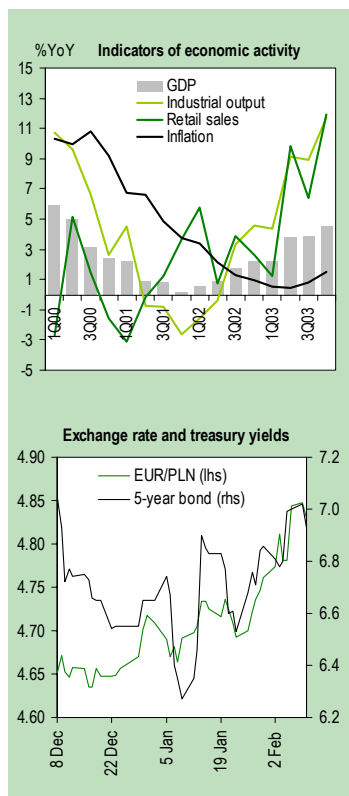




MACROscope

Polish Economy and Financial Markets

February 2004



Great accumulation

▪ **Informational confusion, which was caused by government's representatives brought a lot of misleading comments and media information, presenting different amounts of savings in the Hausner plan.** We think it is still possible that details of the public finance reform are not entirely clear. Therefore, in the special focus section called „Solving the savings puzzle” we try to dispel all doubts. Savings in social spending in four subsequent years 2004-07 are expected to sum up to PLN29.4bn, against PLN30.4bn planned initially. Let's notice that this PLN29.4bn figure represents joint savings in four years time, which means that public debt will be lowered by this amount, as compared with no reform scenario (assuming other parameters unchanged). On the other hand, as a result of social spending plan, budget deficit in 2007 will be reduced (in comparison with no-reform scenario), by PLN10.2bn (against PLN12.1bn in the initial version of the plan). Additionally, as a result of savings in administration and economy (mainly higher revenues, not lower spending), public debt will be lowered by PLN20bn and the budget deficit by PLN7.1bn in 2007.

▪ **There is still high uncertainty on the market and this is not likely to change in the near future.** We think that the weakening on the fixed income and foreign exchange market, which took place at the beginning of February, was caused not only by the fact that political uncertainty put a question mark over parliamentary approval of necessary bills of the Hausner plan. In our opinion, problem with understanding (problems with presenting) the programme was also a possible reason – if one does not know how many savings the plan assumes, one prefers to sell, rather than to buy treasuries. Let's hope this does not mean that after an acceptance of the most important bills in the parliament financial markets would not strengthen, as then it would just start to think about economic consequences and would assess the scale of savings as insufficient to avoid breaking public debt to GDP safety thresholds.

▪ **The end of 2003 was successful for the Polish economy.** Very fast increase in industrial output, retail sales and export in December was confirmed by GDP growth figures. Better than expected performance of the economy in the fourth quarter caused that the economic growth in 2003 was higher than predicted, reaching 3.7%. Faster pace of GDP growth does not upset macroeconomic balance. Inflation acceleration is slow and results mainly from supply-side factors, not from demand pressure, which would require reaction of monetary policy. Also situation as regards external balance of the economy does not require any action. Current account deficit in relation to GDP after December decreased to 1.9% from 3.6% at the end of 2002. Accelerating economic growth does not worsen macroeconomic balance due to structure of the growth – there is still low investment activity, which allows for improvement of the trade gap and constrains domestic demand pressure on prices. Besides, the unemployment rate hold steady at record high level and employment in the enterprise sector keep falling.

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Financial market on 30 January 2004:

NBP deposit rate	3.75	WIBOR 3M	5.46	PLN/USD	3.8478
NBP reference rate	5.25	Yield on 52-week T-bills	5.78	PLN/EUR	4.7614
NBP lombard rate	6.75	Yield on 5-year T-bonds	6.86	EUR/USD	1.2374

This report is based on information available until 12.02.2004



Solving the savings puzzle

Informational confusion

At the beginning of February there were lots of misleading comments and information in the media, presenting different amounts of savings in the Hausner's plan. However, we think it is still possible that details of the public finance reform are not entirely clear for some market participants and commentators. Frankly speaking, it is to some extent understandable, taking into account the (lack of) consistency and clarity in government's documents and officials' comments regarding the size of fiscal savings programmed in Hausner's package. As a result of a number of confusing comments the Ministry of Economy, Labour and Social Affairs issued a special note explaining the financial effect of the savings. Nevertheless, we have to admit that government's information policy regarding adjustments to fiscal austerity program, and especially its communication with the financial market proved to be a failure.

We think that the weakening on the fixed income and foreign exchange markets, which took place at the beginning of February, was caused not only by the fact that political uncertainty put a question mark on parliamentary approval of necessary bills of the Hausner plan. In our opinion, problem with understanding was also a possible reason – if one does not know how many savings the plan assumes, one prefers to sell, rather than to buy treasuries. Let's hope this does not mean that after an acceptance of the most important bills in the parliament, the financial market would not strengthen, as then it would just start to think about economic consequences and would assess the scale of savings as insufficient to avoid breaking public debt to GDP safety thresholds.

Savings in social spending lower by PLN1bn

The fact is that at the end of January the government has ultimately approved the tailored Hausner's programme. Savings in social spending in four subsequent years 2004-07 are expected to sum up to PLN29.4bn, against PLN30.4bn planned initially. Let's notice that this PLN29.4bn figure represents joint savings in four years, which means that public debt will be lowered by this amount, as compared with no reform scenario (assuming other parameters unchanged). On the other hand, as a result of social spending cuts, budget deficit in 2007 will be reduced (in comparison with no-reform scenario), by PLN10.2bn (against PLN12.1bn in the initial version of the plan).

The main flaw of the adjustments made to the projected cuts in social spending was not the scale of total savings cutback itself (PLN1bn within four years), but the fact that major savings have been postponed until 2006. In 2004-05 planned cuts have been trimmed down by PLN3.3bn, which was mainly connected with the government's decision to postpone changes in pension indexation mechanism until 2005.

In addition, after examining government's document we have found out also another discouraging (especially for entrepreneurs) revelation – there appeared new proposal of increasing obligatory contribution to social security fund from people running their own businesses (yielding ca. PLN0.6bn 'savings' per year). This is yet another example of seeking savings in spending by... increasing tax burden and boosting budget revenues.

Savings in social spending, PLNbn

	2004	2005	2006	2007	2004-2007
Pension indexation	0.0	2.2	5.1	2.4	9.6
+ health subsidies	(1.6)	(4.4)	(1.5)	(5.0)	(12.5)
System of early retirement	0.0	0.6	1.2	1.9	3.6
	(0.3)	(0.8)	(1.4)	(2.3)	(4.8)
System of disability pensions	0.0	1.2	1.8	2.4	5.5
	(0.2)	(0.5)	(0.9)	(1.1)	(2.7)
Support for disabled	0.8	1.2	1.6	1.7	5.3
	(0.4)	(1.6)	(1.7)	(1.7)	(5.4)
Rural pension system	0.0	1.7	1.8	1.8	5.3
	(0.0)	(1.7)	(1.8)	(1.8)	(5.3)
TOTAL	0.8	7.0	11.4	10.2	29.4
	(2.1)	(9.0)	(7.2)	(12.1)	(30.4)
DIFFERENCE*	-1.3	-2.0	+4.2	-1.9	-1.0

Note: Figures do not sum up because the plan assumes other (also negative) savings. Figures in parenthesis represent values from the original Hausner's programme.

* Difference between adjusted and initial version of total savings in Hausner's programme.

Source: Ministry of Economy, Labour and Social Policy, BZ WBK

Large part of savings on the revenue side

The same phenomenon is observed in "savings in administration and economy" chapter. While total savings in this area amounts to some PLN20bn, in practice they come from increasing budget revenues rather than reduction of spending. In the first version of the Hausner plan, the savings amounted to PLN298,4m in 2004 and reached annual savings of around PLN5.9bn in 2005 (and presumably not less in subsequent years). After the government's meeting at the end of January, those figures have changed – the amount of savings for 2004 diminished to PLN112.1m, while detailed figures for the period of 2005-07 are presented in the table below.


Savings in administration and economy (in PLNbn)

	2005	2006	2007	2005-07
TOTAL	6.11	6.68	7.12	19.91
out of which:				
Change of defence system financing	1.29	1.57	1.74	4.60
Broadening tax base	3.15	3.33	3.51	9.99
Restructuring mining sector	0.39	0.40	0.41	1.20
Restructuring railways	0.41	0.42	0.43	1.26
Restructuring healthcare system	0.26	0.26	0.27	0.79

Note: Figures do not sum up because the plan assumes other (also negative) savings.

Source: Ministry of Economy, Labour and Social Policy

As the table presents, the most important part of savings in the area of administration and economy are based on higher revenues. Over half of savings in 2005-07 period are connected with "further broadening of tax base". If we add also higher revenues of above PLN2bn as a result of restructuring ailing sectors (mining and railways), it seems that 62.5% of total savings in "administration and economy" are based on increasing tax revenues. The most important measure lowering planned spending is a change of defence system financing (giving total PLN4.6bn cutbacks in 2005-2007).

Deputy PM Jerzy Hausner mentioned during the January's press conference that the cabinet is working over applying additional cuts in administration (in three major areas: preserving the special reserves for employment growth in administration; reduction of cost increase in local governments; review of long-term investment plans). According to deputy PM, additional savings may be as high as PLN3bn this year. However, as for now it is still in a sphere of dreams and promises.

Where this informational confusion came from?

In October 2003 Jerzy Hausner was quoted as saying that the sum of savings in administration over 2004-2007 period was likely to top PLN20bn, which "jointly with the other side [social savings] should generate cumulated effect of PLN32bn, i.e. 4% of GDP" (PAP, 8th October 2003). In turn, during the January's press conference he was trying to convince the audience that "if we sum up [...] the part describing social savings [...] and the part concerning administration spending [...] the total amount is much above PLN30bn. If it's hard for you to compute, then I say it's close to PLN50bn." Now the question is: if cuts in administration and economy section changed only moderately and savings in social spending have been scaled down by PLN1bn, how could the amount of total

cumulated savings expand by PLN18bn (from 32 to 50)? What is the right solution to this disinformation puzzle?

Of course, an increase of this amount was only seeming. Jerzy Hausner, the author of the reform programme, was the main source of this famous multiplication, as deputy prime minister made a mistake in October 2003, adding total sum of savings in administration in four years (ca. PLN20bn) to savings in social spending achieved only in 2007 (PLN12bn). It produced famous 'PLN32bn of total savings' repeated later by all media in Poland. In fact the two added figures were not comparable.

