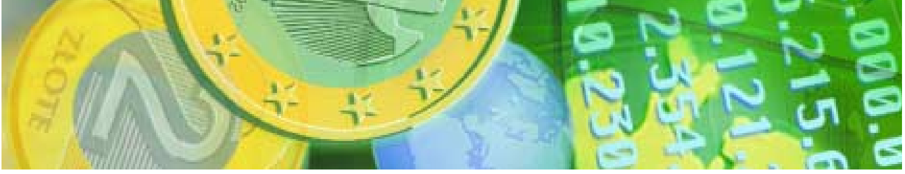


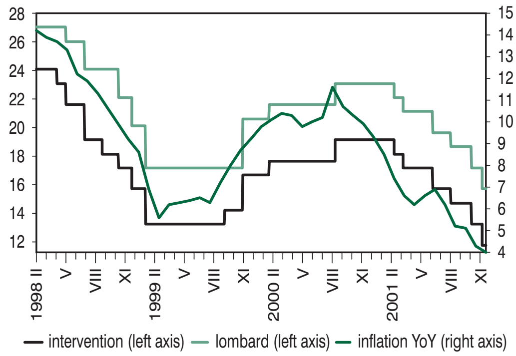
Poland's Economy – Financial Markets

December 2001 Nº 29

Main economic trends

- The event of the month in November was the presentation of the budget draft by Marek Belka. The draft seems to be a small step in the right direction, i.e. suggests some rationalisation of budget expenditure, in particular, with regard to social expenses. Unfortunately, it assumes a considerable increase of tax charges, which may hinder the economic revival and lead to further unemployment growth. The budget critics, including the Monetary Policy Council, are probably right saying that the proposals should comprise deeper and more permanent limitations of social expenses and public administration costs, however, a question arises whether such a budget would be acceptable to the government political support and to the society. As early as on the first day of the budget debate, nurses came to the Lower House building (salary freeze), students are on strike (lower subsidies to railway travel), teachers announce protests (The Teachers' Charter freeze) and so do the trade unions (limitation of pre-pension benefits). SLD and PSL MPs announce „softening" of the budget during the course of parliamentary work. It should be remembered that the next year budget must be accepted along with 18 budget-related acts. Without passing these acts, the savings in budget expenditure, mainly for social purposes, will not be generated.
- December started with violent attacks of the governing coalition politicians on the Monetary Policy Council. The conflict, which was growing for two months, is getting worse, despite considerable reductions of interest rates. The basis for this conflict is the lack of patience by politicians, who do not understand that a few quarters must pass between the moment of interest rate reduction and the significant revival in the economy. Therefore, as early as in the first half next year, if only there will be no global recession, the economic situation in Poland should improve. However, for a number of politicians it is too late. Politicians want noticeable economic revival immediately, even before the local government elections scheduled for spring. It is possible, however the reduction of interest rates to such a level that the revival would take place early spring would be followed by a strong growth in inflation and current account deficit as early as next year and a possible crisis of public finance in 2003.
- How long will the zloty remain strong? This question is bothering all. It seems that the combination of a few negative factors might result in a considerable weakening of the zloty by 10-20%. These factors are as follows: a fall in exports, attack on the MPC, "softening" of Belka's budget by Parliament and external factors such as escalation of the crisis in the Argentina. Of course, not all risks have to materialise, and not all at once, however, it seems that the zloty should weaken in the next few weeks.

NBP interest rates and inflation (%)



Source: NBP

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Highlights

There will be no significant economic revival in Q4 2001. Despite better than showed in the research economic situation with respect to the industrial output, and most probably once-off strong growth in exports, companies keep dismissing employees all the time, expect a fall both in the domestic output and the exports, and plan further staff reductions. In addition, despite the two interest rate cuts in October and November, in total by three percentage points, the z_oty remains strong, ignoring political confusion related to the conflicts in the governing coalition and the attack on the central bank. Strong z_oty combined with the possibility of recession in Germany, consumer of 35% of our exports, and the growing statistical base in Q4 last year, may reduce exports in the coming months. Then, along with the rising external risk (Argentina's bankruptcy) and internal risk (attack on the Monetary Policy Council, „improving" the budget in the Lower House), there may appear pressure to weaken the zloty. Moreover, it seems that not forcing the interest rate reduction but the weakening of the zloty is the target of the attack on the MPC. And if the zloty weakened permanently by 15-20%, then, the pressure on interest rate cuts exerted by politicians would be eased or disappear totally. Strong depreciation „solves" a number of problems in Leszek Miller's government. First of all, it generates high revenues from VAT (2/3 of VAT is collected at border), then it makes room for a less painful rehabilitation of public finance. Secondly, then, PSL will give up the idea of introducing import tax, which is all the time the bone of contention in the coalition. This is due to tah fact that depreciation acts as "import tax", which makes imported goods more expensive. Exporters do not lose competitiveness, actually, they pay more for imported components, but they also gain more on exports. Inflation is a big failure, however, it seems that inflation is a residual issue for politicians, i.e. first of all, they want to see an economic growth and a reduction in the unemployment, and whether inflation will be at 4%, 8% or 10%, this is of no importance for politicians.

However, such policy is unacceptable to the Monetary Policy Council, which is constitutionally responsible for price stability, and is right to be of the opinion that low inflation facilitates economic growth in the long run (what politicians think of the long run, we all know). However, it seems that just strong depreciation of the zloty is the only „bloodless" solution from the ongoing conflict between the government and the central bank. Then, the MPC saves its face and independence as well as can set rates according to the best knowledge and practices, and not accroding to a schedule provided by politicians. The NBP act is not changed and PSL abandons the idea of import tax for good, which improves the atmosphere of negotiations with the European Union. The cost of this solution is some inflation growth in 2002 due to higher prices in imports, which, however, shouldn't be significant owing to still low demand. With a bit of good luck, inflation will not exceed the MPC target. In 2003, as a result of economic revival and accelerated inflow of direct investments, the z_oty should strengthen on a real basis and enable the achievement of the medium-term inflation target, below 4% in December 2003.

We would like to explain that we are not familiar with the method of reviving the economic growth and generating budget revenues by zloty devaluation. However, if we have two possible scenarios to choose, the one presented above and the second one, in which the number of the MPC members increases by 3 or 6 in order to force deep interest rate cuts and with import tax introduced, then, we are of the opinion that the less harmful solution needs to be chosen. Of course, it is primarily the market, which decides on the level of exchange rates. However, in our opinion, the fx market sooner or later will realise that the Polish economy needs weaker zloty or Poland will be eliminated from the first group of countries accepted into the EU in 2004-5.

Tab. 1. Inflation indicators

	06 2001	07 2001	08 2001	09 2001	10 2001	*11 2001 P*
Consumer Price Index (m/m, %)	-0.1	-0.3	-0.3	0.3	0.4	*0.3*
Consumer Price Index (y/y, %)	6.2	5.2	5.1	4.3	4.0	*3.9*
Producer Price Index (m/m, %)	-0.4	0.3	0.8	0.5	-0.4	*-0.2*
Producer Price Index (y/y, %)	0.9	0.6	1.0	0.7	-0.3	*-0.5*

Tab. 2. Activity indicators

	05 2001	06 2001	07 2001	08 2001	09 2001	10 2001
Retail Sales Index (m/m, %)	1.7	-1.3	0.5	2.9	-2.4	6.0
Retail Sales Index (y/y, %)	4.3	0.2	1.5	3.0	1.3	5.8
Household loans (y/y, %)	22.1	-1.3	20.3	20.4	18.7*	16.5
Industrial Output (m/m, %)	3.1	-2.8	-1.4	5.6	0.6	7.7
Industrial Output (y/y, %)	-0.9	-4.8	0.9	0.4	-3.8	1.4
Exports, current prices (in payment terms, y/y, %)	2.7	3.3	3.2	15.3	-5.6*	13.1
Imports, current prices (in payment terms, y/y, %)	9.9	-1.7	-3.8	1.1	-6.5*	10.6
Foreign Trade Balance (NBP, USD m)	-1166	-902	-826	-1019	-889*	-1107
State Budget Balance (PLN m)	-20.4	-18.7	-19.4	-21.0	-21.8	-24.6

Tab. 3. Poland's Economy

	1997	1998	1999	2000	*2001 P*
Gross Domestic Product (fixed prices, y/y, %)	6.8	4.8	4.1	4.0	*1.3*
Individual Consumption (y/y, %)	6.9	4.9	5.4	2.4	*2.0*
Gross expenses on fixed assets (y/y, %)	21.7	14.5	6.5	3.1	*-4.0*
Exports, constant prices (y/y, %)	13.7	9.4	-2.6	16.0	*9.0*
Imports, constant prices (y/y, %)	22.0	14.6	1.0	7.6	*2.5*
Inflation (average annual, %)	14.9	11.8	7.3	10.1	*5.5*
Inflation (year end, y/y, %)	13.2	8.6	9.8	8.5	*4.1*
Unemployment Rate (year end, %)	10.3	10.4	13.1	15.0	*17.3*
Current Account Balance/ /GDP (%)	-3.2	-4.2	-7.5	-6.2	*-4.2*
Public debt / GDP (%)	47.2	43.2	43.0	42.3	*44.6*

y/y – year on year; m/m – month to month; F - forecast
* corrected data

Source: CSO, NBP, own forecasts and estimations

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

Category	2000	1Q 2001	2Q. 2001	3Q 2001	4Q 2001	2001	2002	2003	2004	2005
Interest rates										
1M	18.50	19.03	17.44	15.61	13.90	16.50	10.4	9.2	8.5	7.2
3M	18.78	18.53	17.09	15.37	13.35	16.10	10.4	9.2	8.5	7.2
6M	18.92	18.02	16.50	15.03	12.65	15.55	10.4	9.2	8.5	7.2
12M	19.01	17.61	16.07	14.82	11.85	15.10	10.2	9.0	8.0	7.0
Lombard rate	21.90	22.62	20.95	19.08	16.87	19.60	13.7	12.0	11.0	9.0
(end of period)	23.00	22.00	19.50	18.50	15.50	15.50	12.0	12.0	10.0	8.5
Intervention rate	17.90	18.62	16.95	15.08	12.87	15.60	10.2	9.0	8.3	7.0
(end of period)	19.00	18.00	15.50	14.50	11.50	11.50	9.0	9.0	7.5	6.5
Treasury bonds yields										
2L (bid)	17.37	15.59	14.91	14.37	10.90	13.95	9.7	9.1	7.4	5.8
3L (bid)	16.20	14.54	14.36	14.20	10.80	13.48	9.6	9.0	7.4	5.7
5L (bid)	14.00	13.12	13.38	13.43	10.35	12.57	9.5	9.0	7.4	5.5
10L (bid)	11.79	10.46	11.22	11.81	9.45	10.73	8.8	7.8	6.0	5.0
T-bills yields										
13-week	16.96	17.20	16.26	14.44	12.30	15.05	9.8	8.8	8.0	6.8
52-week	17.77	17.02	15.70	14.67	11.60	14.75	9.8	9.2	7.4	6.0
Exchange rates										
USD/PLN	4.3465	4.0876	3.9895	4.2168	4.10	4.10	4.23	4.50	4.60	4.50
EUR/PLN	4.0110	3.7765	3.4884	3.7545	3.67	3.67	3.81	4.00	4.15	4.15
EUR/USD	0.9172	0.9240	0.8744	0.89	0.895	0.895	0.90	0.89	0.90	0.92
USD/PLN (end of period)	4.1432	4.1000	3.9871	4.2367	4.11	4.11	4.35	4.65	4.60	4.40
EUR/PLN (end of period)	3.8544	3.6170	3.3783	3.8810	3.70	3.70	3.92	4.10	4.15	4.15
EUR/USD (end of period)	0.9303	0.8822	0.8473	0.9160	0.90	0.90	0.90	0.88	0.90	0.94
Macroeconomic indicat										
Real GDP (y/y, %)	4.0	2.3	0.9	0.8	1.2	1.3	2.0	3.5	4.7	5.0
Industrial output (y/y, %)	7.1	4.4	-0.7	-0.7	0.6	0.9	2.4	3.4	5.0	6.0
Inflation (y/y, %) (end of period)	8.5	6.2	6.2	4.3	4.1	4.1	5.0	4.0	3.8	3.6
Inflation (y/y, %)	10.1	6.7	6.6	4.9	4.0	5.5	4.4	4.5	3.8	3.7
Unemployment rate (%) (end of period)	15.0	15.9	15.8	16.3	17.3	17.3	18.5	18.8	18.2	17.6
Current account/GDP (%) (end of period)	-6.2	-5.3	-5.4	-4.5	-4.2	-4.2	-5.5	-6.0	-7.0	-8.0
Economic deficit/GDP (%)	-2.0	-	-	-	-	-5.0	-4.5	-4.2	-3.4	-3.0
Public debt/GDP (%)	42.3	-	-	-	-	44.6	49.0	52.0	50.0	49.0

Forecast date: 10 December 2001

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

Strong October – is it a light at the end of the tunnel?

