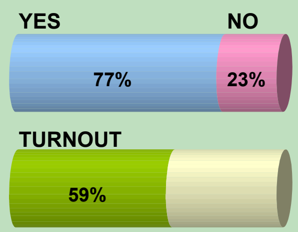
Bank Zachodni WBK

MACROscope

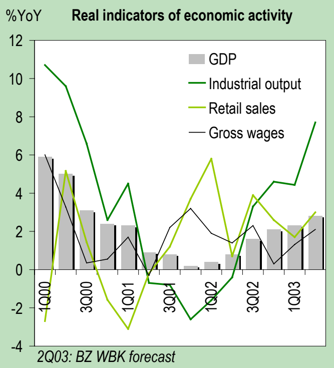
Polish Economy and Financial Markets

June 2003

Results of the referendum on EU accession



Source: National Electoral Committee



2Q03: BZ WBK forecast

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Post-referendum tension

■ **Already before the accession referendum, one could have expected that turmoil on the political scene, including personal changes in the cabinet, would take place after the voting.** And indeed, one day after the referendum PM Leszek Miller stroke back. He won the confidence vote in the parliament, replaced finance minister and announced a "new opening". In our opinion, the probability of deep changes in government's policy is very small. The government's priority is to revive economic growth. We do not expect, however, that this is planned to be achieved by flat tax rate introduction (which was mentioned by PM), as it seems to be extremely hard to implement such measure by the SLD. For the same reason, one should rather expect fiscal expansion, especially as Jerzy Hausner becomes deputy PM responsible for the government's economic policy. He used to support higher budget deficits, fiscal stimulation of domestic demand and a delay in Euro introduction. Such scenario means higher risk on the Polish financial market, especially at the long end of the yield curve and on the foreign exchange market. Please see details in *Government and politics* section.

■ **The April data on the activity of the real economy brought signs of economic revival more evident than to date.** We witnessed growing dynamics of sold industrial output and continuation of positive trends in Poland's foreign trade. Also, new signals of the Polish economy recovery were recorded, which indicated that investment revival might be witnessed soon – the financial standing of businesses in Poland picked up and the decline in the construction output clearly slowed down in April. This is bound to mean that the scenario of GDP growth acceleration is realised as a result of reversing the negative investment dynamics recorded to date paralleled by stable growth in consumer demand. Unfortunately, the improving performance of the Polish economy still fails to translate into the improvement on the labour market.

■ **With low current and expected inflation, another interest rates reduction should not come as a surprise.** In May, the MPC cut interest rates by 25bps for the fifth consecutive time this year, reducing main reference rate to 5.5%, lombard rate to 7% and deposit rate to 4%. We think that next interest rates reduction is more likely to occur at the beginning of 3Q03 than in June, as we expect quite strong figures of industrial production and retail sales to be released this month and we might also see a price trend reversal on the food market. Additionally, turmoil on the Polish political scene after the accession referendum brings even more uncertainty as regards the next year budget and the so-called public finance reform. Therefore, the MPC might want to wait and observe more data to assess how important are these factors for the inflation development in the medium-term. We still expect NBP reference rate at 5% at the end of the year.

Financial market on 30 May 2003

NBP deposit rate	4.00	WIBOR 3M	5.40	PLN/USD	3.7109
NBP reference rate	5.50	Yield on 52-week T-bills	4.60	PLN/EUR	4.3915
NBP lombard rate	7.00	Yield on 5-year T-bonds	4.86	EUR/USD	1.1834

Economic update

- **Stronger signs of economic revival in Poland**
- **...but improvement of the situation on the labour market is only seasonal**
- **Inflation hit another record – most likely for the last time**

The April data on the activity of the real economy brought signs of economic revival more evident than to date. As in the previous months, we witnessed growing dynamics of sold industrial output and continuation of positive trends in Poland's foreign trade. Also, new signals of the Polish economy recovery were recorded. They indicated that the long-anticipated investment revival might be witnessed soon. In 1Q03, the financial standing of medium and large-sized businesses in Poland picked up. Moreover, the decline in the construction output clearly slowed down in April. This is bound to mean that the scenario of GDP growth acceleration is realised as a result of reversing the negative investment dynamics recorded to date paralleled by stable growth in consumer demand. The strong increase in individual consumption is indicated by robust growth in retail sales recorded in April. Unfortunately, the improving performance of the Polish economy still fails to translate into the improvement on the labour market. The drop in the unemployment rate observed in April was merely a seasonal phenomenon. Due to the lack of wage pressure from the labour market, the improving economic growth prospects are not accompanied by growth in inflation pressure. The inflation stays low also due to the favourable supply factors.

Surge of industrial production, improvement in construction

Industrial production in April surged by 8.3%YoY against 5.5%YoY in March and 4.4%YoY in the first quarter of the year. Seasonally adjusted growth of sold industrial production reached 7.9%YoY, up from 5.4%YoY in the previous month. The fastest increase of output was observed in manufacturing (by as much as 10.2%YoY). Production in utilities sector rose a meagre 0.6%YoY and mining recorded 5.5%YoY slump. April's industrial output growth had been the highest since January 2001. Similarly to the previous months, the fastest growth was observed in the export-oriented branches, which means that improvement in industrial output dynamics stems to a large extent from good results of Polish foreign trade. On the other hand, growing number of expanding branches suggests that domestic demand also managed to rebound. All in all, the figures confirm scenario of gradual economic recovery.

Some improvement in investment demand is reflected in data on construction output in April. As we expected it surged by 23.4%MoM and its annual dynamics recovered to -13.5%YoY from -25.3%YoY in March and -20.2%YoY in the whole 1Q03. However, this is still a deep fall, even below the drop recorded in 2002 when construction output slipped by 10.3%YoY on average. April figures suggest that investment activity in the Polish economy has been reviving somehow (see data on enterprises' financial results described below). However, the pace of improvement is still moderate – particularly that the rebound of construction output dynamics in April was a one-off phenomenon to some degree as it resulted from the fact the first quarter of this year saw severe weather conditions and many construction works were postponed until April.

Restructuring in Polish enterprises brings results

1Q03 saw considerable improvement in the financial situation of Polish enterprises with manpower of over 49 persons. This is a signal that investment activity may rebound in the nearest period. According to the CSO, the net financial result of companies almost doubled in 1Q03 compared to the corresponding period of last year, rising to PLN3.1bn from PLN1.7bn. Although gradual improvement in the financial standing of enterprises' was observed also in the consecutive quarters of last year, its scale in 1Q03 was much more impressive. The increase of companies' financial result stemmed from the fact that revenues were rising faster than costs. It is worth noticing that the increase in costs was arrested mainly through reduction of employment, as labour costs constituted the fastest shrinking component of total costs. This is consistent with deep fall in employment recorded in enterprises in the previous year and at the beginning of 2003. Except for higher profitability the data showed also improvement of all other major indices of the financial standing of enterprises. The best financial results were recorded among exporting companies. One of factors contributing to such a performance was surely almost 10% weakening of the real effective exchange rate of the zloty in 2002 and following depreciation of the zloty at the beginning of this year.

The CSO data suggest that Polish enterprises have already gone through the most difficult period and their situation is beginning to improve. As retained profit is the most important source of investments in the Polish economy, much better financial results of enterprises are likely to lead to gradual revitalisation of investment activity. This would be consistent with our forecast of

GDP growth fuelled to a growing degree by acceleration of investment activity.

Imports grow faster than exports

According to the CSO foreign trade data on customs basis Poland's trade deficit after first three months of this year reached €3.33bn against €3.26bn in the corresponding period of 2002. The figures showed that both exports and imports growth rate accelerated again – annual dynamics of exports and imports after March was higher than after two months of the year (see table below). The data also showed that imports kept growing faster than exports in the first quarter of this year. This is not consistent with the central bank's data on payments basis showing the reverse relation and even a drop in imports in that period. This seems to confirm our opinion that weak imports performance reported by the NBP is related to postponement of payments by importers (due to unfavourable zloty exchange rate in February-March period) and does not represent significant weakening of domestic demand dynamics.

Foreign trade statistics

	Jan-Mar 2003		
	PLN	*USD*	*EUR*
Export (%YoY)	17.0 (14.3)	23.6 (21.3)	1.3 (0.1)
Import (%YoY)	17.3 (15.7)	23.8 (22.7)	1.5 (1.4)
Trade balance (bn)	-13.9 (-8.8)	-3.6 (-2.3)	-3.3 (-2.1)

Note: Data for January-February period in parenthesis
Source: CSO

Balance of payments data confirmed economic revival

Central bank's balance of payments data for April proved to be quite close to what we have expected. The annual growth rates for both exports and imports were below zero because of very strong effect of high statistical base. However, it should not be interpreted as a major downturn of the trends observed so far, because in its nominal level foreign trade turnover remained strong. Export amounted to €3bn in April, growing 1.6%MoM and falling -1.1%YoY after 5.9%YoY increase recorded in March (6.4%YoY on average in 1Q03). Such result still seemed to represent robust performance of the Polish exporting companies and corresponded well with the recently published data on strong industrial production. Import reached €3.8bn, recording a significant hike of 9.9%MoM, while its annual dynamics reached -1.8%YoY against -3.5%YoY in March (and -2.6% on average in 1Q03). We argued in previous months that surprisingly weak import figures in February-March could be to some extent explained by the delay of some import payments by Polish importers after temporary depreciation of zloty exchange rate that took place in 1Q03. April data support such explanation. To some extent they can also represent actual import acceleration caused by the pick-up of domestic demand in the Polish economy. All in all foreign trade figures, even though their annual growth rates were below zero in April, should be regarded as strong, confirming the process of ongoing recovery in the Polish economy. Besides, one should also remember that when expressed in US dollar terms, both exports and imports still record extremely strong dynamics, growing 21.2%YoY and 20.4%YoY, respectively.

Export and import growth rates, %YoY

		USD	*EUR*	*PLN*
April 2003	**Exports**	21.2 (30.6)	-1.1 (5.9)	18.3 (26.6)
	Imports	20.4 (18.9)	-1.8 (-3.5)	17.4 (15.4)
3-month average	**Exports**	28.3 (30.4)	4.1 (6.4)	22.6 (23.2)
	Imports	19.0 (19.2)	-3.5 (-2.6)	13.8 (12.7)

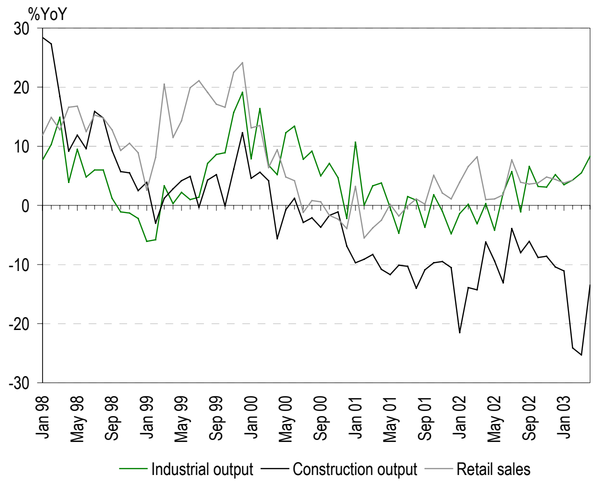
Note: March figures in parenthesis
Source: NBP

As a result of much higher import growth trade deficit grew to €804m from €510m in March. On the other side, balance of unclassified flows reflecting mostly unregistered cross-border trade, increased to €489m from €444m in March, positively affecting current account deficit. Also the balance of services was better than usual, amounting to -€24m (against average -€157m in 1Q03). Other components of current account balance were consistent with recent trends. Consequently, current account deficit reached €369m in April against €248m in March and €340m forecasted by us. It was much lower than €716m recorded in April 2002, and therefore the 12-month cumulative C/A gap as a relation to GDP fell to 2.9% from 3.1% experienced last month.

Stable upward trend of retail sales

Retail sales in April grew by 9.8% as compared to the previous month and surged by 11.0%YoY while in March the annual growth rate stood at -1.7%YoY. The figures were much better than market consensus and our forecast. It seems that an effect of the fact that Easter was one month later this year than in 2002 was more substantial than it was estimated. Excluding that effect the data showed that trend of retail sales dynamics remained quite strong – on average in March-April period retail sales grew by 4.7%YoY against 4.2%YoY in the first two months of this year and 5.3%YoY on average in 4Q02. This suggests that private consumption keeps growing at relatively high pace this year (we forecast that it would grow by almost 3% both in the first and the second quarter of this year), which together with gradual revitalisation of investment activity should lead to rebound of domestic demand and acceleration of the economic growth. Good consumption performance is reflected in the structure of retail sales growth in April. Contrary to previous months all components of retail sales recorded positive growth – also clothing and footwear, and furniture and household appliances which slipped in recent months. However, the highest increases were evidenced in "sales in non-specialised shops" (up by as much as 73.0%YoY), and "food, beverages and tobacco" (27.5%YoY) – clearly reflecting the effect of later Easter shopping than last year. "Sales of motor vehicles" also remained very strong (17.3%YoY). While retail sales dynamics will most likely diminish in upcoming months, we do not expect significant weakening of consumption demand.

Economic activity indicators



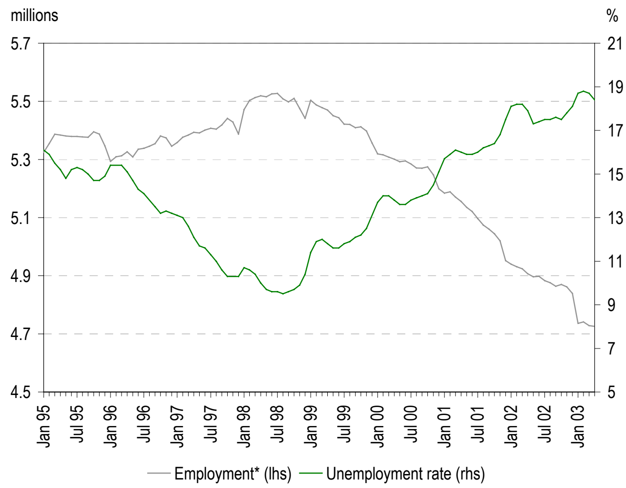
Source: CSO

Janusz Witkowski, deputy CSO president was quoted at the monthly press conference summarising macroeconomic data for April as saying that the second quarter of this year would be better in terms of the economic growth than the first quarter. We agree with this opinion but we are far from predicting a sharp recovery. We maintain our GDP growth forecast at 2.3% for the first quarter of the year, 2.8% in the second quarter and 3% for the entire 2003.