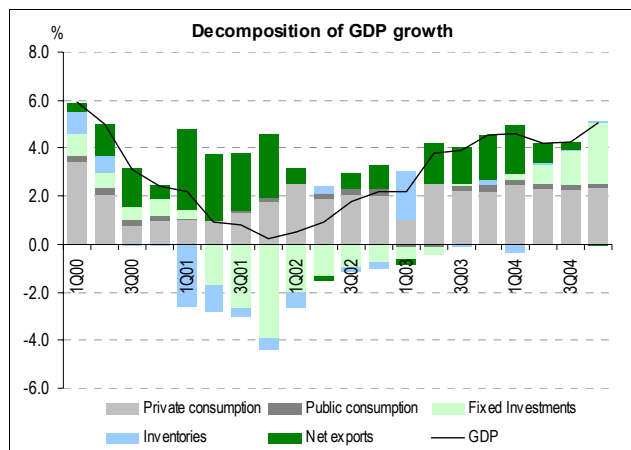
Let's explain once again how to calculate total savings in the Hausner's plan. The correct calculation should be as follows "PLN7.1bn + PLN10.2bn = PLN17.3bn" or "PLN19.9bn + PLN29.4bn = PLN49.3bn", depending on whether one wanted to show impact of planned savings on the reduction of (correspondingly) budget deficit or public debt in 2007. The amount of PLN10.2bn represents sum, by which budget deficit in 2007 would be lower after implementation of social savings plan, in comparison to situation when no fiscal reform is made. The amount PLN29.4bn represents joint savings in social spending in 2004-2007, and also says by how much issues of public debt could be reduced due to implementation of social savings. Around PLN20bn stands for the corresponding amount, but in the administration and economy section.

Close to PLN50bn is total sum of both amounts (social and administration cuts), describing total effect of the whole Hausner's package on the issuance of public debt in 2004-2007. However, to present this amount of total savings as a relation to gross domestic product, we have to divide it by cumulative GDP over this period, which results in 1.3% of GDP. In this way, we have calculated that PLN50bn equals 1.3% of GDP, while according to Hausner's calculus the amount lower by PLN18bn represented as much as 4% GDP. Isn't it interesting?

One thing is certain, it is not typical situation, where financial market participants have to puzzle over and guess as regards the most important fiscal policy programme within last couple of years. It is not helping in positive perception of the whole plan by the market and is not an argument in favour of stabilisation on the market. Especially as current political situation is a sufficient argument for investors to be nervous about prospects of accepting this plan in the parliament.

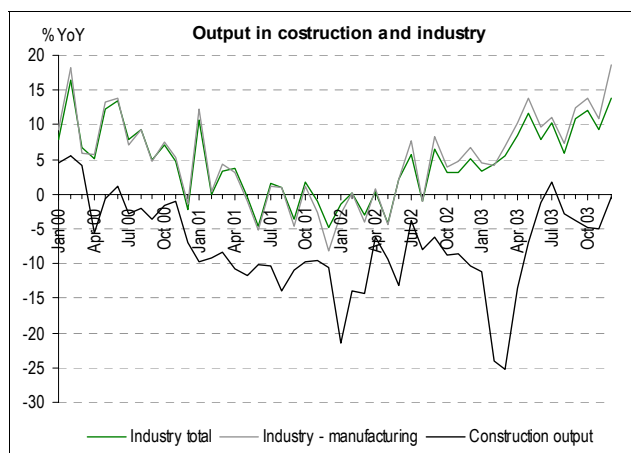
To conclude, the government's poor communication affected the sentiment negatively even if the news about spending cuts eventually proved to be not so negative, as compared to previous proposals.

Economic update



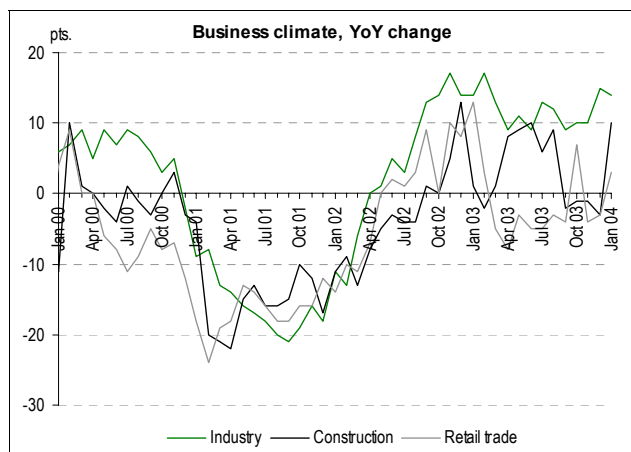
Higher than expected GDP growth in 2003

- Nice surprise – GDP growth in 2003 reached 3.7% after faster than predicted acceleration of the economy in the final quarter of last year, resulting from high dynamics of individual consumption and net export.
- The data showed that the economic recovery strengthened and should be continued in 2004, but investments are still low, which may speak for further, cautious interest rate cuts (we expect 25bps cut in March).
- Individual consumption should continue good performance throughout 2004. Meanwhile, the role of net export in GDP growth should gradually diminish in the course of the year due to rebound of import related to revival of investment activity.



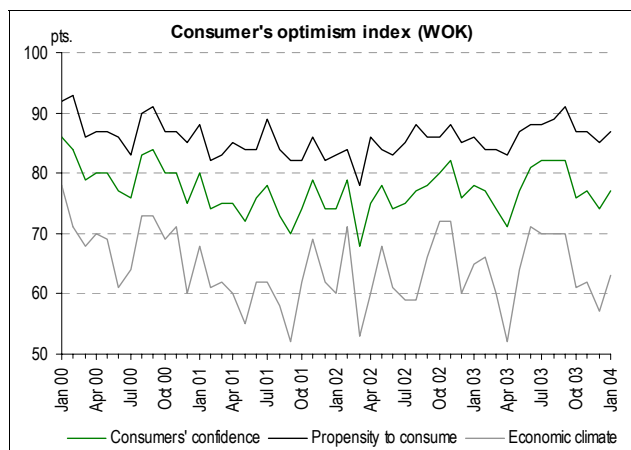
Robust increase in industrial output

- High growth of industrial output in December (13.9%YoY) confirmed that the Polish economy accelerates.
- Similarly to previous months, output growth was driven mainly by export branches, which, apart from deep restructuring in previous year, benefit from recent zloty weakening.
- December's growth of industrial output was positively affected by the higher number of working days, but seasonally adjusted output growth amounted to 11.6%YoY, indicating that very good result of industrial output last month as not a one-off.
- Another positive signal is improvement in dynamics of construction output (to -0.5%YoY from -5%YoY in the previous month), which bodes well for recovery of investment activity this year.



Business climate warmed up at the beginning of the year

- January's results of business climate survey showed that enterprises from the three main sectors of the economy started this year in better moods than at the beginning of last year.
- The best assessment of the situation was in industry – indicator for this sector totalled 14pts, the highest level since July 1998 (a month before onset of the Russian crisis).
- Business climate indices for construction and retail trade remained in the red, but their annual dynamics returned into black after a few-months period of decline.
- Shy reversal of negative tendencies on the labour market and expectations for continuation of gradual price growth.
- CSO survey suggests that the ongoing recovery gradually spill over all sectors of the economy.

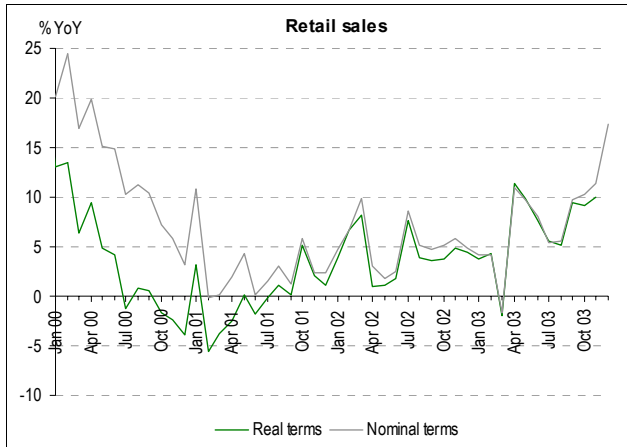


Slight rebound of consumers' optimism

- January saw reversal of consumer's optimism decline seen in recent months (particularly strong in October and November).
- However, households still plan to constrain purchases of durable goods and try to avoid borrowing.
- Gradual increase in inflation expectations. Two months ago acceleration of inflation was expected by every fourth of polled persons, now by every second. According to the authors of the survey it does not stem only from fears of impact of the EU entry on prices, as they said the European integration explains inflation expectations only in 9%.
- The positive feature of the survey is decrease of households' fear of the unemployment. If maintained, this tendency may be a reason for improvement of consumers' confidence in the nearest months.

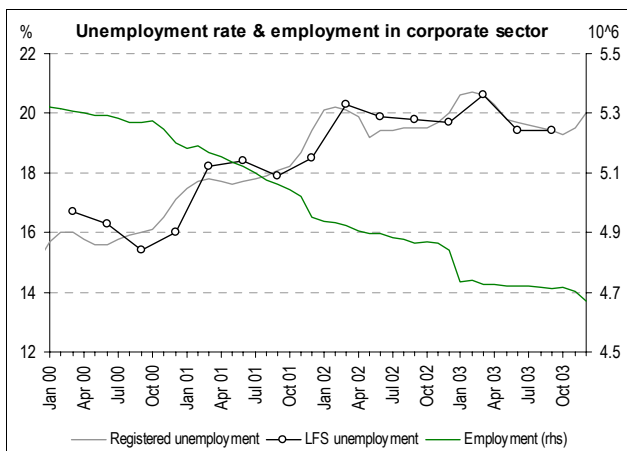
Source: CSO, Ipsos-Demoskop, BZWBK own estimates

Economic update



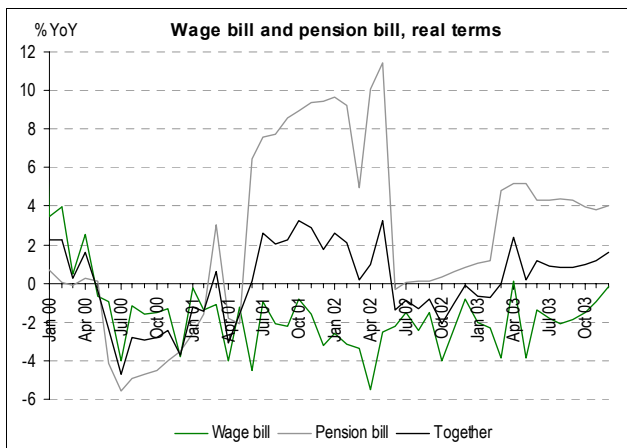
Boom in retail sales

- Retail sales dynamics in December (17.3%YoY) was the highest in three and a half year.
- December's figure was positively affected by exceptionally high new car sales related to changes in taxes, coming into effect since the beginning of 2003. Therefore, it is likely to be one-off and retail sales dynamics will probably return to the previous observed trend.
- We expect retail sales growth in 1Q04 will be lower than in December 2003, but will maintain at high (two-digit) level.
- This confirms that individual consumption will continue to play an important role in gradual acceleration of the economy.
- To some extent, consumption demand will still be constrained by continuously difficult conditions on the labour market.