Most of statistics on the Polish economy released last month on October figures, in principle, did not match quite a gloomy picture, which emerged as a result of the data recorded in earlier months.

Despite the fact that three economic researches carried out in November implied a falling or stable industrial output in October as compared to September, actually it rose by 7.7% m/m and 1.4% y/y. Retail sales recorded extraordinarily strong growth at the nominal level of 5.8% y/y (out of which the sales of furniture, TV and audio equipment as well as household appliances grew by 31.2% y/y, and the sales of footwear and clothing by 20.7% y/y). Even if we adjust this figure by additional business day in October, there was a real growth in retail sales in the period longer than a year. Also the statistics of the balance of payments released by the NBP were surprisingly positive (at least at the first glance). Exports inflows were USD 2849m – almost by one fourth higher than a month earlier and 13% higher than in October 2000. Imports grew also impressively, reaching USD 3956m – almost 25% above the September level and by 10.5% higher than a year ago.

Do the most recent statistics really indicate the beginning of a new trend and ensure quicker economic revival in Q4 2001? Let's have a closer look at the data. The interpretation of October figures is hindered by the fact that this month had one business day more than September and 3 days more than October a year ago. However, one could cope with the difference in the number of business days, analysing the average from both September and October, which altogether had the same number of business days as last year. In both these months in total, the average industrial output fell by 1.1% y/y as compared with the fall by 1.2% y/y on average between June – August (also with the same number of business days as a year ago). That is why in October data we can see only a slight improvement, if any. In addition, this month saw over 100% growth in ship production and repairs on an annual basis – Polish shipyards most probably sold some ships. Last year, such a high increase took place in December. Therefore, there are two possibilities. Either the sales of ships occurred earlier this year or it was an "extra" transaction, and another sale will take place in December. In the first case in December, there will be ca. 50% decrease y/y in the "other transport vehicles", in the second one – the output will remain stable.

In a similar way, the data of the balance of payments also turn out to be less optimistic. In this case, averaging the last two months seems even more justifiable by the fact that in September after the terrorist attacks, some disturbances and payment delays could have taken place, raising October figures. It turns out that increase in commodities turnover in the period September – October was not that impressive: exports rose on average by 3.9% y/y and imports by 2.2% y/y. Given that in the period November – December 2000 the average exports were USD 2.7bn, one can expect that in the last two months this year the export figures can deteriorate on an annual basis.

Thus, it seems that the extremely positive October data cannot be treated as a signal of the domestic economy revival, which might bear fruit of accelerated growth in the coming quarters, but as a once-off phenomenon. In the following months, the main economic ratios will most probably return to the downward trends. Therefore, it may turn out that the light at the end of the tunnel ... is a coming train.

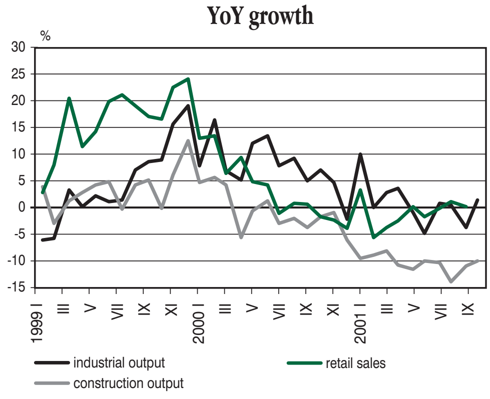
Money supply rose 8.8% in real terms

Money supply rose in October 1.4%MoM and decelerated to 13.1%YoY from 14.3% in September. Real money supply dynamics fell to 8.8%YoY in October from 9.6% in September. Household credit growth eased to 16.4%YoY from 18.7% in September and household deposits decelerated to 16.8%YoY from 19.0% a month earlier. Corporate credit growth rate also eased from 8.4% in September to 6.2% last month.

Broad money statistics in 10-20 November showed a deep fall of the household deposits, probably resulting from shifting bank deposits into other form of financial assets to avoid "Belka tax". This trend has probably been continued in the last ten days of November. After a steady increase in foreign currency deposits from US$12bn to almost US$13bn we observed a sharp drop in 10-20 November.

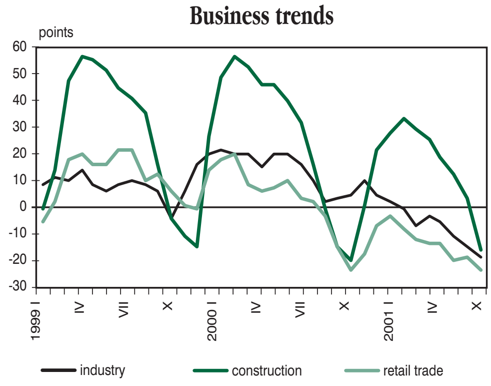
Data for 20 November showed some credit recovery but the volume remains almost unchanged in comparison with end-September. Sources of creation of money supply show that the buyback of the debt owed to Brasil was booked between 10 and 20 November. Net foreign assets fell by US$2.5bn because government borrowed US$2.5bn from the central bank, which had to sell some of its foreign assets (for example US treasury bonds) to lend US dollars to the government. Consequently government net credit rose rapidly between 10 and 20 November. Overall money supply declined on 20 November some PLN2bn in comparison with two earlier decades.

YoY growth



Source: CSO

Business trends



Source: CSO

Current account: record high turnover in foreign exchange agencies

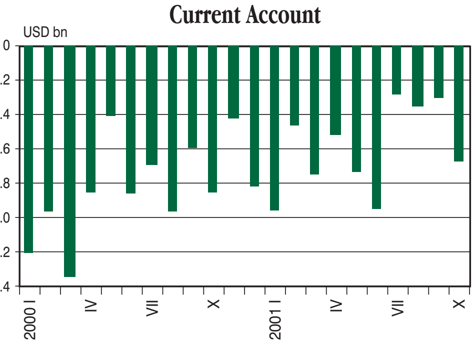
Current account deficit in October reached USD 672m in comparison with USD 852m a year ago and fell to 4.2% of GDP from 4.4% in September. While the deficit alone was consistent with market expectations the balance of payments data surprised with extraordinary increase in trade turnover and high surplus in the unclassified turnover. This last item reached in October USD 557m, which was the highest figure since August 1998. Such a result may reflect three main factors: firstly, probably the improvement in trade with Russia and Ukraine was continued (noticed already in July), secondly, two months after summer holidays there is traditionally increase in foreign exchange agencies' turnover, as a result of seasonal workers coming back with their earned money. This year there could be even more people looking for a job abroad, due to quickly deteriorating situation on the Polish labour market. Additionally, worse households' financial condition could decrease the number of tourist abroad trips and therefore also exchange turnover. The last hypothesis is connected with the prospect of imposing tax on interest incomes. Many clients were changing their banking accounts for other types in order to locate money for a longer period. This could result in higher foreign exchange turnover. Additionally the announcement of imposing the tax together with operation of exchanging European currencies for euro in January 2002 could have inclined some households to exchange their deep hidden foreign currency savings (especially DEM) for zlotys. Some of this sum could flow in the PLN accounts and some could be spent for consumption. Surprisingly high retail trade data in October and improvement in imports support such theory.

Inflation on MPC target, but two years earlier than planned

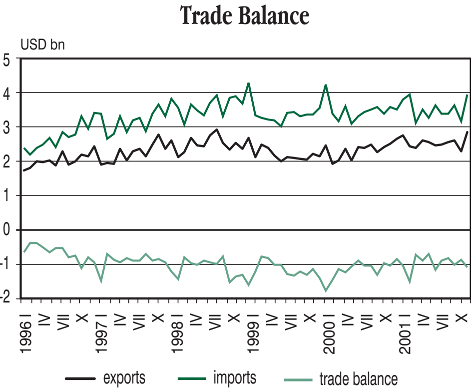
CPI inflation fell to 4%YoY in October, which is the upper end of the MPC medium term target set for December 2003. However the structure of inflation suggest that 4% level may not be sustained in the coming months and also next year. Food inflation fell from 3.3%YoY in September to 3.1%, fuels exhibited deflation of 13.7% comparing with 11.4% in September. This trend in fuel prices will probably not be continued in 2002, although deflation can still deepen in November. In November 2000 gasoline wholesale prices fell 1.7% and diesel inched up 0.2%. Following sharp fall of oil prices this month and strong zloty one may expect that fuel prices in November will exhibit deeper fall than a year ago which will lead to even bigger annual deflation. We note that inflation is pushed up by rising costs of services: hot water (up by 1.9%MoM), central heating (up 1.9%MoM). November preliminary data on food prices indicates that inflation YoY declined further. However, we expect that CPI will increase at the beginning of the next year due to imposing the excise tax on electricity.

Core inflation measures continue to fall

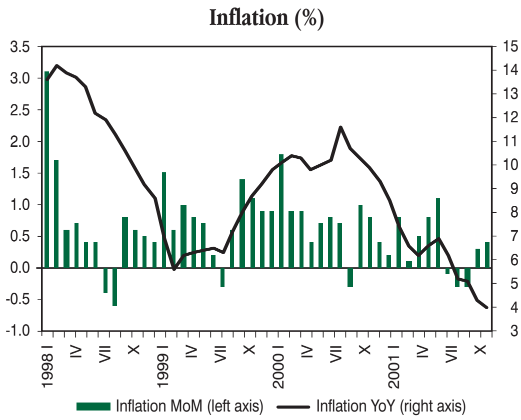
All core inflation measures decreased in October. The fall was almost equally distributed and amounted to 23-36bp. Only two of the indices were lower than headline inflation rate: CPI excluding regulated prices and CPI less most volatile and fuel prices. It's worth to notice that one of the most important index: 15% trimmed mean fell by 36bp, i.e. more than the CPI rate. Furthermore the smallest decline was recorded on "net inflation" and "CPI less regulated prices". This suggests that recent unprecedented CPI fall is to growing extent reflecting fundamental factors, not only the positive developments in food, fuels and administrative regulated prices. That increases the scope for monetary policy loosening and limits the risk of inflation rebound in the medium term.