Seasonal drop in the unemployment rate

In line with our expectations the registered unemployment rate dipped to 18.4% in April from 18.7% in the previous month (market consensus was 18.5%). The number of unemployed reached 3.246m, falling by 2.3%MoM but rising 1.3%YoY against 1.9%YoY growth in March. The fall in unemployment in April resulted from seasonal factors and it still does not represent a real improvement of the situation on the labour market. In annual terms (excluding seasonal factors) both the registered unemployment rate and the number of unemployed are still growing. However, the pace of the unemployment growth has been diminishing since the beginning of last year. This is also visible in quarterly data from the Labour Force Survey (which are consistent with the International Labour Organisation's standards recommended by the Eurostat) carried out by the CSO. According to the LFS results for 1Q03 the unemployment rate reached 20.5% against 20.3% in the corresponding period of last year. This shows that the pace of unemployment growth has decreased almost to zero and if the economic recovery continues we may see annual fall in unemployment at the end of this year. Nevertheless, for the time being the unemployment is still very high and constrains wage pressure.

The unemployment rate and average employment in corporate sector



* Data adjusted by the CSO's change in methodology in 2000.
Source: CSO, BZ WBK

High increase of the wage bill – rather one-off

April's employment figures were in line with expectations. Average employment in the enterprise sector in April remained at March's level and slipped by 3.7% in annual terms. This is a continuation of the downward trend observed for a few years. Given enterprises declarations in business climate surveys one should not expect fast reversal of the negative tendency. Contrary to that wages dynamics substantially improved in April. Average salary in enterprises grew by 2.3%MoM and advanced by as much as 4.2%YoY after only 0.7%YoY increase in March. As a result of considerable acceleration of wage growth in April, despite deep fall in employment, wage bill in the enterprise sector rose by 0.4%YoY in nominal terms and – for the first time in several years – inched up by 0.1%YoY in real terms. However, we think that such a conclusion should be approached with caution. In our opinion high annual increase of wages in April might stem from the fact that it was exceptionally low in March. Perhaps the annual bonus payments in some companies took place one month later this year and April's acceleration of wage growth rate may be only a one-off phenomenon, similarly to its very low dynamics in March. Therefore, one has to wait a few months more to see whether increase of wage bill would be permanent, representing an improvement of the situation on the labour market and/or reviving wage pressure.

Stable trends in monetary statistics

The NBP said that the broadest measure of money, aggregate M3, decreased by 0.1%MoM and grew by 0.8%YoY in April, below our forecast of 1.0%YoY but higher than market consensus at 0.6%YoY. For the second month in a row the positive growth rate of broad money was mainly an effect of low statistical base. Tendencies in deposits remained almost unchanged compared to previous months. Total deposits fell by 2.3%YoY - households deposits dropped by 5.9%YoY while corporate deposits increased by 11.5%YoY. The fall in deposits was to some extent a result of exchange rate movements. Total deposits excluding those in foreign currency went down by only 1.1%YoY. April saw another increase of cash in circulation - annual dynamics of the most liquid form of money accelerated to 14.8% from 13.8% in the previous month. It is not surprising considering falling alternative cost of holding money (lower inflation and interest rates).

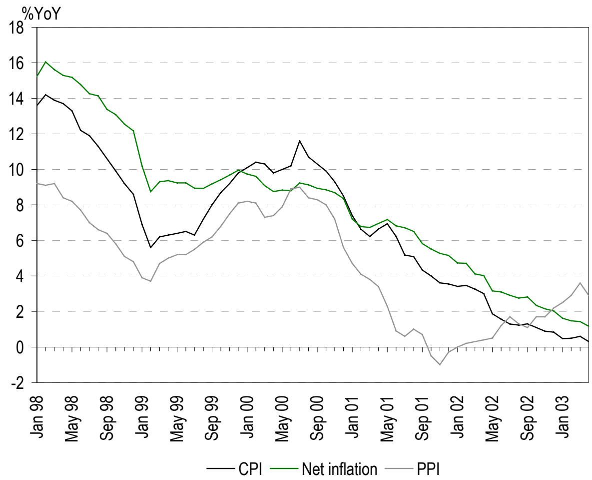
On the money creation side, there were no visible signs of changes in recently observed trends. Growth rate of total credits reached 8.5%YoY, slightly below 8.7%YoY a month ago. Credits for households decelerated to 6.8%YoY from 7.2%YoY in March, while corporate credits dynamics slowed down to 7.1%YoY against 8.3%YoY in the previous month. Taking into account that credit dynamics (particularly corporate one) was affected by exchange rate movements there is still no sign of revival on credit market. In total, monetary statistics should be neutral from monetary policy point of view.

CPI hit another record

In line with our forecast and market consensus, inflation in April dropped to 0.3%YoY from 0.6%YoY in March, reaching the lowest level in post-communist period. To some extent April's fall in annual CPI was an effect of high statistical base last year as in April 2002 prices grew by 0.5%MoM while this year they inched up by only 0.2%MoM. Apart from high base effect the main factor responsible for low level of inflation was – similarly to previous months - a positive supply shock on the food market. However, favourable tendencies on the food market should gradually reverse in coming months. Also, annual inflation remained at low level due to falling prices of alcoholic beverages and tobacco. Moreover, there is still no sign of demand pressure in inflation data, which was reflected, for example, in the fall in clothing and footwear prices.

All in all, CPI figures show that there is no inflation threat in the Polish economy at the moment. However, we predict that April was the last month of CPI drop this year and it will gradually accelerate in the following months up to around 2%YoY in December.

Measures of inflation



Source: CSO, NBP, BZ WBK

In May inflation should reach 0.6%YoY. Such prediction is based mainly on CSO preliminary data on food prices in May. Moderate growth of bread and cereals prices in the second half of the month (0.2%MoM) shows that so far decreasing supply of cereal has not significantly affect overall dynamics of food prices. As a result, on average in the whole month prices of food and non-alcoholic beverages increased by 0.6% MoM. The CSO also published the data on prices of alcoholic beverages and tobacco. On average in the whole month prices of these products grew by 0.2-0.3%. This, together with average growth of food prices implies that annual CPI in May should accelerate to 0.6% from 0.3%YoY in April.

Producer prices eased due to cheaper fuel prices and strong zloty

The CSO said that producer prices in April fell by 0.4%MoM and its annual dynamics decelerated to 2.9% from the revised upwards 3.6%YoY in March. As expected, fall in annual PPI was caused by declining fuel prices (it dropped by 11%MoM) and strengthening of the zloty. This confirms our earlier opinion that PPI acceleration in the beginning of this year was temporary and did not reflect the emergence of inflationary pressure in the Polish economy.

All core inflation measures down

In April, all core inflation measures went down. Two out of five indicators, which have already been negative in previous months recorded even lower levels than in March - CPI excluding controlled prices decreased to -0.62%YoY from -0.55%YoY and CPI excluding most volatile prices and fuels slipped to -0.52%YoY from -0.21%YoY. What is more, other measure, namely CPI excluding most volatile prices dropped to 0.04%YoY from 0.54%YoY in the previous month. Also two remaining measures, regarded as the most important ones, i.e. net inflation and 15% trimmed mean decreased reaching 1.17%YoY (from 1.42%YoY in March) and 0.62%YoY (0.78%YoY), respectively. Thus, all indicators of core inflation are more and more below the lower end of the central bank's inflation target (2-4% for 2003 and 1.5-3.5% beyond 2003).

No problems with budget after one third of the year

The Ministry of Finance published official data on budget performance after four months of this year, which turned out to be broadly in line with our expectations as budget deficit after April reached PLN18.0bn, i.e. 46.6% of the plan for the whole year against 40.0% after March. The budget results after April do not give significant reasons for concern and one still should not expect problems with this year's budget. Of course, much more risk is connected with 2004 budget.

Budget revenues totalled PLN46.4bn or 29.8% of the plan. The better part of the overall revenues, i.e. inflows from indirect taxes grew by 13.1%YoY in April alone (versus 5.6%YoY in March and 0.0%YoY in February) and by 8.9%YoY in January-April period. Growing dynamics of the revenues from VAT and excise taxes could suggest that private consumption remains relatively strong or even accelerates (which would be consistent with the above-mentioned data on wages and would support our forecast of retail sales in April). However, one should also remember that, similarly to retail sales, indirect tax revenues might also be a subject to statistical base effect connected to the fact that this year Easter was one month later than in 2002. Also revenues from PIT are performing well rising by 18.5%YoY in April alone and accelerating to 12.1%YoY after four months of the year against 9.4%YoY in January-March period. On the other hand, revenues from CIT keep falling (by 14.7% in April alone and 8.4%YoY in January-April period after 5.8%YoY fall in 1Q03). Taking account of the financial standing of enterprises this is not an optimistic signal in terms of investment activity prospects (today's data may give more information on this issue).

Budget expenditures after April amounted to PLN64.4bn or 33.1% of the plan. As expected, the fastest growth of expenditures after four months of the year was recorded in case of subsidies for Labour Fund (19.7%YoY) and Social Security Fund (10.0%YoY). At the same time the budget is saving much compared to the plan on costs of domestic debt servicing (-23.7%YoY in January-April period). This is related to the considerable drop in market interest rates in recent year.

April did not bring changes in the structure of budget deficit financing. Privatisation revenues after April are still very low (6.5% of the whole year plan) and budget gap is financed through increased issuance of treasury bonds (53.0% of the plan) and treasury bills (164.0% of the plan).

Central bank watch

- **The fifth element**
- **...and the next ones are coming, although not necessarily in June**
- **Continuing conflict on revaluation provision**
- **Compromise rather than planned decision**

The fifth element

In May, as expected, the MPC cut interest rates by 25bps for the fifth consecutive time this year, reducing main reference rate to 5.5%, lombard rate to 7% and deposit rate to 4%.

The main rationale behind the rate cut was positive current situation and favourable outlook as regards inflation. The MPC's statement released after the meeting started with the statement that April saw the consolidation of low inflation, and the strengthening of factors constraining future inflation growth. Among those factors the MPC recognised: drop in PPI growth, continuing fall in core inflation, stabilisation of inflationary expectations at low level and still moderate wages' dynamics (acceleration of wage growth in April has been recognised as a one-off phenomenon, resulting from low base effect). MPC's inflation forecasts remained very optimistic. The MPC allows a possibility of undershooting this year's inflation target (2-4%), however the NBP president said it is not the most important determinant for interest rate changes, as the central bank now focuses already on inflation development in 2004 - the next medium-term target of 1.5-3.5%.

At the same time the MPC recognised many strengthening signs of economic recovery, including fast growth of industrial output, exports and retail sales, improvement of companies' financial results, improvement of business climate in construction and industry. The statement suggested the central bank expected a gradual pick-up of economic activity, led by the recovery of domestic demand, including acceleration of investment growth (which would be similar to our expectations). However, one could have the impression that in fact the central bank is not excessively optimistic about the strength of economic revival – according to Grzegorz Wójtowicz the MPC sees GDP growth at around 2% in 1H03 and 2.5% in 2003 as a whole (4% in 2004), which is below our forecast (we expect GDP to grow 2.8% in 2Q03 and 3% in the whole year).

The MPC listed also three risk factors, being a potential source of long-term inflationary pressure. They included: the risk of breaching this year's planned economic deficit and uncertainty as regards fiscal policy in 2004; persistently high dynamics of cash in circulation; the risk of oil price hike.

To be continued... But when?

After the MPC meeting followed by the press conference there is no reason to change the assumption that the rate cuts will be continued. Wójtowicz said that reduction by 25 bp suggested that the show would be continued, but not necessarily month by month. He added that signs of economic revival could limit rate cuts if they transfer on domestic demand acceleration. Earlier we have assumed that from now on there would be two more interest rate reductions in 2003, 25bps each, and we maintain this presumption after May's meeting, especially that we believe the economic growth this year would prove to be a bit stronger than suggested by current central bank's forecasts. The NBP reference rate should amount to 5% at the end of this year and both reductions would be delivered before the end of 3Q03, as the MPC would not want to wait too much being aware that the economic recovery might gain more strength at the end of 2003. The timing of the next cut would depend to a large extent on the current macroeconomic figures (and on political events), and such view was confirmed by the MPC members in their statements. Grzegorz Wójtowicz said "the situation changes so fast that we have a set of new signals each month". Leszek Balcerowicz also suggested that macroeconomic data to be published in June would be extremely important for the next decision saying "we analyse all indicators all the time". It also seems that real economic activity data may be more important than inflation data, although NBP president stressed the importance of core inflation figures (as usual) and said that food prices data should be analysed with a special attention.

We think that next interest rates reduction is more likely to occur at the beginning of 3Q03 than in June, as we expect quite strong figures of industrial production and retail sales to be released this month and we might also see a price trend reversal on the food market. Additionally, turmoil on the Polish political scene is possible after the accession referendum, which would bring even more uncertainty as regards the next year budget and the so-called public finance reform. Therefore, the MPC might want to wait and observe more data to assess how important are these factors for the inflation development in the medium-term.

Continuing conflict on revaluation provision

Before the resignation, finance minister Grzegorz Kołodko assured chat that the government would exploit part of NBP's revaluation provision and that the budget revenues in the budget draft for 2004 would include PLN9bn from this line. Kołodko was confident there were legal opportunities to use central bank's provision and said he believed "the NBP would finally become reconciled with such necessity". Meanwhile, the MPC members did not seem to be getting reconciled at all during press conference and they strongly emphasised their critical stance about the use of revaluation provision for budget purposes. NBP president Leszek Balcerowicz said he presented the MPC's unanimous stance on this issue to the Sejm's public finance committee, underscoring that there was no consent for breaching good procedures and employing "false solutions". MPC member Marek Dąbrowski said that from the procedural point of view and referring to central banks' accounting standards, the use of provisions should be regarded as money printing, which is a part of the NBP's monetary policy according to the Polish Constitution. He added that according to ESA and GFS standards, such transfer of money could not be treated as budgetary revenues anyway.

Compromise rather than planned decision

The NBP released *Inflation report for 2002*. Among other issues covered, the document included, as always, the table with full voting results of the Monetary Policy Council over the past year. The record was very interesting, especially for November, when the MPC reduced the scale of interest rate cuts to 25bps. The voting results suggest that the reduction of interest rate cuts scale to 25bps was more a coincidence than a deliberate MPC decision, because as much as half of the MPC members were against any rate cut in November 2002 and the 25bps rate cut was once again a compromise between NBP president and the dovish faction, opting to cut by as much as 50bps. This said, we do not change our opinion that now it is highly unlikely that the MPC would return again to interest rate movements deeper than 25bps at once.