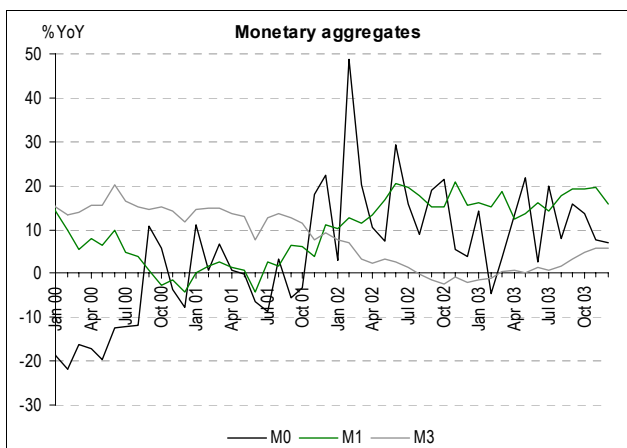
The unemployment still high, employment keep falling

- The CSO revised data on registered unemployment for 2001-2003, taking into considerations lower number of employed in agriculture revealed in national census.
- The registered unemployment rate at the end of 2003 reached 20% (not 18% as released earlier), the same as a year ago.
- Upward revision of registered unemployment by ca. 2pp confirmed LFS data showing earlier the actual unemployment rate in Poland was 20% in 2003.
- Increase of the unemployment rate in December from 19.5% in November was a result of strong seasonal effect. This will lead to seasonal high of the rate in January (we expect 20.4%).
- There is still no improvement in data on employment in the enterprise sector. In December it fell by 0.6%MoM and 3.5%YoY, deeper than in the two previous quarters.



Stronger wage pressure?

- December's growth in average wage in the enterprise sector (5.1%YoY) was the strongest since February 2002.
- Enterprises from industry experienced as evident improvement of their situation that decided to increase wages.
- Basing on data for one month, one cannot talk about increase in wage pressure. Particularly that wages dynamics in construction and market services was still very low, reflecting worse condition of these sectors of the economy.
- Wage growth was strongly constrained in the past, which together with deep employment fall enabled enterprises to significantly reduce staff costs. Therefore, December's acceleration of wage growth should be regarded as reaction to its depression in the past.

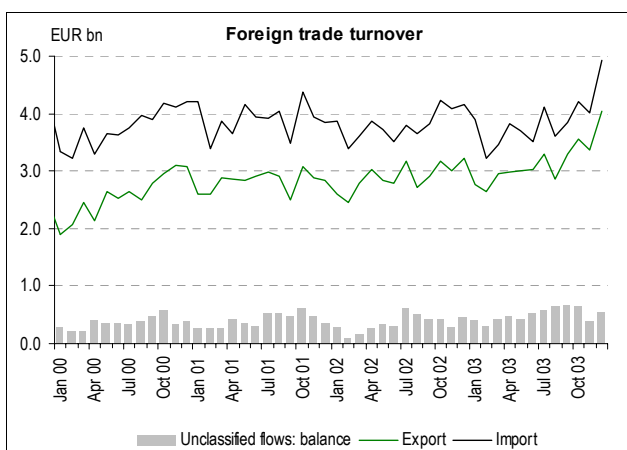
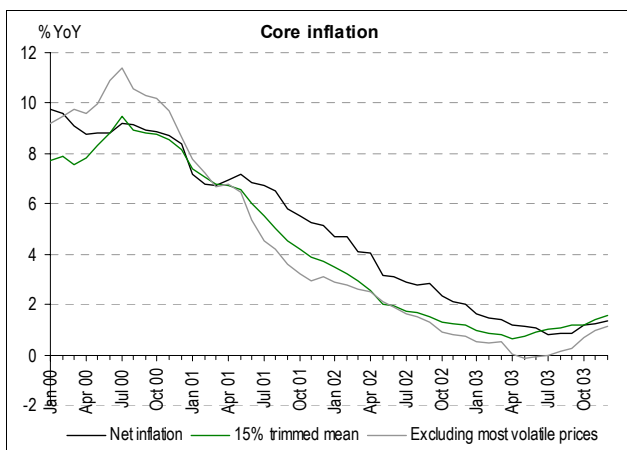
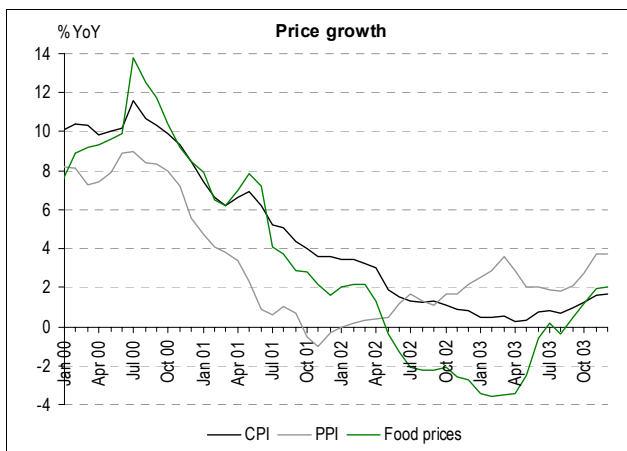
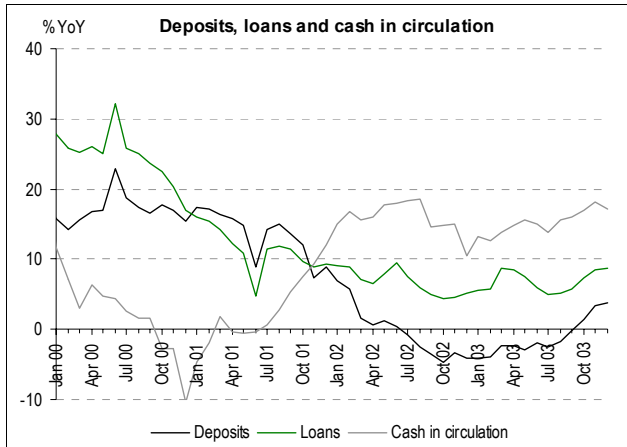


Gradual acceleration of money supply and deposits

- Money supply in December rose by 1%MoM and 5.5%YoY. Taking into consideration influence of exchange rate changes, increase of M3 amounted to ca. 1.5%MoM.
- Seasonal growth of households and corporate deposits totalled 0.9MoM and 7.2%, respectively (taking into consideration exchange rate movements 1.5%MoM and 7.7%MoM, respectively). Increase in households' deposits was related to outflow of savings from mutual funds.
- Annual dynamics of households' dynamics increased from -3.4% in November to 2.0%. Annual growth rate of corporate deposits and cash in circulation stabilised at high level, reaching 24% and 17.1%, respectively. Increase in corporate deposits resulted from improved financial standing and higher liquidity of Polish firms.

Source: CSO, NBP, BZWBK own estimates

Economic update



Source: CSO, NBP, BZWBK own estimates

... and selective recovery in credits

- Total claims of the banking sector rose by 8.6%YoY in December against 8.5%YoY increase in the previous month.
- This was achieved due to further acceleration of households' borrowing (to 14.1%YoY from 13.6%YoY in November) while dynamics of corporate credits slightly decelerated to 2.7%YoY from 3.6%YoY a month earlier.
- Accelerating pace of households' credits is a consequence of very rapid development of mortgage credit. According to Association of Polish Banks value of mortgage credit reached ca. PLN12bn in 2003, or 40% higher than a year earlier.
- All in all, monetary statistics for the last month of 2003 did not introduced many new information to the picture of the economic situation. They should be neutral for the MPC.

CPI below the inflation target, pressure of supply factors

- No surprise – CPI at the end of 2003 reached 1.7%YoY.
- The most important reason for inflation growth are food prices. Their growth was higher than predicted and reached 2.1%YoY, the most since March 2002 (while in March 2003 food prices fell by 3.5%YoY).
- The second important supply factor, i.e. fuel prices quite unexpectedly fell by 0.4% on a monthly basis. However, as the fall was smaller than in the analogous period of the previous year, annual dynamics of transport prices increased to 2.9% from 2.3% in November and they contributed again to CPI acceleration.
- Prices of other CPI components were stable or decreased, which confirmed that recently observed increase in inflation rate results mainly from supply-side factors. Despite gradual acceleration, inflation is still low.

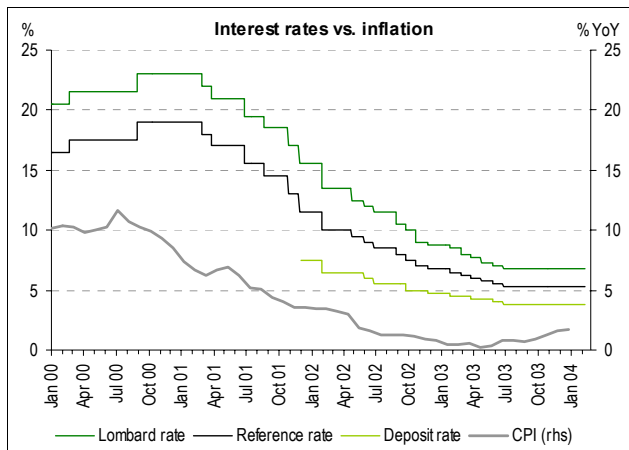
Stabilisation of PPI, core inflation below CPI

- Core inflation measures followed CPI acceleration, but all of them remained below headline inflation.
- The two most important measures, i.e. net inflation and 15% trimmed mean amounted to 1.35%YoY and 1.55%YoY, respectively.
- Producer prices rose by 0,1%MoM in December and the annual dynamics of PPI held steady at 3.7%, which indicates that inflationary pressure did not grew in comparison with November.
- PPI remains under influence of high prices of raw materials (oil, coal, copper), while increase of prices outside mining was moderate. This confirms that PPI acceleration, the same as in case of CPI and core inflation, is to a large extent a result of supply factors, while demand pressure on prices is still idle.

Amazing balance of payments data for December

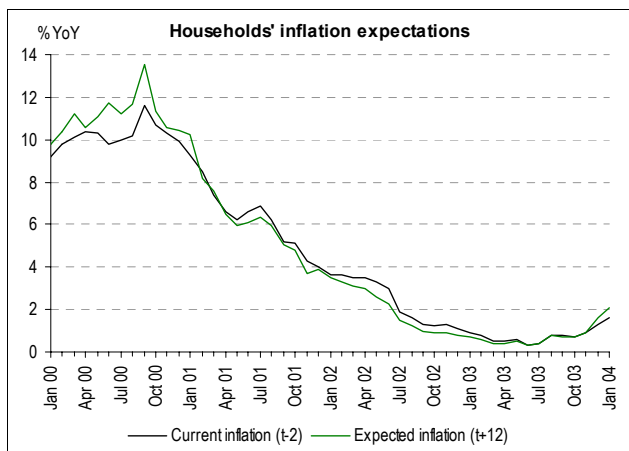
- Much wider than expected current account gap (€678m). Historically record high values of exports (slightly above €4bn, or 25%YoY higher) and imports (€4.9bn, increase of 18.4%YoY). Trade gap totalled €896m.
- Surge of exports and imports in December may be partly explained by accumulation of foreign trade payments from a few previous months.
- In next months dynamics of foreign trade turnover should return to lower levels. However, export should be still strong, while import may rebound after recovery in investment.
- Ratio of C/A gap to GDP after December increased to 1.9% from 1.8% after November, but it was much lower than 3.6% at the end of 2002.