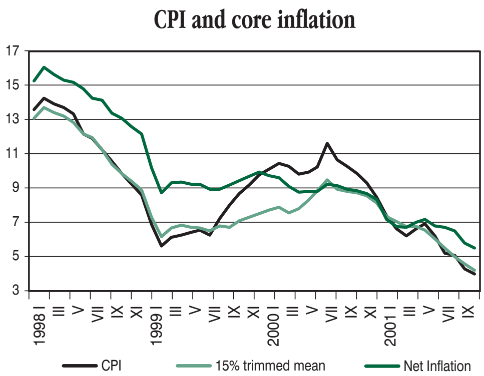
Source: NBP



Source: NBP



Source: CSO



Source: CSO, NBP

Foreign exchange market

Extraordinarily strong zloty

In November, the zloty remained strong. The deviation from the old central parity ranged 9-11%. The strength of the domestic currency was facilitated by a number of factors. First of all, the Polish market was assessed quite good in the last weeks by foreign investors, trusting the cabinet formed after the parliamentary elections and minister Marek Belka's economic plan. Another factor was an unusually strong – and as it turned out, right – expectations for the interest rate cut at the November Monetary Policy Council meeting. As a result, there was an inflow of portfolio investments, mainly to the debt securities market, which was accompanied by a downward trend in the yield curve.

Although the MPC reduced the rates on 28 November by 150 bp, this did not stop optimism related to the zloty. In the following days, its appreciation even accelerated, resulting in 12% deviation from the old parity during the first week of December.

Stronger and stronger zloty is evidently a thorn in the governing politicians' sides. Deputy Prime Minster and Finance Minister Marek Belka have repeated a number of times recently that Polish companies need weakening of the domestic currency in order to enable the revival of the economic situation. This is the context, in which one should interpret the attacks of politicians on the Monetary Policy Council, intensified since the beginning of December and announcing the limitation of the central bank independence if the interest rates would not be further reduced. Financial markets, though initially interpreted these comments as a substantially higher probability of further fall in the central bank rates, which additionally strengthened the zloty, quickly manifested the growing concern about the escalating conflict between the MPC and the government as well as the deterioration of the sentiments around the emerging markets due to rising risk of insolvency crisis in the Argentina.

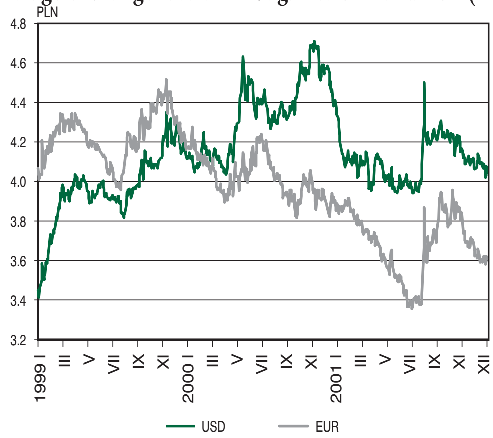
The strong zloty seems impossible to be retained in the longer run, if not for economic reasons, then for probable political actions, aimed at improving the competitiveness of Polish exports (which recently has been one of the most frequently repeated watchwords by both the coalition and opposition politicians). It is difficult now to precisely forecast the moment of reversing the trend, however, the so far experience says that publication of differing from expectations macroeconomic data, is the moment facilitating a sudden change of market sentiments. Therefore, a deeper weakening of the exchange rate can take place in the coming months along with a considerably less favourable statistics on the foreign trade, in particular, on the weakening of exports growth.

New liquidity management instruments

At the end of November, the National Bank of Poland informed that starting from December they would introduce solutions, which should streamline liquidity management in commercial banks. Two new instruments will be available: a day-end deposit and a technical loan. This step goes towards standardisation of NBP monetary policy instruments with the system applied by the European Central Bank. Accordingly, in December, a new NBP main interest rate was introduced: a deposit rate at 7.5%. It is an interest rate on a one-day deposit, which can be opened by each bank with the NBP at the end of a business day in the case of a surplus of funds. On the other hand, a technical loan would a refinance loan sanctioned during the day to banks requiring a temporary liquidity support, repaid by the end of the business day and hedged with securities.

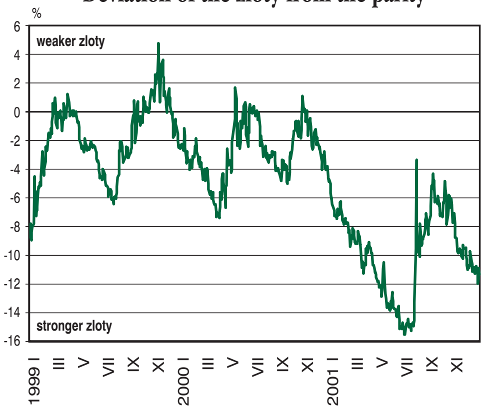
In order to reduce the volatility of a short-term inter-bank rate, the NBP also commenced publishing the required for a particular month level of the obligatory reserve and a daily balance in banks' accounts. In addition, the NBP announced the intention of introducing legislative changes, which would enable commercial banks the use of NBP debt securities as a hedge on the refinance loan.

Average exchange rate of PLN against USD and EUR (fixi



Source: NBP, Reuters

Deviation of the zloty from the parity



Source: NBP, own calculations

USD/EUR

Source: Reuters

Money and T-bond market

Interest rates

In November, the situation in the money market was quite unusual. Despite an interest rate cut at the end of October, longer rates (1M and above) did not fell and they were even rising (by 20 bps – 12M and even 180 bps – 1M). Moreover, short-term rates kept at high level of 16-17% with intervention rate at 13%. The reason of such state was a strong lack of liquidity in banking sector. In NBP's statement released already after this situation had ended the central bankers wrote that it resulted from the fact that the banks overinvested in NBP bills before October rate cut. In our opinion, also the government contributed to it, as it decreased the amount of money transferred to banking sector, preparing liquidity cushion for 1Q02. In such a situation, despite successive maturing NBP bills, the banks still did not have enough funds to fulfil mandatory reserve requirement and increase market rates. Only when on 26 November outstanding bills fell to zero the rates returned to usual level.

The above mentioned experience caused the central bank to act in order to stabilise the rates in the future. Market transparency was increased by publishing every day the amount of banking sector liquidity and overnight deposit in central bank was introduce with 7.5% rate. This instrument allows the banks to keep higher liquidity, which can be easily seen in data given by NBP and which caused that one-day rates maintained below intervention rate in the beginning of December.

Treasury bills

In November at four auctions, a total offer of T-bills amounted to PLN 3.8bn compared with PLN 5.0bn at five auctions in October. 8-week and 13-week bills were not offered (a month ago it was PLN 400m), in order to prevent an increase in amount of treasuries maturing in very difficult 1Q02. Instead, PLN 200m worth of 26-week bills were offered, previously sold in June. 52-week bills made for majority of supply – PLN 3.6bn against 4.6bn in October. Given interest rate cuts, average yields on auctions have fallen for a fifth month in a row. This time around the yield on 52-week bills declined by 78 bps to 11.74%. Average yield on 26-week bills totalled 12.14%, 384 bps less than in June (since this time MPC cut rates by 400 bps). On all November auctions a high demand was noticed, and the ratio of demand to supply was at the level close to a few previous months, totalling 3.47.

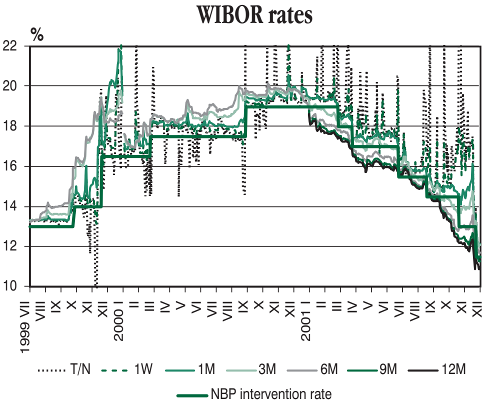
In 1-20 November period the yields on the secondary market were stable – the market did not discount rate cut. Only just before MPC meeting a slight increase in prices appeared and it deepened after Council's decision. At the end of November, compared with the end of October the yields on bills were 95-125 bps down.

Treasury bonds

At the tender held on 7 November the average yields on T-bonds fell rapidly. On 2-year bonds (OK 0803) it reached 10.40% versus 12.74 on 3 October and on 5-year bonds (PS 0506) it was at the level of 9.76% versus 12.06% a month ago. The total supply of bonds was record high. It totalled PLN 1.8bn and 2.1bn respectively. However, the demand was very low, the ratio of demand to supply was 0.8 and 1.4 respectively. Therefore the sale of 2Y papers was lower than an offer. It seems that investors were surprised with such a high supply and they were not ready to buy so much. At the auction on 21 November, PLN 900m of 10-year bonds (DS 1110) was offered. The demand was quite high (PLN 2.6bn) and the average yield amounted to 9.15%.

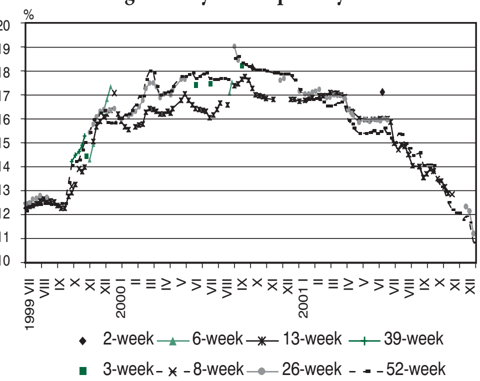
On the secondary market the yields were quite unstable. Firstly, a downward trend from October was continued, due to interest rate expectations. After good data on inflation temporary profit taking took place and yields rose by 50-60 bps. Then increase in demand before MPC meeting caused a come back to previous levels. During the whole month the yields fell by 55-90 bps.

WIBOR rates



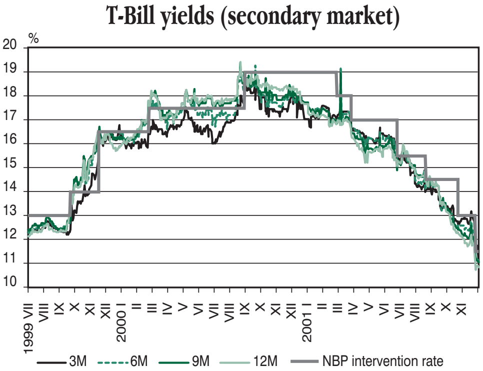
Source: BZ WBK S.A. Treasury and International Division

Average T-Bill yields at primary auctions



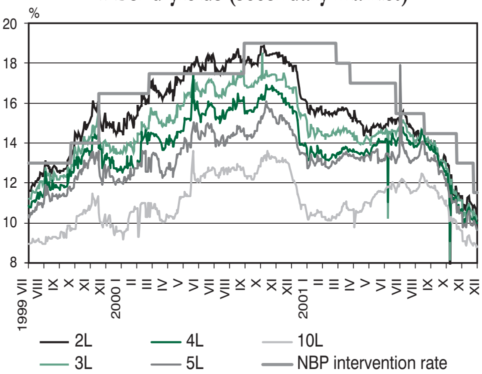
Source: BZ WBK S.A. Treasury and International Division

T-Bill yields (secondary market)



Source: BZ WBK S.A. Treasury and International Division

T-Bond yields (secondary market)



Source: BZ WBK S.A. Treasury and International Division

Budget 2002 – Belka swings the axe

The government passed the budget draft for 2002 and submitted it to Parliament. Most probabaly in Febuary next year, we will see what the final version of the budget passed will be. In the course of works, a number of elements will certainly be changed, which can be supported by, e.g. already declared withdrawal of the governement from VAT increase in the construction sector, thus, the final assessment of the budget needs to be moved for later. At present, we can only give an opinion on the draft in the version presented by the Cabinet.