MPC voting results in 2002

	Jan	Jan	Jan	Mar	Apr	Apr	May	May	Jun	Jun	Jul	Aug	Aug	Sep	Oct	Nov	Nov
Change (bp)	-200	-100	-150	-100	-100	-50	-75	-50	-100	-50	-50	-75	-50	-50	-50	-50	-25
Decision	NO	NO	YES	NO	NO	YES	NO	YES	NO	YES	NO	NO	YES	YES	YES	NO	YES
Balcerowicz	-	-	+	-	-	+	-	+	-	+	-	-	+	+	+	-	+
Dąbrowski	-	-	-	-	-	-	-	-	-	-	-	-	+	-	-	-	-
Grabowski	-	+	-	-	-	+	-	+	-	+	-	-	+	-	-	-	-
Józefiak	-	+	-	-	-	+	-	+	-	+	-	-	+	+	-	-	-
Krzyżewski	-	-	+	-	+	+	-	+	-	+	+	-	+	+	+	+	+
Łączkowski	-	+	-	-	-	+	-	+	-	+	-	-	+	+	-	-	-
Pruski	-	-	-	-	-	-	-	+	-	-	-	-	+	-	-	-	-
Rosati	+	-	+	+	absent		+	+	+	+	+	absent			+	+	+
Wójtowicz	+	-	+	+	+	-	+	+	+	+	+	+	+	+	+	+	+
Ziółkowska	+	-	+	+	+	-	+	-	+	+	+	+	+	+	+	+	+

Source: NBP, Government's Monitor

Comments of the MPC members and central bank representatives

Most of central bank representatives' quotes concerned interest rates reduction, which we have described above. There was usual explanation of the decision, but the MPC members indicated also factors confirming a gradual recovery of the Polish economy. Better than expected data on economic activity in April, and in particular on industrial output, positively surprised MPC members, who nonetheless remained cautiously optimistic as regards future economic developments. According to the MPC members, gradual economic improvement was also confirmed by the balance of payments data (well, one of MPC members commented the figures even before the release). Central bankers still foresee only gradual, not sharp GDP growth acceleration and even those perceived as the most "hawkish" MPC members (Bogusław Grabowski, Cezary Józefiak) did not rule out subsequent rate cuts.

Wiesława Ziółkowska MPC member confirmed once again that she was still an advocate of deep monetary easing. She said in an interview with *Gazeta Bankowa* that real interest rates in Poland still remained "well above the standards observed in a civilised world" and cited the examples of other European countries, where the difference between main interest rates and current inflation ranged from 1.8 to minus 0.4 pct. points. The corresponding value for Poland stands at above 5 pct. points and probably this gives the idea of how much the Polish central bank's interest rates would be reduced, if Ziółkowska found more support within the MPC. Especially, that she confirmed still very positive inflationary forecasts, saying that CPI growth at the end of this year should remain below the lower end of MPC's inflation target (2%). Although MPC members' forecasts varied somehow as regards whether inflation rate at the end of this year would be below or slightly above the lower end of inflation target, they were unanimous in their expectations that price growth should gradually accelerate in the subsequent months of this year, partly due to rebounding food prices.

Again, the central bank officials were very critical about the ideas to use revaluation provision by the budget (although Leszek Balcerowicz and Wiesława Ziółkowska did not rule out the NBP's co-operation with the government over early repayment of foreign debt). They also criticised Pedro Solbes, EU Commissioner, comment suggesting that new candidates for the Eurozone should maintain a narrow band (±2.25%) for currency fluctuations within ERM2. The Solbes' comment was treated as "a voice in the discussion".

WHO. WHEN. WHERE	COMMENT
Leszek Balcerowicz, NBP governor; press conference, PAP; 28 May	Following a long and stormy discussion the Council decided to cut rates [...] It was a detailed discussion. The perspective is 2004 and we will keep that in mind when making decisions. There are many forecasts, which say that inflation at the end of 2003 will be below 2% and we do not know what it will be like. The most important thing is to make decisions from the point of view of next year's inflation. […] The fixed 2004 goal should be achieved, I see no risk for the goal but we are analysing indicators all the time. We assess the economic revival basing on current information. The signs we have at present would corroborate that economic growth is strengthening. Monthly data will tell whether this trend is permanent. These signs are much better than a month ago. But a longer-term growth will be determined by the completion of reforms. Food prices should be analysed carefully. The best strategy for the Polish economy would be to adopt the euro as soon as possible, which in practice means 2007. Low inflation has to be maintained […]. Public debt is below 60% of GDP, although it rises and this growth has be stopped by public finance reform and lowering budget deficit below 3% of GDP with a perspective of balancing it […]. If we target euro adoption later, it means postponing reforms and therefore would be negative for development of the Polish economy. What is more, Poland is relatively low and open economy, which means the benefits from euro adoption should be high, and costs relatively low. [about using revaluation provision] I have presented the position of the whole MPC, which says that one should not violate principles and look for false solutions. It seems to us that possible earlier elections cannot be an excuse for the lack of public finance reform.
PAP, Reuters, 22 May	I do not want to comment on that [±2.25% band within ERM2 system], the issue has to be considered on the ground of earlier discussions, we will continue to discuss it. It could be possible to repeat the Brazilian debt transaction but this would require consultations with the EU entities. […] The scale of this procedure must protect Poland's perception in the world. […] The NBP has lent a part of FX reserve to the government in order to repurchase the debt and the budget benefited from it. [Using revaluation provision] is a false solution and is no good for public finance health; a cure is worse than a disease. This would mean printing more money and could bring about higher inflation, which would endanger the stability of the financial system and the safety of the central bank. […] The NBP would be forced to counter such phenomena by open market operations, which would lead to higher public debt servicing costs. […] These activities would be also accompanied with increase in costs of the NBP and decrease of budget revenues from the NBP. The NBP is the ultimate guard of the financial system's stability. Therefore it is of key importance how big the own capital is. [...] The ratios are low. And in such situation one proposes lowering the funds.
Marek Dąbrowski, MPC member; press conference, 28 May	First, from procedural point of view and referring to central banks' accounting standards, the use of provisions should be regarded as money printing, which is a part of the NBP's monetary policy according to the Polish Constitution. Second, according to ESA and GFS standards, such transfer of money could not be treated as budgetary revenues anyway, but only as a source of deficit financing. Solbes's statement is rather a voice in the discussion than the European side's stance. The ECB and the Commission analyse different solutions – starting from managed float until currency board. In Poland we have no such discussion yet.
Bogusław Grabowski MPC member PAP, 30 V	We have good exports' dynamics all the time despite slow growth in the EU, which suggests high competitiveness of the Polish exports amid favourable exchange rate. This trend should be maintained. Economic recovery of the Polish economy takes place without inflation acceleration. However, as long as investments are stagnant, there will be no chance to accelerate the economy with such low level of inflation, which accelerated to 0.5-0.7%YoY in May. It is too early to talk about the end of slowdown of the economy, as we need investment revival. Present recovery is taking place with still the same demand structure, with private consumption and net exports as dominant factors. Stabilisation of inflation will be surely very difficult task and high responsibility for the new Monetary Policy Council – to maintain stable prices amid accelerating economy. Especially as supply factors bringing inflation down are very likely to die-off and the world economy will accelerate. Today's interest rates decisions will be visible at the moment of higher domestic and external demand and supply factors will accelerate inflation.
PAP, 23 May	The fall of net core inflation signals that the trend of low inflation strengthened, although the disinflationary factors are dying off. Since 3Q03 we would start to observe slight acceleration of inflation, caused by the likely increase of food prices, partly amid the end of pig top and impact of zloty depreciation experienced at the beginning of this year. The time for monetary easing comes to an end, although we would continue to watch economic situation and external business climate, which is still weak in our main trading partner's economies. The data on industrial output are good, slow recovery in the economy has been observed not only in this quarter, although it is still slow. So far the economy keeps expanding at the pace observed in 1Q, i.e. ca. 2%. In 2003 as a whole GDP would grow 2.5%.

PAP, Reuters, 22 May	According to forecasts the zloty will begin to strengthen, in particular after the EU accession referendum, and foreign holidays will be cheaper than it may seem to us, with the euro continuing to be strong to the dollar. The closer acceptance of our EU membership the smaller risk for the investors and the stronger reasons for zloty strengthening. […] I see no problem for the zloty to trade at 3.50 [against the dollar] at this time next year. [Is it possible for the euro to reach a rate of PLN 4.15-4.20] I believe it is this time next year.
PAP, Reuters, 20 May	Such a narrow band [±2.25%] of fluctuations [of the zloty in ERM2 system] together with appreciation pressure would influence accession economies in a negative way. In countries with free-floating FX rate its appreciation will be prevailing problem within its evolution if we are to fulfil inflation criterion. […] Though it would decrease currency risk significantly at the same time it would increase an inflow of portfolio capital. Such an interpretation of currency stability would only increase the cost for the real sector. Additionally, inflow of portfolio capital, FDI and EU support funds will exert appreciation pressure.
PAP, 15 May	Monetary policy would affect this year's inflation weaker and weaker and in our decisions we start to focus on the new medium-term target. Decisions are made to fulfil this goal. Now we have the period of the lowest inflation, but it would start to grow. We are approaching months, which saw sharp deceleration of inflation last year. We anticipate that food price growth would turn from negative to positive and therefore inflation would start to accelerate, especially in 2H03. [...] Inflation target for this year is not endangered. We will see realisation of this year's and medium-term inflation target. Macroeconomic developments are in line with expectations. According to our estimates economic growth should reach ca. 2.5%, maybe slightly more. [...] Another data confirmed the trend of gradual recovery. What is different is that we used to expect faster recovery of investment activity, while [GDP] growth at ca. 2% in 1Q03 was, as we estimate, backed more by the consumption and net exports, and there is no stronger rebound in investments.
Cezary Józefiak, MPC member; PAP, 20 May	Surprisingly high production rise in April may mark the beginning of more visible economic pick-up, which may mean the beginning of investment growth. It is realistic to expect economic growth of 2.5% to 3% in 2003. […] One cannot say for sure if these data indicate a permanent turning point. I hope, however, that at least certain elements of improvement will maintain. […] To large extent economic growth results from continuing high growth of exports being an effect of weakening of the zloty and rising profitability of enterprises. Further interest rate reductions are not excluded this year. […] However, it is difficult to say when and at what scale cuts could be implemented.
Janusz Krzyżewski, MPC member; Puls Biznesu, 28 May	The stronger zloty the stronger our position in the Eurozone. I believe that the present rate, i.e. some PLN4.30 per EUR1 is too high. One cannot simplify euro question only to the interest of one group, namely exporters who will be the largest beneficiaries of the weak zloty. […] Cheap zloty is not favourable for the government that would have troubles to close the budget as a result of increase in nominal foreign debt. One has also to remember about the citizens, as their purchasing power calculated in the euro would fall.
PAP, 27 May	The starting point for negotiations is the band of ±15%, but the lower limit of ±2.25% may be discussed. The ±2.25% band is unacceptable, as it is too narrow. […] The lower limit may be discussed. It is possible to stabilise the currency on a higher than a lower level due to currency indexation. The realistic date of Poland's entry to the Eurozone is 2007 while Poland should join the ERM2 after joining the European Union in 2004. The rate of PLN4.35-4.40 per EUR1 is quite high, but it is not a catastrophe. Exports were very good; April's balance will be very good at around 3% of GDP.
Puls Biznesu, 27 May	We should not escalate conflicts, especially as our term of office ends soon. We will do our job i.e. conduct monetary policy.
Dariusz Rosati, MPC member; Rzeczpospolita, 26 May	In my opinion an increase in producer prices and expected rise of domestic demand prove that there is no direct threat of deflation. However, a fall in prices of goods in manufacturing is possible, mainly as a result of the strongest competition and the fastest growth of productivity.
PR3, 22 May	If it [the release of revaluation reserve] takes place, and it could happen due to the change of law stripping the NBP of its independence, the central bank would have to undertake costly sterilisation interventions, draining the money out of the market. [...] It would be an illusory benefit for the finance minister. There is no chance of avoiding deep, hard politically reform of the public finance, with exotic concepts like this. The business cycle acts in favour of finance minister. The economy is getting on, the recovery is slowly approaching. Even doing nothing we would have experienced some growth in this and next year, resulting from the cyclical developments.
Reuters, 20 May	We have revised our GDP forecast after last month. Now it stands at 2.5-3% for the whole year, closer to 3%. In the second quarter we expected 2.5% growth. Maybe these data [on industrial production] point to slightly higher growth.
TVN24, 14 May	The economy is growing. I share the finance minister's GDP growth forecast at 2.5%. I think that the economy will expand by 4% at the end of 2003, so than a full-year 2003 GDP rise should be around 3%. The stance of the NBP and MPC is clear. Revaluation provision is a reserve for changes in FX rate and it cannot be used for financing current expenditures of central budget. One could think whether, taking into account this special situation, it would be possible to cut NBP hard currency reserves by an early repayment of Poland's foreign debt. Then you could repay the debt, at least part of the debt. […] On the one hand, it would reduce the public debt and widen the room for manoeuvre of a finance minister, and on the other hand, you could free the revaluation provision from that part of the repaid debt but not in the amount the finance minister thinks of. It is hard to calculate the matter, and results from the zloty exchange rate but it would be an amount of PLN2-3bn.
PAP, 14 May	Inflation's fall in April is in line with common expectations, fears of the impact of a change in the FX rate and of oil prices have not materialised. Inflation will begin to rise from May and it cannot be ruled out that it will be below 2% at the end of the year. April's inflation does not change our view of the situation as it is in line with earlier estimates. There is still some room for a modest interest rate cut.
Grzegorz Wójtowicz, MPC member; PAP, 30 May	We have another record figure, lower imbalance in the past 12 months and a deficit of 2.9% of GDP. We should not exceed 3.5% of GDP at the end of this year. We hope that imports' growth would be higher in 2H03 when we are likely to see more significant growth revival. This would lead to higher current account deficit. Exports and unclassified flows data bodes well for the future.
PAP, 28 May	We see GDP growth; we agree with the CSO, that we have GDP growth at 2% at the moment and 2.5% for the whole year and 4.0% next year. Neutral bias means that there is no need to raise interest rates but to keep them or to cut them. The situation changes so fast that we have a set of new signals each month. A low scale of rate cuts makes further easing more likely, but it does not mean that it has to be continued month by month. There have so far been conditions for interest rate cuts but there may emerge some moves, which will oppose the trend.