Central bank watch



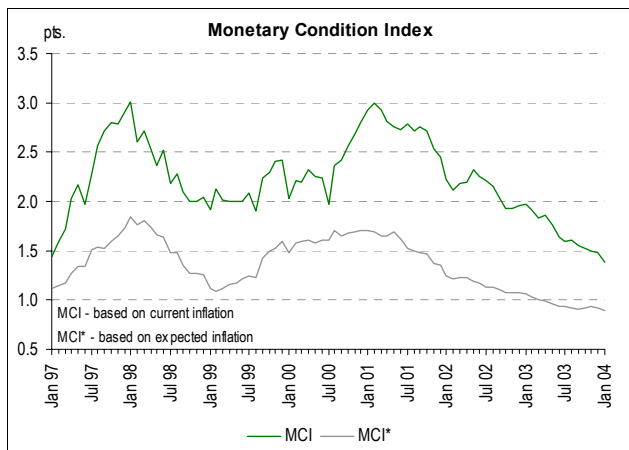
Interest rates unchanged (as for now)

- The Monetary Policy Council kept all interest rates on hold in January; the reference rate remained at 5.25%.
- The statement released after the meeting was very similar to those published in the three previous months, although the list of factors supporting low level of inflation in future was shorter (moderate M3 growth and still low dynamics of credit).
- Acceleration of economic growth increases inflationary pressure, but does not pose a threat to the inflation target
- Fiscal policy perspectives are possible source of inflationary pressure (through disturbances on the financial market leading to rise in market interest rates and weakening of the zloty).
- Considerable worsening of inflation expectations comes to the fore on the list of hawkish arguments.



Significant growth of inflationary expectations

- Inflationary expectations increased in January to 2.1%YoY (inflation rate expected by households in 12-month time) from 1.6% in the previous month and 0.9% in November.
- Part of this sizeable hike resulted from the increase of CPI (due to NBP's methodology of measuring inflation expectations).
- According to authors of the survey, the increase stems from consumers' fear of EU entry effects on prices. However, according to the MPC, and in our opinion, such fears are not justified.
- Although inflationary expectations' growth will continue (together with rising CPI), the pace of growth will be rather limited
- Along with rising inflationary expectations, communication policy of the new MPC will be of crucial importance.



Weaker zloty lower restrictiveness of monetary policy (MCI)

- Monetary condition index has been lowered in the second half of 2003, despite the fact that official rates were kept on hold.
- In December 2003 market rates (WIBOR) were higher than in mid-year, but an increase in inflation lowered rates in real terms.
- If one takes expected inflation (which increased to a lesser extent as compared to CPI growth in 2H03) into account when calculating MCI, real interest rates did not change significantly.
- Depreciation of real effective exchange rate was the most important element responsible for the increase of the Monetary Condition Index
- However, with still limited domestic demand, zloty weakening does not translate into higher retail prices (which was noticed by the central bank in recent inflation report).

GDP and its components in Poland in 2030 depending on the date of euro adoption

	2007	2010
GDP	106.2	105.6
Total consumption	105.1	103.9
Private consumption	105.7	104.4
Investments	115.1	113.6
Exports	104.3	104.3
Imports	109.0	107.3

Scenario of no euro adoption = 100

Source: NBP, Report on benefits and costs of euro accession

Euro in Poland – the faster, the better

- Joint committee of the Ministry of Finance and the NBP met again to discuss a strategy of Poland's entry to the euro zone
- Poland would seek as short as possible stay in ERM-2 with the fluctuation band of +/-15%. Signals given recently by the EU side suggest they would prefer narrower band.
- MinFin and NBP abandoned previously announced ambitious date for meeting Maastricht criteria already in 2005.
- During presentation of the Report on benefits and costs of euro accession NBP governor restated that euro accession in 2007 would be the optimal strategy for the Polish economy.
- NBP analyses suggest that benefits of euro accession are higher than costs, and benefits are higher in case of earlier accession.



Central bank watch

Comments of the central bank representatives

Remarks

Leszek Balcerowicz, NBP president

PAP, 27th January

This is the start of the road. What is needed is a swift and decisive implementation of the whole [austerity] programme. According to NBP experts even if the plan was implemented in full, there still is a big risk that the Constitution will be infringed, that is that the public debt to GDP ratio will rise above 60%. If we found out that the government had not approved the programme of public finance reform or it had approved only small part of the plan, already today we would be faced with unpleasant response of the financial markets. We would probably had a weaker zloty today. What is important is not only that the program was accepted not depleted in further works but also supplemented.

NBP president Leszek Balcerowicz has backed the government in their efforts to convince the opposition parties to support the Hausner's reform programme. However, he believes that even if the austerity package is implemented in 100%, there would be still high risk of exceeding 60% of the GDP by the public debt.

PAP, MPC press conference, 21st January

I assume that the new MPC members will follow the constitutional rule of price stability. Medium-term target accepted as a result of very thorough discussion fits within limits of price stability. [...] Moving further would breach price stability. Monetary policy should not surprise market participants.

The MPC has not lowered interest rates since June last year and this is important signal what the central bank must do to achieve its basic objective, i.e. price stability.

NBP president's comment suggests that in his opinion interest rates are at correct level at the moment and should not be reduced. One should keep in mind however, that the MPC consists of nine more economists except for the NBP head, and at least six of them seem to be more dove-ish than Leszek Balcerowicz. Thus, we still expect the new MPC to renew monetary easing cycle. Nevertheless, steps in this directions should be very careful, and the cumulated scale of interest rate cuts should not exceed 50bps. Additionally, they should depend on the progress in public finance reform.

Stanisław Nieckarz, MPC member

PAP, 2nd February

Taking into account slightly lower base in 2003, Polish economy will develop at above 5% in 1Q04.

In 1H04 CPI will rise additionally as a result of changes in VAT and excise tax. It will be the main reason. Besides, situation in crude oil prices is ambiguous. [...] However, I cannot see any threat. Inflation will not reach the upper end of inflationary target.

The fact that Nieckarz underscores the meaning of upper end of inflation target might suggest that the band itself might be treated asymmetrically by the dove-ish MPC members. Perhaps they will put more attention on the upper end of inflation target, which could mean possibility of interest rate reductions until the CPI exceeds 3.5%. However, one should remember that Nieckarz is one of the most radical doves, and his views should not be shared by the majority of the MPC members.

Stanisław Owskiak, MPC member

PAP, 16th January

The main problem corresponds to inflation development, which would probably increase a little in the first months [of this year], amid price hikes. That is why we have to carefully analyse inflation development. I do not think there is a need for shocking decisions as regards interest rates or to change FX regime for more regulated.

January will be more important than December, as inflation may increase to above 2%. However, this is still a big question mark.

Stanisław Owskiak, being one of the biggest „unknowns” in the new MPC, suggests that he does not intend to make any radical changes in the course of monetary policy. At the beginning of his term of office he would be probably willing to take a closer look at economic situation, and in particular at present trend and perspectives of inflation. Such Owskiak's attitude, likewise in case of most of other MPC members, means that even though the new Council will be more dove-ish than previous one, then at the beginning of its term of office one should not expect any drastic changes in policy.

Mirosław Pietrewicz, MPC member

PAP, 28th January

Inflationary conditions will not encourage to interest rate reductions but they should not be fundamental obstacle, as well. [...] Prospects of the growth rate including investment at the beginning of this year must be taken into account to the same extent. [...] We will judge Hausner's plan but it will be collective decision that will be a product of individual MPC members. Undoubtedly, at next meeting we will work on the assessment of the Hausner's plan as far as it will influence decisions regarding interest rates. [...] Personally I do not assume it [revising inflationary target] but it is the matter of the whole Council.

Mirosław Pietrewicz's comment shows that with good reason he is considered as one of the most radical doves in the new MPC. It seems that as a central banker he would be caring more for the dynamics of investments (economic growth, employment) than inflation. Fortunately, most of the new MPC members will have different views.

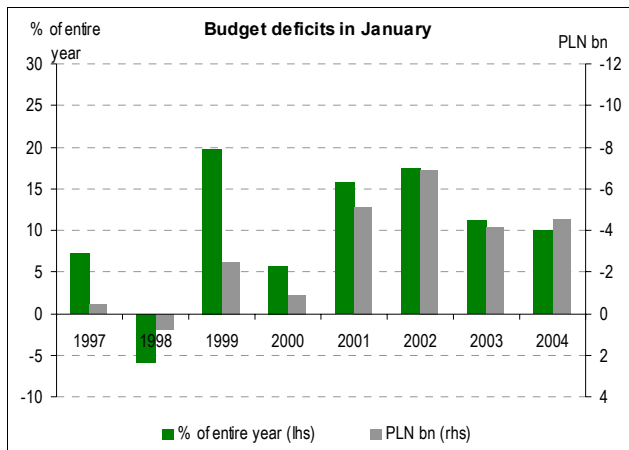
Halina Wasilewska-Trenkner, MPC member

PAP, 16th January

There exists a clear, very small margin for potential rate reduction. Real interest rates are above those in the European Union so there is space, but we should use it very carefully. At any rate we should not expect the Council to make a change concerning rates at the February meeting. [...] There is a great deal of uncertainty, chiefly linked with the opening of our market. The situation requires sensible and cautious moves. I doubt whether a new MPC will take decisions that would radically shift the monetary policy.

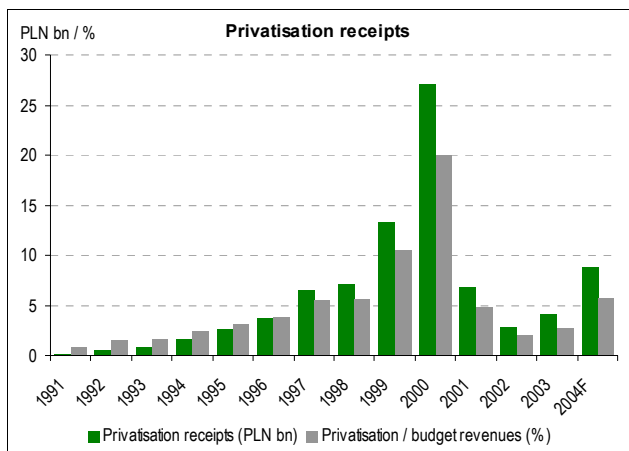
Even though Wasilewska-Trenkner sees scope for interest rate reduction, in her opinion some economic developments create huge uncertainty and call for big caution in monetary policy. It confirms our expectations that interest rate reductions should not be deep this year (not higher than 25bps at one time and 50bps in total in 2004).