Key figures and macro assumptions

The government budget draft sets the budget deficit in 2002 at PLN40bn, with the revenue at PLN143.97bn and spending at PLN183.97bn. The budget deficit in relation to GDP amounts to 5.2%, compared to 4.5% in 2001. In 2001 the second budget amendment is expected, rising the deficit by some PLN4bn, due to lower expected revenues and planned repayment of some unpaid liabilities to financial institutions.

The budget calculations are based on the economic assumptions which are collected in the table 5. The forecasts seem reasonable, although quite conservative, allowing for some safety margin in case of continuing global slowdown.

An important statement in the document is that if the global economic conditions turn to be worse that forecasted and the revenues fall short of the plan, the government will not try to reduce the deficit at any price, but it will allow the deficit to rise instead. On the other hand, the faster economic recovery should not lead to rise in expenditures and in that case the deficit will stabilise or even shrink compared to planned level.

Growing tax burden raises revenues

The first thing that comes to ones mind after looking at revenue section in 2002 budget draft is that it must have been prepared in a real hurry. One clear example is that we can find three different numbers for total tax revenue in 2002: PLN134,552.7m on page 46, PLN134,809.9m on page 49 (text) and PLN130,306.5m on the same page (table). After examining the document more carefully it seems that the first figure is correct.

Going to the numbers: the draft is based on the assumption that revenues in 2001 would equal PLN141.5bn, i.e. some PLN11.0bn below the level forecasted in Bauc's budget amendment. Therefore the expenditure freeze of PLN8.5bn made in October won't be enough and the budget will have to be amended for the second time this year. The revenue shortfall in 2001 stems mainly from much lower than planned tax income. The biggest shortage is recorded in indirect taxes (by PLN3.8bn), corporate taxes (by PLN3.2bn) and personal taxes (by PLN2.1bn).

In 2002 total budget revenues are forecasted to grow 1.8% (PLN2.5bn). The tax revenue is assumed to grow by 8.4%, i.e. PLN10.4bn, while other receipts fall considerably (by PLN7.9bn), mainly due to lack of one-time inflows recorded in 2001, i.e. UMTS fees and exceptionally high central bank profits. The budget assumes that indirect taxes will yield 9.0% more than in 2001, PIT revenue will increase 13.0% and CIT will rise 4.0%.

With this numbers, the first interesting question is: how is it possible to increase the tax revenue next year by over PLN10bn, with both GDP and inflation forecasts revised down and lower than in 2001? It seems that couple of factors contributes to the solution. The first issue is rapidly growing tax burden, a consequence of the following improvements to tax system:

Tab. 5. Budget economic assumptions

Items		2000	2001 E	2002 F
GDP	(%)	104.0	101.2	101.0
Consumption	(%)	102.4	101.7	100.8
Accumulation	(%)	104.2	92.2	100.5
GDP in current prices	(PLN bn)	685.6	728.9	764.8
Average annual CPI	(%)	10.1	5.5	4.5
Unemployment rate	(%)	15.1	17.3	18.5
PLN/USD	(average in period)	4.35	4.11	4.22
PLN/EUR	(average in period)	4.01	3.70	3.95
USD/EUR	(average in period)	0.92	0.90	0.94
Rate of open market operation	(average in period) (%)	19.0	12.0	9.0
CA deficit to GDP	(%)	-6.3	-4.7	-4.2

E – estimated outcome; F – forecast
Source: Finance ministry, 2001 budget draft

- Increase in VAT rates on construction materials and services (from 7% to 22%), on new flats (0% to 22%) and other materials (7% to 22%). The net effect of changes to VAT system is forecasted at some PLN1.1bn.
- New excise tax on electricity (PLN0.02/kWh), delivering PLN2.3bn to the budget, and the increase in excise tax on fuels and tobacco.
- Changes to PIT law: new tax on individuals' capital income, tax brackets freeze for individuals and elimination of some personal tax deductions, raising total of some PLN 4.3 bn revenue.

Apparently the gap, resulting from lower GDP and inflation forecasts was filled in mainly by raising VAT on construction materials and on new flats, and by implementing new excise tax on electricity. As we wrote before the growing tax burden may be positive for the next year budget but it harms Polish economic growth prospects and may worsen already difficult situation on the labour market.

Tab. 6. Budget revenues, PLN bn

	2001 E	2002 F
Total revenue	**141.463**	**143.970**
Tax revenue	124.147	134.553
indirect taxes	83.215	90.700
VAT	53.495	57.426
excise tax	29.022	32.494
PIT	23.485	26.540
CIT	13.301	13.834
customs	4.147	3.479
Non-tax revenue	16.031	9.351
NBP profit	4.869	1.875
budget units revenue	8.962	5.590
Foreign revenue	1.285	0.066

E – estimated outcome; F – forecast
Source: Finance ministry, 2001 budget draft

Yet another part of the revenue puzzle is the set of assumptions, suggesting the improvement in overall tax system efficiency. The concern is that part of it may represent only paper gains with small probability to materialise. The "pursue to improve the execution of due and current liabilities", "improvement in corporate governance", "prevention of tax crime", "improvement in VAT tax collection" – these are the catchwords often repeated in document, that look good, but may be very difficult to implement in practice (as it was often the case in previous years).

The import tax is not in the budget draft, as politicians and media reported earlier. But it has to be remembered that the coalition Peasants' party opts for this solution not just because of its budget impact, but because it is perceived as the best way to improve Polish industry competitiveness (which is obviously not true). Therefore the import tax ghost may come back during the parliamentary budget debate.

Spending cuts: comparing Belka draft with "waste paper"

In order to understand how finance minister achieved some PLN11bn spending cuts it is worthwhile to compare Belka draft with the budget draft of the previous government. You may remember that Marek Belka referred to that draft as "waste paper", nevertheless as a base for the comparison we use the former finance ministry version of the budget proposal prepared by minister Wasilewska-Trenkner, which envisaged PLN194.7bn spending (although we refer to this draft as "Buzek budget")

We begin with budget subsidies, which account for 56.3% of all budget expenses. 46.2% and 39.4% of all subsidies are those to budgetary funds and local government respectively. Table 7 below presents the big-ticket items in budget subsidies category. The overall subsidies fell by 5.8% or PLN6.4bn, in comparison with Buzek budget, which explains around 60% of spending cuts.

Second column from the right in table 7 shows that cuts have been made across the board, with the biggest cuts in FUS state pension fund (by PLN2.4bn), Labour fund (PLN0.7bn), education subsidy to local government (by PLN0.8bn). Budget funds are of special interest because they have been large borrowers from the banking sector and contributed to significant widening of the economic deficit. Are therefore Belka spending cuts real or, as it has been the case in the past, will they merely result in building up of budget liabilities?

Lets have a look at the biggest item – FUS – for an answer. Belka budget assumes roughly the same transfer to private pension funds (lower by PLN100m), the same premium collection rate at 97.5% (down from 97.8% planned for 2001). It seemed reasonable with 2.5%YoY growth assumed in Buzek draft but may be difficult to achieve if economy slows to a projected 1%YoY, as cash-strapped companies may pay social security less timely. Both budgets assumed the same number of pensioners, but because inflation in 2001 is lower than assumed by Buzek draft total pension payments in Belka draft will amount to PLN87.94bn versus PLN88.1bn in Buzek draft. FUS administrative spending, was slashed from PLN2.9bn in Buzek draft to PLN2.78 in Belka draft, however the big cuts took place in various social allowances (maternity, funeral, sickness leave) which were planned at PLN9.32bn by Buzek draft and are down to PLN8.43bn in Belka draft. All these figures above explain only half of the improvement in FUS. Another half is on the revenue side. In Buzek draft social premiums raised by FUS stood at PLN69.3bn, while in Belka draft they go up to PLN70.3bn. Given that macroeconomic assumption should rather lead to lower premiums income (lower nominal wage bill than in Buzek draft) we find this improvement rather surprising. The only explanation that seems plausible is as follows. ZUS (which is in charge of FUS administration) collected some PLN1bn from transfer fees. ZUS planned to use these funds to pay overdue premiums to private pension funds. Because now finance ministry plans to swap overdue premium liabilities for Treasury bonds, this PLN1bn will be released and will reduce FUS deficit. Therefore out of PLN2.4bn cuts in FUS some PLN1.4bn seem "real", and the remaining PLN1bn may result from different form of paying arrears or from creative accounting.

How about the Labour fund? Belka draft assumes PLN0.7bn lower subsidy despite SLD claims it will spend much more on active forms of fighting unemployment. Quite the opposite, Buzek budget assumed PLN1.11bn on active forms, while Belka budget slashed it to PLN0.92bn. Unemployment benefits are down from PLN4.47bn to PLN4.39bn (number of eligible down from

Tab. 7. Budget subsidies

	2001 Buzek	2001 Belka	2002 Buzek	2002 Belka	2:1	4:3	4-3	4:2
	1	2	3	4	%	%	mld	%
Total	103.1	103.2	110.0	103.6	0.1	-5.8	-6.4	0.4
1. Subsidies to local government	29.5	29.5	30.8	30.0	0.0	-2.6	-0.8	1.7
education subsidy	22.1	22.1	23.1	22.3	0.0	-3.5	-0.8	0.9
road maintenance subsidy	2.7	2.7	2.6	2.6	0.0	-2.3	-0.1	-5.2
2. Subsidies to budgetary funds	44.7	44.8	51.3	47.9	0.1	-6.7	-3.4	6.9
FUS (pension fund)	26.4	26.4	29.9	27.5	0.0	-8.0	-2.4	4.2
Private Pension Funds	-	-	11.8	11.7	-	-0.8	-0.1	-
KRUS (farmers' pension fund)	15.3	15.3	15.5	15.4	0.0	-0.6	-0.1	0.7
Labour Fund	2.0	2.1	4.3	3.6	1.0	-16.3	-0.7	75.6
3. Subsidies to local government	13.6	13.9	11.2	10.8	2.2	-3.6	-0.4	-22.3
gminas	4.1	4.3	3.3	3.2	4.9	-3.0	-0.1	-25.6
powiats	8.3	8.4	7.3	7.1	1.2	-2.7	-0.2	-15.5
voivoships	1.2	1.3	0.7	0.4	8.3	-42.9	-0.3	-69.2
5. Other subsidies	12.3	12.5	11.6	11.3	1.6	-2.6	-0.3	-9.6
PFS units	10.5	10.7	10.2	10.1	1.9	-1.0	-0.1	-5.6
non-PFS units	1.7	1.7	1.4	1.2	0.0	-14.3	-0.2	-29.4

Source: Finance ministry, 2002 budget draft

580,000 to 571,000), early retirement benefits are down from PLN4.3bn to PLN4.19bn (number of eligible down from 440,000 to 433,000). One question immediately arises, Belka budget draft assumes slower growth than Buzek draft, and at the same time number of people eligible for these allowances falls. If it results from tightening of the eligibility criteria then we will see "real" spending cuts. If however these numbers are artificially low, then Labour Fund will have to borrow more next year and the economic deficit will be higher.

