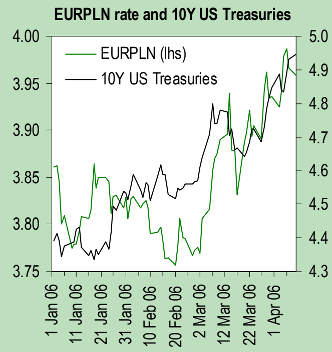
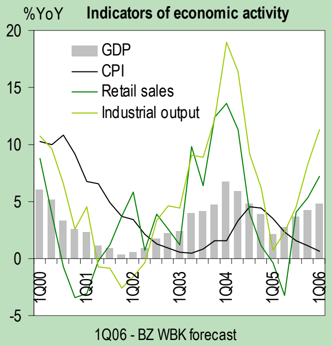
Bank Zachodni WBK

MACROscope

Polish Economy and Financial Markets

April 2006





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Is spring in the air?

- **The recent weeks have demonstrated a continuing upsurge in bond yields on the world markets, which has weakened the zloty and caused market interest rates to grow both in Poland as well.** This scenario would follow our forecasts for the Polish market therefore we do not see any reasons to change our FX forecasts (PLN against EUR at 3.95 on an average throughout 2006). However, insofar as our forecasts say that EURPLN rate would go up to 4.0 with the yield of long-term bonds at 5% only in the third quarter, the risk is that these might materialise earlier than expected (10-year bonds already give a yield above 5%). This will primarily depend on further developments across the world markets though a possible sustenance of the existing ECB rates in May would to some extent support the Polish market, and on what politicians will do, bearing in mind that their actions may work to the contrary.

- **In all likelihood there will be no early elections in spring, instead a government coalition of Law & Justice (PiS) and Self-Defence (Samoobrona) or Polish Peasants' Party (PSL) or League of Polish Families (LPR) will be formed.** Going into talks with Self-Defence about a government coalition poses questions about potential adjustments to the government's economic course (including government reshuffle). While there is no gainsaying that risk is growing, its scale (to some extent already priced-in by the market) will remain a big question mark in the coming months.

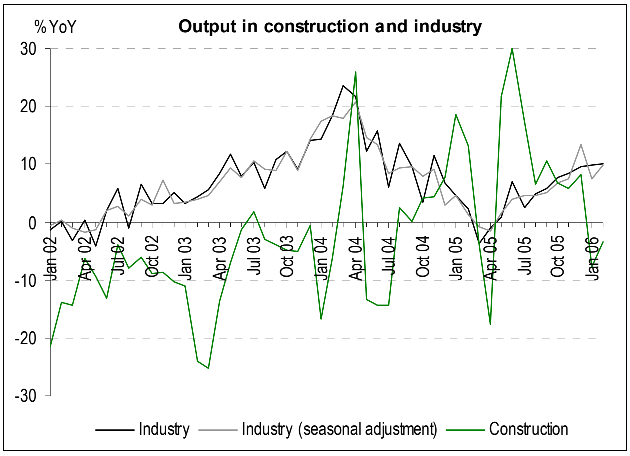
- **Macroeconomic figures disclosed last month painted a promising picture of the economic performance.** The industrial output and retail sales have surpassed expectations indicating a substantial acceleration at the beginning of 2006. Moreover, the labour market has shown that a growing domestic demand which became visible in the fourth quarter of 2005 should continue into 2006. The unemployment rate has been systematically declining accompanied by growing employment and salaries. Export sales remain high and the recent PLN weakening serves their profitability well.

- **Inasmuch as the short-term inflation forecasts remain positive (a further decline in March is still possible), we continue to believe that the interest rates will not change until the end of the year.** During the March meeting of the Monetary Policy Council the interest rates were upheld in view of a growing domestic demand and labour costs per unit contributing to an inflation hike in the medium term. It is also equally important that in the recent months most of the council members, who not a long time ago advocated a less restrictive monetary policy, have suggested that a 4% interest rate should be preserved for some time.

Financial market on 31 March 2006:					
NBP deposit rate	2.50	WIBOR 3M	4.17	USDPLN	3.2491
NBP reference rate	4.00	Yield on 52-week T-bills	3.97	EURPLN	3.9357
NBP lombard rate	5.50	Yield on 5-year T-bonds	4.80	EURUSD	1.2113

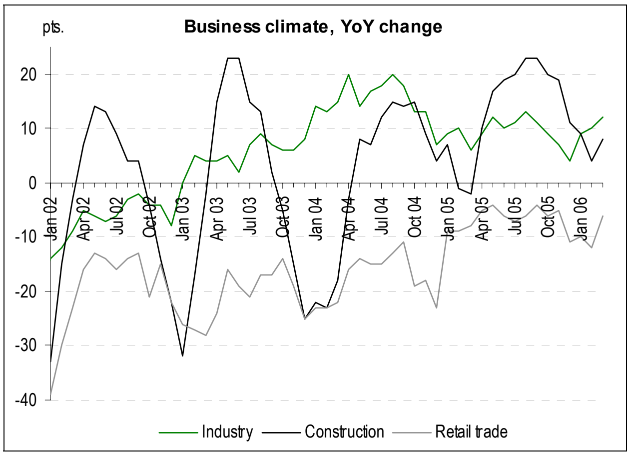
This report is based on information available until 10.04.2006

Economic update



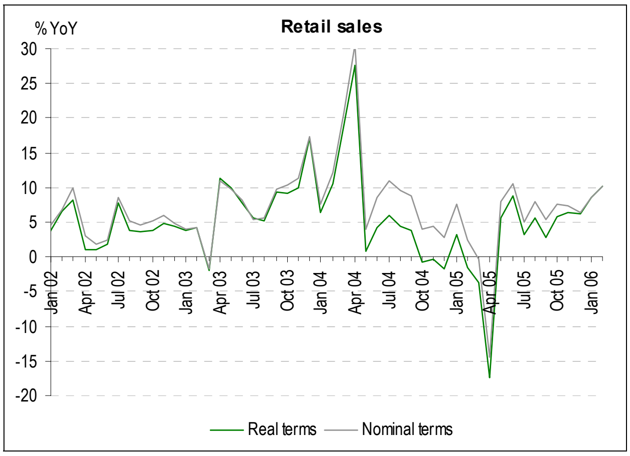
Very fast industrial production rise in February

- February industrial production figure surprised on the upside, showing a healthy 10.1%YoY increase, following revised upwards 9.8%YoY rise in January.
- Growth rate in manufacturing was even higher, reaching 11.7%YoY, while industrial output adjusted for seasonal fluctuations rose 9.8%YoY, which was the best result for 20 months.
- Construction production result was less optimistic, showing 3.5%YoY drop. However, it seems likely that the figure was once again affected by unfavourable weather conditions as production fell in construction units engaged in outdoor work (raising structures, land and water engineering,), while units specialised in finishing jobs saw a decent 10.7%YoY rise in output.



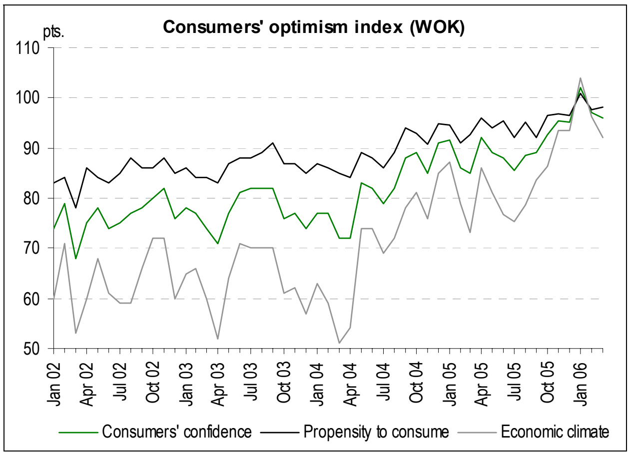
… and in March business climate kept improving

- CSO's report on business climate in March gave quite optimistic results, showing upturn in entrepreneurs' sentiment in all surveyed areas – in manufacturing, construction, and retail trade.
- Manufacturing companies reported improving portfolio of orders and smaller output contraction than last month, and were optimistic about future orders and production. They also predicted lower scale of layoffs and slight increase in production prices.
- Builders were upbeat about current and expected situation as well, anticipating a rise in future orders and output, higher employment and rise in prices. General sentiment in retail trade was still negative, but improving, and better than last year. Staff reduction in trade was expected, but at a lower scale than before.