Government and politics



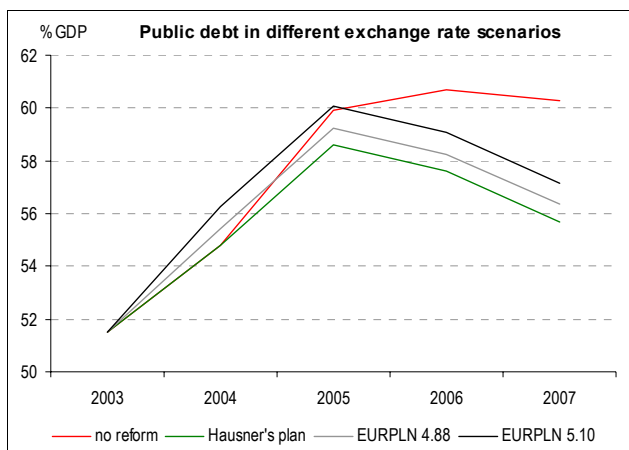
Good budget results after January

- In 2003 budget deficit amounted to PLN36,99bn i.e. 95.5% of the plan, but deficit of the whole public finance sector was higher.
- According to comments of government's representatives, budget deficit in January was below 10% of the plan.
- This was not connected with cuts in investment spending, but was rather a result of the schedule. Only fixed spending were realised.
- Budgetary revenues showed quite good performance. This year one should expect relatively high tax revenues on the back of economic revival.
- January's data cannot be a good hint as regards budget performance – last year it was similar, but spending had to be cut by above PLN5bn as compared to the plan.



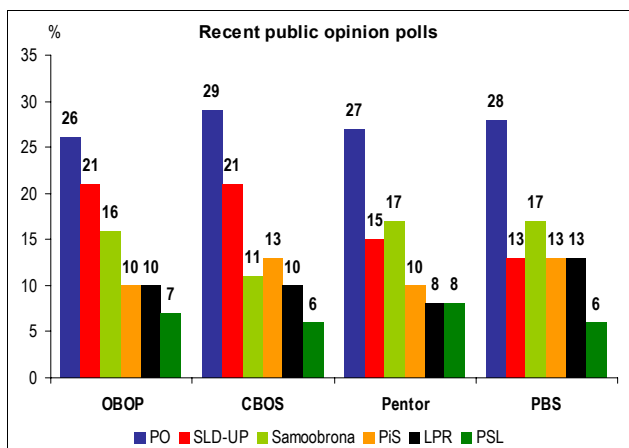
Personal changes in the government continue

- Zbigniew Kaniewski - – SLD deputy, and trade union activist from Łódź – as the fourth treasury minister in the Miller's cabinet.
- Opposition members fear that he might have problems with management of his ministry and privatisation process in Poland, because he has completely no experience in this field.
- Kaniewski ensured he was going to speed up the privatisation and fully realise privatisation revenues planned for this year. The problem is each treasury minister repeated exactly the same thing.
- This time the situation is more serious - the state budget rely on privatisation revenues this year to a large extent and any major hold-up of privatisation would automatically increase the debt-to-GDP ratio, which is already quite likely to touch or even exceed 55% level. There is no choice, the government has to privatise!



And the public debt is rising!

- Foreign debt makes one-third of the Polish public debt, which increases sensitivity of public debt to GDP ratio on changes in exchange rates.
- This sensitivity is more important in case of euro exchange rate, as the debt in euro terms is twice as high as debt in dollar terms.
- Zloty weakening by 10% increases public debt to GDP ratio by almost 2 pp.
- The second safety threshold (55% of GDP) will be broken this year if on 31st December euro would cost 4.78PLN and the dollar 3.82PLN, even if cabinet's targets of privatisation and GDP growth were met.
- If the zloty against euro reaches the level of 5.1 in 2005, the constitutional threshold of 60% to GDP would be broken.



High support for Civic Platform (PO) in opinion polls

- According to recent opinion polls Civic Platform (PO) is on the first place with the support of 25-30%.
- The ruling coalition SLD-UP on the second, sometimes on the third (after Samoobrona), place.
- Earlier elections would result in scattered political scene with a necessity of building broad coalition, which would mean high uncertainty as regards public finance reform.
- Even with an assumption of Civic Platform's victory in parliamentary elections, as opinion polls suggest, its idea of flat tax rate at 15% would be difficult to implement.
- ... although PSL supports tax proposal of Adam Smith Centre, and PiS suggests taxes simplification (but 1% tax on assets is a misunderstanding).

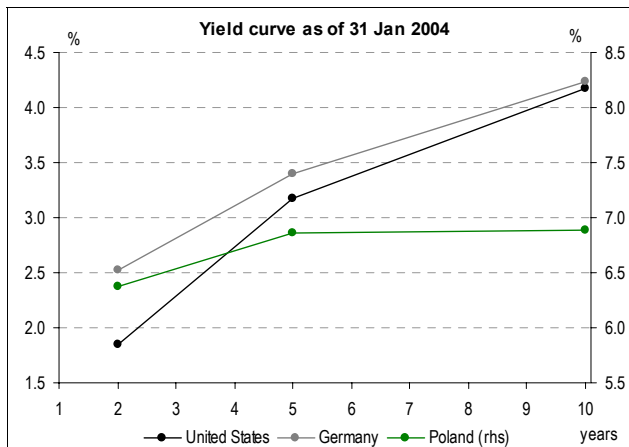
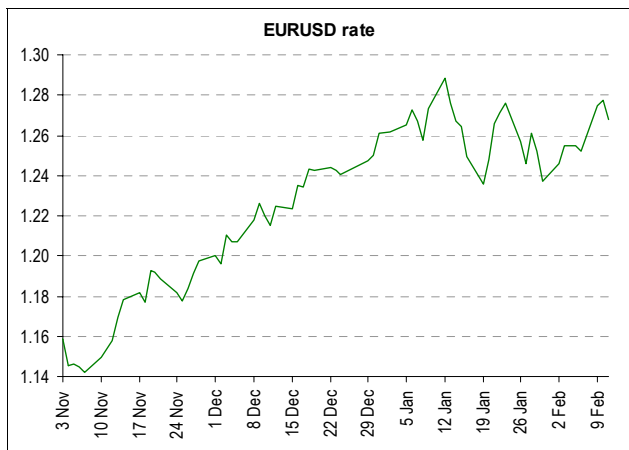
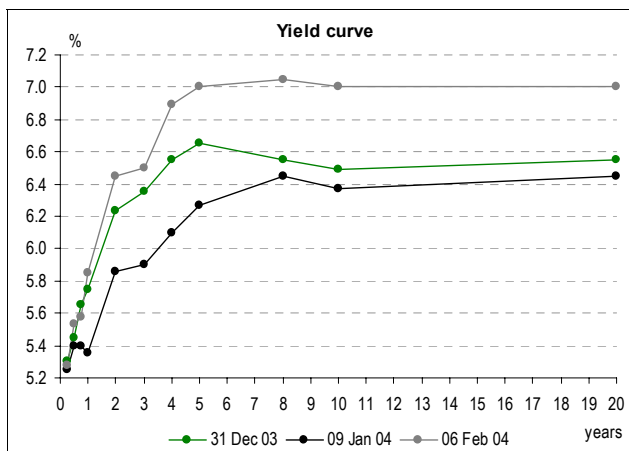
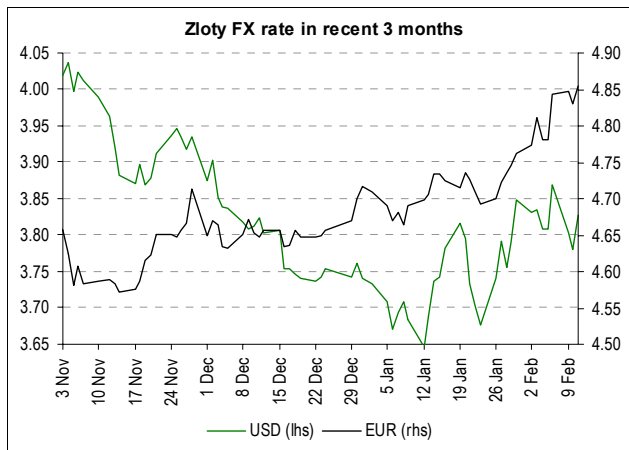
Source: Ministry of Finance, Ministry of Economy, Labour and Social Policy, BZWBK own estimates, polling institutes



Government and politics

Comments of government representatives and politicians	Remarks
<p>Aleksander Kwaśniewski, president of Poland; PAP, 12th February Question: Have you already decided who will be chosen as MPC member? Answer: (I will nominate) on 17th.</p>	<p>President Kwaśniewski not likely to surprise the market and therefore presentation of the names cannot have any significant impact on the market. The most likely candidates: professors Andrzej Wojtyna and Edmund Pietrzak (two candidates for MPC members from Senate) as well as Dariusz Filar and Andrzej Sławiński (two candidates for NBP president post in January 2001).</p>
<p>Leszek Miller, Prime Minister; PAP, Reuters, 27th January If this plan could not be carried out because it did not gain support in parliament... there would be no other solution than early parliamentary elections.</p>	<p>It seems that the most likely date of parliamentary elections is still May-June 2005. Even in case of no agreement between the ruling coalition and the Civic Platform, the SLD may still count on small parliamentary group in getting support for the Hausner plan (see comments below).</p>
<p>Jerzy Hausner deputy PM and economy minister; PAP, 10th February Weak zloty at the end of the year would boost the value of Polish public debt and if the exchange rate was similar as recorded last week [4.89], then all the efforts aimed at keeping the debt below 55% of the GDP would be useless.</p>	<p>This is nothing new and we have written many times in the past that with such inadequate budget bill for 2004, the government has decided to walk a very tight rope as regards public finance stability. Even though this situation is realised by both the government and economists in Poland, we would rather abstain from recalling it over and over again, because repeating such threats surely won't help in improving financial market's sentiment.</p>
<p>PAP, 5th February Introducing ESA-95 system is inevitable and we are working on it but we will introduce it after implementing public finance reform and not instead of it. I cannot say whether it will be 2005 or 2006. During the first year [under ESA95] we will have old and new methodology. However the earliest possible introducing ESA95 system is starting from 2006.</p>	<p>Without a change of public debt definition in the public finance act, an avoidance of breaking 55% to GDP threshold of public debt will be very difficult this year. In our opinion, such a change would not be necessarily negatively perceived by the market, assuming that bills connected with the Hausner plan are accepted by the parliament.</p>
<p>PAP, 29th January This time this is not a game. Without this resources [privatisation proceeds assumed for 2004] we will have huge problem with staying below level of 55% [ratio of public debt to GDP]. (...) If we breach 55% this year, then in 2007 the budget will have to have a surplus. Then, the plan, which I proposed, would not be sufficient and it would have to be more radical.</p>	<p>It is hard to disagree with deputy PM that public finance reform is not a game. But in this context, it is worth to ask deputy PM: why there is no expenditures and deficit reduction in this year's budget? Exceeding 55% threshold level in 2004 would require radical cuts and budget surplus already in 2006, not 2007 (it has been written in Finance Minister's "Medium-term fiscal strategy" approved in September).</p>
<p>Andrzej Raczko, finance minister; Radio PiN, 6th February There are no fundamental grounds for sharp reaction of the zloty. We can only guess that a fiscal consolidation, or the so called Hausner plan is concerned. [...] This is kind of a bubble. [Should NBP intervene on the market] We have floating exchange rate regime. I see no reason to change this policy.</p>	<p>There is no doubt that the only reason of negative sentiment on the market is current political situation and uncertainty as regards support in the parliament for necessary bills. However, it is difficult to agree that there are no fundamental reasons for the zloty to weaken, as fiscal situation of the country is undoubtedly one of economic fundamentals. Finance Ministry, National Bank of Poland and most of market participants are unanimous as regards no need of foreign exchange interventions.</p>
<p>PAP, 23th January This [Sejm's decision to reject Senate's amendment to 2004 budget – spending a part of so-called special funds on railway and metro] will make difficult realisation of basic state's functions. These functions will be realised by the state, but one has to know that substantial part of financial resources will not be paid.</p>	<p>Lower special funds are not likely to negatively influence on realisation of basic state's functions. However, much better scenario would assume spending this amount of money on lowering deficit, rather than increasing budget spending (which were high anyway). Failure of this important voting in the parliament has shown that the coalition might face troubles getting majority of votes in the parliament, which led to higher volatility on the foreign exchange market.</p>
<p>Jan Rokita, chief of Civic Platform parliamentary caucus PAP, 6th February The PO party would not abstain from voting in favour of Hausner's plan in the Sejm but would vote to reject it outright in its present shape. PAP, 7th February The PO's intention is defending the Polish zloty. Defending the zloty is a matter of Polish patriotism, which also has its economic dimension.</p>	<p>The first statement, which appeared before the meeting between the SLD and the PO, negatively affected the market, as investors assessed that chances for a compromise are lower. As the second statement shows, financial markets can reason with politicians. Despite the fact that chances for formal coalition between the SLD and the PO are quite low, it is very likely that the PO will support (or at least abstain from voting) bills, which give the most important part of savings in the Hausner plan (change of indexation scheme, early retirement).</p>
<p>Roman Jagieliński, chief of FKP parliamentary caucus Reuters, 6th February We will not reject the Hausner plan in the first voting. We will vote in favour of sending the bills to the commission for further work.</p>	<p>SLD representatives repeated many times in the past that a failure of the Hausner plan (a lack of support from PO) means early elections (even in May 2004). However, the SLD may still count on a small group of 16 deputies of the FKP (Federation Parliament Caucus). This may give SLD majority in the parliament, although it is not certain what shape of fiscal savings FKP would support. Does it mean this small parliamentary group will defend the zloty?</p>