	Q. May observed signals restrict further rate cuts? A. There will be so when economic pick-up translates into a rise of demand, which is not seen for the time being. Surely there will be not a stimulated demand by the end of this year, and a demand impulse will be weak in 2004. In May inflation may rise to 0.5-0.6%YoY. A band of ±2.5% it is PLN0.10, so in current circumstances 2-3 days. The comment from Solbes mean “the narrower band the better we assess” but one must remember how the band of ±15% was established. It was settled after a series of a few crises that even delayed the establishment of the Eurozone.
PAP, 20 May	The whole world departs from fixed exchange rate regimes towards floating ones. Therefore the most appropriate band for currency fluctuations [within ERM2] would be a wide one [±15%], rather than a narrow band [±2.25%]. But it is still too early for firm comments on this issue, because the band would be determined by the negotiations between NBP and FinMin on one side and European Commission and the ECB on the other side. Earlier Solbes’ comments suggested that he had advocated delaying new candidates’ entry into the Eurozone, therefore I would not focus too much to his comment [...] because there are no ultimate decisions made. The data [on production] are above expectations. One should not underestimate the optimism visible in the data, however one should not expect that it is a breakthrough, because small structural changes could influence the result. After the first month of 2Q03 it is clear that the growth recovered a little.
PAP, 14 May	Monetary policy becomes boring and in fact that is how it should be. Inflation goes up and monetary policy must be boring, but since when – we will see. We got used to the fact that there is a move every month, but if we look in the past we see that there were many months when nothing happened so in fact boredom has already been observed. We have already had [inflation] record, one can expect some upward trends. Remembering that we will have some statistical effect. Last year in May-August period we had to do with deflation and a repetition this year seems to be little probable. Nevertheless, year-end inflation at 1.5-1.8% is likely.
ISB, 14 May	One cannot treat this [inflation] record as any room [for interest rate cut], this is short-living situation, that was expected, described and in fact it has already gone. There are no surprises, the lower end of forecasts confirmed. Before the harvest food prices revive, which could suggest that after this record we could expect a slight rebound. It is hard to think that four months of deflation would repeat as it was last year. I think that inflation can rise to 1.5-1.8% by the end of the year.
Wiesława Ziółkowska MPC member PAP, 30 May	GDP growth in 2003 at 3% is still possible, but only if industrial production growth observed last month maintains in the following months. We cannot exclude a possibility that CPI inflation would fall below 1% by year-end. It depends on the food prices, which recently indicated an increase slightly higher than forecasted, and on fuel prices. Fuel prices stabilised, but their development has recently changed. CPI inflation should be rather within our target. The exports' trend dynamics we see is still maintained, although it weakened a little bit in April it is still a positive trend.
Gazeta Bankowa, 6 May	Q. Does Poland need such a high [revaluation] provision? A. Other, richer countries like Sweden, Germany or Switzerland have even higher reserves, however, we should rather compare to Czech Republic or Hungary, and there is no major deference here. Also, taking into consideration the fact of entering ERM2 system, one should take into account risk factors. Nevertheless, it is another question how to asses the government’s proposal to transfer a part of reserve to the budget, for example for EU contributions or to dedicated restructuring fund. In both cases we would deal with money printing, which would not be backed in a real sphere of the economy. And it means a threat of additional inflation impulse. If one remembers of the price, too high, in my opinion, that we have paid for disinflation process, it would be a mistake to return to path of inflation. I believe using a small amount from the reserve, let’s assume it would be 10%, for earlier repayment of a part of foreign debt with conducting this operation in such a way that it would not lead to increase in money supply and a necessity of sterilisation by the central bank, is possible and suitable. However, a significant part of MPC members does not share my opinion. […] I would be cautious and would not change anything in the way of NBP’s settlements between with budget. Q. Should we hurry with entering the Eurozone? A. Actually we do meet all the formal criteria, accept for one concerning budget deficit, and we are going to have some trouble with it. Therefore, earlier accession than in 2007-2008 is rather impossible. Obviously, for many reasons we would prefer wide fluctuation band [of the zloty in ERM2], because in this case the risk of speculative attack against our currency. However, the parity at which we enter the ERM2 system is more important. Q. Do you see your optimal rate of the zloty against the euro, as minister Kołodko does? A. No, I don’t see such a rate and probably it is hard to determine it a few years before. Recent IMF report warns against deflation in Poland. The Czech Republic has already experienced it since the beginning of this year. If we split CPI in Poland into goods and services, we have already had deflation in the first group since last year. Only prices of services are growing. However, I think that due to low base effect April’s CPI will amount to 0.3-0.4% and from May onwards it may be higher. I predict that at the end of this year inflation will be below the lower end of the inflation target, unless some unexpected supply shocks appear, e.g. on oil or food markets. Interest rates [in real terms in Poland] are still well above standards binding in civilised world. [...] Some people argue that it has to be like that because interest rates [in Poland] has been high in the past. I do not agree with such point of view. One has to look at what is presently – in the past we did not have such high unemployment and slow economic growth. At the same time I would like to stress that although I am opting for faster reduction of interest rates level, I am far from saying that such action alone, not doing anything else, may boost the economic growth. It is not the only factor affecting the pace of GDP growth. However, there are no doubts that high interest rates lead to worsening of financial results of companies – they have higher financial costs, worse liquidity, less opportunities for development. This means continuation of labour shedding process, increase of budget spending on the Labour Fund and higher debt servicing costs and so on.

Government and politics

- **Prime Minister strikes back**
- **... resulting in a change of economic policy**
- **Fiscal expansion unavoidable**

Prime minister strikes back

Already before the accession referendum, one could expect that after the voting turmoil on the political scene would take place, including personal changes in the cabinet. And indeed, one day after the positive result of the referendum was announced (see details in EU Integration watch section), very important events on the political scene took place. During the meeting with the SLD National Council, Prime Minister Leszek Miller presented his strategy after the accession referendum. During the meeting he officially said he would apply for the re-election as the SLD leader (during the party's convention at the end of June) and offered a political plan aimed at restoring party's good shape and popularity, and ensuring victory in the next general elections. The plan was surprising, indeed. As regards the economic policy, Miller suggested that perhaps a flat tax rate was a plausible option for the Polish economy, adding that its implementation would be conditioned on three issues: budget revenues cannot be reduced, the situation of the poorest cannot deteriorate, and it must be accompanied with deep change in monetary policy (much lower rates, change of inflation target, freeing up revaluation provisions). He also said he would like to change the structure of control over the government's economic policy shifting the power into the hands of economy minister rather than finance minister's. We did not wait much time for personal changes. Finance minister Grzegorz Kołodko resigned after two days and Jerzy Hausner was appointed deputy PM responsible for economic affairs. Andrzej Raczko, former deputy finance minister in Marek Belka' cabinet, was appointed finance minister's post.

Moreover, PM declared that general elections should take place in spring 2005 while previously he proposed with president Aleksander Kwaśniewski that earlier general election should take place in June 2004 – together with the elections to the European parliament.

Finally, Miller announced he would call for a confidence vote for his government in the parliament as soon as possible, which would test whether he has enough support to conduct his policies. Prime Minister announced he would step down In case the vote was negative. However, as it was expected, taking into account past no-confidence votes against ministers from Miller's minority cabinet proving weakness of the opposition parties, the opposition failed to reject the confidence vote (Miller get the support of small minority caucuses and independent MPs). During his "new expose" Miller underlined that the most important goal of the government is to accelerate GDP growth. Does it mean that so-called reform of public finances has minor importance at the moment?

New finance minister will not be deputy PM

In Marek Belka's ministry, Andrzej Raczko was responsible for a part of the EU accession negotiations, public debt management, co-operation with the central bank. He co-headed (together with NBP deputy president) the special committee that was supposed to work out a reasonable compromise as regards the foreign exchange policy. From the past statements of Andrzej Raczko one could conclude that new finance minister would probably support the idea of lower rates and weaker zloty (even if the zloty weakened and the rates were cut substantially within last 12 months). But well, this would be quite typical opinion for finance minister's post. The quotes concerning so-called public finance reform are much more important, as it seems that Raczko would like to concentrate on the spending side of the budget, but one should not expect a revolution on this side amid a risk of „social resistance". Raczko was also a supporter of more cautious (than NBP's) approach to the fast Eurozone entry (in March 2002), although he changed his view a bit after two months of negotiations with the central bank (in May 2002). He also mentioned a possibility of zloty devaluation ahead of the ERM-2 entry, which would surely meet the central bank's opposition.

Economic policy still unknown

As for now, only one uncertainty was dispelled (actually not the most important one) - regarding the name of the next finance minister. We have said many times in the past that in fact it was irrelevant who would stay on the finance minister's post (it could be deputy finance minister Halina Wasilewska-Trenkner as well) if Hausner takes over the control over the government's economic strategy. The person, who used to support higher budget deficits, fiscal stimulation of domestic demand and a delay in Euro introduction, would conduct the economic policy of the government aimed at accelerating GDP growth. However, we do not expect that the flat tax rate would be the way to revive the economy, accepted by this government, as it seems that it would be extremely hard to implement such measure by the SLD. And in fact Leszek Miller did not promise or declare anything in this regard, saying only that the idea is perhaps worth considering. Anyway, looking at the pre-conditions for flat tax rate introduction listed by Miller, it is clear that this solution is not possible to implement right now, e.g. due to government's inability to change monetary policy, at least in the near future. Of course Leszek Miller said he hoped the new MPC would be much more willing to co-operate with the government.

During the press conference, Jerzy Hausner presented key objectives of the economic programme he would try to implement. He said the top priorities are reviving economy, entrepreneurship and job creation. Nevertheless, as a third aim he listed a reform of public finance, adding that it should focus on spending side in contrast to Kołodko's proposals. Hausner declared he would aim at elimination of indexation schemes, reduction of social benefits, gradual introduction of taxation in agriculture. However, it does not seem very likely that a sharp reduction of social spending could be implemented. Even if deputy PM would succeed in persuading the Council of Ministers, such changes are very likely to be blocked in the parliament. And additionally, one should remember that other ministers would not be passive and are very likely to demand more spending in their ministries.

Hausner said also the issue of revaluation provision would have to be discussed with the NBP and tax changes proposed by Grzegorz Kołodko would be most likely revised before being accepted by the government. He also suggested that budget assumptions approved by the government would be changed. Simply, those assumptions must have been approved, because the Polish law requires that the government should present them for consultations in Three-Party Committee until 15 June. However, the ministers approved five out of ten bills accompanying Kołodko's reform plan, including: investment funds bill, excise tax bill, local governments' finances bill, VAT bill and public finance bill. The cabinet also declared that it would accept five remaining bills during the next meeting. However, even if this happens, the bills are very likely to be substantially revised. And conflict over this issue was probably one of the reasons of finance ministers' resignation.

What does such scenario means for government's economic policy and for financial markets? Certainly, some of new deputy PM comments could be perceived as positive (reform of budget spending). Nevertheless, it is still too early to draw resolute conclusions on how (whether?) the government's economic policy would change. Pure declarations are not enough to restore market confidence, as past experience shows clearly that they often do not materialise. Next year's budget deficit is likely to amount to some PLN50-60bn. Well, the market has already digested such an amount, but it does not mean that it should not be disappointed. Especially, as deep reform of the spending side of the budget is not very likely amid political restraints in the parliament, if not in the cabinet. What is more, small parliamentary caucuses connected with agriculture sectors, which helped Prime Minister to survive the confidence vote, are very likely to demand more money from the budget to increase direct subsidies for agriculture sector, to the maximum level negotiated in Copenhagen. If their support for the budget and budget accompanying laws would depend on this issue, we could see higher budgetary spending (and deficit) by PLN2-3bn, or the government would have serious problems with passing the budget through the parliament.

This all suggests that financial markets would not necessary believe the economy minister and deputy PM if he would try to convince market participants that in the medium-term budget deficit would be lowered to a reasonable level. This means that the market is likely to react negatively on new government's economic policy, especially at the longer-end of the yield curve and on the foreign exchange market. The short-end of the curve might be of course much less nervous, as market participants believe in further monetary easing amid low inflation and low GDP growth. However, if we assume the scenario of rising inflation in 2H03 and accelerating GDP growth (it is the market consensus). In our opinion financial markets should start to think whether expansion of fiscal policy, described above, is not sufficient argument for lower scale of interest rates reduction, as compared with market expectations. These expectations were adjusted slightly downwards after the last month's events, however the market still believes the NBP reference rate will fall by another 75 bp until year-end. In our opinion, this view is overly optimistic, although one has to take into account that the market believes that the new MPC will cut rates at the beginning of the next year.

Of course, in the short-run after the voting a positive reaction on the FX market might be observed, as the fears of earlier elections and political instability would evaporate. However, financial market will wait for the new cabinet's decision concerning main budgetary assumptions.

Comments of the government members and politicians

In May we saw no resolve of the conflict between finance minister and economy minister as regards the general line of the economic policy and the idea of required changes in public finances. The ultimate government's decision regarding public finance reform has been postponed once again – now until 10 June, i.e. after the accession referendum. Clearly it was impossible to reconcile the fight between Kołodko and Hausner without a dismissal of one of them, which was confirmed on 11 June. Meanwhile, their dispute has become less visible in the media. In the second half of May, we noticed one week when, for the first time since Grzegorz Kołodko's appointment for the post of finance minister, there was no single Kołodko's comment quoted in the media. Even despite those days the government have been discussing the programme of public finance reform and its changes made after the consultations with social partners. In general in the second half of May there were very few comments from ruling politicians regarding planned fiscal reform and government's economic policy as a whole – one should get an impression that it is in order to avoid negative emotions just ahead of the EU referendum.

Earlier last month minister Kołodko ensured there was a chance of joining Eurozone in 2007 assuming the government and the parliament accept his programme. Jerzy Hausner was talking about unemployment fall, ensuring it represents a permanent breakdown of the upward trend. PM Miller complained again about high interest rates and was hoping the new MPC would be much more willing to cut rates. At the end of May majority of politicians' and government representatives' statement concerned the same subjects as MPC members' quotes (see previous section). They commented interest rates reduction (saying, as usual, it is too small), finance minister assured about necessity of using revaluation provisions and rejected the proposal of Pedro Solbes regarding narrow FX band in the ERM2 system. The latter issue seems to be one of few topics, in which the central bank and the Ministry of Finance express fairly similar opinion.