Unfortunately our brief anaysis does not provide a clear cut answer whether Belka draft presents 100% real cuts or whether there will still be some liabilities resulting from unrealistic assumption. As shown in both cases – FUS and Labour funds – some assumptions may be negatively verified by reality and some "spending cuts" may result from different method of paying liabilities.

Public debt will rise sharply, may become a concern

Finally we briefly present budget assumptions of the public debt. In 2000 total public debt was equal to PLN280.5bn (out of which PLN9.4bn was local government debt). It will rise to PLN 314.6bn in 2001 (PLN14.5bn) and to PLN361.3bn next year (PLN19.6bn). As a ratio of GDP public debt will rise from 40.9% in 2000, to 43.2% in 2001 and 47.2% in 2002. While the level of the debt still appears low by European standards (mind Belgium and Italy) the pace of the increase may raise concerns. What is more the US$/PLN exchange rate used for these computations was 4.1432 for 2000 and 4.27 for 2002. Therefore the rapid increase is not affected by the exchange rate depreciation, if zloty experiences a sizeable depreciation next year these ratios will deteriorate further (35.9% of total state treasury debt is in foreign currencies).

Finance ministry plans to accelerate issues of fixed rate T-bonds from PLN21.3bn face value increase in 2001 to PLN29.9bn. At the same time issues of T-bills will fall PLN10.8bn on net basis this year to PLN5.6bn next year. We also note that finance ministry plans to extend duration of public debt, which my mean heavier supply schedule in five year segment then in two year segment. It appears that announced supply schedule supports our view about possible yield curve disinversion next year.

Foreign debt will also go up next year, in dollar terms by US$964m. Therefore is appears that the planned issue of EUR750m eurobond in the first quarter may be beefed up or followed by another one.

Ministry of finance assumes that the central bank will continue to sell treasury bonds from its portfolio next year, which will add PLN8.9bn to the regular supply of treasuries. Banking sector is expected to buy more debt than in 2002, which may be a worry for the MPC and at the same time crowd out credit to non-financial sector. Foreigners are expected to increase their holdings by PLN4.7bn following a PLN5.4bn increase this year.

Belka swings the axe ... but he chops of a splinter

For the full analysis of 2002 budget's influence on the economy, it is necessary to take into account the chapter 9 – substantiation to the budget act. Below we present economic deficit estimations from this chapter, and we put together three budgets prepared by minister Bauc (dis-

Tabela 8. State treasury debt by securities (nominal value, PLN m)

	Items	XII 2000	XII 2001	XII 2002	2001 vs 2000	2002 vs 2001
	State treasury debt	266 816.8	291 836.6	334 352.3	25 019.8	42 515.7
I.	**Domestic state treasury debt**	**145 981.6**	**186 986.3**	**222 353.6**	**41 004.7**	**35 367.3**
1.	Treasury securities debt	132 984.4	176 509.9	214 061.8	43 525.5	37 551.9
1.1	Market T-securities	117 505.2	158 191.6	194 195.3	40 686.4	36 003.7
1.1.1	T-bills	23 442.3	34 263.8	39 900.0	10 821.5	5 636.2
1.1.2	Market T-bonds	94 062.8	123 927.7	154 295.4	29 864.9	30 367.7
	fixed-rate T-bonds	75 411.8	96 719.2	126 644.2	21 307.4	29 925.0
	variable-rate T-bonds	18 651.1	27 208.6	27 651.1	8 557.5	442.5
1.2	Saving bonds	1 953.4	5 937.3	9 474.9	3 983.9	3 537.6
1.3	Non-market bonds	13 526.8	12 381.0	10 391.9	-1 145.8	-1 989.1
2.	Other domestic debt	12 997.2	10 476.4	8 291.7	-2 520.8	-2 184.7
II.	**Foreign state treasury debt**	**120 835.2**	**104 849.3**	**111 998.7**	**-15 985.9**	**7 149.4**
	(in USD m)	29 164.7	25 264.9	26 229.2	-3 899.8	964.3
1.	Treasury securities debt	22 536.9	24 110.7	31 641.1	1 573.8	7 530.4
2.	Credits	98 298.2	80 738.7	80 357.8	-17 559.5	-380.9
	PLN/USD	4.1432	4.1500	4.2700	0.0	0.1

Source: Finance ministry, 2002 budget draft

missed by former PM Buzek), by his successor Wasilewska-Trenkner and by present finance minister Belka.

It is clear that the only fiscal hawk in this company was Bauc, but his plan was politically unacceptable. W-T and Belka budgets assume much higher economic deficits and do not undertake the task to pay budgetary funds obligations (e.g. state pension fund and labour fund), or Belka budget does it only partly.

Cumulative economic deficit for 2001-2002 in Belka budget is some PLN6.7bn higher than in W-T budget. However one has to keep in mind that in W-T budget nominal GDP was set to PLN740.2bn and PLN794.6bn in 2001 and 2002 respectively. In Belka budget these figures are PLN728.9bn and PLN764.8bn. Therefore the cumulative difference for both years is PLN34.1bn, which translates into PLN13.2bn lower revenues for the entire PF sector. Taking this into account we estimate that Belka chopped off some PLN6.5bn of the cumulative two-year deficit (difference between 13.2 and 6.7) in both years in comparison with W-T draft. It certainly is a progress, but still relatively slow.

The second budget revision is a puzzle

The governement approved 2001 budget revision. Budget expenditures will rise from PLN181.6bn to PLN185.4bn. At the same time government decision to block PLN8.5bn spending will reduce the actual level of spending to PLN176.9bn. Central budget deficit will go up from PLN29.1bn to PLN32.9bn. "The aim of projected budget amendment is the repayment of liabilities arising from underestimation of some expenditures in 2001, and of some liabilities due created in 1998-2000 period, which will limit the scale of repayments remaining for 2002." – states the bill posted to the parliament. The government wants to increase both the expenditures and the deficit by PLN3.8bn. The higher spending include: new flat bonuses (PLN1.3bn) and buyback of interest on housing credits (PLN600m) – total PLN1.9bn (mainly due to PKO BP and BG_); Labour Fund – PLN600m; healthcare contributions – PLN473.1m; and smaller tickets. Finance minister Marek Belka said that state pension fund (ZUS) liabilities to private pension funds will not be settled because computer system cannot identify how much is owed to whom. ZUS estimates that it owes PLN4-4.5bn in overdue social premiums and PLN1-2bn in punitive interest accrued on these liabilities.

We are somewhat puzzled. Government said that budget revenues in 2001 might fall short of plan by some PLN2.5bn. In such case budget revision should take lower revenues into account. However proposed budget revision maintains the previous level of revenues and blocked spending, and the increase in 2001 deficit results entirely from higher spending. It may suggest that budget revenues in last months of the year will be stronger than expected (indeed recent surge in retail sales may have boosted VAT revenues) or that some creative accounting takes place.

It concerns also 2002 budget. Dariusz Rosati, MPC member was surprised to hear that the NBP profit transfer will be revised upwards. It may suggest that finance minister is better informed about the central bank balance sheet than the MPC. However there is one possibility that such "windfall NBP profit" will appear. All foreign currencies bought by the central bank in the past are revalued according to average purchase price, for example at 3.00 against the dollar. Recently government borrowed foreign currencies from the central bank to finance the "Brasil debt" early buyback. If this loan is booked as a sale of foreign currencies at the current exchange rate, than it will release some PLN2bn of additional central bank profit. Of course all figures above are indicative, but they show that extraordinary central bank profit could have emerged.

Tabela 9. Calculations of the economic deficit of the public finances

Balance, PLNbn	2000	2001 Bauc	2001 W-T	2001 Belka	2002 Bauc	2002 W-T	2002 Belka
Central budget	-15.4	-29.1	-29.1	-32.7	-35.3	-40.0	-40.0
Local government	-3.1	-3.1	-4.8	-4.8	-4.0	-5.0	-5.3
Healthcare sector	0.7	0.0	0.0	0.0	0.0	0.0	0.0
Budgetary funds	-0.6	-0.2	-2.8	-3.3	2.6	-0.3	-0.9
Other budgetary entities	0.3	-	0.4	0.4	-	0.5	0.5
Other elements		0.6	0.3	-0.2	0.1	0.4	-0.5
Compensation payments	-3.4	-2.5	-2.5	-2.5	-3.0	-3.0	-2.8
II pillar	7.5	11.0	9.6	9.1	15.3	11.8	11.7
current transfers to PPFs	7.5	10.6	-	-	11.9	-	-
overdue transfers to PPFs	-	0.4	-	-	3.3	-	-
Demographic reserve fund	-	-	-	-	2.4	0.2	0.2
UMTS fees	-	-2.7	-2.7	-2.7	-	-	-
Special correction	-0.4				-	-	-
Economic deficit (PLNbn)	-14.4	-26.0	-31.6	-36.5	-21.9	-35.4	-37.1
Economic deficit (% GDP)	-2.2	-3.5	-4.3	-5.0	-2.8	-4.4	-4.8

Source: 2002 budget drafts prepared by ministers: Bauc, Wasilewska-Trenkner and Belka

Bang! Bang! Done.

MPC cut all main interest rates by 150bp on its meeting on 27-28 November. NBP reference rate fell to 11.5%, lombard rate to 15.5% and rediscount rate 14.0%. It was the second cut in a row, after the 150bp-rate cut in October, and sixth one made this year. Cumulatively rates fell by 750bps this year. MPC maintained the neutral bias, which implies that the next rate move will most likely rate cut, after all the Council cut rates six times this year and each time it maintained neutral bias.

MPC statement is very dovish. It lists all the arguments supporting rate cut. When it mentions economic indicators which came stronger than expected it immediately presents them in a dovish fashion. For example "industrial output was 1.4% higher than a year ago, but it fell on working-time adjusted basis" or "average wage was 1.4% higher in real terms but real wage bill fell amid declining employment". MPC "forgot" to mention surprising surge of retail sales in October and consumer optimism recovery in November.

November decision of the MPC confirms our earlier opinion that once-off deeper cut already in October would have been more justifiable. The more so that the Council itself admitted that tha last decision did not account for the governmental budget draft for 2002, thus, not many essential new arguments for further loosening of the monetary policy had emerged by the end of October.

End of the loosening cycle ... or only a half?

After the November cut, the comments of Governor L. Balcerowicz and the other MPC members seemed to imply that at least few more months need to pass before another rate cut. In the MPC communication, for the first time it was highlighted with bold type that the total rate reduction this year was 750 bp and that full effect of these cuts is not yet noticeable. Just after the MPC meeting, our viewpoint was also similar – we were of the opinion that another cut may take place earliest at the meeting in March or maybe even later, and most probably will amount to 100 bp.