Market monitor



Source: Reuters, BZ WBK

Fiscal uncertainty hikes EURPLN rate

- Starting from beginning of the year markets are mainly influenced by confusion regarding implementation of Hausner's plan. On active trading continuing swinging moods are observed.
- At the beginning of January appreciation trend of the zloty was shaped and yield falls took place. However, it lasted only shortly as since 10 January moods deteriorated as a result of concerns regarding the future of finance reform, returning question of earlier elections and afterwards of government's failure in Sejm voting over the budget. SLD's pledge to support the plan and changes in government relieved only temporarily.
- At end-January the zloty was weaker than in December by nearly 2% against dollar-euro basket, though in the first week it gained some 1.2%. Yield curve moved upwards by 10-20bps in 2-5Y sector and 35-40bps in longer terms last month, despite downward move of 35-40bps and 10bps, respectively in early January.
- At the beginning of February information on ECB official's comment on overvalued CEE currencies strengthened the factors exerting pressure on the market. In two days the zloty depreciated rapidly by 1.5% and it reached record weak level against the euro of 4.897. Yield in 5Y sector increased by almost 25bps. In mid-February situation calmed down and positive moods were clear especially on the fixed income market.
- Short-term prospects for Polish market still remain uncertain. As long as future of Hausner's plan remains under question, sudden fluctuations are possible. Given the fact that in our opinion there will not be a formal agreement between PO and SLD on this matter, at beginning of March market sentiment may deteriorate. However, afterwards bills will be accepted one after another in Sejm, which should strengthen the zloty and the bonds.

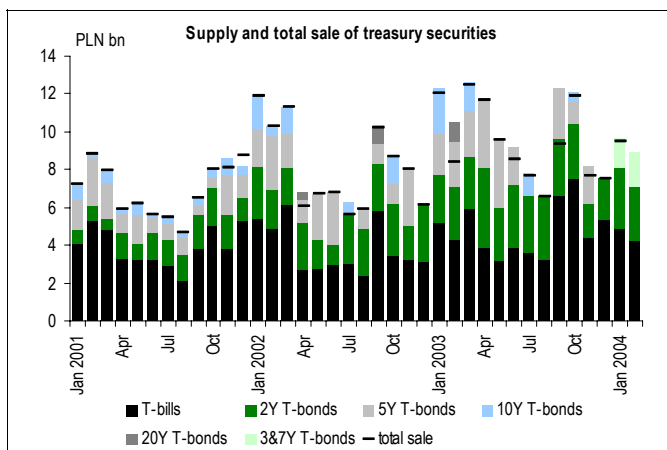
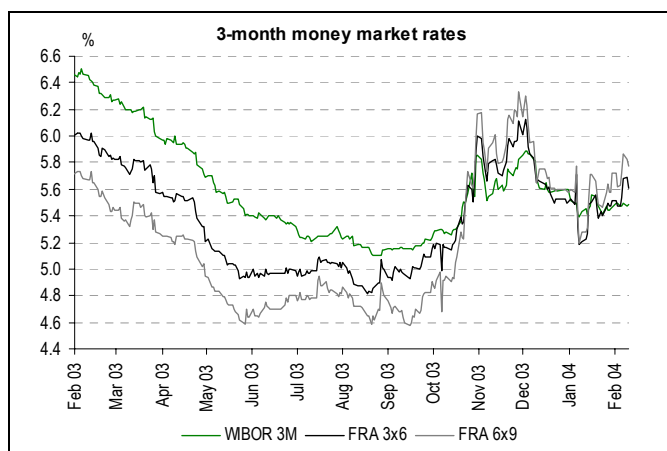
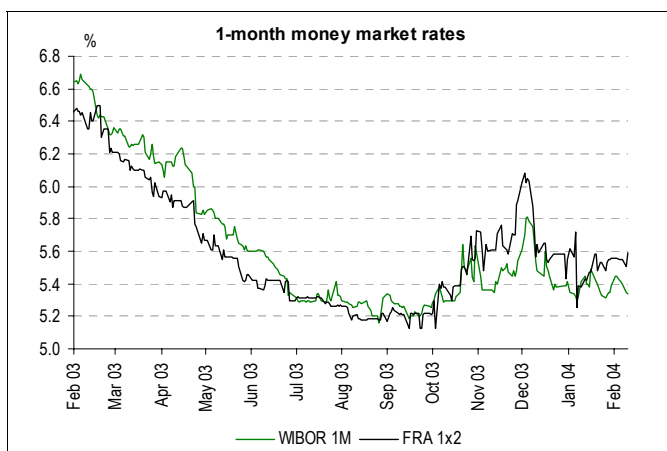
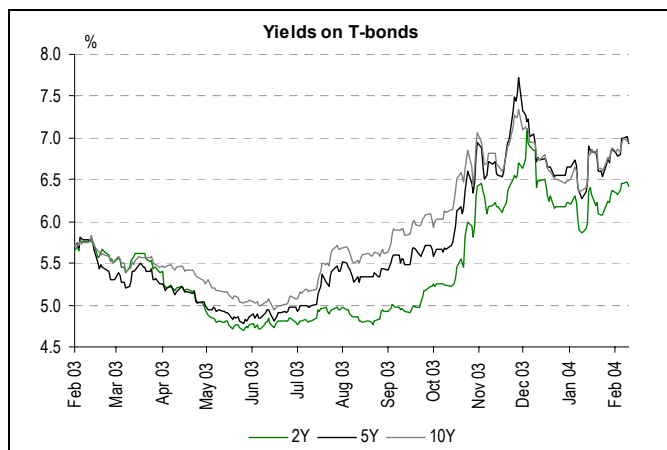
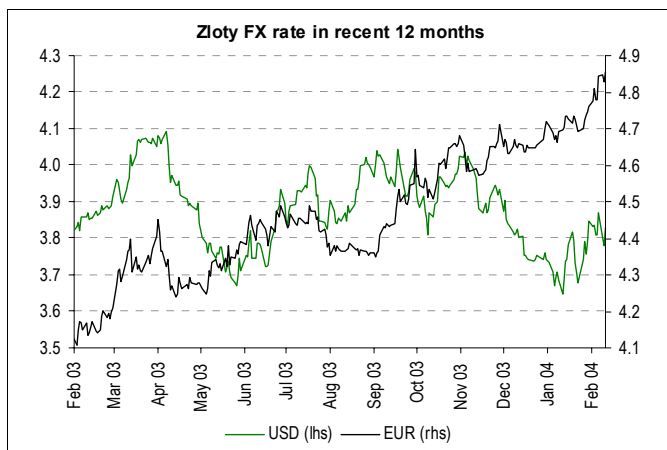
G7 wants to fight against FX instability

- FX markets are remaining extremely volatile. On 12 January the EURUSD rate reached the record level of almost USD1.29, and afterwards significant fluctuations were observed.
- In statement released after summit of finance ministers of G7 countries they warned they would not tolerate instability on the FX market and stated that excessive fluctuations were unfavourable for the growth. They assured they were watching the market and co-operating properly. They called again for more flexibility in FX rates, which was a critique especially minded on China and Japan, but also applies for several other Asian countries.
- We expect FX market quotations to remain unstable. In next few months further rise in EURUSD rate even to 1.30 is likely, however afterwards a downward correction is forecasted.

Global fixed income market is strengthening

- Sentiment worsening on the Polish market results in a rise in risk premium for Polish bonds measured with the difference between expected 5Y interest rate in Poland and in the Eurozone in 5 years time. In January it increased by almost 50bps and in the first week of February by further 25bps as the response to above mentioned information on comment from ECB official.
- In recent weeks a slight fall in yields took place on the main international fixed income markets first of all on information from the United States. Despite high economic growth data from labour market point it is sluggish. Moreover, Fed is going to maintain accommodative policy, which decreases the scale of expected interest rate hikes and supports positive sentiment towards bonds.
- We expect continuation of positive moods in short term.

