meeting on 27-28 February and data on current account deficit in January. (p. 6)
- Profit taking on EUR/USD and EUR/JPY shifted the euro to the lowest level against the USD in last eight months. (p. 6)
- High supply of treasury papers met the demand on longer T-bills and T-bonds. A price correction during next few weeks is not excluded. (p. 7)
- The MPC is under pressure to cut interest rates. Real and nominal interest rates will be high in 2001. (p. 8)
- Budget deficit planned for 2000 was realised in 100% thanks to the reduction in expenditure of PLN 5.3bn (0.8% of GDP). Very high budget deficit in January 2001 followed from increased expenditures and lower revenues. (p. 9-10)
- Changes in regulated prices may increase inflation in the current year by 0.9%. Core inflation falls slower than consumer inflation. (p. 10-11)
- Improvement in the trade balance with the EU and CEFTA, deterioration in trade with Russia. (p. 12)

Arkadiusz Krześniak

Inflation (%)



Source: CSO

In this issue

Highlights

Macro-economic indicators released in February painted a rather positive picture of the Polish economy, especially concerning external stabilisation and falling inflation. Current account deficit fell in 2000 to 6.2 pct of GDP, foreign direct investment inflows surged and export performance was very good. Inflation over the last three months has been falling quite fast and this trend, despite probable slowdown in coming months, is likely to continue. After good data on the current account deficit the zloty firmed to the level of 9.5 pct deviation on the stronger side of old parity. Firming of the zloty stemmed from high interest rates and inflows of portfolio capital invested in Polish treasury papers. Polish treasury papers became attractive after signals of fast deceleration of economic growth in Poland. Since the beginning of the year to 19 February, the zloty firmed by 1.5 pct against the US dollar and by 2.8 pct against the euro. In the same period yield curve moved down by 80 basis points in 2Y sector, by 95 bps in 5Y sector and 80 bps in 10Y sector. In the short end of the curve, yields of 3-month and one year T-bills fell by 30 and 90 bps respectively. It seems that T-bill market, particularly for one year T-bill, has accepted higher prices and some fall in yields is possible. In contrast, in T-bond market all positive information has already been discounted. In the near term one may expect stabilisation and potentially a correction (increase in yields), if it appears that the scope of rate cuts this year is lower than the 400 bps expected by the market. Our scenario of rate cuts assumes cautious rate cut by 100 to 150 bps in February, or more likely, in March. The MPC will be forced into such a move, in order to adjust the degree of tightening of monetary policy to the fall in inflation (3.3 pct since August 2000) and the zloty appreciation by 8 pct over the same period. In such a situation even a 150 bps cut in interest rates would mean more tight monetary policy than after the rate hike in August 2000. The MPC will be forced to cut interest rates in order to defend against criticism that they conduct an overly restrictive monetary policy. If in second half of the year inflation stabilises or even starts to increase, and if the zloty weakens and negative signals on increasing economic deficit appear then the MPC will have arguments for reducing the scope of rate cut in the second half of this year or even for avoiding rate cut alltogether.

If the macro-economic situation is stable and demand does not rise excessively due to compensation payments, then the MPC will have room for another rate cut of 150 to 200 bps. In case of positive scenario, rates may be cut this year by some 250 bps (scenario 1). If Poland enters a recession in the first half of this year (by recession we mean growth below 1-2 pct per annum), the scope of interest rate cuts may be bigger, and may amount to 350 bps (scenario 2). If the growth in the US is lower than 2 pct. in 2001 and significant slowdown takes place in the euro-zone, then Poland may be confronted with an increasing current account gap at the end of this year. If inflation turns up at the same time, then Poland may enter a real recession combined with relatively high inflation. This would mean high real interest rates, weak economic growth and high unemployment (scenario 3).

We attach a 25 to 30 pct probability to the black scenario 3. We consider scenario 1 to be most likely.

Tab. 1. Inflation indicators

	09 2000	10 2000	11 2000	12 2000	01 2001	*02 2001 F*
Consumer Price Index (m/m, %)	1.0	0.8	0.4	0.2	0.8	*0.4*
Consumer Price Index (y/y, %)	10.3	9.9	9.3	8.5	7.4	*6.9*
Producer Price Index (m/m, %)	0.8	0.6	0.0	-0.9*	-0.2	*0.3*
Producer Price Index (y/y, %)	8.3	8.0	7.2	5.6*	4.8	*4.6*
Average monthly FX rate (USD, y/y, %)	10.1	12.8	7.2	3.5	0.2	-

Tab. 2. Activity indicators

	08 2000	09 2000	10 2000	11 2000	12 2000	01 2001
Retail Sales Index (m/m, %)	1.4	-0.8	1.5	-3.4	20.8	-
Retail Sales Index (y/y, %)	11.2	10.4	7.2	5.8	3.2	-
Household loans (y/y, %)	42.9	40.9	38.9	34.8	31.7*	31.3
Industrial Output (m/m, %)	6.1	5.0	2.1	-3.1	-1.4	-8.9
Industrial Output (y/y, %)	9.2	5.0	7.1	4.7	-2.2	10.1
Exports, current prices (in payment terms, y/y, %)	9.3	18.6	13.5	23.4*	12.4	-
Imports, current prices (in payment terms, y/y, %)	8.6	1.3	6.5	-5.4*	-10.3	-
Foreign Trade Balance (NBP, USD m)	-1324	-972	-1058	-858*	-1021	-
State Budget Balance (PLN m)	-13.0	-14.0	-15.4	-14.9	-15.4	-5.1

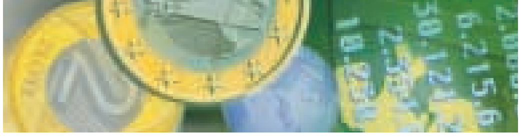
Tab. 3. Poland's Economy

	1997	1998	1999	2000 E	*2001 F*
Gross Domestic Product (fixed prices, y/y, %)	6.8	4.8	4.1	4.1	*4.0*
Individual Consumption (y/y, %)	6.9	4.9	5.4	2.4	*3.6*
Gross expenses on fixed assets (y/y, %)	21.7	14.5	6.5	3.1	*5.0*
Exports, constant prices (y/y, %)	13.7	9.4	-2.6	16.0	*9.4*
Imports, constant prices (y/y, %)	22.0	14.6	1.0	7.6	*7.9*
Inflation (average annual, %)	14.9	11.8	7.3	10.1	*6.5*
Inflation (year end, y/y, %)	13.2	8.6	9.8	8.5	*6.3*
Unemployment Rate (year end, %)	10.3	10.4	13.0	15.0	*16.4*
Current Account Balance/ /GDP (%)	-3.2	-4.2	-7.5	-6.2	*-6.2*
Public debt / GDP (%)	47.9	43.1	44.6	43.8	*40.3*

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	19.38	18.38	18.38	17.08	18.31	15.0	12.0	9.7	8.6
3M	14.73	17.87	18.50	19.06	19.70	18.78	18.80	18.10	18.10	16.70	17.93	15.2	12.2	9.9	8.8
6M	14.57	17.87	18.67	19.36	19.75	18.92	18.25	17.95	17.85	16.55	17.65	15.3	12.3	10.0	8.9
12M	14.77	18.07	18.86	19.51	19.60	19.01	17.85	16.85	16.65	15.85	16.80	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	14.40	14.10	14.10	13.40	14.00	11.9	9.5	8.5	8.0
5L (bid)	11.12	12.77	13.98	14.39	14.85	14.00	12.55	12.15	12.15	11.55	12.10	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	16.80	15.90	15.90	15.20	15.95	13.1	10.8	8.5	7.5
52-week	13.00	16.92	17.68	18.25	18.24	17.77	16.80	16.30	16.80	16.10	16.50	13.5	11.0	8.7	7.7
Exchange rates															
USD/PLN	3.9675	4.1132	4.3762	4.3897	4.5033	4.3465	4.115	4.172	4.297	4.370	4.238	4.59	5.00	5.35	5.55
EUR/PLN	4.2270	4.0629	4.0872	3.9781	3.9179	4.0110	3.848	3.970	4.161	4.297	4.069	4.56	4.95	5.23	5.35
EUR/USD	1.0660	0.9878	0.9344	0.9062	0.8700	0.7108	0.935	0.952	0.968	0.983	0.960	0.99	0.99	0.98	0.96
Average depreciation (currency basket)	–	-0.1%	3.5%	-1.2%	0.54%	1.99%	-5.4%	2.3%	3.9%	2.5%	-0.5%	10.2%	8.7%	6.3%	3.1%
USD/PLN (end of period)	4.1483	4.1428	4.3907	4.5404	4.1432	4.1432	4.150	4.180	4.340	4.380	4.380	4.80	5.20	5.50	5.60
EUR/PLN (end of period)	4.1689	3.9650	4.2075	3.9960	3.8544	3.8544	3.880	4.013	4.232	4.323	4.323	4.80	5.10	5.35	5.35
EUR/USD (end of period)	1.0050	0.9571	0.9583	0.8801	0.9303	0.9303	0.935	0.960	0.975	0.987	0.987	1.00	0.98	0.97	0.96
Macroeconomic indicators (end of period unless otherwise stated)															
Real GDP (y/y, %)	4.1	6.0	5.2	3.3	2.2	4.1	2.2	3.1	4.9	5.8	4.0	4.0	4.3	5.0	5.1
Inflation (y/y, %)	9.8	10.3	10.2	10.3	8.5	8.5	6.8	6.7	5.7	6.3	6.3	5.6	4.2	3.8	3.6
Inflation (y/y, %) average	7.3	10.3	10.1	10.8	9.2	10.1	7.0	6.9	5.8	5.9	6.5	5.9	4.9	4.0	3.7
Current account/GDP (%)	-7.5	-	-	-	-	-6.2	-	-	-	-	-6.2	-6.6	-6.7	-6.5	-6.0
Budget deficit/ /GDP (%)	-2.0	-	-	-	-	-2.2	-	-	-	-	-2.6	-2.1	-1.8	-1.5	-1.3
Public debt/ /GDP (%)	44.6	-	-	-	-	43.8	-	-	-	-	40.3	39.0	37.5	35.6	33.4
Foreign Public debt/ /GDP (%)	20.7	-	-	-	-	20.4	-	-	-	-	17.6	17.0	16.5	15.7	14.5
Total foreign debt/ /GDP (%)	39.0	-	-	-	-	39.5	-	-	-	-	35.1	33.7	32.2	30.3	27.6

Forecast date: 20.02.2001

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

Improvement in the current account

The December current account deficit amounted to USD 734m., significantly lower than USD 860m anticipated by the market.