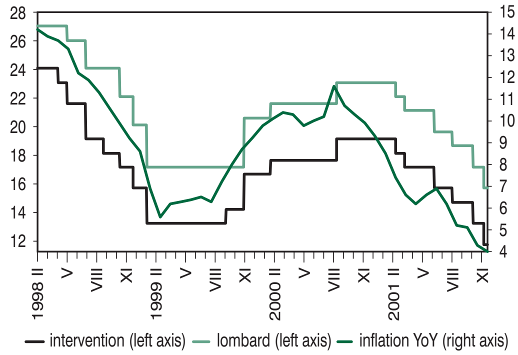
However, the recent escalation of the political pressure in respect of the Monetray Policy Council may review all the assumptions to the interest rate scenario. If the intentions to expand the Council by 3 or 6 members of "pigeon-like" approach, interest rates will be probably reduced further quite speedily, as in the coming months, clear signals of economic revival will not yet be noticeable. And in line with the statements of the coalition representatives, a quick hike would be just what they would need in order not to lose support in spring local government elections. In this situation, all forecasts on interest rate change in the next 12 months are little precise. Nonetheless, we see a clear growth in the probability for our scenario of the Polish yield curve disinversion to materialise.

NBP bond switch – a gift for banks or clients?

After its last meeting, the MPC informed that in order to "ease a negative effect of capital gains tax on banking deposits' interest rates", they consider conversion of NBP bonds issued in relation to the obligatory reserve reduction in 1999 into "market value" bonds. According to L. Balcerowicz, this opertion, through financial stregthening of Polish banks, should persuade them to offer higher interest rates to customers. However, it seems that it will be difficult to "impose" this type of behaviour on banks. The more so that the operation, only to a minimum extent, will impact the largest retail bank, PKO BP, which managed to get rid of "inflation" bonds a year ago, within a rehabilitation programme.

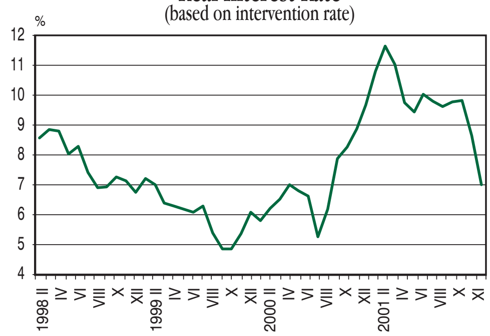
The MPC draws much attention to private savings, therefore a possible negative effect of capital gains tax on these savings growth next year will be one of the arguments limiting possibilities of further interest rate cuts (assuming the the Council members will not be essentially changed).

NBP interest rates and inflation (%)



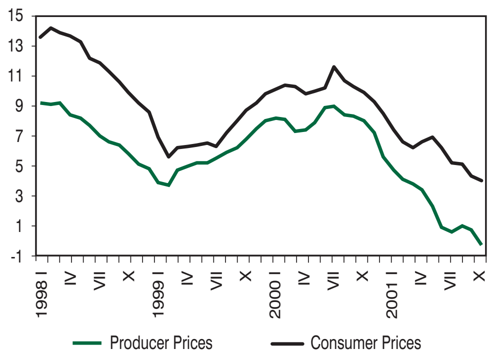
Source: NBP

Real Interest Rate
(based on intervention rate)



Source: NBP, CSO, own calculations

Inflation (%)



Source: CSO

Statements from NBP and MPC representatives

Boguslaw Grabowski, MPC member

30.10, PAP — Proposed tax on savings is harmful, because it raises the discrepancy between credit and deposit rates and reduces the propensity to save. Introduction of tax on interest earned on bank accounts will limit the scope for reduction of central bank interest rates.
Eventual reduction of interest rates will not automatically lead to higher growth. Domestic demand revival effect will be offset by falling export dynamics because of world economic slowdown.
In 3Q economic growth will not be higher than 0.9% in 2Q. In the full year it will be 1.5-1.7%.

Dariusz Rosati,MPC member

31.10, Reuters, PAP — The figure is better than the market had expected. It confirms the downward trend in the current account deficit. But what is worrying is that for the first time since, I believe, May 2000, year-on-year exports are down.
This is due to the deteriorating economic situation among our trading partners and a weak domestic economy. So improvement is there, but with falling imports and exports growth.
The data could have a strengthening effect on the zloty, but on the other hand other economic figures should rather be weakening the currency. I am not changing my forecast that the current account deficit will be below five percent of GDP at the end of the year.

Dariusz Rosati, MPC member, internet chat at gazeta.pl 5.11.

PAP 6.11. — "Personally I think that our inflation target would not be jeopardised even if interest rates today were lower by 200-300 bps. But a one-off reduction on such magnitude could have negative consequences for savings and inflation".
"Expected fall of inflation to 3.9%YoY in October increases the scope for interest rate cut"
"This and next year budget remains the biggest risk factor"

Cezary Józefiak, MPC member,

Gazeta Wyborcza, 20.11 — "I must say, that we're facing further fiscal policy loosening."
"It's true that the PLN40bn limit for budget deficit was fulfilled, but I guess the economic deficit will be higher."

Dariusz Rosati, MPC member,

Rzeczpospolita, 20.11 — "We are ready for action. First, we have to know the details of budget draft. But first news are promising. There is a possibility of interest rate reductions, if the budget will be consistent with our expectations. The most important is the size of budget deficit and that the gap is not hidden in any place. It is important if the spending cuts are aimed at healing public finance system, of if they're ad hoc. MPC underscored many times that its decisions depend heavily on the budget, because there are no other threats for inflation.
I must say that government's open demands [for the rate cut] put the MPC in impolitic situation. No matter what we do will be perceived as reaction to finance minister's demands. It would be better if we were allowed to judge the situation objectively."

PAP, 20.11 — "Previous GDP forecasts for 3Q01 and 4Q01 were 0.0% and 0.5% correspondingly. At present I'm more willing to revise 4Q01 to 0.0%. At the end of 2001 the GDP growth will amount to 1.5-2.0%."
"Industrial production data is better than we expected. It's not that bad as we were afraid. We should wait for the following months' figures. I expect the downward trend to be stopped in the end of the year."

Gazeta Wyborcza, 21.11 — "There is a possibility to reduce interest rates because they are still too high. It may be – for example - 1, 2 or 3 percent in coming months. But the PM cannot set the scope for the rate cut, because it puts us in a difficult position. Markets will react – hey they bowed to the pressure".
"We do not know the economic deficit of the budget. So far it was sketched around 4.6-4.8% of GDP. It is big deficit, but in my opinion it looses its scary size in combination with stagnant domestic demand this and next year."
"In 2002 budget draft the economic deficit is estimated at around 4.8% of GDP. This part of the budget is not worked-out completely. Economic deficit at 4.8% of GDP, compared to 4.0% in 2001, implies the fiscal loosening. I'm not afraid of that, because we face the domestic demand recession in 2001 and even such big economic deficit didn't manage to boost domestic demand so far."

Reuters, PAP, 22.11 — "I don't have the different forecasts than other analysts. I still believe we won't face the GDP fall, that it will rise some 0.1% in 1Q02 and in 2Q02 it will be better."

Janusz Krzyzewski, MPC member,

PAP, 21.11 — "It's hard to rule out that there is a space for interest rate reduction, but not in the hazardous scale proposed by the government. (...) Inflation could surge to 10% in such case; it could even jump above that level in the mean time. Therefore the concern is high."
"At the moment we're after interest rate reductions amounting to total 600bp, which will cumulate in next months, and will have negative impact on inflation in 5-10 months period. We also have to remember that monetary policy loosening yields visible results later than tightening."
"I can't speak for the whole MPC, but I'm full of concerns. Some say these concerns should be even deeper."
"One has to remember that despite recent problems between central bank and the government, we're on the same side, not on the opposite."
"From one hand there's a call for interest rate reduction, but at the same time it is shown that the inflation rate will remain low. If we lowered the rates, the inflation wouldn't be as low, and I ensure you that the 300bp-rate cut would be very costly to the budget."

Wiesława Ziolkowska, MPC member,

PAP 21.11 — "Budget assumptions are solid. But the pessimism visible is larger than we expected. This pessimism is more realistic."
"One has to remember that [budget deficit] is not the only factor determining the interest rates decisions."
"In my opinion the 2002 budget draft presented by the government allows for the rate cut."

PAP, 22.11 — "Government's expectations with respect to interest rates [100 bps cut his year] are realistic."

Reuters, 23.11	"The budget draft reasonably assumes that the [reference] rate in the end of 2001 will stand at 12 percent, in my opinion this is realistic. Expectation that in 2002 it will be 9 percent is also realistic. Neither optimistic, nor conservative." "If global perspectives worsen, we will have to support the investment, to prevent the recession scenario." "The credit growth is still slower, while the deposits stabilised. It all points to the conclusion that we haven't reached the bottom yet." "Low wage growth and big unemployment will restrain the consumption, which could have increased if we liberalised monetary policy." "Public sector spending will be limited as well, so the interest rate cut should help the investment mostly."
Leszek Balcerowicz, NBP governor, Radio Zet 22.11	"This budget is broadly confirming, what was said in the past, therefore it doesn't provide any new information. Earlier (...) we clearly said that one of the interest rate cut pre-condition is that the budget expenditures are not greater than PLN183bn and the deficit is not more than PLN40bn. Now we have confirmation on that." "It's good, that the forecasts of GDP growth and inflation in 2002 are cautious. (...) It's good that expenditure growth in this budget draft is lower than in the former one. But I'm concerned about the economic deficit which is high." "[Deciding on interest rates] we will look not only on the budget but also on economic conditions, monetary conditions, developments in credit and savings. We will look at inflation trends." "We have to be very careful in our monetary policy, to make inflation stabilise at present level and then to make it keep falling."
Bogusław Grabowski, MPC member, PAP, 26.11	"After the rate cut in degree mentioned by the PM, if accounted for the interest income tax, we would have negative real interest rates on deposits." "At the moment the interest rates on 12-month deposits in banking sector stand at 8-9%. The 300bp-rate cut would imply the interest of some 5-6%. The calls for the MPC to leave the negative return on savings would cause the decapitalisation of savings stock." "I think the inflation effect of this [VAT increase on construction] will take place, but it shouldn't be excessive. This would be the result of falling demand on construction services and on flats. I'm convinced that levelling the VAT rates is absolutely necessary, and is the best way to achieve budget revenues." "Raising VAT rates and imposing excise tax on electricity will fuel the price growth. Now it's difficult to say to what degree, because what increases inflation the most are growing VAT rates on products and services with relatively sticky demand. Flats and construction services don't face sticky demand." "Budget draft for 2002 doesn't assume significant decrease of economic deficit below this year's level, thus public sector savings will not rise. Taxing interest income and requesting deep interest rate cut would lower private savings further. (...) No mechanism can be seen, which could bring the economy back on sustained growth path, because the budget draft doesn't reduce the public sector dissaving."
Grzegorz Wojtowicz, MPC member, Rzeczpospolita, 26.11	"Since the last MPC meeting nothing really new happened". "New threats to the disinflation process have not materialised. World economy weakens which further harms Polish economy" This [tax on interest income] is the biggest question mark for us".
Leszek Balcerowicz, NBP president, PAP, press conference, 28.11	"I think this rate cut should bring the rates to the level that should be stable in longish time frame." "Saying it straight: it would be wrong to believe in the law of series [of consecutive rate cuts]." "We think it is very positive that in budget assumptions the forecasted inflation in fully consistent with [medium-term] monetary policy strategy, which assumes the 2003 inflation rate below 4%" "NBP and MPC consider the possibility to exchange bonds issued for lowering reserve requirement in 1999 for market value bonds." "Operation is aimed at financial strengthening of banks, to ease, at least to some extent, the negative impact of interest income tax on individuals' deposits. I hope this decision will be made in right time." "It is very important to me to maximally mitigate interest income tax influence on interest income to households. (...) We have to care for savings."
Jerzy Pruski, MPC member, PAP, 28.11	"Interest rate reduction means that risk of overshooting inflation target in 2002 is not big." "The inflation rebound next year should not be so strong to enforce rate hike."
Grzegorz Wójtowicz, MPC member PAP, 28.11	"In 3-4 months time it will be possible to assess the influence of rate cuts on the economy." "One should not expect the rate cut decision on every meeting." "Approximately in January or February it will be possible to reduce some uncertainty. GDP statistics will be important, which is expected by the end of December. After that, the external developments will be relevant." "I estimate that current account deficit will decrease to 4-4.5% of GDP and next year it should not exceed 5% GDP."
Bogusław Grabowski, MPC member, PAP, 30.11	"The MPC will invite Leszek Miller and Marek Belka to the meeting soon, to listen to their views on economic policy in coming years." "This budget is so politicised that I haven't seen such a thing so far. Not in regard to numbers, but in the text. There has never been such critique, that it's all last government's fault. It's ridiculous." "[This budget] has very few structural changes in public finance. There are many one-time revenues, e.g. tax brackets freeze and excise tax on electricity, because I don't imagine this kind of tax to be applied for a long time."