Retails sales increase also above consensus

- Retail sales growth in February reached 10.2%YoY, topping market expectations (around 9%) and confirming strengthening of consumption demand. What is interesting, real growth of retail sales was almost as high as nominal increase (i.e. 10.1%YoY), showing that prices in retail trade were in practice stagnant.
- A solid rise in relation to February 2005 has been reported in most of branches, including sales of motor vehicles (11.9%YoY), drugs and cosmetics (9.6%YoY), and household appliances (9.5%YoY) – i.e. also in the case of goods other than necessities.
- It seems households have started taking advantage of improvement in their financial situation after a revival on the labour market took place. In March sales figures could be weaker, but this should be temporary because of later Easter shopping (in April this year versus March last year).

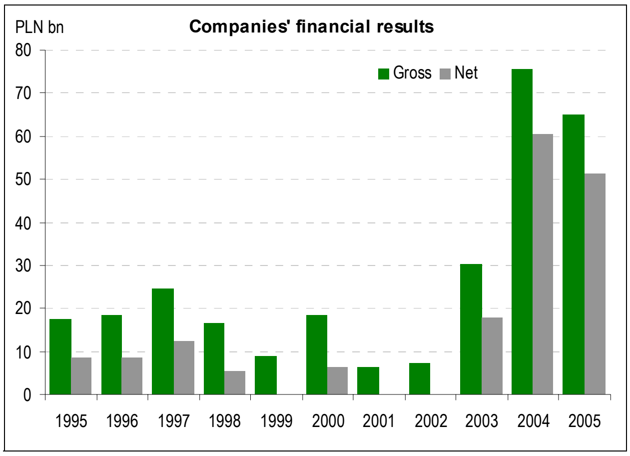


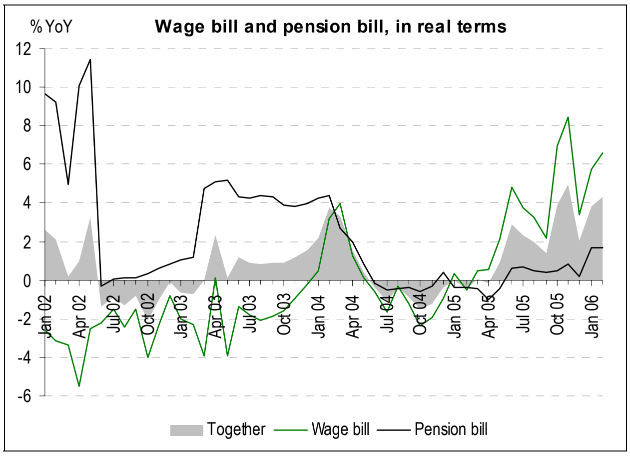
Source: CSO, own calculations

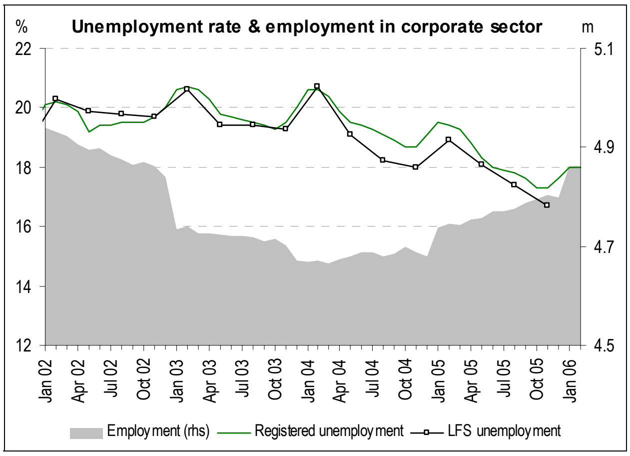
… and consumers remain in good mood

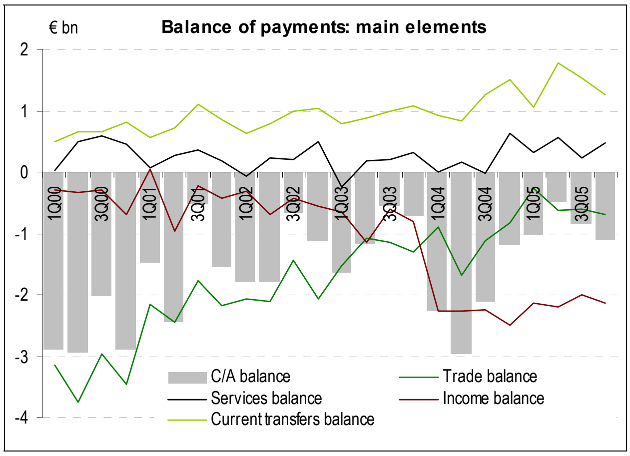
- A survey on consumer confidence, carried out by Ipsos in March, brought mixed results. While overall index of consumer optimism declined to 96pts from 97pts in February and index of economic climate dropped to 92.1pts from 96.3pts, indicator for propensity to purchases climbed to 98.1pts from 97.5pts a month earlier.
- The fall in consumer optimism and assessment of economic climate seem to be largely seasonal, as in annual terms, both indices grew robustly, stronger than in several previous months. Index for propensity to purchases also rose on an annual basis. All in all, the survey results confirmed that consumption demand is going to be important driving force of Poland's economic expansion at the beginning of 2006.

Economic update









Source: CSO, NBP, own calculations

High corporate profits in 2005

- CSO data on financial results of non-financial enterprises in 2005 showed that profits attained last year were slightly lower than those from 2004. however, one should take into account that 2004 results were exceptionally good because economic situation was then heavily affected by the fact of Poland's EU accession and exporters' results were better amid weaker zloty.
- Companies' gross financial result in 2005 reached PLN65bn and net financial outcome topped PLN51.4bn, while in 2004 corresponding values were PLN75.4bn and PLN60.7bn. Even though financial results in 2005 were below previous year's levels, they were much better than numbers reported in all previous years since early nineties. In general, the numbers bode well for prospects of economic growth, especially investment demand, this year.

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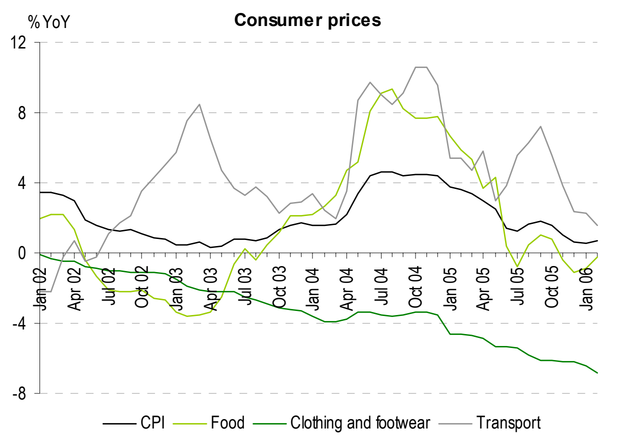
Improvement on the labour market continues

- Monthly data from the labour market proved to be much stronger than expected. Average wage in corporate sector soared 4.8%YoY in February, after 3.6%YoY rise in the previous month, while employment advanced 2.5%YoY, slightly down from 2.6% in January.
- As a result, total wage bill in enterprises sector picked up 7.3%YoY, which was the third best result in last five years (just behind October-November 2005). In real terms performance of wages and wage bill looks almost equally impressive due to low inflation rate.
- Another positive surprise on the labour market suggested that upturn in this area observed recently was something more than just a short-lived effect. Positive trends found confirmation in quarterly Labour Force Survey report.
- The LFS unemployment rate fell to 16.7% in Q4 2005 from 17.4% in the previous quarter, reaching the lowest level since end-2000. The number of unemployed in the report fell below 3 million for the first time in five years.
- The survey results also validated persistence of upward move in employment, as Q4 saw 2.4%YoY rise in number of working people. Employment ratio (number of employed in relation to total working force) stabilised in Q4 at ca. 46%, which was 0.8 pts higher than in Q4 2004, and the highest level since 2001.
- Labour market data support expectations for strengthening private consumption in the subsequent quarters, especially that from March on it will be assisted by higher pension bill resulting from pension indexation.
- Taking into account that labour market data are carefully watched by the central bank, a continuation of above-mentioned tendencies may be important factor for keeping rates on hold.

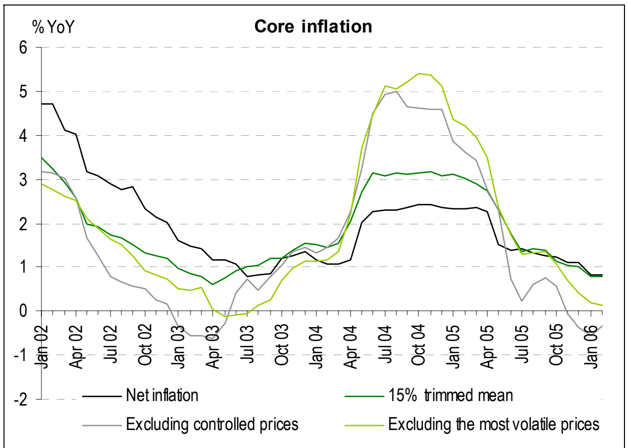
Export still good. What about its profitability?