In 2000 the current account gap declined to USD 9.9bn, i.e. 6.2% of GDP in comparison to 7.5% of GDP at the end of 1999. The trade deficit decreased to 8.2% of GDP from 9.3% of GDP in December 1999. Trade deficit in December seasonally deteriorated to slightly above USD1bn, which followed from increased imports before Christmas. Exports reached USD 2.777bn – the highest figure since July 1998. In December exports increased by 12.4% y/y while imports declined by 10.3% y/y. Non-classified flows balance were higher than in November and reached USD344m. These data show that positive growth trends in exports, observed during past months, is still continuing. The current account data may also point to stronger than expected slump in domestic demand. The fall in exports growth in December 2000 stems from a high base in December 1999 and is not an indicator of weakening foreign demand since exports are still growing in nominal terms. In our opinion, these data will be neutral for the MPC.

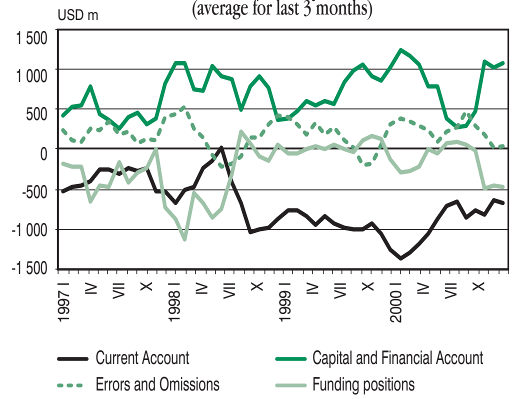
Capital and financial account

In 2000 the capital and financial account financed 80.2% of the current account deficit in comparison to 71.3% in 1999. An increase in the cover of the current account deficit with the surplus in the capital account followed from an increase in foreign direct investments which last year financed 94% of the current account deficit in comparison with 54,9% in 1999. Financing the current account deficit with portfolio investment also increased from 12.5% in 1999 to 28.8% in 2000. Last year, foreign direct investments rose by 46.5% to USD 9.3bn, due to large privatisation transactions (TP SA). Moreover, economic slowdown in the second half 2000, accompanied by expectations of interest rate cuts, resulted in an almost twofold rise in the portfolio investment inflows of USD 1.45bn in 2000.

Slight economic growth in 2000

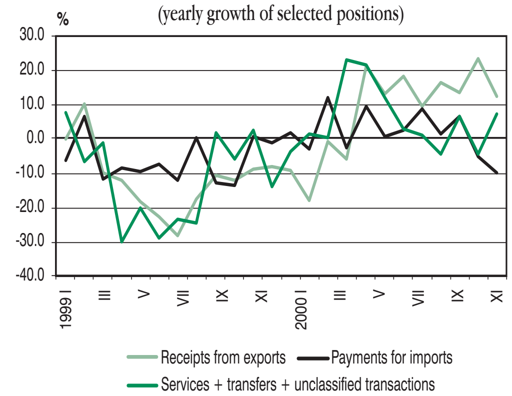
In 2000 the Poland's Gross Domestic Product rose by 4.1% in real terms, which is the same as in 1999. The growth of domestic demand amounted to a mere 2.8% against 4.9% in the previous year, and the increase in consumption to 2.1% in comparison to 4.5% in 1999. The slowdown in the GDP growth in the second half of 2000 resulted from weaker domestic demand growth, following high real interest rates and increased unemployment rates. The fall in GDP growth was quite rapid, which may mean that such a slow pace will prevail in the following two quarters. High real interest rates and the base effect (strong GDP growth in first quarter 2000) will result in GDP growth of 2-3% in the first half of 2001. In the whole of 2001 GDP growth probably will not exceed 4.0%.

Balance of Payments
(average for last 3 months)



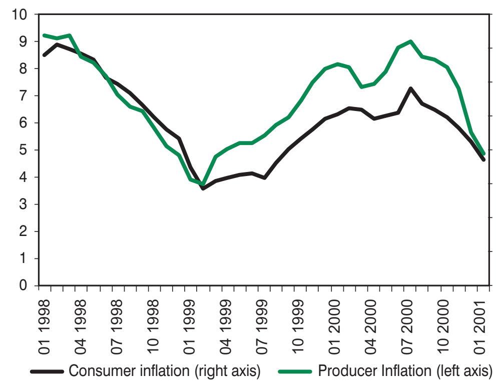
Source: NBP, own calculations

Current Account
(yearly growth of selected positions)



Source: NBP

Inflation (%)

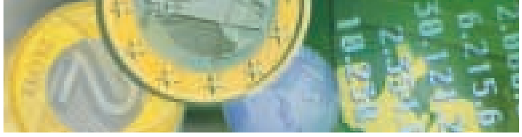


Source: CSO

Tab. 5. GDP growth

	1998	1999	2000
Total consumption	4.2	4.5	102.1
of which: Individual consumption	4.8	5.4	102.4
Gross Capital Formation	13.8	105.9	104.9
of which: Gross investments in fixed assets	14.2	106.5	103.1
Domestic demand	6.4	104.9	102.8
Gross Domestic Product	4.8	104.1	104.1
Gross value added	4.7	103.9	103.8
of which: Industry	4.3	103.0	106.8
Construction	9.3	103.5	99.4
Market services	4.8	106.3	104.6

Source: CSO



Very low inflation in January

Inflation in January amounted to only 0.8% m/m and 7.4% y/y. Such a low inflation was below market expectations at 7.5-8.0% y/y. Because of a change in consumption basket, whose weights are used by the CSO to calculate the inflation, the data for January are preliminary. The CSO has changed significantly the way of presenting inflation data, therefore the interpretation of the January data is more difficult. In the new display, only food prices and alcoholic beverages and tobacco prices are comparable with the data from previous months. There are no such important categories as services and non-food goods. Moreover, weights of categories presented do not sum to 100%. Consumer inflation in January was very low because increases in the excise duty on cigarettes and fuel did not cause a rise in monthly average prices for these goods. Also, total increase in prices of non-food goods and services, share whose in the consumer basket amounted to 63%, was quite low (1.0% m/m as compared to 1.9% m/m in January 2000).

Taking into account that fuel prices fell in January by 2.9%, prices of energy increased by 0.8% and food prices rose by 0.6%, it seems that the core inflation (excluding energy and food) in January was higher than CPI. Despite this, the inflation data indicate a further slump in the consumption demand and a much weaker influence of regulated price growth than a year ago.

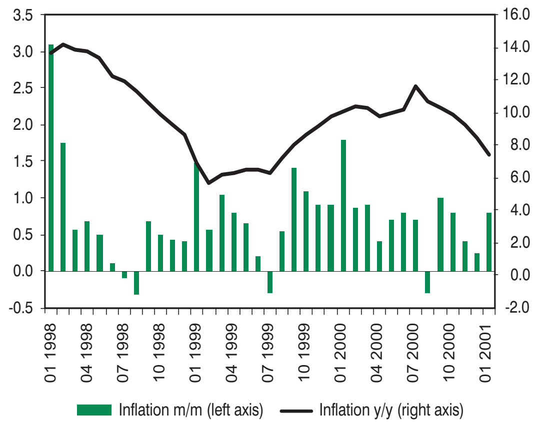
Weaker fall in producer prices

Producer prices in January declined by 0.2% after the fall of 0.9% in December. Producer inflation in annual terms decreased to 4.8% after 5.6% in December. A fall in producer prices was much slower than in the previous month and mainly resulted from the decrease in the production prices of coke, refined petroleum and derivatives (by 8.1% m/m), which followed from a fall in oil prices and the strengthening of the zloty in January. The decrease in production prices of clothing (by 0.3%) and RTV equipment (by 0.2%) may be an evidence of a deteriorating domestic demand. Increases in prices of food and non-alcoholic beverages (by 0.7%) may cause some concern. Prices of tobacco products also rose (by 4.9%).