At the end of May left-wing politicians (president, Lower House speaker) have timidly started a discussion about changes on the Polish political scene. However, before a more detailed debate could evolve, the initiative has been taken over by Prime Minister who kicked off with a new political "counter-strike" just after the accession referendum – see previous pages.

WHO, WHEN, WHERE	COMMENT
Aleksander Kwaśniewski, President; PR1, 30 May	The truth is that assuming a positive scenario, we are in the EU, we have 11 months to prepare own resources, procedures, people etc. […] The second issue is connected with the reform of public finance […] the next thing is the budget for 2004 […] and all budget accompanying laws, which should be accepted by the parliament. I would like to know the opinion of main political parties – are they ready for early elections. And that is why I would like to meet with the leaders of all political parties supporting EU integration. Of course, I will start with PM and SLD chief Leszek Miller.
Marek Borowski, Sejm speaker; PAP, 27 May	Preparing the plan [of finance reform] is a starting point. If it does not exist than any negotiations about who would lead the government, if it would be Mr. Miller or not, who would be in and who would be out and so on, are empty. What would such a government do if it had not accepted anything in this elementary question. It would collapse soon. There is no reason to discuss whether party's chief should be at the same time Prime Minister. We should start from the most important thing – preparing Poland for beneficial EU accession including public finance reform. If you ask me "is it possible with this government?", I say "yes", but if you ask me "will this happen for sure?", I say "I do not know".
Leszek Miller, PM; PAP, 20 May	Minister Kołodko presented a comprehensive information about the consultations [as regards public finance reform]. He outlined the issues still to be consulted. [...] At the same time there will be works over seven bills going on and the assumptions for 2004 budget draft. This entire package would be presented and the pace of work would depend on consultations. It is hard to say whether it would be two or three weeks, but no longer. It could be 10 June or one week later.
PAP, 15 May	This year's privatisation revenue is to amount to some PLN9bn but we may fall short of this target. We may obtain PLN7bn which still will be a decent result. […] Privatisation process will not be halted in Poland. The term of office of the current MPC will end soon. Next year we will have a new MPC. […] It seems to me that one could expect the new MPC to be more liberal and more willing to admit that there is room for reducing interest rates and that inflation will be kept on the low level. […] The future MPC will be more courageous. Interest rates are still high. One can praise Leszek Balcerowicz and the MPC that inflation has been reduced to such a level but interest rates could be reduced to attract investors even if inflation goes up slightly.
PR1, 12 May	There are different opinions [between ministers Kołodko and Hausner] and they are admissible until the Council of Ministers decides what final version of the programme to accept. And I assure you that once the government decides what final version of the programme to accept then, obviously there will not be further discussion. In a week we are to acquaint with the a course of consultation and the government will learn if there are any items which would require further talks with social partners or at least with parliamentary support, or if everything is agreed. So I think that in a week on customary Tuesday government sitting such a final decision will be made.
Grzegorz Kołodko, deputy PM, finance minister; www.mf.gov.pl, 28 May	The central budget will use the revaluation provisions of the NBP […]. I believe that the NBP will finally agree with reasonable arguments pointing not only to economic necessity but also legal possibilities of using a part of pecuniary resources of Poland. We put the amount of PLN9bn from revaluation provision at the revenue side of assumptions to 2004 budget bill. And this will happen […]. While GDP growth in 2Q02 was at 0.8%, it accelerated to 2.8% in 2Q03. Mainly because of industrial production growth of almost 6% This proposal [a band of ±2.25% in ERM2] is unacceptable and I believe it is also treated so by its author. It is a question, intellectual provocation inviting for a serious debate […]. I would like Poland to be ready in three years time so that it could join the euro zone in 2007. It is still possible. But it requires some methodological and political appointments with the European Commission. We have already begun to work on it within ECOFIN. [Q. At what level do you forecast inflation at the end of this year?] It will be around 1% annual average and not much more on December-over-December basis.
PAP, 16 V	In one month time we will know whether we would be able to meet fiscal criterion, because we already fulfil the others. If the government accepts the programme of public finance reform and approves the package of bills, and also accepts [...] the budget for 2004 based on those assumptions, there would be such chance. Eurozone entry in 2007 and fulfilment of fiscal criterion in 2006 is possible. Adopting euro in 2007 does not require fulfilment of fiscal criterion in 2005. My suggestion is that European Commission evaluates Poland's eligibility and readiness for meeting all the criteria in a three years time counting from now. It does not mean that we have to enter EMU on 1 January 2007, it could be 1 May 2007 as well. Next year's budget deficit in nominal terms would surely be higher [than this year], but not much. In relation to GDP I wish it was not higher, however it would ultimately depend on the government's decision as regards fiscal reform programme. [...] In next year's budget revenues I included PLN9bn revaluation provision from the NBP.

PAP, 15 May	The programme has been already presented to the government and the government will make a decision on June 10. Next, a package of draft laws will be sent to parliament to create a friendlier environment for conducting economic activity by firms. If we were to make decisions [to enter the Eurozone] today then I would agree to the exchange rate of 4.35. What the situation will be like in spring or autumn 2006 when we make the decision, the exchange rate could be higher in real terms, because by this time we may have inflation at 2%. […] If we meet the criteria in 2006 and if European Commission's assessment is positive, then we may be invited to join the EMU 2007. If not on 1 January then on another day still that year. […] Despite differences the government and the central bank will pursue a macroeconomic policy in order to make it possible to join the euro zone in 2007.
PAP, 13 May	I am not in hurry on the way to the euro. All the time I underline that it is more important ‘at what rate’ than ‘when’. And as an economist I am absolutely confident that entering the Eurozone and a convergence are favourable for Polish economy from the point of view of long-term development.
PAP, 8 May	We have changed our forecast [of GDP growth in 2003] to ‘no lower than 3%’ from 3.5% included in the Act though I may be wrong and it will be higher, but I prefer to plan 3-3.2% to eventually achieve 3.4%. […] We would be able to reach higher economic growth if monetary policy supported the growth. Exceeding 3% of GDP depends on performing reform program, external business climate and monetary policy. GDP growth will reach 2.2% in 1Q03 and 2.6% in 2Q03. Realisation of the programme of public finances reform will result in acceleration of GDP growth to above 4% in 4Q03 and in the 2Q04 and 3Q04 it will reach around 5%. The average inflation will not exceed 1% in 2003. […] In April inflation will maintain at record lowe level of 0.3%. We are after long period of continuous unemployment growth. I envisage that the unemployment rate will fall to 18.4-18.5% in April. At the end of June it should be at around 18% and the same at the end of the year. The point is […] that Poland should join the Eurozone in 2007. In order to do so, economic and financial policy programme should be drawn up in such a way […] so as to make it possible to meet all convergence criteria in 2006 without cutting spending, including fiscal criterions, which are most difficult to meet. I am not saying that we have to join the euro zone in 2007 but if we are in the EU then we have to join. But we do not have to do this in 2007 if we do not meet criteria or if we do not negotiate a favourable zloty to euro rate. […] In a month time I will be able to answer the question whether Poland will be able to join the Eurozone in 2007. Then, both the Programme for Restoration of Poland’s Public Finances and budget assumptions for 2004 will be approved. There is still no agreement with the NBP on the issue of the so-called revaluation provisions. (...) There is deep rationale speaking for using these provisions. Transferring these resources to the budget would not cause inflationary pressure, because they would be exchanged for foreign currency and spent on EU contribution and debt payments. (...) This will be done and such item will be included in 2004 budget. This would be a one-off operation, although there are also proposals to use another part of revaluation provisions, which would create a special fund used for co-financing of EU projects. (...) This would cause some monetary effect but given lack of inflationary pressure it would be useful for the economy. According to the European standards [ESA-95 methodology] budget deficit in 2004 will increase to 4.8% from 4.1% in this year. This will result mainly from the fact that according to ESA resources from freeing up revaluation provisions cannot be recognised as budget revenues but as a source deficit financing. In 2006, public debt to GDP ration will amount to 54.4% and this is a risk limit. We try not to exceed 55%. There is not an assumption, even in a pessimistic scenario, that we could approach 60%.
www.mf.gov.pl, 7 May	[Q: How large interest rates reduction would be needed to stimulate demand in the Polish economy?] Around 2.5-3.0 percentage points. Of course, I mean official interest rates of the NBP. Considering market interest rates of credits in commercial banks, a fall should be even deeper. And it will be [deeper] in time.
PR1, 7 May	I do not reject anything. I say what I propose and what is included in the programme. Perhaps new ideas will appear. But everything has to be arranged in such a way so as to prevent state budget revenues from falling too much. We are all the time under pressure from some ministers to increase spending and to increase budget revenues. If minister Hausner is able to convince social partners to such a solution [freezing wages in budget sphere and social benefits], I will incline obviously to support it since in fact in present situation freezing does not meant lowering […] Sold industrial production rose much above 4% in 1Q03 and in 2Q03 it is increasing by around 5.4%. (...) Budget revenues have been performing well. In 1Q03 they increased by as much as 6.6%YoY and there is almost no inflation. In fact, the Polish economy has a chance to return on the fast growth path, provided that demand grows, but in a non-inflationary way, and that this is not financed by incurring more debt in the years to come, which also possibly some ministers would like to propose.
Jerzy Hausner, economy minister; PAP, 29 May	For sure the unemployment will go down significantly in May. I would like it to fall to 18.0% but it may be 18.1%, however, for sure the unemployment will go down.
PAP, Reuters, 19 May	We must join the Eurozone as soon as possible but only if we are able to remain there because of healthy economy and not creative accounting. In my assumptions of development of Poland's economy entering the Eurozone should take place in 2007-2008, but I don't decide in advance when it should happen. Personally, I believe that activities influencing economic revival, enterpreneurship revival, job creating and demand impulse creating should be implemented.
PAP, 16 May	I am confident that we are reversing an upward trend in unemployment. My personal test and personal responsibility is if unemployment in December 2003 will be lower than in December 2002. […] The lower would prove that, what seemed possible for me from the beginning, is happening. However, I would not applaud myself then but I would say: fortunately. What you call a fight or collision of personalities is just a fundamental dispute and the matter is the most important thing for people, namely reversing an increase in unemployment.
PAP, 7 May	Is the public finance reform a proper reaction to the needs? This is an inadequate answer, it does not answer the questions how to stimulate enterprise and how to create jobs. We need an around 5% GDP rise to imagine that we will solve a labour market problem at the demographic rise. I see no reason to admit that there will be foundations for a 5% growth in 2004, the programme provides no answer how we should attain the goal, and we have to do with the attempt to tighten the fiscal belt, we have to do with higher tax burdens I have cardinal doubts if we would gain the effect that we want if we cut expenditures at this rate of economic growth. […] I have said that this is not a good proposal. I will very strongly support finance minister in his efforts to reform public finances. I regard it as a fundamental issue. It has to be done. However, I have asked (...) what is the most important in the Polish economy at the moment. (...) For me, the most important is stimulating the economy, stimulating entrepreneurship and increasing employment.
PAP, Reuters, 6 May	Today he [finance minister] and I are fundamentally at odds […] My question to the finance minister is: show me, how you are going to reach such a growth rate. Even without meddling with the way of calculating of GDP to debt ratio there is a room for easing fiscal policy, as the incomes of the lowest income groups should not be reduced.