Dariusz Rosati, MPC member,

PAP, 30.11 "Such 13% [export] growth will not happen in November. But one shouldn't expect the export collapse during next two months neither."
"Import figures show that it's not so bad with our economy. Such import growth is a good information."

Grzegorz Wójtowicz, MPC member,

PAP, 30.11 "After October data current account deficit dropped to 4.2% of GDP, from 4.4% last month. In following months one shouldn't expect further improvement in CA/GDP ratio, however."

Bogusław Grabowski, MPC member,

PAP, 3.12 "These bonds will be floaters, with yield close to that on 1-year t-bills."
"We want this bonds to have floating rate, because otherwise banks would suffer from interest rate risk too much. As a result, NBP bonds will not compete strongly with government treasuries. Treasury issues fixed income assets."
"It is the conversion of already frozen assets into long-term instruments. Therefore it will not increase the supply of debt instruments, to the contrary, the yields on these bond will rise, as well as banks' elasticity in asset management."
"There is a big spread in the Polish banking sector between interest on credits and deposits. This situation is much worse than in Hungary or Czech Republic. Furthermore, banks have higher propensity to reduce interest on deposit faster than on credits, we have to change this situation. (...) We have to limit para-fiscal costs as well, resulting from high and non-interest bearing reserve requirement and bonds issued two years ago in exchange for lowering reserve requirement, having non-market yields."
"We want to exchange the bonds as soon as it's possible, probably in next few months after thorough discussion on the problem. (...) The details are not resolved yet; we will work it out in next few weeks. We will inform the banks that are interested in and market participants."

Andrzej Bratkowski, NBP vice-president,

PAP, 4.12, 5.12 "Now there is a place, after cumulated interest rate cuts this year, that brought us to the level, which is not extremely high, for very cautious action, which doesn't imply that this policy is already determined. In monetary policy there is no law of series. (...) In my opinion such frequency of rate decisions as took place in recent months is unlikely. (...) There is a problem of uncertainty about past moves' consequences and the need of deliberation is met by all MPC members."
"Fears that inflation rebound will take place next year advocate extremely cautious interest rate policy. (...) It's not that the inflation can surge, but inflation expectations are still very strong. There's no reason for inflation to surge."
"It's probable that inflation rate will fall to 3.9-4.5% in December, compared to 8.5% in December last year. (...) In November inflation should be close to October level, i.e. 4%."
"In my opinion the GDP growth in 3Q01 will be similar to 2Q01, i.e. around 1%. In fourth quarter we believe that it will be slightly better, but there will be no spectacular recovery. (...) Whole year GDP growth will amount to some 1.5%."
"International economic situation limits recovery prospects for Polish economy. (...) In my opinion finance ministry's estimates of GDP growth in 2002 are very cautious. (...) Nevertheless entering the recession with negative growth is highly unlikely. Rather it will be stagnation at present level and bigger rebound in 2H02."
"Current account deficit will fall to 4.0-4.5% this year from 6.3% last year. I don't expect further improvement in balance of payments, but I don't expect the dramatic collapse neither. (...) In the situation when balance of payment data show no recovery, one shouldn't exclude slight zloty depreciation by several percent."
"PLN10bn revenues from privatisation this year is rather unlikely, although it shouldn't be excluded."
"There is a chance to lower reserve requirement ratio and to introduce interest on obligatory reserves next year. (...) The reason of lowering reserve requirement is the attempt to limit the spread between interest rates on deposits and credits. (...) The decision about swap of non-market bonds for market bonds is the first step. We will look into the outcome and who will decide for it."

Wiesława Ziółkowska, MPC member,

PAP, 4.12 "Deposits fall is not alarming. Depositors moved their savings to treasury papers, which are more profitable and are more stable element of saving."
"This [moving the money to investment funds] would be good, because different forms of investing money, not only in form of banking deposits, are profitable."
"So far we have not observe it [downward trend in deposits], however one can't exclude that it will start."

Last month US data doesn't change the economic picture and confirms that American economy is in recession. Fed probably will cut the interest rate once again this year. US GDP in 3Q01 fell 1.1% QoQ. It was the deepest decline since the beginning of 1991. Enterprise profits dropped 7.1% QoQ. October industrial production dropped 1.1% MoM and it was the 13th drop in a row and the capacity utilisation fell to 74.8%. US trade deficit in September was the lowest since March 1999, and reached US$18.69bn. Behind that figure was unusually low export and import volume. Consumer confidence index declined to 82.2 in November from 85.3 last month.

NBER – the US official business cycle arbiter – declared that recession started in March 2001. The expansion period lasted exactly ten years, while it began in March 1991, and was the longest so far.

Last month some good news from US appeared, but it's too early to draw any conclusions. Surprisingly, US durable goods orders increased 12.8% in October in the result of higher increase in defence and aviation. NAPM index jumped to 44.5 in November from 39.8 last month and it was one of the biggest monthly increases so far.Much better than expectations was the retail sales. Sales were fuelled by car manufacturers who offered special encouragements and promotions to buy new cars.

GDP growth in Eurozone amounted to 1.3% YoY and 0.1% QoQ in 3Q01. Year on year GDP growth systematically decelerates in Eurozone since 2Q00 and now is at the lowest level since 2Q96. European Comission forecasts 4Q01 GDP growth to fall 0.2%QoQ. According to OECD EMU GDP will rise by 1.6% against earlier expectations at 2.6%.

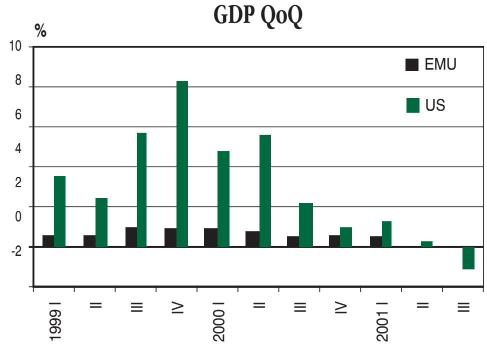
Eurozone industrial production fell in September 0.5% MoM and 0.6% YoY. The current account dropped to EUR1.3bn in September. The broad money M3 in October accelerated to 7.4% YoY from 6.9% in September.

Reuters' PMI index, measuring Eurozone industrial sector condition, unexpectedly increased in November to 43.6 from 42.9 in October. Analysts expected drop to 42.7 points. Despite slight recovery, November was the sixth consecutive month when index stayed below 50 points, what means that situation in European industry is not improving yet.

The German GDP in 3Q01 declined by 0.1% QoQ and increased 0.3% YoY. IFO index fell to 84.7 (8-years low) in October. Analysts say that in the near term there's no chance for business confidence improvement.

Both Eurozone and US inflation pressure weakens. The US October CPI dropped to 2.1% YoY - the lowest level since July 1999. The EMU November CPI reached 2.1% YoY - the lowest level since May 2000.

GDP QoQ

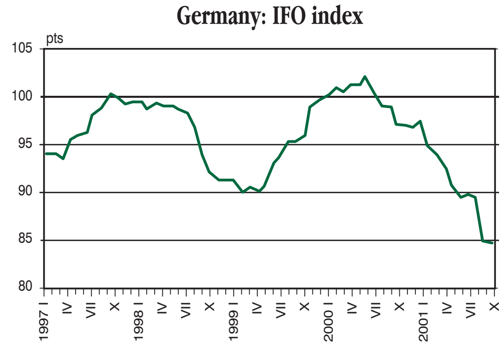


Source: Reuters

US: Consumer confidence

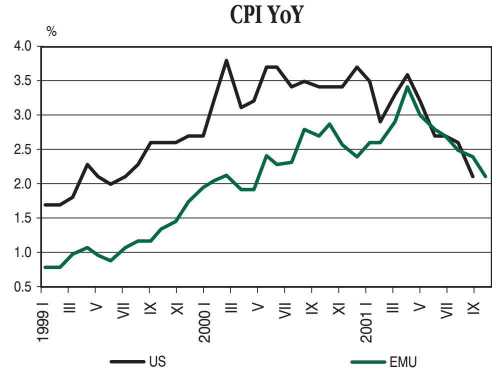
Source: Reuters

Germany: IFO index



Source: NBP, Reuters, own calculations

CPI YoY



Source: Reuters

Economic Release Calendar December 2001 / January 2002

Monday	Tuesday	Wednesday	Thursday	Friday
3 December *EUR: PMI (Nov)* *USA: NAPM (Nov)*	**4** POL: Food prices (2nd half of Nov) *EUR: Economic sentiment indicators (Nov)* *EUR: Unemployment (Oct)* *EUR: Producer prices (Oct)*	**5** POL: Business climate in industry, construction and retail trade (Nov) *GER: Unemployment (Nov)* *EUR: Business climate indicator (Nov)* *EUR: Retail sales (Sep)*	**6** *GER: Industrial orders (Oct)* *EUR: ECB meeting* *USA: Factory orders (Oct)*	**7** POL: Balance of NBP (Nov) POL: Official reserve assets (Nov) *GER: Industrial output (Oct)* *GER: Inflation (Nov)* *USA: Unemployment (Nov)*
10	**11** *USA: Fed meeting*	**12** *GER: Current account (Oct)* *GER: Trade balance (Oct)*	**13** *USA: Producer prices (Nov)* *USA: Retail sales (Nov)*	**14** POL: Money supply (Nov) POL: Employment and wages in corporate sector (Nov) *FRA: Industrial output (Oct)* *ITA: Industrial output (Oct)* *USA: Inflation (Nov)* *USA: Industrial output (Nov)*
17 *POL: Inflation (Nov)* *POL: State budget (Nov)* *GER: Business climate IFO (Nov)*	**18** POL: MPC meeting POL: Industrial output (Nov) POL: Producer prices (Nov) *ITA: Inflation (Nov)* *EUR: Inflation (Nov)* *EUR: Industrial output (Oct)*	**19** POL: MPC meeting (decision) *USA: Foreign trade (Oct)*	**20** POL: Unemployment (Nov) *FRA: Inflation (Nov)* *ITA:GDP (3Q)* *EUR: ECB meeting*	**21** *EUR: Foreign trade (Oct*
24	**25** **Christmas**	**26** **Christmas** *FRA: Producer prices (Nov)*	**27** *ITA: Unemployment (Oct)*	**28** POL: Food prices (1st half of Dec) POL: Balance of payments (Nov) POL: Foreign trade on a cash basis (Nov) *FRA: Unemployment (Nov)* *ITA: Producer prices (Nov)* *EUR: Money supply (Nov)* *USA: Durable goods orders (Nov)*
31	**1 January** **New Year's Day**	**2**	**3** POL: Food prices (2nd half of Dec) *ITA: Inflation preliminary (Dec)* *EUR: Inflation preliminary (Dec)* *EUR: Unemployment (Nov)* *EUR: ECB meeting*	**4** *USA: Unemployment (Dec)*