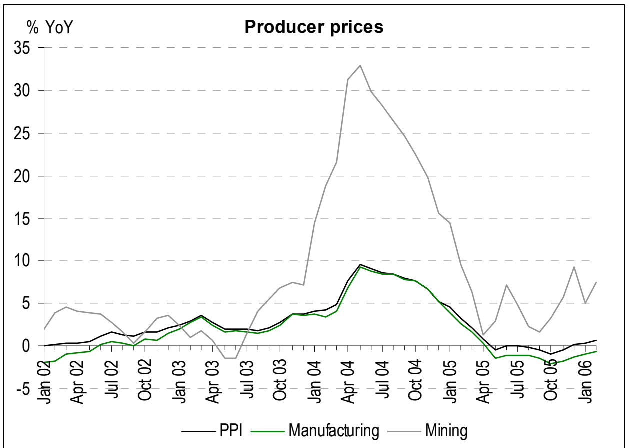
- Improvement in domestic demand indicators was accompanied by stabilisation in quite positive situation as regards Polish external position.
- In 4Q05 current account deficit reached €1.099bn versus €861m in the previous quarter and €1.192bn a year earlier. Trade gap amounted to €691m (€143m less than a year ago), Relation of C/A deficit to GDP reached 1.7%.
- 4Q05 saw 18%YoY rise in exports and 16.5%YoY increase in imports. Therefore, export remained at high level despite stronger zloty and import statistics confirmed a revival in domestic demand. The remaining question is whether the strong zloty would not finally influence domestic demand as its lower profitability may affect wage growth in exporting companies as well as their investment demand.

Economic update



New CPI weight system (%)	2005	2006	change
Food and non-alcoholic beverages	26.9	27.2	0.3
Alcoholic beverages, tobacco	5.7	5.7	0.0
Clothing and footwear	5.0	5.0	0.0
Housing, water, electricity, gas and other fuels	20.9	20.3	-0.6
Furnishings, household equipment	4.7	4.7	0.0
Health	5.3	5.3	0.0
Transport	8.8	8.5	-0.3
Communication	5.0	5.6	0.6
Recreation and culture	6.6	6.6	0.0
Education	1.6	1.4	-0.2
Restaurants and hotels	4.3	4.5	0.2
Other goods and services	5.2	5.2	0.0





Source: CSO, NBP, own calculations

Inflation rate close to the bottom

▪ In February inflation rate reached 0.7%YoY and 0%MoM. No change on monthly basis was moderately above our forecast of 0.1% rise. What is interesting, such situation took place despite higher than expected food prices' increase (by 0.6%MoM). This was counteracted by fuel prices that went down by 1%MoM and prices of clothing and footwear that dropped 2.4%MoM, while all other prices showed completely no inclination to rise.

▪ Inflation data confirmed our view, shared by majority of market participants, that CPI inflation will remain very low in the following months – below 1% till October-November and ca. 1.5% in December.

▪ Inflation in March will depend to a large extent on food prices. According to the Ministry of Finance CPI inflation may be as low as 0.4-0.5%YoY amid falling food prices, while we expect a moderate rise in food prices and CPI inflation at 0.6%YoY.

▪ One should remember that the most important issue for the central bank is not inflation level in 2006, but in 2007 and 2008, as this is the horizon of monetary policy transmission. And it seems now that in such timeframe CPI growth should start picking up, driven by speeding up domestic demand and firming labour market.

▪ In line with earlier suggestions, change in weights in consumption basket proved to have small negative impact on CPI estimates, as the number for January has been revised to 0.6%YoY from initial reading 0.7%.

▪ One should notice a rise in share of communication services by 0.6 pct. point (probably resulting from the fact that the CSO included mobile phone services in the new basket), slightly higher share of food (up 0.3 pp), and a decline in weight of housing and energy costs (-0.6 pp).

Core inflation remains very low

▪ core inflation figures, which show underlying inflation excluding influence of random and exogenous factors, confirmed again that pressure on price increase is negligible at the moment and CPI inflation should remain low in the following months. It seems strengthening economic revival has not yet started to push consumer prices up.

▪ All but one out of five measures of core inflation fell in February as compared to December 2005. In line with our forecast, net inflation reached 0.8%YoY in January and February, down from 1.1%YoY in December, which was the lowest result since August 2003. The second important measure, 15% trimmed mean was also at 0.8%YoY in January-February, against 1.0% in December. Two measures – CPI excluding controlled prices and CPI excluding most volatile prices and fuels – were negative.

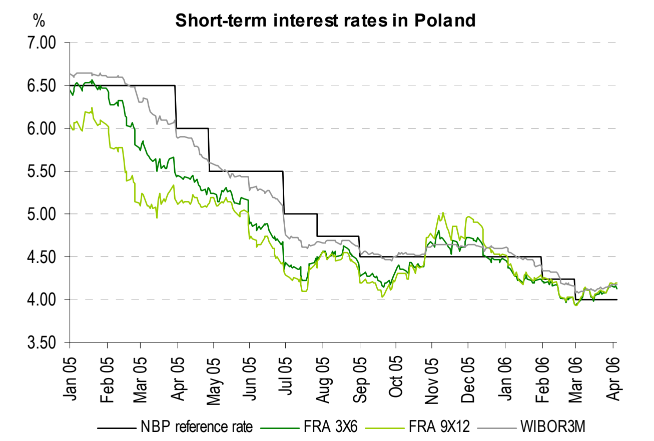
… as well as producer prices inflation

▪ Although February saw a slight increase in annual PPI growth to 0.7%YoY from January's 0.3%, it resulted entirely from a very low base effect, as on monthly basis producer prices declined by 0.1%.

▪ A fall in prices by 0.2%MoM was observed in manufacturing sector, which resulted to some extent from lower prices of fuels and its derivatives, but prices in many other manufacturing branches declined as well, which shows no upward pressure on prices that could create risk for inflation

▪ We expect that in the following months PPI inflation will remain very low (it may even fall below zero in April), and then it will rise similarly to CPI inflation trend, reaching some 1.5% in December. It seems that such tendency is base-case scenario also for the central bank.

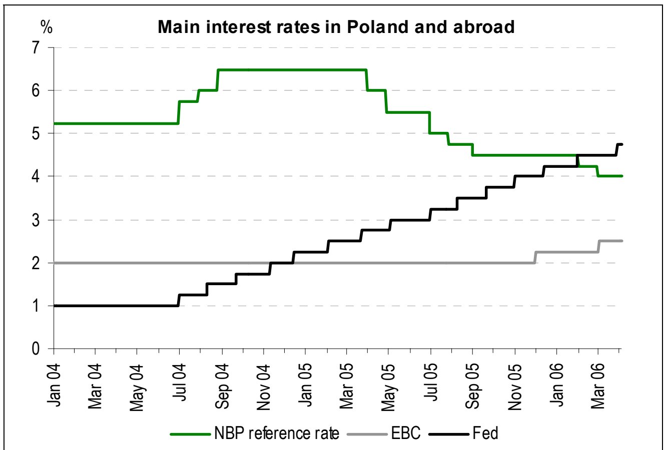
Central bank watch



Fragments of the MPC statement from 29 March 2006

The data for 2005 Q4 revealing the accelerating wage growth in the economy and a rise in the number of working persons and GDP confirm that unit labour cost growth in the economy has increased. (…) It should be emphasised that a necessary condition for a sustained acceleration of economic growth which would not pose a threat to the achievement of the inflation target is that – in the longer run – the growth in wages does not outpace the growth in labour productivity.

Short-term factors may with large probability be conducive to inflation remaining below the inflation target in 2Q05 and possibly also in 3Q05. In turn, in the projection horizon (i.e. in 2007 and 2008) the growth in domestic demand and unit labour costs will be gradually pushing inflation back to the target (2.5%), as it was presented in the January projection. The data significant for the projection (LFS data for 4Q05) and the interest rate cuts in January and February 2006 support this assessment.



Results of MPC votes	Mar'05 -50bp	Apr'05 -50bp	Jun'05 -50bp	Jul'05 -25bp	Aug'05 -25pb	Jan'06 -25pb
Balcerowicz	+	+	+	-	-	-
Czekaj	+	+	+	+	+	+
Filar	-	+	+	-	-	-
Nieckarz	+	+	+	+	+	+
Noga	+	+	+	-	-	-
Owsiak	+	+	+	+	+	+
Pietrewicz	+	+	+	+	+	+
Sławiński	+	+	+	+	+	+
Wasilewska-Trenkner	+	+	+	-	-	+
Wojtyna	+	+	+	+	+	+

Source: NBP, Reuters

Is this really the end?