	There is already little room for interest rate cuts. The scope existing 18 months ago does not exist anymore. But I don't say it does not exist at all. One should consider whether it is possible to maintain a situation in which exports is the main driving force of the economy. If GDP growth in 1Q03 reached 2.1% and on average in the whole year it will be 3%, it is quite optimistic scenario. In order to reach GDP growth at 5% we need demand impulse worth of PLN7bn. [An increase of tax-free personal income and lowering of CIT rate] would bring about PLN7bn worth demand impulse or 1%of GDP […] I believe that the finance minister should agree to a cost for a budget. […] The fundamental question is whether we can stimulate demand and how we can do it not disturbing the macroeconomic situation. We should offset loss of some revenues. (...) We could freeze wages in public sector and old-age and disability pensions, which would lower the macroeconomic risk of this operation. [About dispute with Kołodko] This is a fundamental conflict between two kinds of logic, between viewing macroeconomic balance as an effect of attained economic growth and striving for economic revival and economic growth as a means of achieving macroeconomic balance. […] These are two different schools of thinking and the government must decide. […] This conflict arose out of certain circumstances and it must be resolved. This scheme to repair Poland's finances has no chance to see a light of day without an improvement. […] This is detached from reality. […] We overdo with consequences of UE accession. According to my estimations we will need PLN2.5bn.
Halina Wasilewska-Trenkner, deputy finance minister; G.Wyborcza, 29 May	Possibly, a part of PLN9.9 [so called gap] will be treated as the deficit, but surely not the entire amount. Someone will have to pay for today's high budget deficit and that is why we have to limit it. This is the main reason to conduct the reform of public finance.
www.mf.gov.pl, 26 May	The MPC is conducting the monetary policy according to previously accepted plan. With a very low inflation this year there is still room for further interest rate cuts. As far as the 2004 budget is concerned, it is difficult to build it because it will contain some structural changes, and their assessment is risky. At stake is a new law on local government's incomes. We propose to transfer increased PIT and CIT revenues and some expenditures to local government entities. We do not know whether the proposal will be accepted. Therefore two versions of the draft of a 2004 budget are worked out at the moment, the one with such changes and the other without the changes. [about a realisation of this year's budget] In fact, it is good, but within the limits accepted in Budget Act. Unfortunately it is not that good to result in significant decline in this year's deficit. There is a very little risk of deflation in Poland. The EURPLN rate is right from the point of view of the purchasing power of both the currencies. However, the rate keeps growing, which reflects the situation on the world more than in Poland.
Ryszard Michalski, deputy finance minister; PAP, 22 May	[We are particularly upset by this remark [from Mr. Solbes] because we have a floating exchange rate, with no foreign currency intervention, and the volatility of our rate to the euro is the biggest among candidate countries. […] This remark is not binding for us. This is not a decision of EcoFin that has the authority to make such decisions. Several years ago recommendations appeared for narrower band to be applied to asses exchange rate stability of a given candidate to the euro zone but this is only an assessment criterion, this is not a formal criterion included in the Maastricht treaty, where we have a ±15% band. This is a hint for the MPC, because maybe it is high time to change FX regime. It cannot be that way that we are the only so extremely free-market country and use free float, while other countries fix their rates against the euro to rising extent. […] This is a hint to FX policies of candidate countries and this is a signal that the European Commission was not so eager to accept new countries in the euro. [in 2004] The [budget] deficit will be higher than this year's one and this is linked with using the reserve 'on paper'. The deficit will also depend on the final version of minister Kolodko's public finances repair programme adopted by the parliament. But it should only slightly exceed PLN40bn.
ISB, 19 May	The ministry mulls over issuing a medium-term instrument with a floating interest rate on international markets. […] Perhaps we should decide for an instrument with a floating interest, it would have to be a 3- or 4-year instrument. Interest rates of such instruments are below 2.0% a year, which is very beneficial. […] I have heard opinions, that we depend too much on 10-year bonds so maybe we will try with 20-year papers, too. It is worth trying on international markets, where such bonds are more liquid, in the future. It is likely that we will admit domestic entities within several weeks to the primary market of our instruments issued abroad. Perhaps already to the 'samurai' papers.
www.mf.gov.pl, 8 May	[Q: Will the Ministry of Finance buy foreign currency on the market?] Yes, of course. [Q: Is the present level of the zloty exchange rate too high?] One can say that it is too high, at least from the point of view of trade balance and current account balance. Present level of the zloty exchange rate encourages for increasing imports. [About using revaluation provisions] The thing is that in accordance with the law, these provisions should be transferred to the budget as they represent profits brought by sell of FX reserves before 1999. Personally, I am not afraid about reaction of the EU if we carry out the whole operation in a civilised way.
Andrzej Sopoćko, deputy finance minister; PAP, 21 May	At the moment the "Yes" outcome of the referendum seems to be predestined and one should expect that zloty would appreciate. However, in order to evaluate its strength properly and exclude seasonal factors one should wait until after the referendum. [...] I suggested to my colleagues from FinMin to delay debates on the appropriate level of zloty exchange rate and the issues related to Poland's Eurozone entry until after the referendum and to return to such issues e.g. in September.
Jacek Krzyślak head of Research Dept. in FinMin; PAP, 27 May	We estimate that the economic deficit stood at 5% of the GDP in 2002. […] What has helped us in part was another GDP calculation method. Local government units posted a result better by PLN0.4bn, with the deficit smaller by PLN0.6bn. We estimate inflation to be 0.2%MoM in May which means a rise to 0.5-0.6%YoY, from 0.3% in April. […] We believe that a rise in prices of baker's goods was not as significant as it seemed to be earlier.
Juliusz Kotyński, MinFin representative; PAP, 27 May	In my opinion, there is higher probability of joining the Eurozone in 2008 rather than in 2007. But 2007 should still be the target 0 it is possible, although very difficult.
Jacek Piechota, deputy economy minister; PAP, 28 May	[about interest rate cut] It is too little as compared to expectations, however if all rate cuts that were implemented within this long period are summed up surely this will have positive impact on the economy. We estimate that the CA deficit will be USD8.7bn at the end of 2003, or 4.6% of GDP. Economic recovery may have influence on the widening of the CA deficit, which is connected with an expected growth of imports in 2H03.
Michał Tober, spokesman of the government; PAP, 20 May	The Council of Ministers decided that final acceptance of the financial reform package will be simultaneous with the submission of 2004 budget guidelines and key bills. […] On Tuesday [20 June] minister Kolodko informed the cabinet about the outcome of consulting the social partners.

Witold Orłowski, chief President's economic advisor; PAP, 8 May	The economy is absolutely beyond inflationary pressure so I don't see no reason why the interest rates should be at present level.
PAP, 7 V	Nobody knows how much the zloty may weaken [as an effect of negative result in the referendum] but market participants expect the weakening to be considerable, by 10-15%. This will be something that the market is certain to notice although it is difficult to predict it. Entering the Eurozone opens a way to economic stability and gives bigger access to capital but one should do it in a proper way. One should not do anything recklessly.
Edmund Pietrzak, President's economic advisor; PAP, 26 May	Factors driving the zloty before the referendum will be connected with expectations of referendum's turnout. This may increase nervousness on the market, which would translate into a slight weakening of the zloty against the basket. […] Cross exchange rate of EURUSD will be the second factor. Euro will strengthen further up to 1.25 against the dollar, although I do not think that this will happen in such a short period of time. This will of course translate into zloty rates against both currencies. If the outcome of the referendum is YES, the zloty will strengthen. The most likely scenario is that the turnout will not exceed 50%, will be a bit lower, but majority will vote YES. The zloty would weaken quite substantially, but there would be no currency crisis. [...] average deviation from the parity could be as low as 1%, or even 0%. [NO in referendum] It is only theoretical variant, which I do not believe, and in this case we have a currency crisis and we do not know where the zloty would be traded.
PAP, 7 May	A foreign currency crisis is certain if fewer people vote 'yes' which however is not very likely. It is difficult to say whether we will face a crisis if turnout is below 50%. Investors may withdraw around USD50bn from Poland which does not mean that they will do so in one day. Taking into account portfolio investments, several billion dollars may be withdrawn with the zloty exchange rate going down. It is difficult to say what value the zloty will have. The most serious threat is a fast euro adoption. Combination of fast euro adoption with too strong exchange rate of the domestic currency is the worst thing, which may happen. Fast Eurozone entry with strong exchange rate would be a shock therapy.

EU Integration watch

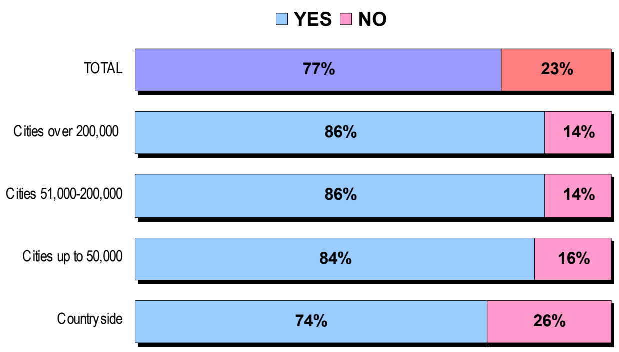
- **Almost 80% Poles supported EU accession**
- **Turnout of the referendum at nearly 60%**
- **Uniform distribution of votes and turnout among all voivodships**

Referendum is binding, strong YES for Europe!

The referendum on Poland's accession to the European Union took place on 7-8 June and ended up with very positive outcome.

According to the official data from the National Electoral Committee, 77.45% of Poles, who participated in the referendum, said YES for Poland's accession to the EU, while 22.55% were against. What is important, such high support for European integration was uniformly distributed through all the country's regions. Only two voivodships – Podlaskie i Lubelskie – recorded the ratio of YES votes below 70% (although only slightly below, see the table).

Voting results of the EU accession referendum

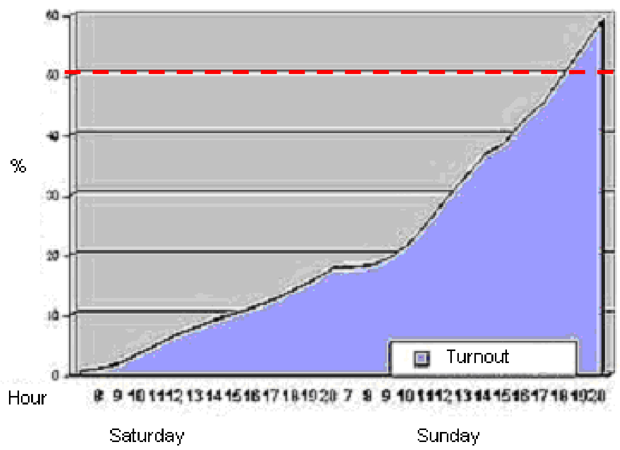


Source: National Electoral Committee

The turnout reached 58.58%, safely exceeding the threshold of 50% required for the referendum to be binding. Also the distribution of the turnout thought the voivodships were quite uniform, staying in 55-70% range in most cases. None of the voivodships recorded a turnout below 50%.

However, after the first day of the referendum the results were not optimistic at all – on Saturday only 17.6% of Poles took part in the voting, which caused very serious concerns whether it was able to reach 50% until the end of weekend. On Sunday the turnout growth accelerated sharply, as most of Poles rushed to the vote stations just after the morning mess in church. Nevertheless, as long as until 18:00 the total turnout still remained below 50%. Only the last couple of hours of the referendum proved to be crucial. The turnout growth accelerated the most after 16:00 and during the last three hours of voting the turnout grew by 13%. The pace of growth of turnout in time displays the graph below.

Growth of the turnout in time during the referendum



Source: PBS on the order of TVP1

Voting results in voivodships

Voivodship	Turnout	YES votes
Dolnośląskie	60.18%	83.66%
Kujawsko - Pomorskie	57.90%	77.11%
Lubelskie	55.45%	63.25%
Lubuskie	58.21%	84.02%
Łódzkie	57.70%	71.34%
Małopolskie	59.91%	76.15%
Mazowieckie	59.95%	74.23%
Opolskie	54.56%	84.88%
Podkarpackie	57.32%	70.08%
Podlaskie	52.71%	68.63%
Pomorskie	62.78%	80.24%
Śląskie	61.40%	84.51%
Świętokrzyskie	52.14%	75.76%
Warmińsko - Mazurskie	54.74%	81.72%
Wielkopolskie	60.99%	77.13%
Zachodniopomorskie	58.47%	84.46%
Outside Poland	82.62%	88.68%
Ships	98.86%	86.31%
TOTAL	**58.85%**	**77.45%**

Source: National Electoral Committee

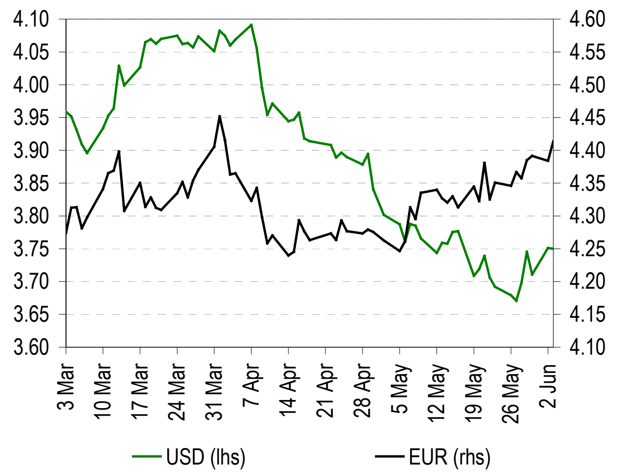
Market monitor

- **Zloty relatively stable against dollar-euro basket**
- **Dollar hit historical low against euro**
- **Gradual strengthening on bonds market**

Euro hit the record high

In May the USDPLN and EURPLN rates were mainly influenced by the situation on the global market. The upward trend in EURUSD continued and it recorded subsequent highs. On Tuesday, 27 May it hit a record high of 1.1933. The domestic factors were of relatively smaller importance in previous month, thus the zloty was moving in a narrow range against the dollar-euro basket. Most often it was weakening because of negative news, but afterwards rise in EURUSD translated into strengthening against the dollar. At the end of May, the value of the zloty was almost unchanged against the currency basket as compared to the end of April. It strengthened by ca. 3% against the dollar and weekend pro rata against the euro.

Zloty FX rate in recent 3 months

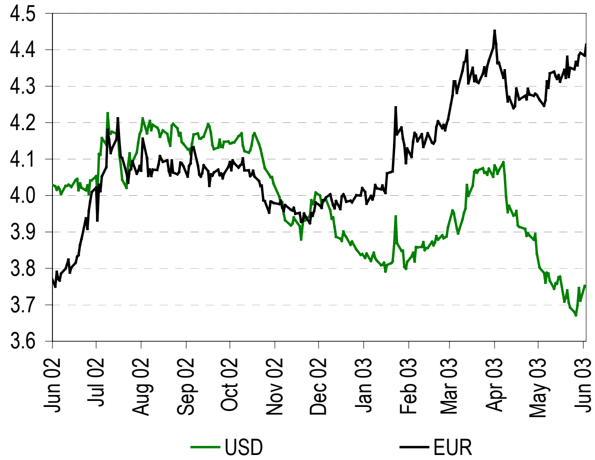


Source: NBP

According to the NBP fixings, in May the dollar was traded between PLN3.6709 (on 27 May) and PLN 3.8015 (2 May) and PLN3.7414 on average (against PLN3.9633 in April). The euro traded from PLN4.2465 (5 May) to PLN4.3915 (30 May) with the average at PLN4.3293 (in April at PLN4.3020). The average rates were very close to our projections presented in the previous MAKROskop (3.74 and 4.30, respectively).

In the first days of May, the zloty strengthened against the dollar, following EURUSD rate. However, already in mid-first week, within one day, the zloty slipped by 1% against the currency basket following another episode of the Kołodko-Hausner conflict and the voices of the President's advisors speaking about the threat of a currency crisis in case the Poles vote 'NO' in the referendum. In the second week of May, nothing happened on the domestic scene, so the zloty was merely following the growth in EURUSD.

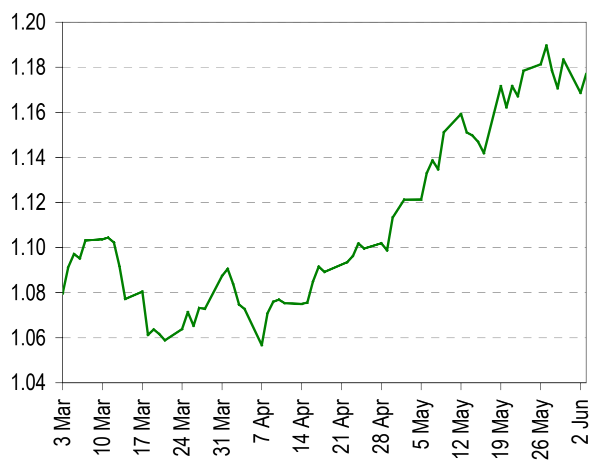
Zloty FX rate in recent 12 months



Source: NBP

Deterioration of sentiment and zloty's slip by 1% were recorded again on 20 May when the markets began to speculate about dismissal of finance minister and strong production data weakened expectations of another rate cut. The negative sentiment were also stirred by the comment from the EU Commissioner referring to the restrictive terms and conditions of the zloty entrance to the ERM2 system. In the last week of May and the first week of June, the currency market was affected by the preparations to the referendum and turmoil on the Hungarian market. Most likely, some foreign investors decided to reduce the PLN positions ahead of the referendum. In this period, depreciation reached 3% against the dollar-euro basket, stepping up in the beginning of June when the sell-off of the forint accelerated, which ended up with devaluation of it.