Market monitor



Treasury bill auctions (PLN m)

Date of auction	OFFER / SALE			
	13-week	26-week	52-week	Total
05.01.2004	100 / 100	200 / 200	1,000 / 1,000	1,300 / 1,300
12.01.2004	100 / 100	200 / 200	1,000 / 1,000	1,300 / 1,300
19.01.2004	100 / 100	100 / 100	1,000 / 1,000	1,200 / 1,200
26.01.2004	-	100 / 100	1,000 / 1,000	1,100 / 1,100
January total	300 / 300	600 / 600	4,000 / 4,000	4,900 / 4,900
02.02.2004	-	-	1,000	1,000
09.02.2004	-	-	1,000	1,000
16.02.2004	-	-	1,100	1,100
23.02.2004	-	-	1,100	1,100
February total	-	-	4,200	4,200
March*	up to 500	up to 2,000	5,000 - 6,000	-

* own estimations based on preliminary information for 1Q04

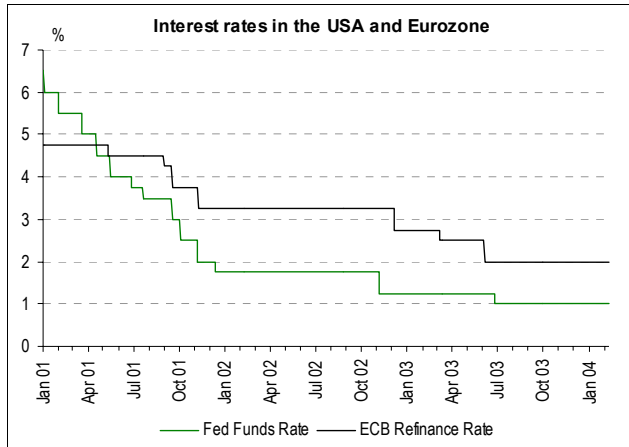
Treasury bond auctions in 2004(PLN m)

month	First auction			Second auction			Third auction					
	date	T-bonds	offer	sale	date	T-bonds	offer	sale	date	T-bonds	offer	sale
January	07.01*	OK0406	3,200	3,200	14.01	WZ0307/0911	1,500	1,407	-	-	-	-
February	04.02*	OK0406	2,900	2,600	11.02	WZ0307/0911	1,800	1,110.8	-	-	-	-
March	03.03	OK0406	-	-	10.03	DS1013	-	-	17.03	5L	-	-
April	07.04	OK0806	-	-	14.04	DS1013	-	-	21.04	5L	-	-
May	05.05	OK0806	-	-	12.05	WZ0307/0911	-	-	19.05	5L	-	-
June	02.06	OK0806	-	-	9.06	WZ0307/0911	-	-	16.06	5L	-	-
July	07.07	OK0806	-	-	14.07	DS1013	-	-	-	-	-	-
August	04.08	OK0806	-	-	11.08	WZ0307/0911	-	-	-	-	-	-
September	01.09	OK0806	-	-	8.09	WS0922	-	-	15.09	5L	-	-
October	06.10	OK1206	-	-	13.10	10L	-	-	20.10	5L	-	-
November	03.11	OK1206	-	-	10.11	WZ0307/0911	-	-	17.11	5L	-	-
December	01.12	OK1206	-	-	-	-	-	-	-	-	-	-

* with supplementary auction

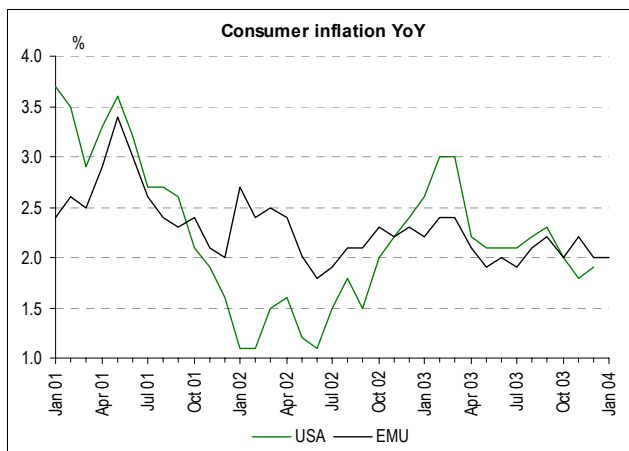
Source: Ministry of Finance, Reuters, BZ WBK

International review



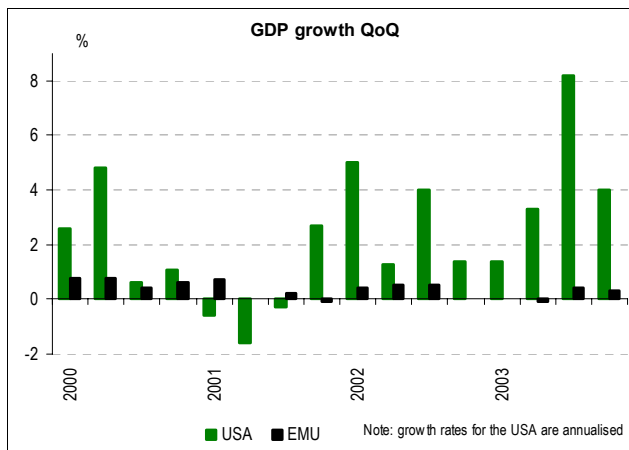
Bank of England raised the rates, Fed will still wait

- On 5 February, in line with expectations, the ECB did not change interest rates. Since mid-2003 the refinace rate has stood at 2.0%. After the decision the ECB president Jean-Claude Trichet assessed that current shape of monetary policy is proper but he stressed the need of stabilisation on the FX market.
- On the contrary, at the same day the Bank of England decided to raise the rates by 25bps. It was a second rate hike in three months. The main interest rate stands at 4.0%.
- As expected, on 28 January the Fed did not change interest rates. Federal funds rate totals 1%, which is the lowest since 1958. The wording of the statement was changed, dropping phrase that rates will remain unchanged for considerable period. However, at the same time they said that the Fed would be patient before lifting borrowing costs.



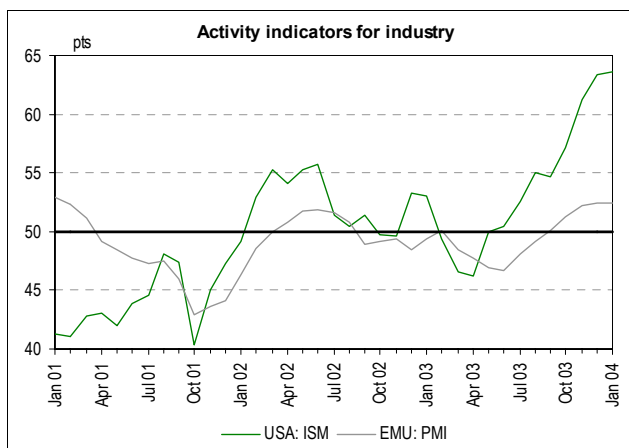
Low consumer inflation in the US and the Eurozone

- In December Eurozone's CPI increased by 0.3%MoM, and annual inflation rate slowed down to 2.0% from 2.2% in November. Analysts expected a confirmation of preliminary release at 2.1%YoY. According to preliminary data, in January inflation remained at 2.0%. It doesn't exceed ceiling target of the ECB. Producer prices declined by 0.1%MoM in December and annual growth rate amounted to 1.0% vs. 1.4% in November. Meanwhile, forecasts amounted to 0.0% and 1.1%, respectively.
- In line with forecasts, US CPI rose by 0.2%MoM in December, which resulted in increase in YoY inflation to 1.9% from 1.8% in November. Core inflation remained at 1.1% – the lowest since 1966. Producer prices went up by 0.3%MoM, close to market expectations at 0.2%. Annual growth rate of producer prices accelerated to 4.0% z 3.4%.



In the US slower growth but still much higher than in Europe

- Flash estimates pointed that economic growth in the Eurozone had been weaker than forecasted. In 4Q03 the GDP growth of 0.3%QoQ was recorded, compared to forecasts of 0.4%. In annual terms, Eurozone's economy grew by 0.6%, accelerating from 0.3%YoY in 3Q03. Also data for Germany, France and Italy were disappointing. The European Commission confirmed growth forecast for 1Q04 and released the forecast for 2Q04, both at the level of 0.3-0.7%QoQ.
- According to advanced information, growth in the US slowed to 4% in 4Q03, half the 3Q pace as consumers braked their spending. The result was well below expectations at 4.8%. Consumer spending rose at a 2.6% pace in 4Q03, a sharp slowdown from 6.9% gain of 3Q. GDP in the whole 2003 rose by 3.1%, up from 2.2% in 2002, the strongest since 2000 (3.7%).



Further increase in activity and business climate indices

- In January economic activity in the Eurozone's industry was accelerating at faster pace than in December but slower than expected by analysts. Reuters PMI index increased to 52.5pts, from 52.4pts in previous month, while 52.9pts was forecasted for January. Similarly, in the US activity in industry is accelerating slower than expected but faster than in December and at considerably faster pace than in the Eurozone The ISM index reached 63.6 pts in January against 63.4 pts in December and 64.0 pts forecasted.
- Index IFO – major business climate indicator for Germany – recorded a ninth consecutive rise, reaching 97.4pts in January vs 96.9pts in December, while increase only to 97.0pts was forecasted. The index reached the highest level for 3 years. Head of IFO institute confirmed that recovery in Germany continued.

Source: Reuters, ECB, Federal Reserve

What's hot this month

Monday	Tuesday	Wednesday	Thursday	Friday
2 February POL: T-bill auction EMU: PMI (Jan) USA: ISM (Jan)	3 EMU: Producer prices (Dec) EMU: Unemployment (Dec)	4 POL: T-bond auction OK0406 ITA: Inflation preliminary (Jan) EMU: Inflation preliminary (Jan) USA: Factory orders (Dec)	5 GER: Unemployment (Jan) EMU: ECB meeting EMU: Retail sales (Nov)	6 USA: Unemployment (Jan)
9 POL: Food prices (1H Jan) POL: T-bill auction	10	11 POL: T-bond auction WZ0307 and WZ0911	12 GER: GDP (4Q) FRA: GDP (4Q) FRA: Industrial output (Dec) USA: Retail sales (Jan)	13 POL: Money supply (Jan) POL: Wages & employment (Jan) ITA: GDP (4Q) ITA: Industrial output (Dec) EMU: GDP (4Q) USA: Foreign trade (Dec)
16 POL: Inflation preliminary (Jan) POL: T-bill auction	17 USA: Industrial output (Jan)	18 POL: Industrial output (Jan) POL: Producer prices (Jan) EMU: Industrial output (Dec) EMU: Foreign trade (Dec)	19 POL: MPC meeting GER: GDP (4Q) USA: Producer prices (Jan)	20 POL: Retail sales (Jan) POL: Unemployment (Jan) POL: Business climate (Feb) FRA: GDP (4Q) ITA: Inflation final (Jan) USA: Inflation (Jan)
23 POL: T-bill auction	24 POL: MPC meeting (1 st day)	25 POL: MPC meeting (decision) POL: Food prices (1H Feb) FRA: Inflation final (Jan)	26 EMU: Money supply (Jan)	27 ITA: Inflation preliminary (Feb) EMU: Inflation final (Jan) EMU: Inflation preliminary (Feb) EMU: Economic sentiment; Business climate (Feb) USA: GDP (4Q)
1 March POL: T-bill auction EMU: PMI (Feb) USA: ISM (Feb)	2 EMU: Producer prices (Jan) EMU: Unemployment (Jan)	3 POL: T-bond auction OK0406	4 GER: Unemployment (Feb) EMU: ECB meeting EMU: GDP (4Q) USA: Factory orders (Jan)	5 EMU: Retail sales (Dec, Jan) USA: Unemployment (Feb)
8 POL: T-bill auction	9	10 POL: T-bond auction DS1013 USA: Foreign trade (Jan)	11 USA: Retail sales (Feb)	12 POL: Money supply (Feb) POL: Balance of payments (Jan) POL: Wages & employment (Feb) USA: Producer prices (Feb)