▪ As widely expected, the Monetary Policy Council decided at its March's meeting to leave interest rates on hold. Justification of the decision included in the official statement of the MPC was broadly in line with expectations. Factors pointed out by the Council were mostly of the hawkish tone and they suggested there was little (if any) room for manoeuvre as regards interest rates reduction.

▪ With respect to inflation data, the Council said that current low level of inflation results to a large extent from transitory factors, such as low distribution margins on the fuel market and excess supply on the food market.

▪ The official statement of the Council, supplemented by NBP governor's comments, indicated clearly that one should not count on further rate cuts in months to come.

▪ Although official statements of the MPC have often been biased towards hawkish view and the one published after the March's meeting probably also does not precisely reflect view of the majority of rate-setters, the most recent comments from doves and moderate central bankers suggest that the last communiqué quite properly reflects state of minds on the rate-setting panel. At the moment, with current set of macroeconomic data at central bankers' disposal, further reduction in borrowing costs seems unlikely. However, one cannot exclude that some central bankers change their mind under influence of new information. The nearest crucial piece of information, except regular monthly and quarterly macro data, will be April's *Inflation Report* and the new inflation projection. However, we think the new projection will not improve significantly enough to convince majority of rate-setters that level of interest rates could be reduced further.

Zloty prospects and chances for further rate cuts

▪ In its statement after the March's meeting, the MPC stressed the zloty weakening (by 5% against the euro and 3.9% against the dollar) that took place since February's meeting of the Council.

▪ When the MPC started rate reduction cycle over a year ago, the zloty was also weakening. However, this has not prevented central bankers from cutting interest rates in March and April.

▪ This time it may be a different way, among others due to a fact that the zloty weakening is likely to last for longer time than a year earlier. Domestic currency will be negatively affected by a change in interest rate differentials between Poland and abroad. However, the main argument for leaving rates on hold is the fact that they have been substantially reduced and a room for manoeuvre has narrowed.

Changing views within the MPC

▪ According to official information included in the Government's Monitor, the MPC voted seven to three on cutting interest rates by 25 bp in January, with NBP governor Leszek Balcerowicz and MPC members Dariusz Filar and Marian Noga in the minority. It means that Halina Wasilewska-Trenkner who used to belong to the group opposing rate cuts in July and August of last year, has changed her mind in January.

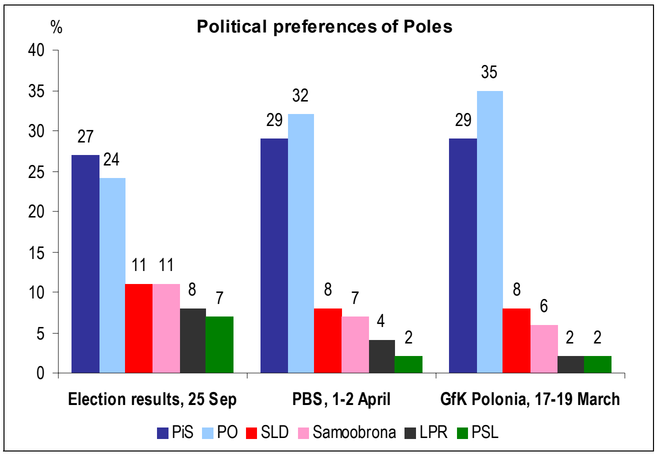
▪ In the new *Inflation Report*, which will be published in late April, results of all votes during MPC meetings in 1Q06 will be revealed.

▪ We think that a rate cut in February could be voted with a weaker majority than 7:3, and in March probably a wide consensus appeared that rates should remain on hold.

Central bank watch

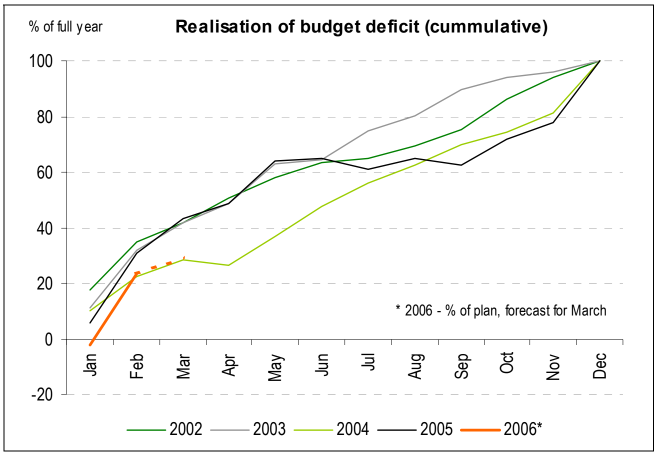
Comments of the central bank representatives	Our remarks
Stanisław Nieckarz, MPC member **PAP, 17 March** After interest rate cut made so far this year, one should wait some time for economic data for the next months. They should confirm favourable inflation prospects in the long run. It is expected that interest rates in the US and the euro zone will be raised in the nearest months, and if it actually happens, it may turn out that current level of interest rate in Poland will not require downward adjustment, or only a slight one, because interest rate disparity will decrease. CPI inflation should reach 0.8%YoY in March and stay below 1%YoY until the end of 2006. This will be the second consecutive year in which inflation is below the lower end of the allowed fluctuation band around the inflation target and such situation is not comfortable for the MPC. **Mirosław Pietrewicz, MPC member** **Reuters, 17 March** We have an acceleration in economic growth, in conditions of low inflation. Economic indicators are better than we thought two months ago. The current level of interest rates is appropriate. There is no great room for manoeuvre on monetary policy. It would be prematurely to talk of increase in inflationary pressure, because wage growth is still lower than productivity growth. However, one should closely watch interest rates abroad.	A series of economic data releases confirming that economic growth is still gaining momentum apparently affected views of MPC members. What is important, the data influenced also views of these rate-setters who usually support monetary easing. Less than two weeks before MPC meeting in March the market was surprised with comments of two doves from the rate-setting panel. The surprise was caused by the fact that this time their voices had been much more of a hawkish tone. According to Mirosław Pietrewicz, interest rates in Poland are currently at adequate level, given the economic growth is gaining momentum, and the central bank has little room for manoeuvre. Meanwhile, Stanisław Nieckarz declared that after two cuts already applied this year the Council should wait for more information. In his opinion, a room for more interest rate reductions in Poland could disappear if expectations for further rate hikes in the US and euro zone materialise in near future. Pietrewicz also pointed to a upward tendency in official interest rate abroad. Comments from both Nieckarz and Pietrewicz are a strong indication that one should not count on another monetary easing in Poland in the nearest months, as interest rate cut will not be supported even by radical doves. At the same time, it is worth to take note of the fact that Nieckarz predicts inflation is likely to stay below 1% until end of this year, which was "not a comfortable situation for the MPC". This suggests that Nieckarz (probably also Pietrewicz) may begin to want another rate cuts in a few months time, especially if inflation in the nearest time will prove lower than currently predicted (we think already CPI inflation in March is likely to be lower than a 0.8%YoY expected by Nieckarz).
Andrzej Sławiński, MPC member **Radio PiN, PAP, 3 April** In light of January's inflation projection, interest rates are currently close to neutral level. **Andrzej Wojtyna, MPC member** **PAP, 21 March** As a matter of fact reviving consumption demand will cause some acceleration in inflation, but it will be mildly return to around 2.5%. Thus, there will be no strong reasons for a change in interest rate. Assuming that inflation will gradually return to the target, we are currently close to a hypothetical level of neutral interest rate. Monetary policy should be aimed not only at stabilisation of inflation, yet the central bank should also avoid too frequent changes in interest rates and should try to smooth interest rate path and thus contribute to output stabilisation. April inflation projection should not bring considerable changes in future inflation path, although some corrections will surely take place. However, the key issue will be long-term relations, mostly between wages and labour productivity.	Even if radical doves from the Council begin to want interest rate cuts again, outcomes of the nearest MPC meetings will be determined by views of moderate central bankers, such as Andrzej Sławiński or Andrzej Wojtyna. The latest comments from Sławiński and Wojtyna showed that in their opinion interest rates in Poland were currently close to neutral level. Although Wojtyna predicts that accelerating domestic demand growth would push prices up in the coming periods, he thinks inflation acceleration should not be excessive and the inflation rate would gradually return towards 2.5% target. In his opinion, new inflation projection to be released in April would not show dramatic changes in predicted inflation path as compared to the previous report, although it would be crucial to see long-term relation between pay rise and labour productivity. We believe that changes in the new inflation projection will not be as substantial so that convince majority of rate-setters to support another monetary easing. However, there is a question whether such majority will be formed, if inflation in the nearest months proves lower than currently expected. Wojtyna's declared aversion to frequent changes in interest rates suggests that in circumstances of accelerating economic growth he would rather not support another rate cut, because shortly later it could create a necessity of a corrective rate hike.
Halina Wasilewska-Trenkner, MPC member **Reuters, 6 April** Now we can see that there are risk factors for inflation. These are food prices, fuel prices, the weak zloty and a rise in excise tax. It looks like we will return to the bank's inflation target slightly faster. **PAP, 31 March** The new inflation projection will probably not bring considerable change in assessment of inflation prospects. It may just shorten or lengthen a period during which inflation will return to the target by one quarter. (…) If April projection shows that inflation will return to the target one quarter earlier than January's projection indicated, this would be too weak argument for monetary easing. (…) Currently there are no visible arguments for a rate cut. I am an advocate of keeping interest rates stable for longer time. Central banks in many countries, expecting increase in inflation, have began to tighten monetary policy. We cannot distance ourselves from what everybody else do around us.	As one could have expected from a hawkish member of the MPC, Halina Wasilewska-Trenkner sees no reasons to reduce interest rates again. In her opinion the new inflation projection will not bring significant changes in future inflation path, though may shorten or lengthen (the former option is more likely, according to her) a period during which inflation reaches the target by one quarter at the most. What is important, although Wasilewska-Trenkner does not see a need to cut rates, she also does not see a reason for a rate hike. Despite Wasilewska-Trenkner pointed out some risks for future inflation which may cause that inflation will return to the target earlier than currently predicted, she thinks it would be the best, if interest rates were stable for longer time. Wasilewska-Trenkner's comments, together with recent comments from other rate-setters, confirm our view there is wide consensus within the MPC that current level of interest rates is appropriate and should be maintained as long as possible. One of important factors – stressed not only by hawks, but also by other rate-setters – that may prevent the Council from further monetary easing is a reverse tendency abroad.