EUR/USD FX rate

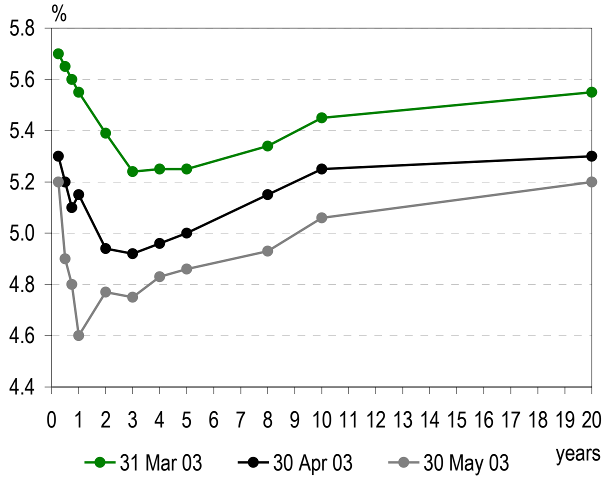


Source: NBP, BZ WBK

Drop in yield before interest rate cut

In May, the T-bond market was boosted, however, the scale of the change, especially at the short end of the yield curve, was much smaller than in April. For the first three weeks, yields diminished slowly and gradually. The market was dominated by a common conviction that the MPC would cut the rates. Thus, the MPC decision was priced-in, and, once it was taken, it did not result in any sharp strengthening of the market. After the interest rate cut, the market was adversely affected by the confusion on the Hungarian market.

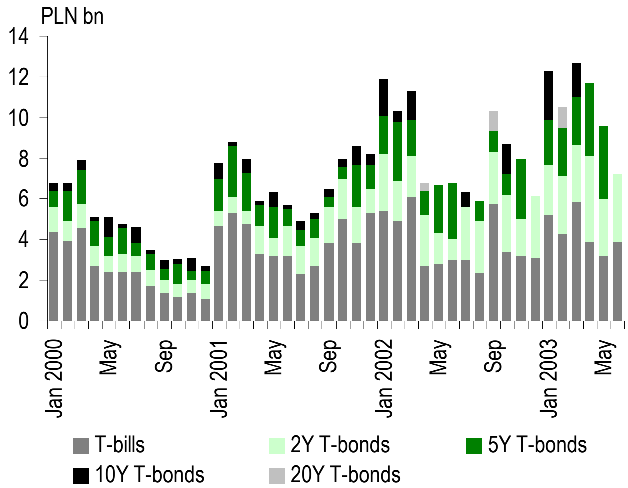
Yield curve



Source: BZ WBK

At the auction held on 21 May, despite substantial supply (PLN3bn) of 5-year PS0608 bonds, the total of the offer was sold. The demand totalled PLN7.2bn, i.e. it outstripped the supply over two times. Average yield fell to 4.861% and hit the floor of the projected brackets, close to the current market quotations. On the following day, a supplementary auction was held. The demand was slightly lower than the supply and was accepted in total. On Wednesday, 4 June, the third auction of the 2-year OK0405 benchmark was held. Bonds totalling PLN2.8bn were offered and this time the demand was also high (PLN8.4bn), three times as high as the supply. Obviously, all the offered bonds were sold and the average yield dropped to 4.741% from 4.812% at the auction in May, reaching the level which was close to the expectations and the current market quotations. At the supplementary auction, the demand was much below the supply as the average price from the first auction was no longer competitive for the secondary market – it was accepted in total.

Supply of Treasuries



Note: June 2003 without 5-year bonds
Source: Finance Ministry, BZ WBK

The Ministry of Finance announced that at the auction on 18 June supply of 5-year PS0608 bonds would range in between PLN2.0-3.0bn.

Treasury bill auctions (PLN m)

	OFFER (SALE)		
Date of auction	*13-week*	*52-week*	*Total*
05.05.2003	-	800 (800)	800 (800)
12.05.2003	-	700 (700)	700 (700)
19.05.2003	-	800 (800)	800 (800)
26.05.2003	-	900 (900)	900 (900)
May total	**-**	**3,200 (3,200)**	**3,200 (3,200)**
02.06.2003	-	700	700
09.06.2003	-	700	700
16.06.2003	-	800	800
23.06.2003	-	800	800
30.06.2003	100	800	900
June total	**100**	**3,800**	**3,900**

Source: Finance Ministry

Treasury bond auctions in 2003 (PLN m)

Month	*First auction*				*Second auction*				*Third auction*			
	date	*T-bonds*	*offer*	*sale*	*date*	*T-bonds*	*offer*	*sale*	*date*	*T-bonds*	*offer*	*sale*
January	08.01	OK1204	2,500	2,500	15.01*	DS1013	2,400	2,400	22.01	PS0608	2,200	1,959.1
February	05.02	OK1204	2,800	2,114.3	12.02	WS0922	1,000	0	19.02*	PS0608	2,400	2,000
March	05.03*	OK1204	2,750	2,750	12.03	DS1013	1,600	1,600	19.03	PS0608	2,400	2,236.8
April	02.04*	OK0405	4,200	4,200	16.04*	PS0608	3,600	3,600	-	-	-	-
May	07.05	OK0405	2,800	2,800	21.05*	PS0608	3,600	3,555	-	-	-	-
June	04.06*	OK0405	3,300	2,852,2	18.06	PS0608	-	-	-	-	-	-
July	02.07	OK0405	-	-	9.07	DS1013	-	-	-	-	-	-
August	06.08	OK0805	-	-	-	-	-	-	-	-	-	-
September	03.09	OK0805	-	-	10.09	WS0922	-	-	17.09	5Y	-	-
October	01.10	OK0805	-	-	08.10	DS1013	-	-	15.10	5Y	-	-
November	05.11	OK0805	-	-	19.11	5Y	-	-	-	-	-	-
December	03.12	OK1205	-	-	-	-	-	-	-	-	-	-

* with supplementary auction

Source: Finance Ministry

International review

- **Interest rate cut by the ECB**
- **Diminishing consumer and producer inflation**
- **Stagnation in the Eurozone in the 1st quarter**

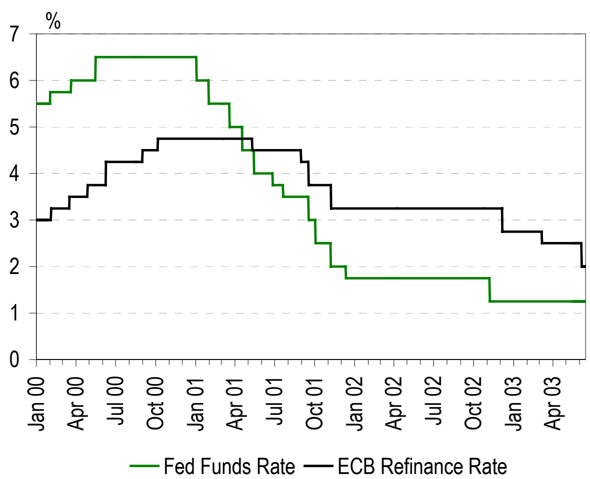
Rates down in the EMU and maybe also in the USA

At the meeting on Thursday 5 June, the Council of the European Central Bank decided to lower Eurozone's interest rates by 50 bps. The decision matched expectations of financial markets. Starting from Friday 6 June, main Eurozone's interest rate – refinance rate – stands at 2.0%, which is the lowest level since the introduction of the euro and the beginning of conducting monetary policy by the ECB. During the press conference the president of the ECB Wim Duisenberg said that economic prospects had deteriorated in recent months and the growth would be low this year and it would accelerate only moderately next year. At the same time he assured that the ECB has still the room for interest rate cuts, if necessary.

Eurozone's M3 money supply growth rate amounted to 8.2%YoY in April accelerating from 7.9% recorded in March, while analysts expected a slowdown in a pace of growth to 7.5%. The data did not influence the ECB decision, since the bank decreased the significance of money supply data in assessing inflationary pressure.

In the United States next meeting of the Federal Open Market Committee is planed for 24-25 June. Since November 2002 federal funds rate remains at 1.25%, the lowest level for 40 years. At the moment, majority of analysts forecast interest rate cut by 25 bps in at June's meeting.

Interest rates in the USA and Eurozone



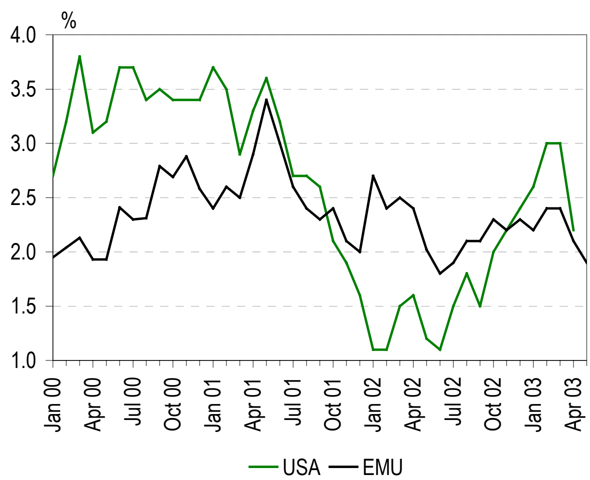
Source: Reuters

Inflation in the Eurozone below ECB's target ceiling

According to final release, in the Eurozone consumer prices increased by 0.1%MoM in April. Annual inflation rate declined to 2.1% from 2.4% recorded in March, which matched preliminary estimations. Analysts expected inflation at 0.2%MoM and 2.4%YoY. According to preliminary estimations, in May Eurozone's annual inflation rate declined to 1.9%, which matched analysts' expectations. Following nine-month brake, May was the first month with inflation below 2.0%, i.e. target ceiling imposed by the ECB, as an indicator of price stability. Producer price level decreased by 0.4%MoM in April, slightly slower than a fall of 0.5% forecasted by analysts. Annual growth rate of prices declined to 1.7% from 2.4% a month earlier and this figure was above forecast at 1.6%.

In April consumer prices in the United States decreased by 0.3%MoM, faster than analysts' forecasts at the level of -0.1%, which translated into a significant decrease in annual inflation rate to 2.2% from 3.0% recorded in March. Producer prices declined by as much as 1.9%MoM in April, following two significant increases of 1.0% and 1.5% in February and March. Expectations pointed to a decline in prices of 0.6%. Annual rate of producer inflation decelerated significantly to 2.4% from 4.2% in March.

Inflation YoY



Source: Reuters

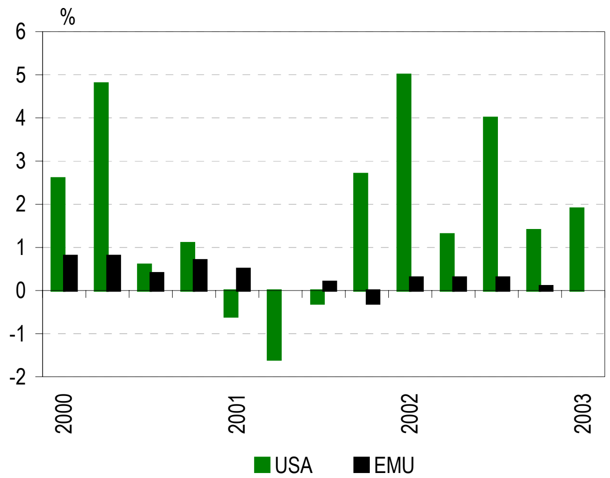
Stronger growth in the United States

Data on economic growth in the Eurozone in the first quarter 2003 proved to be exactly in line with analysts' forecasts and earlier estimations, and were in a middle of the European Commission's forecast range. GDP remained unchanged as compared to previous quarter and it rose by 0.8% on annual basis decelerating from 1.2% in 4th quarter 2002. The Commission foresaw

GDP growth in a range of -0.2% to 0.2%QoQ. At the same time, the Commission confirmed growth forecasts for 2Q03 and 3Q03, both at the level in a range of 0.0% to 0.4%.

According to preliminary data on economic growth in the United States, in the first quarter this year GDP rose by 1.9%QoQ, which was a significantly faster rate than the figure released a month ago in advanced information, when the growth was estimated at 1.6% only. The revised data matched analysts' expectations and were only slightly better than 4Q02 figure of 1.4%.

GDP growth QoQ



Note: growth rates for the USA are annualised
Source: Reuters

Data on industrial output in the Eurozone were weaker than forecasts. In March production declined by 1.2%MoM and 0.3%YoY, compared to forecasts of -0.7% and 0.4%, respectively. Also, retail sales figures were significantly weaker than expectations. In March, sales decreased by 1.2%MoM and 1.6%YoY, compared to forecasts at -0.8% and -0.4%, respectively.

On the contrary, data on industrial production were very close to forecasts. The production declined by 0.5%MoM in April, which was the same pace as in March, while a fall of only 0.4% was expected. In turn, retail sales recorded a figure weaker than forecasts. In April it decreased by 0.1%MoM, while analysts expected an increase of 0.4% following the highest increase since October 2001 of 2.3% (revised from 2.1%) in March. Unexpected fall in sales resulted mainly from decline in retail fuel prices.

In the USA further rise in unemployment

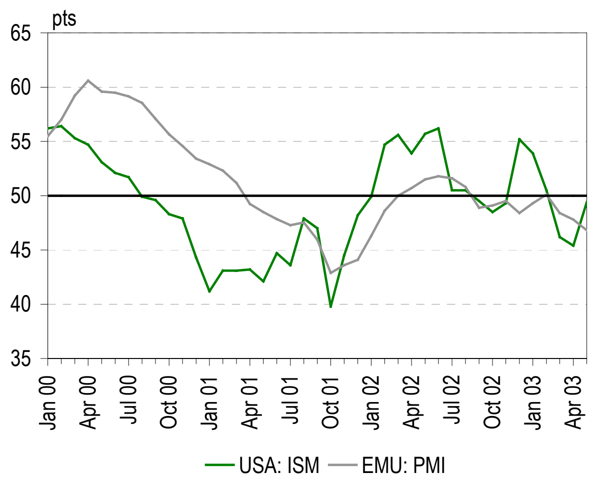
The unemployment rate in the Eurozone amounted to 8.8% in April, unchanged from the figure released in March (revised from 8.7%). Analysts expected unemployment rate at 8.7%.