Industrial output in January

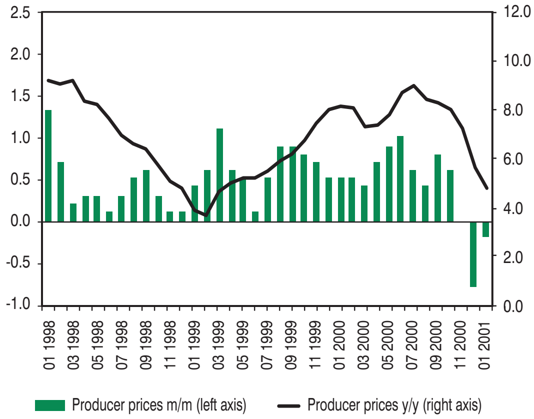
Industrial output in January was, like in December, quite good, increasing by 10.1% y/y after a fall of 2.9% y/y in December. In monthly terms, production decreased by 8.9%, which may have resulted from clearing last year's stocks of finished goods. The fall in production output growth m/m was not as big as in January 2000, when it amounted to 19.6%. Quite high industrial output growth in January suggests that exports are still sound and perhaps a stabilisation of domestic demand growth will slowly follow. Analyses of sectors, where the annual increase was the highest, indicates that those are export sectors (manufacture of other transport equipment, like ships, metal products, mechanical vehicles and plastics). The decrease is observed in sectors producing investment goods (machinery and equipment) or goods for local markets (manufacture of pulp and paper).

Inflation (%)



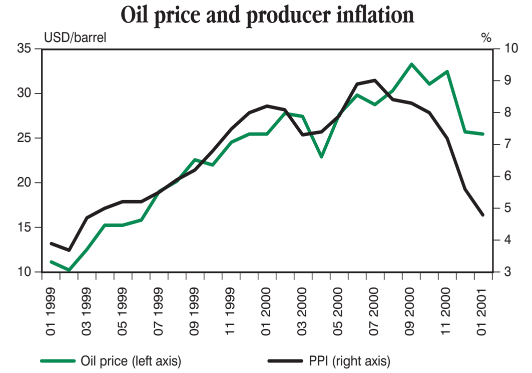
Source: CSO

Producer prices (%)



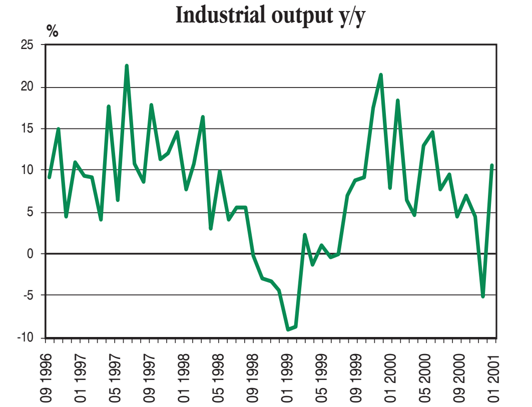
Source: CSO

Oil price and producer inflation



Source: CSO, Reuters

Industrial output y/y



Source: CSO

The zloty still strong in February due to high interest rates and demand for Poland's T-bonds

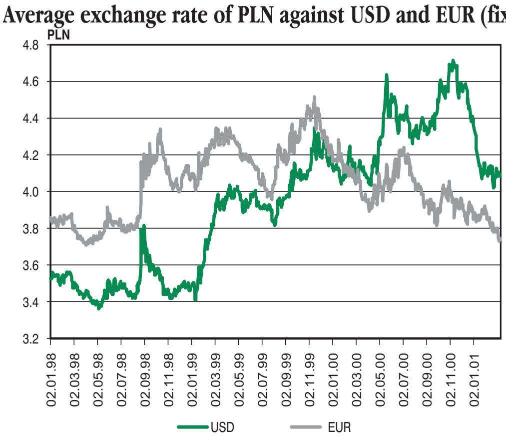
In the last weeks of January and at the beginning of February the zloty strengthened both against the US dollar and the euro given the expectations of interest rate cut. Following very good data on December's current account on 5 February the zloty reached PLN 4.0080 for USD and PLN 3.7770 for EUR, which means 9.5% deviation on the stronger side of the old parity. In the second week of February profit taking appeared after the strong increases in January and in the beginning of February. As far as the strengthening in November resulted from inflow of portfolio capital, in December and January the main part was played by high interest rate difference. Within last two weeks the zloty remained quite stable in a band of between PLN 4.06 and 4.13 for USD. In this period the zloty was still strengthening against the euro, which after testing the support at USD 0.9030 on 15 February climbed to another support at USD 0.9120 on 16 February. On Friday 16 February the zloty reached PLN 3.72 for EUR and PLN 1.9020 for DEM. After the summit in Palermo, where the euro gained the verbal support from Finance Ministers and Central Bank Governors of G7 countries, the euro rose against the dollar by almost 1%. Consequently, the PLN/EUR rate increased to 3.7720.

It seems that the strong support of the zloty is the level of PLN 4.00 per USD and PLN 3.72 per EUR (1.90 per DEM). In near term the zloty will remain strong, but further profit taking is possible after interest rate cut (by 1.5-2%). In coming months the zloty will be strengthened by Polish corporate eurobond issues (TP S.A., Turow Power-plant), UMTS licences payment (EUR 750m in March) and further privatisation of TP S.A. (20-30%). As far as the part of inflows from corporate eurobond issues will be destined for investment imports, it seems that at least some of these revenues may be exchanged for zloty. In the second half of the year the zloty will probably weaken, after the ending of privatisation inflows and the appearance of negative signals of increasing public finance deficit and increasing current account deficit due to a slowdown in world economy.

Euro

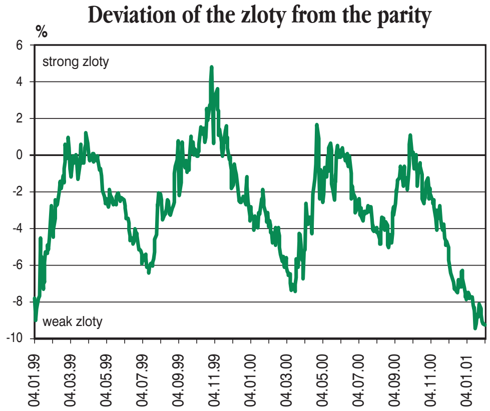
At the end of January the euro was in declining trend against the USD and JPY, due to closing long positions in euro against these currencies opened of the end 2000. It was caused by fears that economic growth in the Euro-zone will be below expectations, despite the fact that macroeconomic indicators from Euro-zone were quite optimistic. February brought data on high January inflation in Germany (2.4% y/y) and in Italy (3.0% y/y) and very good data on orders in German industry in January (2.7% m/m and 13.7% y/y). The European Central Bank will probably slightly loosen monetary policy in the Euro-zone (by 25 bps) within 3 to 6 months if the money supply falls and the strengthening of the euro against USD is stopped. On Thursday 15 February the euro fell to USD 0.9030, the lowest level for 8 weeks, due to increase in optimism about the US dollar after the Tuesday statement of Fed President Alan Greenspan before the Senate Banking Committee. He said that the economic slowdown in the USA in the first half this year will be not so deep as might be expected and that American economy does not suffer a recession now. On the other hand he underlined the importance of consumer sentiment and business sentiment for maintaining economic growth in the second half this year. The Fed forecast that US GDP growth will total 2 to 2.5% in 2001. In near term the euro will probably fluctuate in a band of between USD 0.90-0.93. There is still a risk of weakening of the euro after breaking the support at USD 0.90. In a few months we expect the slow strengthening of the euro to USD 0.97-0.98 at the end of this year.

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



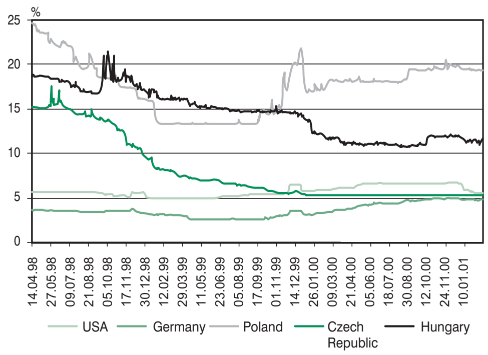
Source: NBP, Reuters

Deviation of the zloty from the parity



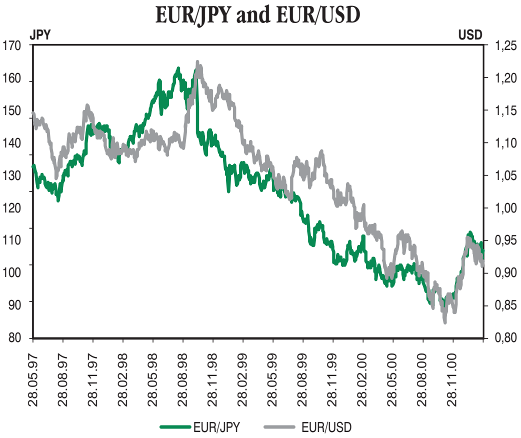
Source: NBP, Reuters, own calculations

1M interest rates in Poland and selected countries

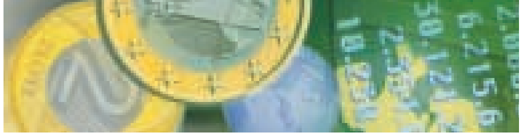


Source: Reuters

EUR/JPY and EUR/USD



Source: Reuters



Interest rates

During last month (until 19 January) longer interest rates decreased by 9-25 bps. The smallest change occurred in 12M term – market expectations about the scale of NBP rate cuts in 2001 did not change. WIBOR 3M declined by 25 bps after good data on current account for December and in expectation for positive data on inflation for January. In longer term the interest rates will stabilise and in our opinion a further fall should not be expected.