Government and politics



Planned measures aimed at reduction of tax wedge
A cut in mandatory disability pension contributions to 9% from 13% and reduction in health insurance contribution to 1.8% from the current 2.45%; these changes are due to come into force on Jan 1, 2007.
A promise to cut PIT rates to 18 and 32% from 2009 on. The ministry also promises to adjust for inflation tax brackets (possibly already in 2006) frozen by previous administrations in 2002 and a gradual phasing in of tax breaks for families with children.
Several measures simplifying VAT regulations and more favourable rules on amortisation.
…and ways of financing these changes
PLN3.6bn thanks to a rise in excise tax on heating oil to bring it level with diesel, a return to a level of excise tax on fuel before reduction in September 2005, adjustment in excise taxes on other products in line with EU guidelines.
PLN1.5bn rise in revenues due to changes in business taxation.
PLN4.1bn brought by the phasing out of a tax break on housing construction and repairs, and better VAT collection.

Proposed changes in public finance law
Liquidation of state and local special funds, inclusion of their revenues to relevant budgets with simultaneous takeover of their tasks by local administration. Only two special state funds remain.
Liquidation of budgetary institutes and supplementary farms, presently acting as units outside budget. Prohibition of collecting money on own bank accounts of budgetary units.
Enhancement of subject range of budget law.
Including all funds from the European Union budget in revenues of the state budget. Budget spending will include: expenditure of state budget units for financial programs financed with EU funds; subsidies for other beneficiaries.
New information obligations of the government: Every year the government will publish (1) Discussion of state budget assumption, (2) Discussion of draft budget motion, (3) Discussion of report on budget realisation.
Multi-year programs included in budget bill.
Obligatory audit of budgetary reports of local governments and state budget.



Source: Ministry of Finance, opinion polls

No Sejm dissolution, new coalition looming

▪ Sejm rejected a motion on self-dissolution, and so there will be no snap election in May. In such situation, PiS started talks about government coalition with Samoobrona and minor caucuses. Final conclusions from the talks will be known probably only after Easter holiday.

▪ Still, a valid question is whether in the cabinet with Andrzej Lepper as a deputy PM some key ministers will stay, including head of finance ministry Zyta Gilowska, and what will be impact of new allies on government's economic programme.

▪ According to Marcinkiewcz, parties willing to join coalition with PiS will have to accept reforms of public finances and tax changes prepared by Zyta Gilowska. If so, the market could welcome establishment of new coalition without major negative reaction.

Tax reform or just window dressing?

▪ Ministry of Finance presented long-awaited motion on tax changes. Unfortunately, it is only a rearrangement rather than promised tax cut and it will not allow for significant reduction in labour costs. Cutback in some contributions is financed by a rise in other taxes. Thus, claimed reduction in tax wedge will be rather moderate.

▪ There will be no promised cut in PIT tax rates in 2007, and this option has been postponed until 2009. Taking into account that this will be another election year, one should not take this pledge too seriously.

▪ On the other hand, proposed changes are neutral for the budget, while further reaching reform could lead to higher budget deficit given political environment constraining room for spending cuts.

Changes in public finances without a breakthrough

▪ Reduction in budget deficit is supposed to be allowed by changes in public finance system presented by FinMin. While minister Gilowska called this a "public finance reform", but proposed changes did not concern adjustment in spending side, which is crucial for the Polish budget, but were aimed at institutional changes improving transparency of fiscal policy that would allow for better fiscal management and multi-year budget planning.

▪ Draft assumes consolidation of funds and better control over spending, which is supposed to produce savings of ca. 1% of GDP (PLN8-9bn) in 2007-08.

▪ According to finance minister, Poland needs more fiscal savings in 2007-08, of ca. 1.2% of GDP, however still there is no information how this will be achieved.

Budget performance still raises no serious concerns

▪ After two months of the year, budget gap reached PLN6.7bn, i.e. 21.9% of plan for 2006. In February alone, deficit reached PLN7.4bn, against PLN704m surplus in January. It was a typical result, as in the second month of the year usually a significant rise in deficit takes place.

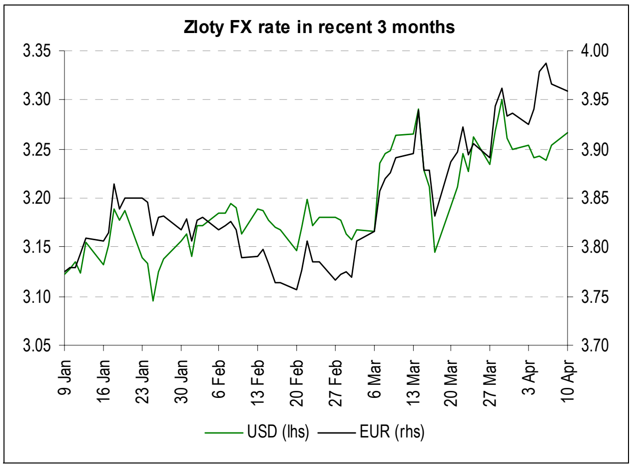
▪ March saw much better situation. If FinMin's estimates confirm and after Q1 budget gap stays below 30% of annual plan, it will be the best result since 1998. What is important, it is possible thanks to fast rise in tax revenues. Although this year's inflows have been planned at very ambitious level, but strong economic revival will help in their realisation.

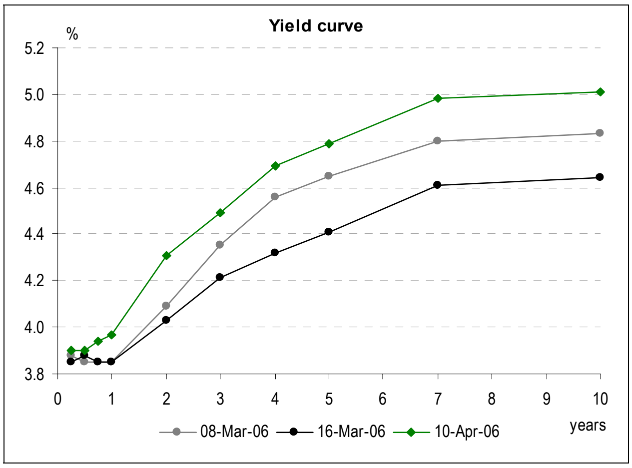
▪ Liquidity surplus of the budget decreased in February, but remained at reasonably high level, above PLN11bn, giving the FinMin some comfort in bonds issuance.