In the United States unemployment rate increased to 6.1% in May from 6.0 in April, which exactly matched analysts' expectations. Number of jobs fell by 17,000, while a fall of 39,000 was forecasted.

Unexpected deterioration in EMU's activity

The Reuters' PMI for the manufacturing industry in the EU-12 countries fell to 46.8 in May, its lowest level since January 2002, after hitting 47.8 in April. It was the third consecutive month of index fall and the data were well below expectations (market consensus pointed to an increase to 48.2). Analysts said the contraction of sentiment was caused by the stronger euro that damaged export performance. Meanwhile, the corresponding index for US economy recorded better than expected results. Institute of Supply Management (ISM) reported yesterday its manufacturing activity index for May rose to 49.4, up from 45.4 in April. Analysts forecasted the index to grow to 48.7. Although the index still remained below the level of 50, which divides growth from contraction, market participants interpreted the figure as a sign that the US economy is starting to recover, which resulted in sharp rises on US stock exchange.

Activity indicators



Source: Reuters

What's hot this month

Monday	Tuesday	Wednesday	Thursday	Friday
2 June POL: T-bill auction *EMU: Inflation preliminary (May)* *EMU: PMI (May)* *EMU: Economic sentiment (May)* *EMU: Business climate (May)* *USA: ISM (May)*	**3** *EMU: Producer prices (Apr)* *EMU: Unemployment (Apr)*	**4** POL: T-bond auction OK0405 *EMU: Retail sales (Mar)*	**5** *GER: Unemployment (May)* *EMU: ECB meeting* *EMU: GDP (1Q)* *USA: Factory orders (Apr)*	**6** POL: Food prices (2H May) *USA: Unemployment (May)*
9 POL: T-bill auction	**10** *ITA: GDP (1Q)*	**11** *GER: Industrial output (Apr)*	**12** *FRA: Industrial output (Apr)* *ITA: Inflation final (May)* *USA: Retail sales (May)*	**13** POL: Money supply (May) POL: Wages & employment (May) *FRA: Inflation preliminary (May)* *ITA: Industrial output (Apr)* *USA: Producer prices (May)* *USA: Foreign trade (Apr)*
16 POL: T-bill auction POL: Inflation (May) *EMU: Industrial output (Apr)*	**17** POL: Industrial output (May) POL: Producer prices (May) *USA: Inflation (May)* *USA: Industrial output (May)*	**18** POL: T-bond auction PS0608 *EMU: Inflation final (May)* *EMU: Foreign trade (Apr)*	**19** **Corpus Christi**	**20**
23 POL: T-bill auction	**24** POL: Retail sales (May) POL: Core inflation (May) POL: Unemployment (May) POL: Business climate (June) POL: MPC meeting (first day) *FRA: Inflation final (May)* *USA: Fed meeting (first day)*	**25** POL: MPC meeting (decision) *USA: Fed meeting (decision)*	**26**	**27** POL: Food prices (1H Jun) *FRA: GDP (1Q)* *EMU: Balance of payment (Apr)*
30 POL: Balance of payment (May) POL: T-bill auction *EMU: Inflation preliminary (Jun)* *EMU: Money supply (May)*	**1 July** *EMU: Unemployment (May)*	**2** POL: T-bond auction OK0405 *EMU: Producer prices (May)*	**3** *EMU: Retail sales (Apr)*	**4**

Source: CSO, NBP, Finance Ministry, Reuters

Data release calendar for 2003

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
MPC meeting	28-29	25-26	25-26	23-24	27-28	24-25[a]	29-30[a]	26-27[a]	23-24[a]	28-29[a]	25-26[a]	16-17[a]
CPI	15	17[b]	14[c]	14	14	16	14	14	15	14	14	15
Core inflation	24	-	24[c]	23	23	24	22	25	23	22	24	23
PPI	20	19	19	17	20	17	17	20	17	17	20	17
Industrial output	20	19	19	17	20	17	17	20	17	17	20	17
Retail sales	22	21	21	22	22	24	21	22	19	21	24	19
Gross wages, employment	15	14	14	14	16	13	14	14	12	14	18	12
Unemployment	22	21	21	22	22	24	21	22	19	21	24	19
Foreign trade	about 50 working days after reported period											
Balance of payments	31	28	31	30	30	30	31	29	-	-	-	-
Money supply	14	14	14	14	14	13	14	14	-	-	-	-
NBP balance sheet	7	7	7	7	7	6	7	7	-	-	-	-
Business climate indices	22	21	21	23	22	24	22	22	22	22	21	22
Food prices, 1-15	-	7[d], 27[e]	27	25	27	27	25	27	26	27	27	29
Food prices, 16-30	7	7	7	7	7	6	7	7	5	7	7	5

[a] according to preliminary schedule,
[b] preliminary data, January, [c] January and February, [d] January, [e] February

Source: CSO, NBP

Economic data and forecasts

Monthly economic indicators

		May 02	Jun 02	Jul 02	Aug 02	Sep 02	Oct 02	Nov 02	Dec 02	Jan 03	Feb 03	Mar 03	Apr 03	May 03	Jun 03
GDP	%YoY	x	0.8	x	x	1.6	x	x	2.1	x	x	2.3	x	x	2.8
Industrial production	%YoY	-4.2	2.1	5.7	-1.1	6.6	3.2	3.1	5.2	3.5	4.3	5.5	8.3	9.7	5.1
Retail sales ***	%YoY	1.8	2.5	8.6	5.1	4.7	5.1	5.9	4.9	4.1	4.2	-1.7	11.0	10.5	10.0
Unemployment rate	%	17.3	17.4	17.5	17.5	17.6	17.5	17.8	18.1	18.7	18.8	18.7	18.4	17.9	17.8
Gross wages ** ***	%YoY	4.2	3.9	4.1	2.8	3.8	0.5	1.8	2.4	2.7	2.1	0.7	4.2	0.0	-0.4
Export (acc. to NBP)	USDm	2 833	2 797	3 177	2 727	2 912	3 182	3 004	3 223	2 761	2 635	2 957	3 005	2 915	2 973
Import (acc. to NBP)	USDm	3 722	3 508	3 791	3 642	3 826	4 241	4 090	4 166	3 895	3 219	3 467	3 809	3 771	3 771
Trade balance (acc.to NBP)	USDm	-889	-711	-614	-915	-914	-1 059	-1 086	-943	-1 134	-584	-510	-804	-856	-798
Current account balance	USDm	-613	-451	-119	-284	-529	-580	-753	-484	-711	-483	-248	-369	-436	-428
Budget deficit (cumulative)	PLNbn	-23.0	-25.0	-25.7	-27.3	-29.8	-34.0	-37.1	-39.4	-4.1	-11.7	-15.5	-18.0	-23.2	-27.5
CPI	%YoY	1.9	1.6	1.3	1.2	1.3	1.1	0.9	0.8	0.5	0.5	0.6	0.3	0.6	1.3
PPI	%YoY	0.5	1.2	1.7	1.3	1.1	1.7	1.7	2.2	2.5	2.9	3.6	2.9	2.9	2.8
Broad money (M3)	%YoY	3.2	2.5	1.3	-0.2	-1.5	-2.5	-1.0	-2.1	-1.4	-1.2	0.5	0.8	0.2	1.2
Deposits	%YoY	1.3	0.5	-0.8	-2.5	-3.5	-4.6	-3.2	-4.3	-4.1	-3.8	-2.3	-2.3	-2.9	-1.9
Credits	%YoY	7.9	9.4	7.5	5.9	4.9	4.4	4.6	5.3	5.5	5.7	8.7	8.5	7.6	7.0
USD/PLN	PLN	4.05	4.03	4.12	4.18	4.15	4.12	3.95	3.91	3.84	3.87	4.01	3.96	3.74	3.76
EUR/PLN	PLN	3.71	3.85	4.09	4.08	4.07	4.04	3.96	3.99	4.08	4.17	4.33	4.30	4.33	4.42
Reference rate *	%	9.00	8.50	8.50	8.00	7.50	7.00	6.75	6.75	6.50	6.25	6.00	5.75	5.50	5.50
WIBOR 3M	%	9.89	9.30	8.89	8.55	8.07	7.45	6.81	6.82	6.56	6.37	6.17	5.95	5.53	5.60
Lombard rate *	%	12.00	11.50	11.50	10.50	10.00	9.00	8.75	8.75	8.50	8.00	7.75	7.25	7.00	7.25
Yield on 52-week T-bills	%	9.22	8.54	8.35	7.86	7.25	6.77	5.88	5.78	5.74	5.83	5.67	5.43	4.75	4.60
Yield on 2-year T-bonds	%	9.03	8.27	8.12	7.60	7.16	6.62	5.78	5.75	5.55	5.66	5.52	5.16	4.78	4.80
Yield on 5-year T-bonds	%	8.90	8.17	8.11	7.62	7.07	6.57	5.91	5.67	5.57	5.58	5.36	5.15	4.88	4.90
Yield on 10-year T-bonds	%	8.02	7.55	7.63	7.29	6.79	6.22	5.89	5.69	5.62	5.67	5.52	5.41	5.13	5.05

Source: CSO, NBP, BZ WBK

* at the end of period   ** in corporate sector   *** in nominal terms

Quarterly and annual economic indicators

		2000	2001	2002	2003	1Q02	2Q02	3Q02	4Q02	1Q03	2Q03	3Q03	4Q03
GDP	PLNbn	712.3	749.3	769.4	799.9	177.9	188.8	190.5	212.2	183.7	195.1	197.6	223.5
GDP	%YoY	4.0	1.0	1.3	3.0	0.4	0.8	1.6	2.1	2.3	2.8	2.9	3.7
Total consumption	%YoY	2.4	1.8	2.8	2.5	2.8	2.6	2.8	3.2	2.6	2.5	2.5	2.2
- Private consumption	%YoY	2.6	2.1	3.3	2.8	3.5	2.9	3.1	3.5	2.9	2.8	2.7	2.6
Fixed investments	%YoY	2.7	-10.2	-7.2	4.1	-13.2	-8.4	-6.3	-4.1	-5.0	3.5	6.0	7.5
Industrial production	%YoY	6.7	0.6	1.5	5.0	-1.6	-0.4	3.3	4.6	4.4	7.7	4.0	4.1
Retail sales (real terms)	%YoY	1.0	0.2	3.3	2.6	5.8	0.7	3.9	2.6	1.7	3.0	3.0	2.6
Unemployment rate *	%	15.1	17.5	18.1	18.2	18.2	17.4	17.6	18.1	18.7	17.8	17.8	18.2
Gross wages (real terms)	%YoY	1.3	1.6	1.5	-0.7	1.9	1.4	2.3	0.3	1.3	0.5	-1.8	-2.9
Export (acc. to NBP)	USDm	28 255	33 823	34 746	36 046	7 853	8 668	8 816	9 409	8 353	8 893	9 100	9 700
Import (acc. to NBP)	USDm	41 423	46 848	45 712	46 832	10 847	11 109	11 259	12 497	10 581	11 351	11 700	13 200
Trade balance (acc.to NBP)	USDm	-13 168	-13 025	-10 966	-10 786	-2 994	-2 441	-2 443	-3 088	-2 228	-2 458	-2 600	-3 500
Current account balance	USDm	-9 952	-7 992	-7 188	-7 550	-2 659	-1 780	-932	-1 817	-1 442	-1 843	-1 430	-2 835
Current account balance	% GDP	-5.6	-3.9	-3.6	-4.0	-3.9	-3.6	-3.6	-3.6	-3.1	-3.2	-3.5	-4.0
Budget deficit (cumulative)*	PLNbn	-15.4	-32.6	-39.4	-38.7	-16.4	-25.0	-29.8	-39.4	-15.5	-24.5	-30.0	-38.7
Budget deficit (cumulative)*	% GDP	-2.2	-4.3	-5.1	-4.8	-9.2	-13.2	-2.5	-4.5	-5.0	-5.0	-5.0	-4.8
CPI	%YoY	10.1	5.5	1.9	1.1	3.4	2.1	1.3	0.9	0.5	0.7	1.5	1.8
CPI*	%YoY	8.5	3.6	0.8	1.9	3.3	1.6	1.3	0.8	0.6	1.3	1.6	1.9
PPI	%YoY	7.8	1.6	1.0	2.5	0.2	0.7	1.4	1.9	3.0	2.9	1.9	2.3
Broad money (M3)	%YoY	11.9	9.2	-2.1	3.8	3.2	2.5	-1.5	-2.1	0.5	1.2	3.0	3.8
Deposits	%YoY	15.5	8.9	-4.3	1.0	1.7	0.5	-3.5	-4.3	-2.3	-1.9	-0.2	1.0
Credits	%YoY	16.9	9.3	5.3	11.7	7.1	9.4	4.9	5.3	8.7	7.0	7.8	11.7
USD/PLN	PLN	4.35	4.09	4.07	3.82	4.11	4.04	4.15	3.99	3.90	3.82	3.76	3.81
EUR/PLN	PLN	4.01	3.66	3.85	4.29	3.61	3.72	4.08	4.00	4.19	4.35	4.35	4.26
Reference rate *	%	19.00	11.50	6.75	5.00	10.00	8.50	7.50	6.75	6.00	5.50	5.00	5.00
WIBOR 3M	%	18.78	16.10	9.09	5.62	11.02	9.80	8.50	7.03	6.37	5.69	5.32	5.10
Lombard rate *	%	23.00	15.50	8.75	6.50	13.50	11.50	10.00	8.75	7.75	7.25	6.50	6.50
Yield on 52-week T-bills	%	17.77	14.77	8.18	4.97	9.64	9.11	7.82	6.14	5.75	4.92	4.60	4.60
Yield on 2-year T-bonds	%	17.37	13.97	7.94	5.02	9.27	8.84	7.63	6.05	5.58	4.91	4.80	4.80
Yield on 5-year T-bonds	%	14.00	12.59	7.86	5.12	9.09	8.69	7.60	6.05	5.50	4.98	5.00	5.00
Yield on 10-year T-bonds	%	11.79	10.74	7.34	5.25	8.28	7.92	7.24	5.93	5.60	5.19	5.10	5.10

Source: GUS, NBP, BZ WBK

* at the end of period

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