On 29 January given settlement of the obligatory reserve, price of short-term money exceeded 25% (WIBOR T/N 25.74%, WIBOR O/N 25.43%). During first week of February a slight overliquidity was observable in the market. This caused a rise in WIBOR T/N rates to 19.81% on Thursday 8 February.

Treasury bills

The Finance Ministry enlarged the T-bills offer in February to PLN 5.2bn from PLN 4.1bn in January. In particular the supply of 52-week T-bills was increased (to PLN 4bn in February from PLN 2.8bn in January), which resulted from the desire to lengthen the duration of short-term treasury debt and in this way lowering the cost of debt (the yield curve at the shorter end is reversed currently) and the improvement in budget liquidity in comming months. Until 19 February the average yields on bills at auctions totalled 17,00% on 13-week bills, 17.11% on 26-week bills and 16.72% on 52-week T-bills. In comparison, in January the average yields at auctions totalled 16.90%, 17.13% and 16.85% respectively. The proportion of demand to supply improved to 3.1 in the period of 1-19 February for 52-week T-bills in comparison to 2.5 in January.

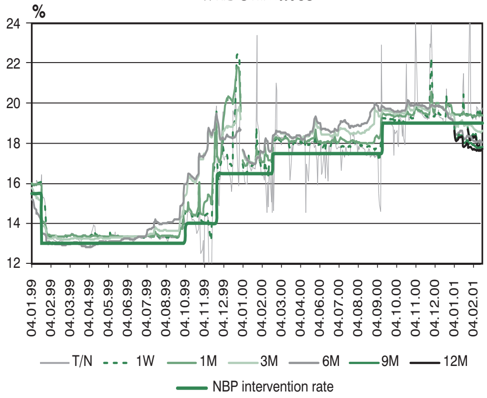
In the secondary market, the yields on 3M T-bills fell by 10 bps within last 30 days, the yields on 6M and 9M bills decreased by 45 bps and on 12M lost 40 bps. During the last 30 days the difference between the intervention rate and the yield on 1-year T-bills increased from 220 to 260 bps.

Treasury bonds

At the auctions in February the average yield on 2-year bonds fell to 15.30% from 15.43% in January and the average yield on 5-year bonds rose to 12.58% from 12.40% in January. It followed from increasing the supply of 5Y bonds to PLN 2.5bn in February from PLN 1.6bn in January. In February the proportion of demand to supply was very high and amounted to 4.1 in comparison to 3.0 in January, but the market was not inclined to accept higher prices. The demand on 10-year floating rate T-bonds was also high in February and totalled PLN 2.1bn against offer of PLN 200m. It seems that the market is able to absorb the higher supply of longer bonds, but does not accept higher prices.

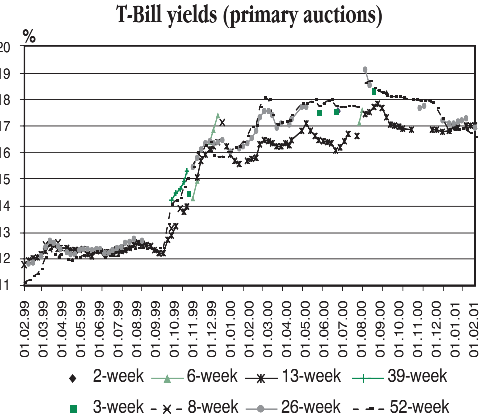
Within the last 30 days the yield curve moved by 10 to 30 bps in middle sectors and on the longer end it moved down 30 to 40 bps. The falls in yields were not so significant, since the market had already discounted in January the scope of expected 2001interest rate cuts. During last few weeks the yield in 2Y sector stabilised and there was a demand in 5Y sector. The yield curve became more reversed at the longer end, due to market expectations af a relatively restrictive monetary policy in middle-term. On the longer end of the curve the long term interest rates convergence play begins. In near term we expect the stabilisation in yields on T-bonds or a tiny correction after interest rate cut within two months.

WIBOR rates



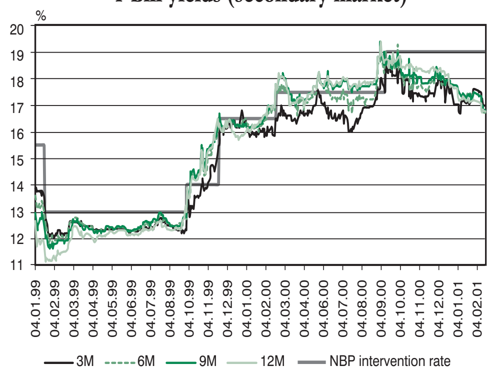
Source: NBP, WBK S.A. Treasury and International Division

T-Bill yields (primary auctions)



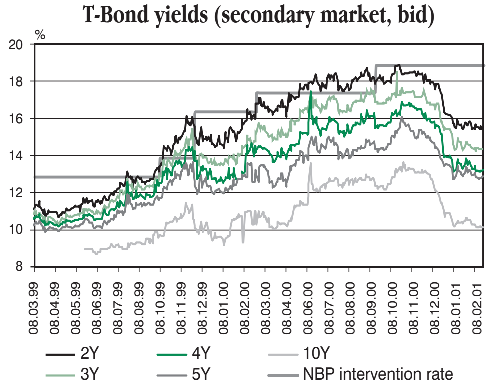
Source: NBP, WBK S.A. Treasury and International Division

T-Bill yields (secondary market)



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

T-Bond yields (secondary market, bid)



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

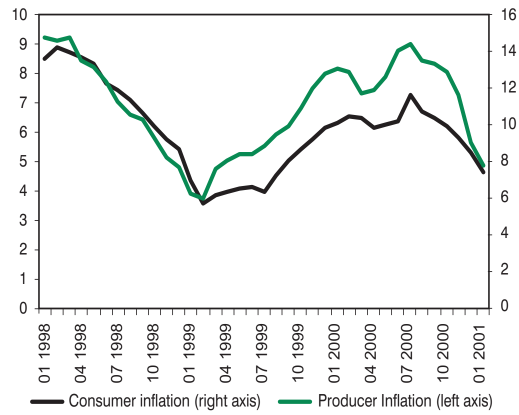
MPC under a pressure to cut interest rates.

Despite mounting evidence that the Polish economy slows down significantly – CPI and PPI is falling, current account gap is narrowing, growth of credit to households moderates, and a fall in retail sales' growth, there were practically no comments from the MPC supporting a rate cut. The only exception was a comment of NBP governor Leszek Balcerowicz, quoted in the press that "there are mounting signals increasing possibility of rate cut". This comment was denied by NBP press office, however. Also, the passing by the Seym of the budget bill inline with government self-amendment, being positive per se, did not trigger much enthusiasm of the MPC members. In fact, the MPC will focus on the actual implementation of the budget in coming months. The Council holds all their objections concerning the possibility of an increase in economic deficit, for example by increase in the deficit of Social Insurance Fund (ZUS) through decreasing or delaying transfer of budget subsidies to ZUS. Balancing of the health-care sector deficit and decreasing the share of local government deficit in GDP in 2001 is still problematic.

MPC members over last five weeks started to underline the importance of core inflation, which is to be published starting from this year. Core inflation, which is considered to show more long-term trends in inflation, is falling slower than headline inflation. It means that the current fall in inflation, similarly to its rise in 4Q1999 and persistently high levels in first three quarters of 2000, were caused by transitory factors. The influence of these factors is still high – the recent fall in inflation stemmed mainly from the fall of oil prices and firming of the zloty. Overly restrictive monetary policy, in the opinion of Jaroslaw Bauc, the finance minister, may lead to an excessive fall in inflation and its potential growth at the beginning of the year. Similar opinion was presented in January's issue of our monthly bulletin. The basic risk is potential depreciation of the zloty after the MPC starts cutting rates. In current macro-economic situation the most likely scenario is early rate cut by 100 to 150 bps over next two months and subsequently the assumption of a wait-and-see approach by the MPC. After relatively good data on industrial production for January and fuel-induced fall in inflation in January, the MPC will have arguments for delaying a rate cut until March.

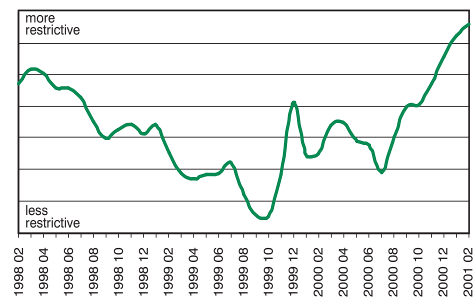
We assess the likelihood of an interest rate cut in February at 40 pct. In March the likelihood of a rate cut is higher and amounts to 55 pct. In March the MPC will know with certainty all the amendments to the 2001 budget. Moreover, the CA gap data for January, final GDP for 2000 and, most importantly, final CPI for January and February will be known. Even a moderate rate cut would help in balancing the 2001 budget. Our view is that budget this year will be as hard to execute as in 2000. For example there is some PLN0.4bn gap in the cost of servicing domestic debt. Under current macro-economic situation, more attractive are longer treasury papers , e.g. 5-year bonds. This follows from higher likelihood of high real interest rates during next two years and the MPC strong will to achieve the medium term inflation target. Profit taking is possible on the shorter end of the yield curve in the horizon of 2-3 months, if it become apparent that the expectations of 400 bps cut this year are exaggerated.