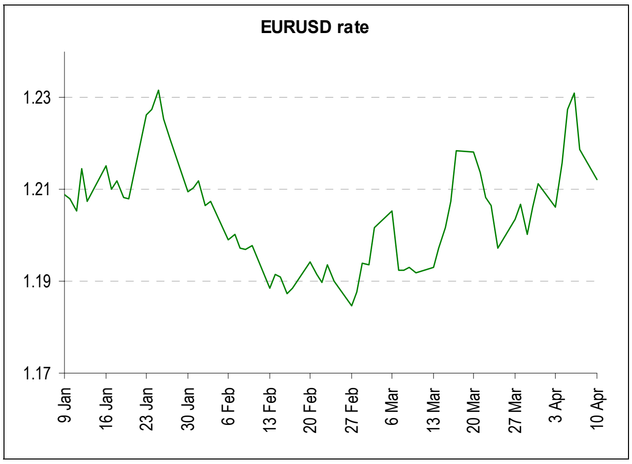
Government and politics

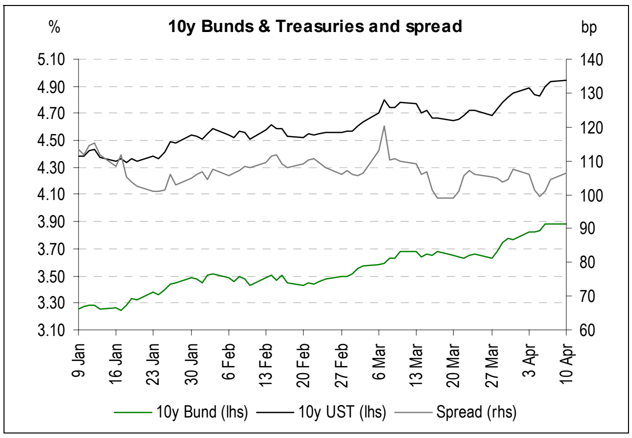
Comments of government representatives and politicians	Our remarks
Jarosław Kaczyński, PiS president **Reuters, 8 April** Political Commitee has authorised me to carry on talks and set up a majority coalition that will be supporting PiS government (...). I will not keep secret that we discussed mostly prospects of cooperation with Samoobrona, PSL and possibly LPR. (...) We will definitely not allow the central bank's independence to be undermined nor its foreign currency reserves to be released. We will not agree for any measures hurting Poland's economic interests. **Kazimierz Marcinkiewicz, Prime Minister** **Newsweek, 10 April** A coalition with Self-Defence is controversial, but it's the only possible option. (...) Anyone who wants to join a coalition with Law and Justice must accept the public finance reform proposed by Zyta Gilowska. It's a basic condition. Similarly, motion on economic freedom, tax reform, There are also political conditions – setting up Central Anti-corruption Office or liquidation of military secret services.	The odds are that there will be a formal coalition between PiS, Samoobrona and some other minor caucuses, that will have a support of majority of deputies in the Sejm. Detailed share of ministries between coalition partners is not known yet, however comments of PiS leaders suggest that Samoobrona chief Andrzej Lepper can count on taking over a chair of deputy Prime Minister. Finally, the government will be able to focus on realisation of its programme without worrying too much about support in the parliament, however the question is whether the programme itself will change substantially as a result of coalition agreement. Parties entering the coalition will probably try to enforce some of their proposals. PiS leaders and PM Marcinkiewicz declare firmly that government's policy will be responsible and will not hurt Poland's economic interests. Meanwhile, conditions put forward by Samoobrona are mostly costly and risky (e.g. minimum subsidies for jobless, turnover tax, renegotiation of EU accession treaty). Luckily, most of these proposals seem unrealistic (either from economic, or legal point of view), which suggests they are only a part of negotiation game, rather than hard demands.
Kazimierz Marcinkiewicz, Prime Minister **PAP, 31 March** We will fulfil Maastricht criteria by 2009 and then we will be ready for decision regarding euro. (...) I notice that conditions of accession, and especially two-year period of waiting, are not encouraging. **Zyta Gilowska, deputy PM, finance minister** **Reuters, 7 April** We need savings of around 1.2 percent of GDP in 2007-2008 to fulfil our convergence plan and we have to correct its detailed path. In 2008 we will definitely not reduce budget gap below 3% of GDP, but we will be close to that level, because our goal is to meet the convergence criteria in 2009. Our goal is readiness to undertake discussion in 2009 about path of monetary convergence.	An emphasis that Zyta Gilowska puts in her comments on requirement of fulfilling obligations against the EU suggests that government's policy will be heading towards gradual fiscal consolidation. However, a pace of deficit reduction will not be particularly ambitious, judging by latest update of Poland's convergence programme. Moreover, thus far it is not clear by what means the government wants to achieve it. Presented proposals of changes in tax system are assumed to be neutral for the budget, while a package of measures called "public finance reform" is supposed to generate savings of about 1% of GDP in two years. Nevertheless, this is still too little for meeting Maastricht criteria. Especially if we take into account negative impact of recent legislation passed by the parliament and extremely costly bill on pension benefits for miners approved by the previous Sejm. It looks that current government will not bring us closer to euro zone entry. Especially that leading PiS officials (including Prime Minister) believe that euro introduction will not be beneficial for the economy.
Zyta Gilowska, deputy PM, finance minister **PAP, 31 March** The most important changes refer to labour costs. It is all about reduction of pension premium by 4 percentage pts, from 13% to 9% of tax base. The changes we propose aim at unemployment reduction. The only move concerning this year that I will recommend is standardisation of excise for oil. It should become effective since 1 September. Our goal is to reach two (PIT) tax rates that should appear since start of 2009. Full family tax allowance and one very high tax threshold at PLN85,528. Thus, in course of parliament's tenure all pre-election promises would be fulfilled. There is no effect for 2006 budget, and for 2007 it is neutral. Changes will bring neither losses nor surplus. In 2008-09 effect should be similar, but estimates are subject to errors, however benefits of losses will not be substantial. We aim at lowering budget deficit by 0.5% of GDP in 2007 and at least 0.5% of GDP in 2008, because only then we will meet requirements of euro zone readiness in 2009.	Changes in tax system presented by the MoF may bring some positive effect on the labour market, although probably not very significant. It is a pity that a scale of reduction in tax wedge is so modest and it is going to be financed mainly by an increase in other taxes, as this does not give much hope for acceleration in long-term economic growth in Poland. Theory of labour economics holds that indirect taxes also form a total tax wedge in the economy, as indirect taxes - even though they do not affect income directly such as PIT or social security contributions - are also between total labour cost paid by employers and effective consumption of employees. Poland needs reduction in relation of taxes to GDP, while the planned reform will not allow for that. Moreover, there are still concerns about Gilowska's ability to implement the reform in what may prove to be a hostile political environment. First comments of politicians from minor caucuses, soon to be PiS coalition allies, were rather sceptical, especially as regards proposals aimed at increasing some tax rates for financing reductions in other areas.
Jacek Krzyślak, director of MinFin research Dep. **Reuters, 3 April** Our most recent estimate assumes that inflation in March reached 0.4-0.5% year-to-year, while month-to-month it was 0.0% or declined by 0.1%. In the next few months inflation rate should not exceed 0.5% thanks to lack of inflationary pressure from food prices, wages, and due to strong zloty. We do not expect shocks from fuel market. According to our estimates, meat prices declined by 1.6% (month-to-month). Also, transport prices went down by 0.1%, and fuel prices by 0.3%. Vegetable prices increased 2.3%.	Inflation will remain very low in the nearest months. Even if especially optimistic predictions of the Ministry of Finance fail to materialise, CPI growth will stay below 1% for the better part of the year. As usually, inflation path will depend a lot on situation on food market, as this category still represents almost 30% of consumption basket. Uncertainty regarding food prices in the second part of the year is quite high, especially taking into account hard to assess impact of weather conditions on this year's supply and still uncertain prospects of opening Russian market for Polish food producers. One should notice though, that a balance of demand-side factors is systematically changing towards less favourable conditions for keeping inflation low.

Market monitor









Source: Reuters, BZ WBK

Capital flows out of Poland

▪ According to our assumptions from the previous report, rising expectations toward the target level of interest rates in U.S, weakening in the region, as well as uncertain situation in politics contributed to a significant zloty depreciation. Since the last publication of the report it lost ca. 2.8% against the single currency and slightly appreciated by ca. 0.1% versus the greenback, which was a result of EURUSD rate move.

▪ Expectations regarding the level of interest rates on the core markets as well as rising negative difference between the official interest rates in Poland and United States will still have negative effect on the zloty. A question on the impact of political factors on the market remains. The reaction may be negative if the coalition agreement includes significant concessions toward Samoobrona, and more serious effect could occur if Zyta Gilowska decides to step down from the post.

Bonds weaken following the core markets

▪ The correction and weakening on the emerging markets and in Poland since the beginning of March lasted till the release of the report. Bond yields rose with regards to weakening on the core bond markets and rising uncertainty on the political stage. Slight strengthening occurred after the release of January and February CPI indices, however statements of the central bankers resulted in further weakening. Since the March report yields rose by 13-22 bp.