A glance at the economy

Category	unit	December	January	February	March	April	May	June	July	August	September	October	November
PRICES													
Consumer price index (y/y)	%	8.5	7.4	6.6	6.2	6.6	6.9	6.2	5.2	5.1	4.3	4.0	-
Consumer price index (m/m)	%	0.2	0.8	0.1	0.5	0.8	1.1	-0.1	-0.3	-0.3	0.3	0.4	-
Production price index (y/y)	%	5.6	4.7	4.1	3.8	3.4	2.3	0.9	0.6	1.0	0.7*	-0.3	-
Production price index (m/m)	%	-0.9	-0.3	-0.1	0.2	0.2	0.0	-0.4	0.3	0.8	0.5*	-0.4	-
Price index of assembly and construction production (y/y)	%	6.9	6.8	6.5	5.7	5.0	4.5	3.8	3.6	3.4	3.2	3.1	-
Price index of assembly and construction production (m/m)	%	0.2	0.4	0.4	0.1	0.3	0.3	0.1	0.2	0.2	0.1	0.4	-
Exchange rate USD/PLN (y/y)	%	3.5	0.2	-1.0	-0.7	-5.1	-11.5	-9.7	-3.2	-2.6	-6.0	-10.9	-10.2
Exchange rate USD/PLN (m/m)	%	-5.4	-4.7	-0.4	-0.8	-1.0	-0.9	-0.3	5.4	1.4	-0.6	-2.0	-0.9
Exchange rate EUR/PLN (y/y)	%	-8.1	-7.1	-7.7	-6.5	-10.3	-14.5	-18.8	-11.5	-3.2	-1.8	-5.7	-6.8
Exchange rate EUR/PLN (m/m)	%	-0.6	-0.4	-2.5	-2.0	-2.8	-2.9	-2.8	6.2	6.2	0.6	-2.7	-2.8
Real gross wages in enterprise sector (y/y)	%	-1.9	2.4	1.1	1.6	-1.3	1.8	-1.3	2.7	1.7	1.8	3.7	-
ACTIVITY INDICATORS													
Gross domestic product (y/y)	%	2.4	-	-	2.3	-	-	0.9	-	-	-	-	-
Industrial output (y/y)	%	-2.2	10.1	0.1	2.9	3.6	-0.9	-4.8	0.9	0.4	-3.8	1.4	-
Industrial output (m/m)	%	-1.4	-8.9	-2.5	14.7	-7.8	3.1	-2.8	-1.4	5.6	0.6	7.7	-
Construction and assembly production (y/y)	%	-6.9	-9.7	-9.1	-8.2	-10.8	-11.7	-10.0	-10.3	-13.9	-10.9*	-10.0	-
Construction and assembly production (m/m)	%	40.3	-59.3	7.4	18.6	-2.9	15.5	13.8	-4.9	2.8	10.7	7.8	-
Retail sales of goods [a] (y/y)	%	3.2	10.9	-0.2	0.1	1.9	4.3	0.2	1.5	3.0	1.3	5.8	-
Retail sales of goods [a] (m/m)	%	20.8	-27.6	-1.7	17.5	4.0	1.7	-1.3	0.5	2.9	-2.4	6.0	-
Exports on a customs basis (y/y)	%	18.6	29.9	13.5	17.9	10.5*	6.5*	-1.7*	-0.7*	10.1*	9.3*	-	-
Exports on a customs basis (m/m)	%	-8.5	1.1	-0.5	9.6	-12.6*	0.4*	-2.9*	1.7*	7.4*	9.7*	-	-
Imports on a customs basis (y/y)	%	3.7	14.5	-3.1	2.8	1.3*	-12.0	-10.0*	-2.4*	0.9*	-2.6*	-	-
Imports on a customs basis (m/m)	%	-2.9	-11.0	-4.2	16.1	-9.4*	1.3*	-4.2*	7.3*	-3.0*	4.4*	-	-
LABOUR MARKET													
Number of unemployed	thous.	2703	2 836	2 877	2899	2 878	2 841	2 849	2 872	2 893	2 920	2 944	-
Unemployment rate	%	15.1	15.7	15.9	16.1	16.0	15.9	15.9	16.0	16.2	16.3	16.4	-
Average employment in corporate sector	thous.	5 199	5 184	5 189	5 170	5 156	5 135	5 121	5 097	5 074	5 060	5 044	-
Average monthly gross wages in corporate sector	PLN	2 350	2 069	2 075	2 149	2 176	2 163	2 148	2 199	2 192	2 218	2 252	-
Nominal increase in wages (y/y)	%	6.4	9.9	7.7	7.9	5.2	8.8	4.9	8.0	6.9	6.2	7.8	-
STATE BUDGET													
Budget revenues	PLN bn	135.7	11.6	21.0	31.6	42.4	52.6	67.8	78.9	90.3	102.8	115.6	-
Budget expenditures	PLN bn	151.1	16.7	32.9	46.7	60.8	73.0	86.5	98.3	111.3	124.6	140.3	-
State budget deficit	PLN bn	-15.4	-5.1	-12.0	-15.1	-18.4	-20.4	-18.7	-19.4	-21.0	-21.8	-24.6	-
Domestic government debt	PLN bn	146.0	149.1	152.2	155.0	157.3	160.2	160.3	163.0	165.6	170.4	-	-
Foreign government debt	PLN bn	120.8	119.0	120.6	118.2	113.3	112.2	111.2	119.4	122.0	121.4	-	-

A glance at the economy

Category	unit	December	January	February	March	April	May	June	July	August	September	October	November
BALANCE OF PAYMENTS													
Current account	USD m	-816	-956	-463	-751	-520	-737	-948	-287	-354	-304*	-672	-
Trade balance	USD m	-1 038	-1 516	-724	-908	-710	-1 166	-902	-826	-1 019	-889*	-1 107	-
Exports	USD m	2 759	2 430	2 392	2 614	2 559	2 472	2 477	2 556	2 616	2 287*	2 849	-
Imports	USD m	3 797	3 946	3 116	3 522	3 269	3 638	3 379	3 382	3 635	3 176*	3 956	-
Services: net	USD m	-155	-118	-86	-83	-62	-68	-64	-95	-62	-27*	-42	-
Unclassified transactions: net	USD m	340	248	243	239	385	315	274	451	478	439	557	-
Capital and financial account	USD m	351	1 368	984	-29	-212	538	699	738	313	512*	1 045	-
Direct investments	USD m	570	482	394	349	520	329	602	447	360	500*	1 252	-
Portfolio investments	USD m	135	799	710	891	-177	-471	-304	70	141	-235*	280	-
MONEY SUPPLY													
Money supply	PLN bn	294	293	296	301	303	305	308	315	319	321	325	-
Money supply (y/y)	%	11.7	14.6	14.6	14.9	14.0	13.5	8.0	13.5	14.6	14.3*	13.0	-
Money supply (m/m)	%	1.1	-0.6	1.0	1.9	0.7	0.7	0.8	2.3	1.3	0.7*	1.3	-
Total deposits (y/y)	%	15.5	17.5	17.1	16.8	16.1	15.5	9.1	15.4	16.3	15.5*	13.7	-
Total deposits (m/m)	%	1.0	0.1	0.9	1.7	0.4	1.0	0.5	2.5	1.3	0.4*	1.4	-
Household loans (y/y)	%	31.7	31.3	29.4	25.7	25.1	22.1	-1.3	20.3	20.4	18.7*	16.5	-
Household loans (m/m)	%	2.1	0.2	-0.3	0.4	1.1	1.3	1.2	3.6	2.5	1.5*	0.4	-
Corporate loans (y/y)	%	13.5	12.2	12.0	11.7	9.5	8.4	7.1	9.2	9.2	8.4*	6.4	-
Corporate loans (m/m)	%	-1.9	1.2	0.9	0.6	0.0	-0.4	0.9	2.1	1.4	1.6*	-0.5	-
FINANCIAL INDICATORS													
Average deviation from the central parity	%	-5.0	-7.4	-8.8	-10.1	-11.8	-13.7	-15.0	-9.9	-6.6	-6.5	-8.6	-10.7
Average exchange rate USD	PLN	4.3143	4.1108	4.0925	4.0599	4.0175	3.9807	3.9705	4.1859	4.2459	4.2185	4.1332	4.0943
Average exchange rate EUR	PLN	3.8802	3.8648	3.7689	3.6952	3.5904	3.4856	3.3894	3.5998	3.8218	3.8450	3.7425	3.6389
Average exchange rate DEM	PLN	1.9839	1.9761	1.9270	1.8893	1.8357	1.7822	1.7330	1.8405	1.9541	1.9659	1.9135	1.8605
Average WIBOR T/N	%	19.50	19.73	19.82	19.33	18.56	17.91	17.78	15.99	17.19	15.96	17.65	16.50
WIBOR 1M	%	19.83	19.44	19.33	18.36	17.45	17.50	17.38	16.11	15.73	14.99	14.81	14.61
WIBOR 3M	%	19.67	18.97	18.61	18.01	17.17	17.22	16.88	16.01	15.35	14.74	14.01	13.91
Average 3M T-bill yield	%	17.60	17.12	17.29	17.20	16.44	16.24	16.12	15.26	14.23	13.81	13.04	12.75
Average 6M T-bill yield	%	17.84	17.43	17.09	17.16	16.36	16.21	16.03	15.29	14.38	13.93	12.87	12.36
Average 9M T-bill yield	%	17.91	17.40	17.15	17.01	16.11	15.84	15.81	15.32	14.65	14.02	12.80	12.09
Average 12M T-bill yield	%	18.01	17.23	16.97	16.85	15.80	15.67	15.61	15.38	14.61	14.01	12.64	11.80
Average 2Y T-bond yield	%	17.20	15.68	15.48	15.60	14.59	14.92	15.22	15.13	14.40	13.57	11.36	11.00
Average 5Y T-bond yield	%	13.93	13.08	12.92	13.33	13.47	13.38	13.29	13.85	13.50	12.92	11.32	10.13
Average 10Y T-bond yield	%	11.50	10.44	10.23	10.68	10.61	11.30	11.74	11.87	11.97	11.57	10.31	9.19
MONETARY POLICY INSTRUMENTS													
Intervention rate	%	19.0	19.0	19.0	17.0	17.0	17.0	15.5	15.5	14.5	14.5	13.0	11.5
Rediscount rate	%	21.5	21.5	21.5	19.5	19.5	19.5	18.0	18.0	17.0	17.0	15.5	14.0
Lombard rate	%	23.0	23.0	23.0	21.0	21.0	21.0	19.5	19.5	18.5	18.5	17.0	15.5

** data officialy corrected, ª in current prices*

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

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