Inflation (%)



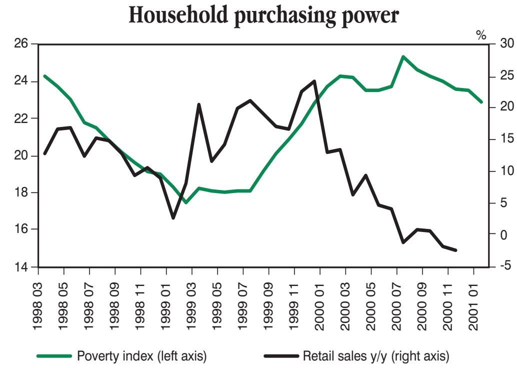
Source: CSO

Monetary Conditions Index



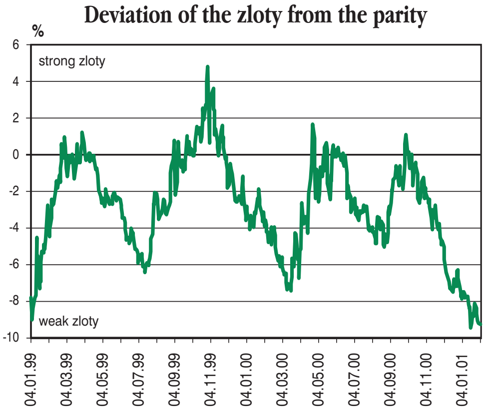
Source: NBP, CSO, own calculations

Household purchasing power

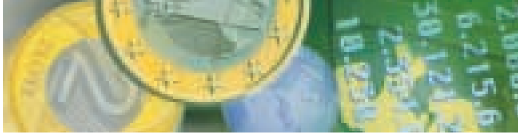


Source: CSO, own calculations

Deviation of the zloty from the parity



Source: NBP, Reuters, own calculations



Budget revenues and expenditures below plan in 2000 Deficit in line with plan

At the end of 2000 the state budget deficit amounted to PLN 15.39bn, representing 100% of the figure planned in the Budget Act, as compared with 96.8% performance against the plan after November. In this way, despite reaching 100% of the planned deficit as early as October, finally the deficit did not exceed the amount permitted in the Budget Act. It resulted from the cuts in expenditures of PLN 3.9bn.

In 2000, budget revenues totalled PLN 135.66bn, representing 96.3% of the plan and budget spending totalled PLN 151.05bn, representing 96.6% of the plan. In absolute terms, both revenues and expenditures were PLN 5.3bn below the plan.

As compared to the plan, revenues of state-owned units (custom inflows included) and revenues from corporate income tax disclosed the highest figure (119.3% and 118,8% respectively). A surplus of these inflows against the plan amounted to PLN 4.6bn in total. Moreover, other revenues were disclosed at 107.1% (PLN 0.3bn surplus). The deficit of revenues from indirect taxes totalled as much as PLN 7.9bn (91.0% performance), and the inflows from personal income tax were PLN 2.2bn lower than assumed (91.1% performance). the budget performance resulted from the fall in domestic demand and from higher export levels. On the one hand, inflows from VAT on domestic sales were lower, and on the other hand exporters received the accrued tax refund.

Lower than assumed revenues made it necessary to cut some expenditures. The cuts amounted to PLN 3.9bn and reduced the expenditures of Ministries and provinces – average reductions were 3.5%. Moreover, on the expenditures side the sum of PLN 180m was moved from foreign debt service to domestic debt service. Despite this, the expenditures on foreign debt service were PLN 850m lower than the plan (performance of 83.4%). On the contrary, the expenditures on domestic debt service were in line with the higher plan. Another item where the spending was lower than the plan was the subsidy to Social Insurance Fund for Farmers – performance of 96.5% (PLN 480m below the plan). Subsidies to local governments, Social Insurance Fund and Labour Fund were recorded according to the levels planned in the Budget Act.

Except for cuts and shifts from one position to another, some expenditures were carried forward to 2001. Total shifted expenditures amount to PLN 757m, representing only 0.5% of the total budget spending. This money must be spent by the end of June.

Tab 6. Execution of budget revenues in 2000 (PLN m)

Revenues	Plan	Realisation	Difference	Realisation in %
Indirect taxes	87 596.2	79 741.7	-7 854.5	91.0%
Corporate income tax	14 133.5	16 786.7	2 653.2	118.8%
Personal income tax	25 230.4	22 990.0	-2 240.4	91.1%
State-owned units revenues	9 874.4	11 776.1	1 901.7	119.3%
Other revenues	4 075.2	4 362.7	287.5	107.1%
Total	140 909.8	135 657.2	-5 252.6	96.3%

Source: Finance Ministry

Tab 7. Execution of budget expenditures in 2000 (PLN m)

Expenditures	Plan	Realisation	Difference	Realisation in %
Domestic debts service	13 744.5	13 726.5	-18.0	99.9%
Foreign debts service	5 149.5	4 296.6	-852.9	83.4%
Subsidy to Labour Fund	838.5	838.5	0.0	100.0%
Subsidy to Social Insurance Fund for Farmers	13 694.3	13 212.5	-481.8	96.5%
Subsidy to Social Insurance Fund (ZUS)	15 919.3	15 919.3	0.0	100.0%
Subvention to local governments	25 860.2	25 860.2	0.0	100.0%
Other expenditures	81 103.5	77 198.1	-3 905.4	95.2%
Total	156 309.8	151 051.7	-5 258.1	96.6%

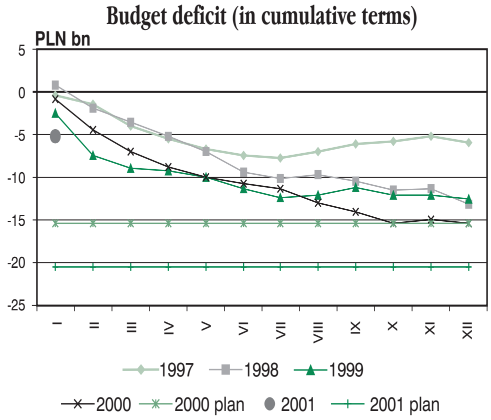
Source: Finance Ministry

Budget deficit performance at 25% in January

After the first month this year, the budget deficit amounts to PLN 5.125bn, representing 25% of the deficit planned for the whole year. The beginning of the year is always difficult for budget performance because of high expenditures and lower revenues. As a comparison, last year the budget deficit after January totalled 5.7% of the plan, but after February it was already 29.3%.

In January budget revenues totalled PLN 11.6bn, equivalent to 7.2% of the annual plan. The budget expenditures amounted to PLN 16.73bn, equivalent of 9.2% of the plan. There is a significant difference between the performance on two sides of the budget and a high deviation of both the revenues and the expenditures from 8.33%, representing a consistent budget performance.

Budget deficit (in cumulative terms)



Source: Finance Ministry

A low execution of revenues resulted mainly from low inflows from corporate income tax at just 1.7%, which follows from the manner of paying this tax – double advance payment for December and January is paid in December. Inflows from indirect taxes were also a significant factor. Their performance totalled 7.8% and given their high significance (they make up for 59% of budget revenues), they significantly influenced total revenues. Important factor in indirect taxes is low domestic demand growth. The revenues from personal income tax were recorded at quite a high level (8.0%), taking into account that in the beginning of the year this tax is paid at the lowest rate and individuals conducting business activities do not settle the advance payment in January.

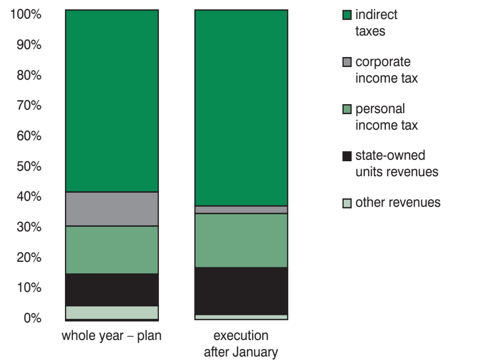
On the expenditures side, the subvention to local governments is recorded as most closely reflecting the plan (13.5%) due to the fact that the sum paid off in January is allocated both for expenditures in January and some expenditures in February. The costs of domestic debt service recorded represented 9.6% of the plan, given the payments of interest on treasury papers in January and maturity dates of T-bills (net PLN 950m in nominal terms). Subsidies to the two social insurance funds are quite high, especially to the fund for farmers (KRUS) totalling 9.6% (to ZUS 8.7%). The expenditures on foreign debt service represented only 2.4% of the plan, which resulted from the lack of interest payments (in line with the timetable) to largest creditors.

In February we expect a moderate increase in the budget deficit, but a higher increase is possible in March. In February, the compensations for pensioners for 2000 will start to be paid out - until March. They will total PLN 2.1bn and they will certainly contribute to a high budget deficit at the end of first quarter this year.