▪ Although the CPI will probably hold at low level we think that official rates will remain unchanged with regards to increasing economic growth, weaker zloty as well as the view of the MPC members that rates are near neutral level and inflation may return to target faster than assumed. Apart from a usual market game for further inflation releases (positive effect) and the Council's meeting (negative effect), core bond yields will be important as well as they may still increase.

Macroeconomic data strengthen euro

▪ Positive macroeconomic data (especially the Ifo index, highest in 15 years) increased expectations on rate hikes in the euro zone and worked in favour of single currency. Similarly, expectations toward a rise of interest rate in the U.S. and signals on the plans o diversify part of the currency reserves by some of the central banks helped euro. Less hawkish than expected ECB's communiqué as well as labour market data strengthened the dollar. It depreciated against the euro ca. 3% since the last report.

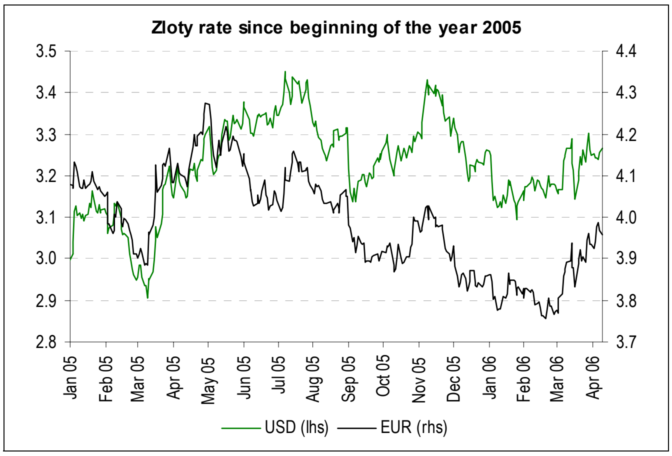
▪ With low inflation pressure in the euro zone the ECB's decision as well as the EURUSD rate may be determined by Fed's behaviour, which may be influenced to higher extent by worsening situation on the U.S. housing market. In our opinion the EURUSD rate may rise to 1.25 at the end of Q3, however too strong euro may have negative effect on the EMU's export, the main engine of its GDP growth.

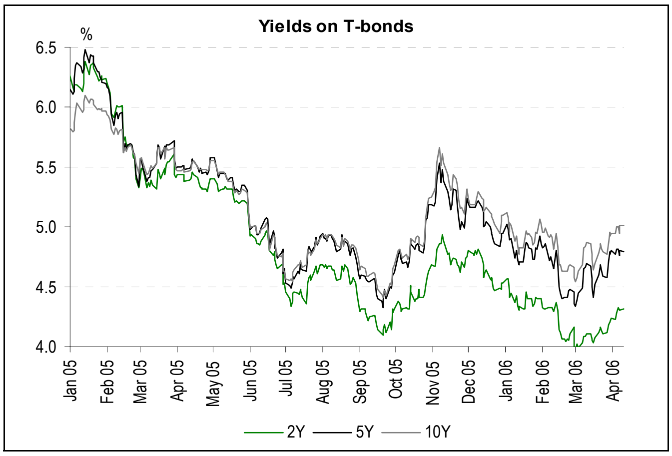
Core bond yields higher and higher

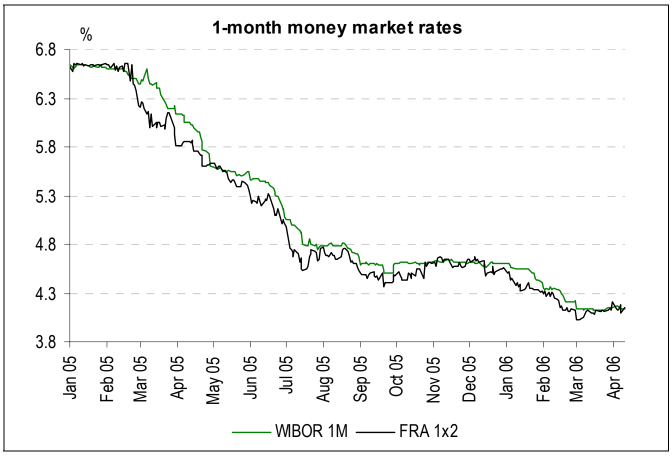
▪ After good figures in the euro zone, higher than expected PPI in U.S., after the Fed's communiqué and statements of Fed's and ECB's representatives the core markets largely weakened. Some strengthening came in after the release of low U.S. core CPI and less hawkish than expected ECB's communiqué. 10Y Treasuries yields rose from 4.74% to 4.98%, while Bunds from 3.63% to 3.90% respectively.

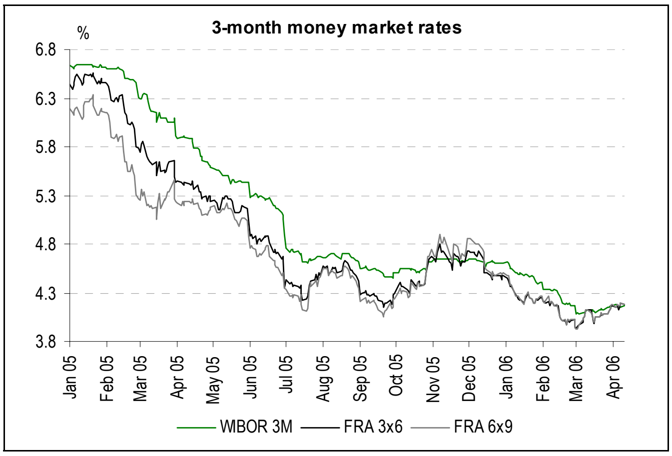
▪ Despite the hawkish Fed's statement there appeared some comments suggesting the end of monetary policy tightening in U.S. at the 5% level due to economic slowdown signalled among others by worsening situation on the housing market. The market expects rate hike in the euro zone in June. With lack of core inflation rise, low GDP growth, as well as situation on Treasuries market, 4% yield on 10Y Bunds may be a strong support.

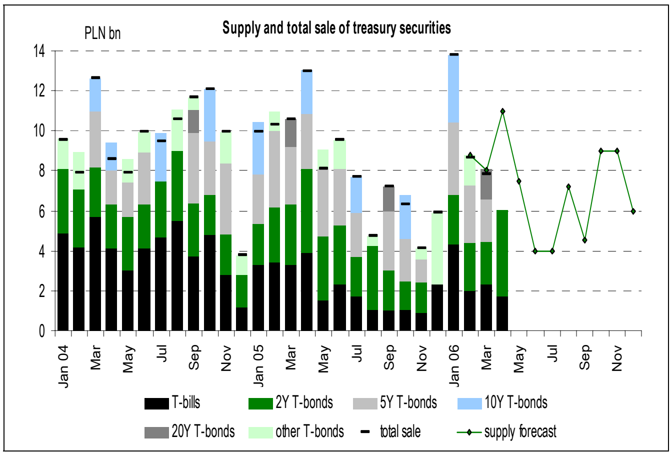
Market monitor











Treasury bill auctions (PLN m)

Date of auction	26-week	OFFER / SALE 52-week	Total
06.02.2006	-	1 000 / 1 000	1 000 / 1 000
20.02.2006	-	1 000 / 1 000	1 000 / 1 000
Total February	**-**	**2 000 / 2 000**	**2 000 / 2 000**
06.03.2006	-	1 000 / 1 000	1 000 / 1 000
20.03.2006	-	1 300 / 1 300	1 300 / 1 300
Total March	**-**	**2 300 / 2 300**	**2 300 / 2 300**
03.04.2006	700 / 700	1 000 / 1 000	1 700 / 1 700
24.04.2006	300 - 700	1 000	1 300 - 1 700
Total April*	**1 000 - 1 400**	**1 000 - 2 000**	**3 000 - 3 400**