Source: CSO, NBP, Finance Ministry, Reuters

Data release calendar for 2004

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
MPC meeting	20-21	24-25	-	-	-	-	-	-	-	-	-	-
GDP*	-	-	19	-	-	23	-	-	21	-	-	21
CPI	15	16 ^a	15 ^b	14	14	14	14	16	14	14	15	14
Core inflation	23	-	23 ^b	23	24	22	23	24	22	22	23	22
PPI	20	18	17	20	20	18	19	18	17	19	19	17
Industrial output	20	18	17	20	20	18	19	18	17	19	19	17
Retail sales	23	20	19	22	24	23	21	20	21	21	24	21
Gross wages, employment	16	13	12	15	17	16	14	13	14	14	17	14
Unemployment	23	20	19	22	24	23	21	20	21	21	24	21
Foreign trade	about 50 working days after reported period											
Balance of payments*	2	-	31	-	-	-	-	-	-	-	-	-
Balance of payments	30	-	12 ^c	13	14	-	-	-	-	-	-	-
Money supply	14	13	12	14	14	-	-	-	-	-	-	-
NBP balance sheet	7	6	5	7	7	-	-	-	-	-	-	-
Business climate indices	22	20	22	22	21	22	22	20	22	21	22	22
Food prices, 1-15	-	9 ^c , 25 ^d	25	23	25	25	23	25	24	25	25	23

* quarterly data,

^a preliminary data, January, ^b January and February, ^c January, ^d February

Source: CSO, NBP



Economic data and forecasts

Monthly economic indicators

		Jan 03	Feb 03	Mar 03	Apr 03	May 03	Jun 03	Jul 03	Aug 03	Sep 03	Oct 03	Nov 03	Dec 03	Jan 04	Feb 04
Industrial production	%YoY	3.3	4.3	5.5	8.5	11.7	7.9	10.3	5.9	10.9	12.1	9.2	13.9	5.8	7.1
Retail sales ***	%YoY	4.1	4.2	-1.7	11.0	9.7	8.1	5.4	5.5	9.7	10.3	11.4	17.3	16.8	15.4
Unemployment rate	%	20.6	20.7	20.6	20.3	19.8	19.7	19.6	19.5	19.4	19.3	19.5	20.0	20.4	20.5
Gross wages ** ***	%YoY	2.7	2.1	0.7	4.2	0.0	3.1	2.4	1.9	2.2	3.0	4.1	5.1	4.9	5.0
Employment **	%YoY	-4.1	-3.9	-4.0	-3.7	-3.5	-3.6	-3.2	-3.2	-3.1	-3.2	-3.3	-3.5	-1.5	-1.5
Export (acc. to NBP)	EURm	2,761	2,635	2,957	2,969	3,015	3,018	3,282	2,862	3,302	3,564	3,363	4,036	3,340	3,140
Import (acc. to NBP)	EURm	3,895	3,219	3,467	3,833	3,696	3,512	4,107	3,615	3,838	4,208	4,015	4,932	4,233	3,640
Trade balance (acc.to NBP)	EURm	-1,134	-584	-510	-864	-681	-494	-825	-753	-536	-644	-652	-896	-893	-501
Current account balance	EURm	-711	-483	-248	-460	-411	-100	-239	-111	58	198	-314	-678	-463	-301
Budget deficit (cumulative)	PLNbn	-4.1	-11.7	-15.5	-18.0	-23.2	-23.8	-27.7	-29.6	-33.1	-34.8	-35.5	-37.0	-4.5	-11.5
Budget deficit (cumulative)	% realisation	11.1	31.7	41.9	48.7	62.8	64.4	74.9	80.0	89.4	94.2	96.1	100.0	9.9	25.4
CPI	%YoY	0.5	0.5	0.6	0.3	0.4	0.8	0.8	0.7	0.9	1.3	1.6	1.7	1.8	1.9
PPI	%YoY	2.5	2.9	3.6	2.9	2.0	2.0	1.9	1.8	2.1	2.7	3.7	3.7	3.5	3.1
Broad money (M3)	%YoY	-1.4	-1.2	0.5	0.8	0.3	1.3	0.7	1.7	3.1	4.7	5.6	5.6	5.1	5.2
Deposits	%YoY	-4.1	-3.8	-2.3	-2.3	-2.9	-1.9	-2.5	-1.7	-0.2	1.5	3.3	3.8	3.3	3.8
Credits	%YoY	5.5	5.7	8.7	8.5	7.6	5.9	5.0	5.2	5.7	7.2	8.5	8.6	8.6	9.2
USD/PLN	PLN	3.84	3.87	4.01	3.96	3.74	3.80	3.90	3.92	3.98	3.92	3.94	3.79	3.74	3.81
EUR/PLN	PLN	4.08	4.17	4.33	4.30	4.33	4.44	4.44	4.37	4.46	4.59	4.62	4.66	4.71	4.80
Reference rate *	%	6.50	6.25	6.00	5.75	5.50	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25
WIBOR 3M	%	6.56	6.37	6.17	5.90	5.53	5.38	5.26	5.16	5.17	5.42	5.68	5.60	5.60	5.50
Lombard rate *	%	8.50	8.00	7.75	7.25	7.00	6.75	6.75	6.75	6.75	6.75	6.75	6.75	6.75	6.75
Yield on 52-week T-bills	%	5.74	5.83	5.67	5.43	4.75	4.66	4.85	4.82	4.91	5.30	5.95	6.02	6.02	5.80
Yield on 2-year T-bonds	%	5.55	5.66	5.52	5.16	4.78	4.79	4.89	4.86	5.02	5.53	6.31	6.49	6.49	6.45
Yield on 5-year T-bonds	%	5.57	5.58	5.36	5.15	4.88	4.90	5.17	5.38	5.60	6.04	6.86	6.82	6.82	6.90
Yield on 10-year T-bonds	%	5.62	5.67	5.52	5.41	5.13	5.03	5.37	5.60	5.93	6.36	6.92	6.75	6.75	6.90

Source: CSO, NBP, BZ WBK

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


Quarterly and annual economic indicators

		2002	2003	2004	1Q03	2Q03	3Q03	4Q03	1Q04	2Q04	3Q04	4Q04
GDP	PLNbn	771.1	804.7	859.0	184.5	197.6	198.9	223.9	195.4	209.9	212.6	241.1
GDP	%YoY	1.4	3.7	4.5	2.2	3.8	3.9	4.5	4.6	4.2	4.3	5.1
Total consumption	%YoY	2.8	2.5	3.0	1.0	2.8	2.9	3.2	3.0	2.9	3.0	3.3
- Private consumption	%YoY	3.3	3.1	3.6	1.4	3.8	3.4	3.7	3.5	3.5	3.5	4.0
Fixed investments	%YoY	-5.8	-0.9	7.1	-3.6	-1.7	0.4	0.1	2.0	5.0	8.0	10.0
Industrial production	%YoY	1.5	8.5	7.3	4.4	9.1	8.9	11.7	8.9	6.4	6.9	7.1
Retail sales (real terms)	%YoY	3.3	7.3	8.1	1.2		6.4	11.9	17.6	6.0	5.0	4.0
Unemployment rate *	%	20.0	20.0	19.2	20.6	19.7	19.4	20.0	20.4	19.4	19.0	19.2
Gross wages (real terms)	%YoY	1.5	1.8	1.7	1.4	1.7	1.7	2.5	3.0	1.2	0.8	1.6
Export (acc. to NBP)	EURm	34,746	37,764	40,587	8,353	9,002	9,446	10,963	9,933	9,632	9,729	11,292
Import (acc. to NBP)	EURm	45,712	46,337	49,429	10,581	11,041	11,560	13,155	11,732	11,483	12,138	14,076
Trade balance (acc. to NBP)	EURm	-10,966	-8,573	-8,842	-2,228	-2,039	-2,114	-2,192	-1,799	-1,851	-2,409	-2,784
Current account balance	EURm	-7,188	-3,499	-3,869	-1,442	-971	-292	-794	-959	-833	-963	-1,114
Current account balance	% GDP	-3.6	-1.9	-2.1	-3.1	-2.7	-2.4	-1.9	-1.7	-1.6	-2.0	-2.1
Budget deficit (cumulative)*	PLNbn	-39.4	-37.0	-45.3	-15.5	-23.8	-33.1	-37.0	-19.7	-28.7	-36.3	-45.3
Budget deficit (cumulative)*	% GDP	-5.1	-4.6	-5.3	-8.4	-4.2	-4.7	-1.7	-10.1	-4.3	-3.6	-3.8
CPI	%YoY	1.9	0.8	2.3	0.5	0.5	0.8	1.5	1.9	2.2	2.6	2.4
CPI*	%YoY	0.8	1.7	2.5	0.6	0.8	0.9	1.7	1.9	2.5	2.6	2.5
PPI	%YoY	1.0	2.6	3.0	3.0	2.3	1.9	3.4	3.0	3.5	3.1	2.3
Broad money (M3)	%YoY	-2.1	5.6	7.3	0.5	1.3	3.1	5.6	5.7	6.2	7.0	5.8
Deposits	%YoY	-4.3	3.8	6.3	-2.3	-1.9	-0.2	3.8	5.0	6.6	7.9	5.9
Credits	%YoY	5.3	8.6	11.9	8.7	5.9	5.7	8.6	8.7	11.1	11.6	12.0
USD/PLN	PLN	4.08	3.89	3.72	3.90	3.83	3.93	3.89	3.75	3.68	3.75	3.68
EUR/PLN	PLN	3.85	4.40	4.65	4.19	4.36	4.42	4.62	4.72	4.60	4.68	4.60
Reference rate *	%	6.75	5.25	4.75	6.00	5.25	5.25	5.25	5.00	4.75	4.75	4.75
WIBOR 3M	%	9.09	5.68	5.03	6.37	5.60	5.20	5.57	5.23	4.98	4.95	4.95
Lombard rate *	%	8.75	6.75	6.50	7.75	6.75	6.75	6.75	6.50	6.00	6.00	6.00
Yield on 52-week T-bills	%	8.18	5.33	5.16	5.75	4.94	4.86	5.76	5.84	5.00	5.00	4.80
Yield on 2-year T-bonds	%	7.94	5.38	5.96	5.58	4.91	4.92	6.11	6.43	5.70	6.00	5.70
Yield on 5-year T-bonds	%	7.86	5.61	6.79	5.50	4.98	5.38	6.57	6.87	6.50	7.00	6.80
Yield on 10-year T-bonds	%	7.34	5.77	6.81	5.60	5.19	5.63	6.68	6.85	6.60	7.00	6.80

Source: GUS, NBP, BZ WBK

* at the end of period



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