Changes in regulated prices and their influence on inflation in 2001

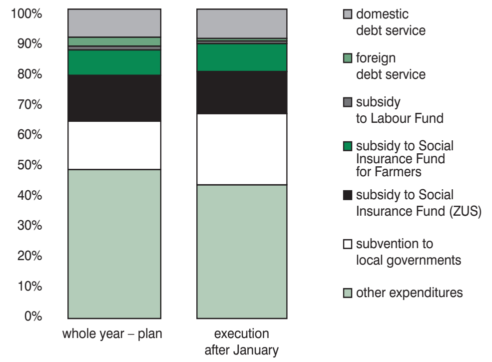
For 2001 rises in excise tax on such goods as fuels, cigarettes or alcoholic beverages have been planned, together with rises in regulated prices (railway, gas). Potentially, inflation may be higher because of this by about 0.9 percentage points. Since 1 January the excise tax on tobacco products increased by 19%. It could have caused a rise in inflation by 0.2 pct. point. This did not happen because manufacturers probably decreased their margins and prices remained unchanged. However the possibility that manufacturers will want to compensate their losses in the longer term still exists and price increases in the coming months are still possible. Also as of the beginning of this year, a higher excise duty (up 7.1%) on fuels has been introduced, which resulted in the rise of petrol prices by 3.1%. However, rises in petrol prices in January were compensated by lower diesel prices. Another increase in excise duty on fuels is planned for 1 June. Excise duty on beer and wine will grow three times during this year: on 1 February by 8%, on 1 June by 10% and on 1 September by 2.5%. Influence of these rises on inflation will be lower and will amount to about 0.07 pct points. At the beginning of February the excise duty on vodka rose by 4.3%, so this month's inflation may be higher by nearly 0.07 pct. points. Since 15 February, passenger rail transport is more expensive – PKP (Polish Railways) increased ticket prices by average 9.3%. However, influence of this rise is wholly compensated by a fall in prices of domestic phone calls, introduced on 1 February by TP S.A. (Polish Telecommunications). Since March, the cost of using gas will be higher by ca. 16%, given the rise in excise duty and supplier prices. It will translate into the inflation growth of 0.31 pct. points. In January, inflation was not higher because of the excise duty, although the rise of 0.25 pct. points resulting from a higher excise duty on cigarettes is still possible. In February the inflation may grow by nearly 0.1 pct. points given higher excise duties, in March by 0.31 pct. points, in June by 0.13 pct. points and in September by 0.01 pct. points.

Budget revenues – structure



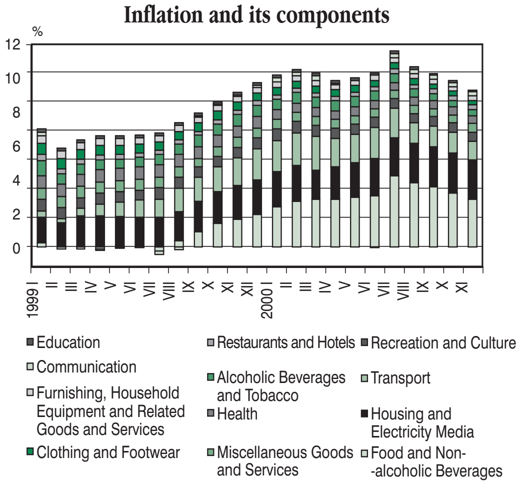
Source: Finance Ministry

Expenditures – structure



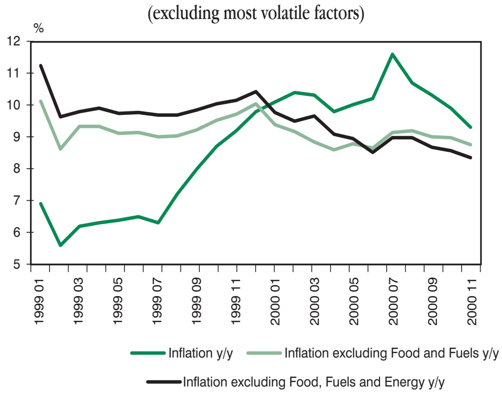
Source: Finance Ministry

Inflation and its components

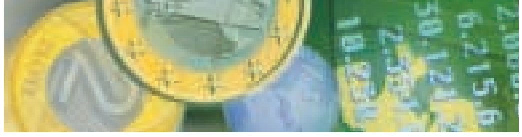


Source: CSO, own calculations

Inflation and net inflation
(excluding most volatile factors)



Source: CSO, own calculations



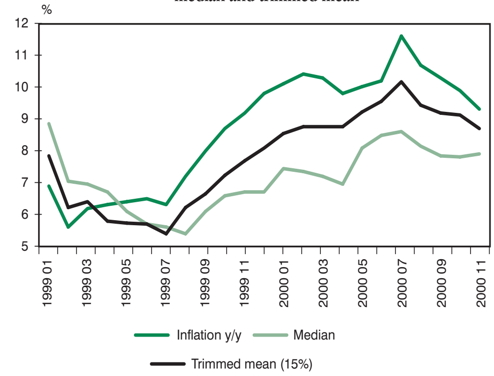
Consumer inflation and core inflation

In the second half of 2000, inflation in Poland displayed a strong downward trend – it decreased from 11.6% in July to 8.5% in December. This trend has been continuing at the beginning of 2001 – in January inflation fell to 7.4%. The main reason for lower inflation is a slower pace of rise in prices of the components that mostly influenced inflation in the first half of last year and hiked inflation to such a high level. These are predominantly food and fuel prices. Core inflation, regardless of the way of measuring, was declining slower than ordinary consumer goods and services indicators. Net inflation calculated excluding food and fuel prices fell from 9.2% in August to 8.75% in November (data for December are still not available), and excluding food, fuel and energy prices – from 9% to 8,34% in the same period. The 15% trimmed mean declined from 10.16% in July to 8.71% in November. It remained still lower than inflation indicator that amounted to 9.3% in November, but the difference between them decreased to 0.6 pct. point (the lowest since April 1999). Also the difference between inflation and median decline – in November it amounted to 1.4 pct. points, which was the lowest number since July 1999. Median value in last months finished falling and stabilised at the level below 8%. In November there was even a slight rise from 7.8% to 7.9%. The above points to the fact that external shocks which were increasing inflation last year slowly fade away and the number of price increases higher than median is decreasing. Core inflation falls but significantly slower than consumer inflation.

Inflation components mostly influencing consumer prices

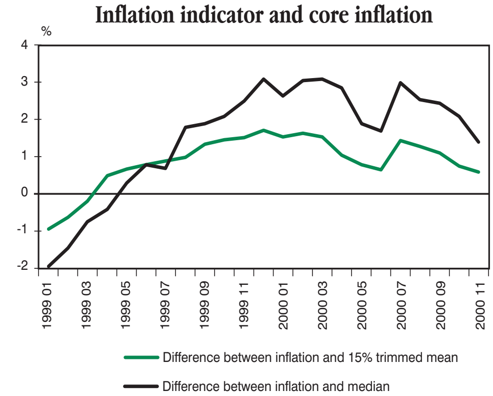
The influence on inflation of components which mostly caused high inflation in the first half of 2000 decreased during recent months. Increase in prices of food and non-alcoholic beverages which were at 13.8% in July, in November amounted to 9.2%, which translated into a rise in inflation of 4.2 and 2.8 pct. points respectively. The share of food prices in inflation decreased during that period from 36.1% to 30.1%. The highest price growth in annual terms was still observable in the case of sugar (in November 31.7%), but in comparison to August (128%) a considerable improvement occurred and influence of this category on inflation growth declined from 0.9 to 0.2 pct point. Butter prices that in the first quarter 2000 were over 41% higher than a year ago, at the end of last year stabilised (a mere 2.1% y/y in November). Also the dynamics of egg prices decreased (from 40.5% in August to 27.2% in November), but remained still at a high level. In terms of food prices, prices of bread had the highest importance for inflation in the second half of 2000. In 1999 bread prices were very stable (on average 2.5% y/y). Their dynamics grew slightly in the first half of 2000, but in June and July the prices increased rapidly due to weak grain harvests and insufficient import contingents. After the government's intervention in the agriculture market, bread prices stabilised at the level above 27%, which means that inflation was by 0.8 pct. points higher for that reason (against 0.1 in 1999). The factor that caused a fall in inflation in the second half of 2000 was, apart from stabilisation in food prices, was also weakening of unprofitable influence of shocks in the fuel market. In March fuel prices increased by as much as 57% y/y, increasing inflation by 1.6 pct points, while in November fuels were by 23.5% more expensive than previous year and inflation was higher by 0.7 pct point because of that. However, in the second half of last year there was a rise in housing costs. In July it was by 19.6% higher than a year ago and in November already by 25.4%. It was mainly due to a higher growth in the prices of energy transmitters – from 4.8% y/y in March to 10.8% in November. That way, the influence of energy prices on higher inflation changed from 0.5 to 1.2 pct. points.

Inflation
median and trimmed mean



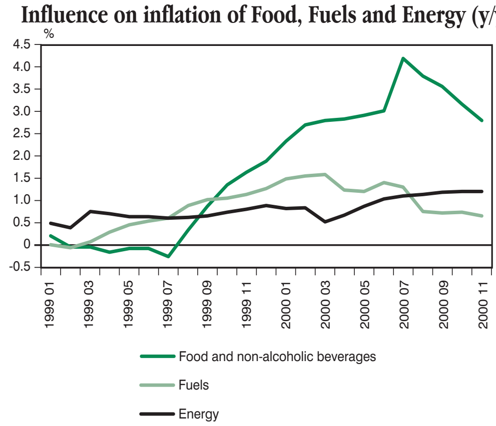
Source: CSO, own calculations

Inflation indicator and core inflation



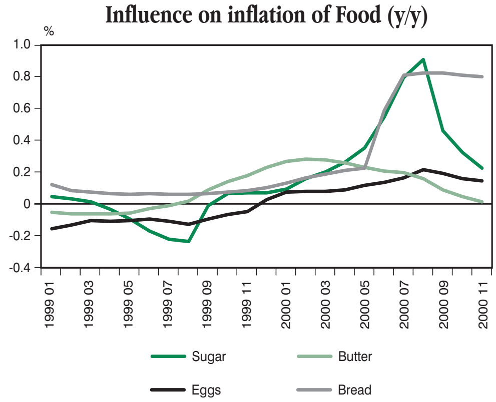
Source: CSO, own calculations

Influence on inflation of Food, Fuels and Energy (y/y)



Source: CSO, own calculations

Influence on inflation of Food (y/y)



Source: CSO, own calculations

Poland's trade turnover with countries of the European Union and Central-Eastern Europe

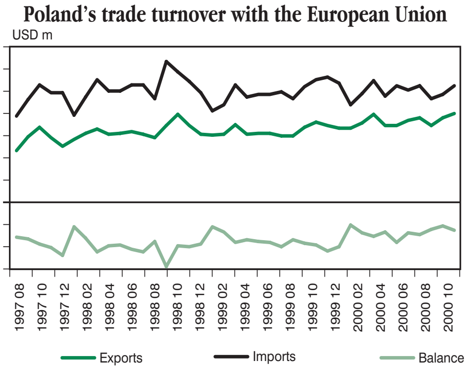
In the period of January-October 2000, as compared to the corresponding period of the previous year, the increase in exports was observed in the foreign trade turnover with the European Union countries (annual growth in successive months amounted to 10 to 20%), whereas the increase seen in imports initially were lower than in exports (annual growth below 10%) and at the end of the period decreased (negative annual growth). These two favourable trends – strengthening of exports and weakening of imports – led to the improvement in trade balance from about minus USD 900m a month in 1999 to minus USD 650m in 2000.

In this period, in foreign trade turnover with the countries of Central and Eastern Europe, both the exports and imports increased and the rise in imports was stronger. In successive months, the annual growth of imports totalled 30 to 60% and the growth of exports totalled 10 to 25%. The higher growth in imports resulted in the deepening trade deficit to about minus USD 300m a month in 2000 compared to minus USD 150m in previous year.

The trade balance with the countries of Central and Eastern Europe is the result of trade turnover with Russia mainly due to the fact that the imports from this country makes about half of Poland's imports from this region. In 2000 there was a significant deterioration in trade with Russia. The exports rose slowly – annual growth in successive quarters was slightly below 20% and the imports rose rapidly – annual growth was at 80%. It resulted in the deterioration of the trade balance – it fell from minus USD 500m a quarter in 1999 to minus USD 900m in 2000. This means that the deepening trade deficit in contacts with the Central and Eastern European countries resulted only from deterioration in trade with Russia.

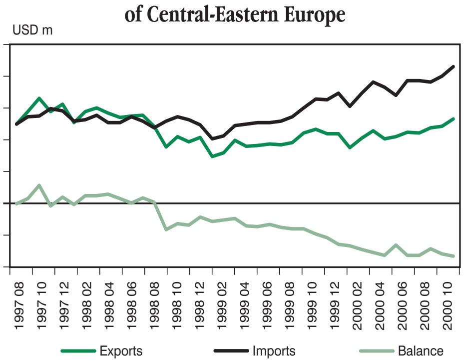
Considering turnover of Poland's foreign trade with countries associated in the Central European Free Trade Agreement (CEFTA), both exports and imports increased in 1999-2000. Until mid 2000, the imports were growing faster than exports and therefore the trade deficit broadened from USD 150m in the first quarter 1999 to USD 277m in the second quarter 2000. Monthly deficit in May amounted to USD 96m, but during subsequent months the dynamics of exports rose (exports grew from USD 194m in May to USD 266m in November), which - with stable imports (declined by USD 1.4m from May to November) - resulted in improved trade balance - up to USD –23m in November. With regard to individual CEFTA countries, Poland has the biggest trade turnover with the Czech Republic. The second place is occupied by Hungary and third by Slovakia. Another three countries – Slovenia, Romania and Bulgaria do not play such a big role. With the two last countries, Poland has a positive trade balance which recently has been continuously improving. Poland's most negative trade balance is with the Czech Republic. It is deteriorating as exports to the Czech Republic grow slower than imports from this country. A similar tendency can be observed in the trade with Slovakia, with whom Poland also has a huge trade deficit. A relatively good situation is recorded for the trade with Hungary. Although the balance is slightly negative, since the beginning of 2000 it has been improving, related to the slower pace of growth in the imports from this country as a result of introducing customs barriers on agricultural products for imports from Hungary.

Poland's trade turnover with the European Union



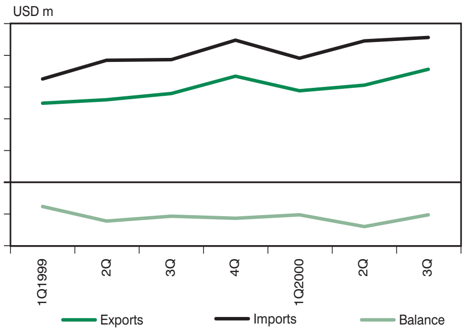
Source: CSO

Poland's trade turnover with countries of Central-Eastern Europe



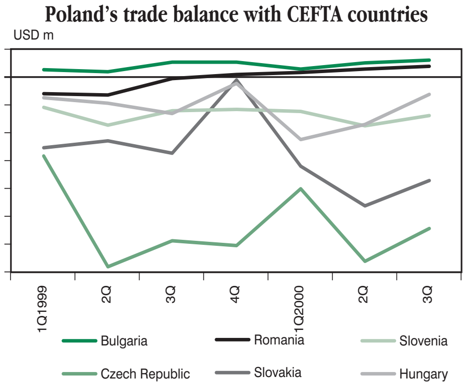
Source: CSO

Poland's trade turnover with CEFTA countries

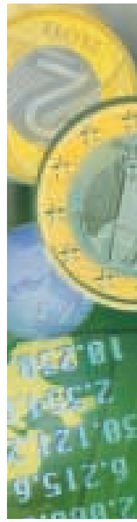


Source: CSO

Poland's trade balance with CEFTA countries



Source: CSO

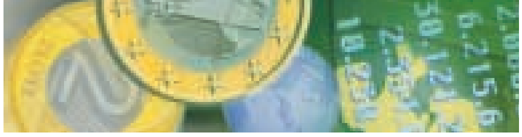


Economic Release Calendar February / March 2001

Monday	Tuesday	Wednesday	Thursday	Friday
19 February POL: Industrial output (Jan) POL: Producer price index in industry and construction (Jan)	**20** POL: Unemployment (Jan)	**21** *GER: Business climate IFO (Jan)* *USA: Inflation (Jan)* *USA: State budget (Jan)* *USA: Foreign trade (Dec)*	**22** *CZ: Foreign trade (Jan)*	**23** POL: Food prices (1st half of Feb)
26	**27** POL: MPC meeting *USA: Durable goods orders (Jan)*	**28** POL: MPC meeting	**1 March** POL: Balance of payments (Jan) POL: Foreign trade on a cash basis (Jan) *CZ: State budget (Feb)* *GER: GDP (4Q)* *EUR: ECB meeting*	**2**
5 POL: Economic trends in industry, construction and retail trade (Feb)	**6** POL: Food prices (2nd half of Feb) *GER: Unemployment (Feb)*	**7** POL: Balance of NBP (Feb) POL: Official reserve assets (Feb) *GER: Factory orders (Jan)*	**8** *CZ: Inflation (Feb)* *CZ: Unemployment (Feb)* *GER: Industrial output (Jan)*	**9** *CZ: Construction output (Jan)* *USA: Unemployment (Feb)*
12	**13** *CZ: Industrial output (Jan)* *CZ : Producer prices (Feb)* *GER: Current account (Jan)* *GER: Trade balance (Jan)* *USA: Retail sales (Feb)*	**14** POL: Employment and wages in corporate sector (Feb) POL: Money supply (Feb)	**15** POL: Inflation (Jan – revised, Feb) POL: State budget (Feb) *EUR: ECB meeting (Dublin)*	**16** POL: Industrial output (Feb) POL: Producer price index in industry and construction (Feb) *USA: Producer prices (Feb)*
19 *CZ: Retail sales (Jan)*	**20** POL: Unemployment (Feb) *CZ: Balance of payments (2000)* *USA: Fed meeting* *USA: Foreign trade (Jan)*	**21** *USA: Inflation (Feb)*	**22** *CZ: GDP (4Q)* *CZ: Foreign trade (Feb)*	**23** POL: Food prices (1st half of Mar)
26	**27** *USA: Durable goods orders (Feb)*	**28**	**29** *EUR: ECB meeting*	**30**

Basic Macroeconomic Data

Category	unit	February	March	April	May	June	July	August	September	October	November	December	January
PRICES													
Consumer price index (y/y)	%	10.4	10.3	9.8	10.0	10.2	11.6	10.7	10.3	9.9	9.3	8.5	7.4
Consumer price index (m/m)	%	0.9	0.9	0.4	0.7	0.8	0.7	-0.3	1.0	0.8	0.4	0.2	0.8
Production price index (y/y)	%	8.1	7.3	7.4	7.9	8.9	9.0	8.4	8.3	8.0	7.2	5.6*	4.8
Production price index (m/m)	%	0.5	0.4	0.7	0.9	1.0	0.6	0.4	0.8	0.6	0.0	-0.9*	-0.2
Price index of assembly and construction production (y/y)	%	7.5	7.7	8.3	8.4	8.8	9.1	8.7	8.1	7.8	7.6	6.9*	6.8
Price index of assembly and construction production (m/m)	%	0.6	0.9	1.1	0.7	0.7	0.4	0.5	0.2	0.5	0.4	0.2*	0.5
Exchange rate USD/PLN (y/y)	%	9.0	3.7	5.8	14.3	11.6	11.3	10.3	10.1	12.8	7.2	3.5	0.2
Exchange rate USD/PLN (m/m)	%	0.8	-1.1	3.5	6.2	-2.2	-1.7	0.8	3.0	3.3	-1.6	-5.4	-4.7
Exchange rate EUR/PLN (y/y)	%	-3.9	-7.9	-6.6	-2.6	1.9	1.3	-5.9	-8.7	-9.8	-11.2	-8.1	-7.1
Exchange rate EUR/PLN (m/m)	%	-1.8	-3.3	1.3	1.8	2.4	-2.5	-2.9	-0.8	1.4	-1.7	-0.6	-0.4
Real gross wages in enterprise sector (y/y)	%	6.8	3.1	5.2	1.8	1.3	-2.2	1.1	0.4	0.5	0.8	-1.9	2.3
ACTIVITY INDICATORS													
Gross domestic product (y/y)	%	–	6.0	–	–	5.2	–	–	3.3	–	–	–	–
Industrial output (y/y)	%	16.4	6.8	5.3	12.1	13.4	7.8	9.2	5.0	7.1	4.7	-2.2	10.1
Industrial output (m/m)	%	7.3	11.6	-8.4	7.7	1.2	-6.9	6.1	5.0	2.1	-3.1	-1.4	-8.9
Construction and assembly production (y/y)	%	5.6	4.2	-5.6	-0.6	1.2	-2.9	-2.1	-3.7	-1.7	-1.1	-6.9	-9.8
Construction and assembly production (m/m)	%	6.6	17.5	-0.1	16.8	11.6	-4.6	7.2	7.0	6.6	-17.6	40.3	-59.3
Retail sales of goods [a] (y/y)	%	25.4	16.9	19.9	15.1	14.8	10.3	11.2	10.4	7.2	5.8	3.2	–
Retail sales of goods [a] (m/m)	%	5.0	17.2	2.2	-0.6	2.8	-0.7	1.4	-0.8	1.5	-3.4	20.8	–
Exports on a customs basis (y/y)	%	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)	%	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)	%	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)	%	13.2	9.4	-8.0	16.6	-6.2	-1.1	-6.1	7.9	11.7	–	–	–
LABOUR MARKET													
Number of unemployed	thous.	2 528	2 534	2 490	2 446	2 437	2 478	2 496	2 529	2 548	2 613	2 703	2 836
Unemployment rate	%	14.0	14.0	13.8	13.6	13.6	13.8	13.9	14.0	14.1	14.5	15.0	15.6
Average employment in corporate sector	thous.	5 316	5 308	5 301	5 292	5 295	5 284	5 271	5 269	5 274	5 247	5 199	5 184
Average monthly gross wages in corporate sector	PLN	1 926	1 992	2 067	1 988	2 049	2 036	2 051	2 088	2 089	2 160	2 350	2 069
Nominal increase in wages (y/y)	%	17.9	13.7	15.5	12.0	11.5	9.2	11.9	10.7	10.4	10.2	6.4	9.9
STATE BUDGET													
Budget revenues	PLN bn	20.3	31.0	40.9	51.8	64.2	74.8	86.2	98.0	110.5	123.0	135.7	11.6
Budget expenditures	PLN bn	24.8	38.0	49.8	61.8	75.0	86.1	99.2	111.9	125.9	137.9	151.1	16.7
State budget deficit	PLN bn	-4.5	-6.9	-8.9	-10.0	-10.8	-11.3	-13.0	-14.0	-15.4	-14.9	-15.4	-5.1
Domestic government debt	PLN bn	–	141.9	–	–	143.7	–	–	153.4	–	–	–	–
Foreign government debt	PLN bn	–	128.2	–	–	135.8	–	–	134.2	–	–	–	–



Basic Macroeconomic Data

Category	unit	February	March	April	May	June	July	August	September	October	November	December	January
BALANCE OF PAYMENTS													
Current account	USD m	-954	-1 344	-850	-401	-860	-701	-961	-592	-852	-416*	-734	–
Trade balance	USD m	-1 140	-1 241	-1 075	-894	-1 041	-1 042	-1 324	-972	-1 058	-858*	-1 021	–
Exports	USD m	2 038	2 371	2 032	2 407	2 397	2 473	2 271	2 424	2 520	2 654*	2 777	–
Imports	USD m	3 178	3 612	3 107	3 301	3 438	3 515	3 595	3 396	3 578	3 512*	3 798	–
Services: net	USD m	-171	-202	-177	-105	-159	-131	-119	-90	-100	-104*	-161	–
Unclassified transactions: net	USD m	225	218	398	324	337	309	350	420	485	295	344	–
Capital and financial account	USD m	647	1 074	672	653	-165	343	725	357	2 192	528*	508	–
Direct investments	USD m	354	430	449	310	363	488	169	242	4 653	537*	533	–
Portfolio investments	USD m	587	1 598	131	20	90	232	-234	-72	-345	504*	103	–
MONEY SUPPLY													
Money supply	PLN bn	258	262	266	269	285	277	278	281	287	291	294	292
Money supply (y/y)	%	13.7	13.8	15.2	15.2	20.6	16.2	14.9	14.1	14.6	14.4	11.8*	14.5
Money supply (m/m)	%	1.0	1.6	1.5	1.1	5.9	-2.7	0.3	1.0	2.4	1.3	1.1	-0.8
Total deposits (y/y)	%	14.7	15.5	16.6	16.8	23.3	18.5	17.1	16.1	17.4	17.0	15.5*	17.3
Total deposits (m/m)	%	1.3	1.9	0.9	1.6	6.4	-3.1	0.5	1.1	3.0	1.7	1.1*	-0.1
Household loans (y/y)	%	51.8	52.1	49.8	49.9	79.4	45.7	42.9	40.9	38.9	34.8	31.7*	31.3
Household loans (m/m)	%	1.2	3.4	1.6	3.8	25.2	-15.0	2.5	3.0	2.3	1.2	2.1*	0.3
Corporate loans (y/y)	%	18.8	18.1	19.1	17.9	19.7	18.8	18.2	17.4	16.1	14.0	13.5*	11.8
Corporate loans (m/m)	%	1.0	0.9	2.0	0.6	2.2	0.1	1.4	2.3	1.4	0.4	-1.9*	0.9
FINANCIAL INDICATORS													
Average deviation from the central parity [b]	%	-3.7	-6.2	-5.1	–	–	–	–	–	–	–	–	–
Average exchange rate USD [c]	PLN	4.1353	4.0902	4.2347	4.4988	4.3994	4.3229	4.3593	4.4900	4.6369	4.5606	4.3143	4.1108
Average exchange rate EUR [c]	PLN	4.0850	3.9507	4.0033	4.0758	4.1740	4.0684	3.9486	3.9152	3.9696	3.9035	3.8802	3.8648
Average exchange rate DEM [c]	PLN	2.0886	2.0200	2.0469	2.0839	2.1341	2.0801	2.0189	2.0018	2.0296	1.9958	1.9839	1.9761
Average WIBOR T/N[c]	%	16.29	17.92	17.64	17.33	17.73	17.87	17.31	18.84	19.74	20.07	19.50	19.73
WIBOR 1M[c]	%	17.44	18.17	18.15	18.13	18.13	18.05	18.24	19.39	19.47	19.65	19.83	19.44
WIBOR 3M[c]	%	17.85	18.44	18.34	18.60	18.55	18.51	19.12	19.55	19.68	19.75	19.67	18.97
Average 3M T-bill yield[c]	%	16.13	16.56	16.72	17.01	16.49	16.48	17.38	18.17	17.53	17.44	17.60	17.12
Average 12M T-bill yield[c]	%	17.00	17.57	17.31	17.86	17.85	17.76	18.34	18.65	18.41	18.31	18.01	17.23
Average 2Y T-bond yield[c]	%	16.17	16.56	16.85	17.78	18.02	17.77	18.27	18.11	18.54	18.23	17.20	15.68
Average 10Y T-bond yield[c]	%	10.55	10.42	10.56	11.89	12.46	12.53	12.72	12.40	13.24	13.06	11.50	10.44
MONETARY POLICY INSTRUMENTS													
Intervention rate	%	17.5	17.5	17.5	17.5	17.5	17.5	19.0	19.0	19.0	19.0	19.0	19.0
Rediscount rate	%	20.0	20.0	20.0	20.0	20.0	20.0	21.5	21.5	21.5	21.5	21.5	21.5
Lombard rate	%	21.5	21.5	21.5	21.5	21.5	21.5	23.0	23.0	23.0	23.0	23.0	23.0
Monthly devaluation rate [b]	%	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.