* estimations based on Ministry of Finance preliminary information

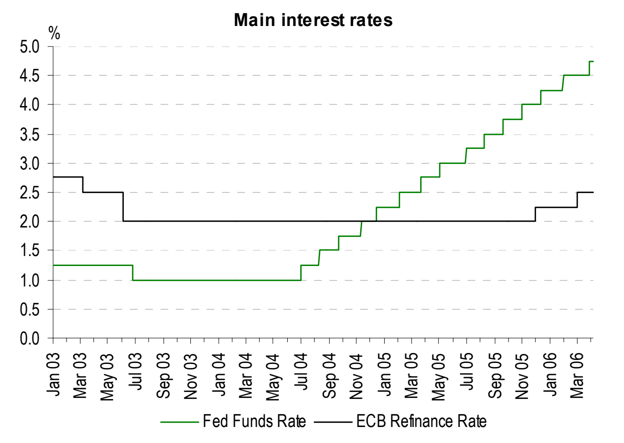
Treasury bond auctions in 2006 (PLN m)

month	First auction				Second auction				Third auction			
	date	T-bonds	offer	sale	date	T-bonds	offer	sale	date	T-bonds	offer	sale
January	04.01	OK0408	2 500	2 500	11.01*	DS1015	3 360	3 360	18.01*	DS1110	3 600	3 600
February	01.02*	OK0408	2 400	2 300	08.02	WZ0911 | IZ0816	1 000 | 500	1 000 | 493	15.02*	DS1110	2 880	2 880
March	01.03*	OK0408	2 160	2 160	08.03	WS0922	1 500	1 500	15.03*	PS0511	2 160	1 880
April	05.04*	OK0408	4 320	4 320	12.04	DS1015	1 800	-	19.04	PS0511	1 500 – 2 500	-
May	04.05	2Y	-	-	10.05	7Y WIBOR | 12Y CPI	-	-	17.05	5Y	-	-
June	07.06	2Y	-	-	14.06	20Y	-	-	21.06	5Y	-	-
July	05.07	2Y	-	-	12.07	10Y	-	-	-	-	-	-
August	02.08	2Y	-	-	09.08	7Y WIBOR | 12Y CPI	-	-	-	-	-	-
September	06.09	2Y	-	-	13.09	20Y	-	-	20.09	5Y	-	-
October	04.10	2Y	-	-	11.10	10Y	-	-	18.10	5Y	-	-
November	02.11	2Y	-	-	08.11	7Y WIBOR | 12Y CPI	-	-	15.11	5Y	-	-
December	06.12	2Y	-	-	-	-	-	-	-	-	-	-

* with supplementary auction

Source: Ministry of Finance, Reuters, BZ WBK

International review



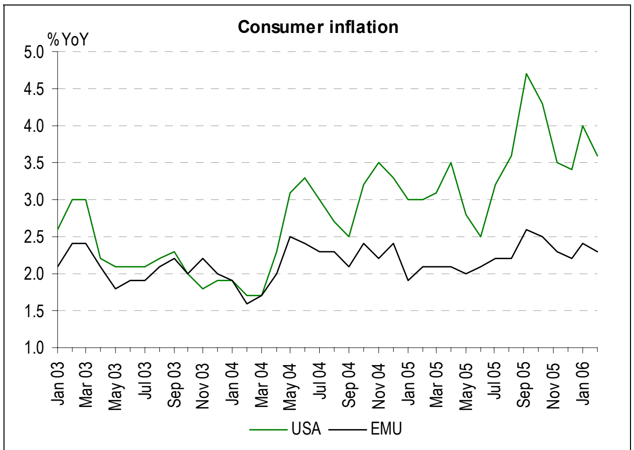
Surprising Trichet; possible rate hikes in U.S.

▪ The U.S. central bank increased the main Fed Funds rate by 25 bp again, to 4.75%.

▪ Fed suggested in its communiqué that further monetary policy tightening may be needed. The market expects that next interest rate raise in United States will be pursued during the next meeting of the Federal Open Market Committee.

▪ In April the European Central Bank left the main repo rate at 2.5% level, after a 25 bp hike in the previous month.

▪ Despite many hawkish signals and comments as well as good macroeconomic data, president of the ECB unexpectedly suggested at the rate setting day conference, that the expected rate hike in the euro zone in May is not in line with the view of the ECB. The expectations toward next rate hike moved to June.

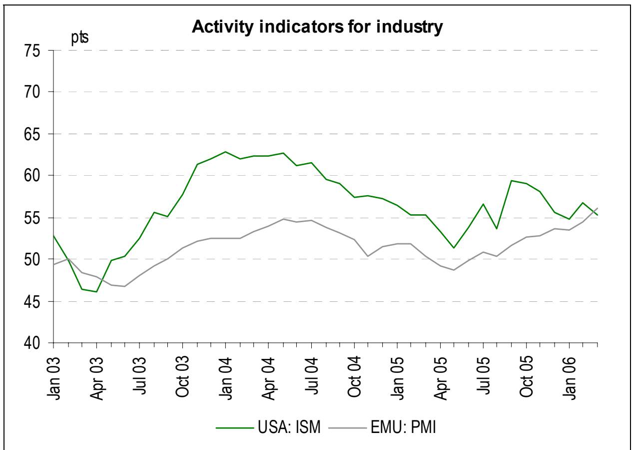


Mixed tone of the core CPI and PPI U.S. indices

▪ In February the CPI index in U.S. rose by 0.1%MoM and 3.6%YoY as compared to 0.7%MoM and 4.0%YoY in January. After excluding the energy and food prices inflation rose less than expected by 0.1%MoM and 2.1%YoY. PPI fell by 1.4%MoM (the steepest fall since April 2003) due to e.g. drop of energy costs by 4,7% m/m and gasoline by 11.0%MoM. However the core figure rose by 0.3%MoM and 1.7%YoY, with 0.4%MoM increase in the previous month and was higher than the market consensus.

▪ According to Eurostat, euro zone's final HICP rise in February amounted to 0.3%MoM and 2.3%YoY.

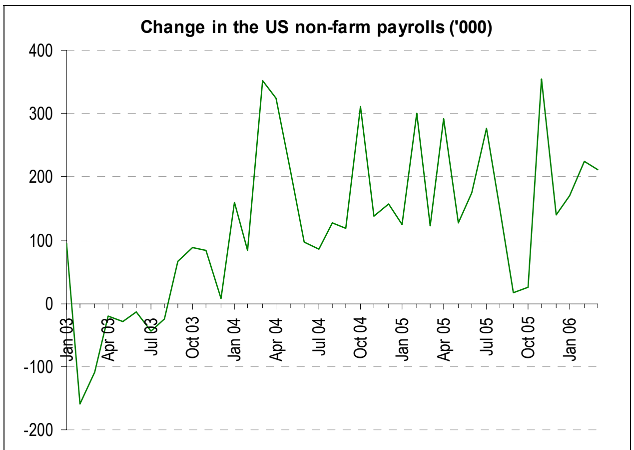
▪ According to perliminary data inflation in the euro zone fell to 2.2%YoY in March from 2.3%YoY in February, which was in line with analysts forecasts.



Activity indices positive for the euro zone

▪ ISM index reflecting economic activity in the manufacturing sector fell in March to 55.2 from 56.7, with forecast at 57.9. Non-manufacturing ISM index increased in March to 60.5 from 60.1 in February, while the market expected a drop to 59.

▪ PMI index for the manufacturing sector in the euro zone increased in March to highest level since 5.5 years to 56.1 from 54.5. Industrial production and new orders indices reached the highest levels since the middle of 2000, while the employment index was the highest since April 2001. Services PMI remained unchanged at 58.2 level. Input prices component rose from 52.2 to the highest level since April 2002 (52.4). Employment index increased from 53.1 to 54.1, which was the best figure in the last five years.



Source: Reuters, ECB, Federal Reserve

Expanding labour market; falling unemployment

▪ New U.S. non-farm payrolls amounted to 211k in March, and 225k in February. The unemployment rate fell to 4.7% from 4.8% and reached the lowest level in 4.5 years. The average hourly earnings increased in February by 3.5%YoY, the strongest since September 2001, and in March by 0.2%MoM, below forecasts.

Worsening situation on the housing market

▪ The number of filed mortgage applications fell in Q4 2005 as well as in Q1 2006. The new home sales drops since last summer, and the number of unsold houses significantly increased. The number of the offered houses soared in February to the highest level in a decade, while the median price of new houses was falling through the last 4 months. The trend on the existing homes market is similar though slightly softer. The weakening on the market may negatively affect the GDP.

Economic calendar

Monday	Tuesday	Wednesday	Thursday	Friday
10 April	**11** GER: ZEW index (Apr) JPN: BOJ meeting – decision	**12** ***POL: Auction of 10Y bonds*** ***POL: Balance of payments (Feb)*** EMU: Final GDP (Q4) USA: Trade balance (Feb) USA: Fed budget (Mar)	**13** USA: Foreign trade prices (Mar) USA: Retail sales (Mar) USA: Preliminary Michigan (Apr)	**14** ***POL: CPI (Mar)*** ***POL: Money supply (Mar)*** GB, DE: Market holiday USA: Capacity use (Feb) USA: Industrial production (Feb)
17 ***POL: Easter Monday – market holiday*** USA: Net capital flows (Feb)	**18** ***POL: Wages (Mar)*** ***POL: Employment (Mar)*** USA: PPI (Mar) USA: House starts (Mar) USA: Build permits (Mar)	**19** ***POL: Auction of 5Y bonds*** EMU: Industrial output (Feb) USA: CPI (Mar)	**20** ***POL: PPI (Mar)*** ***POL: Output in industry and construction (Mar)*** EMU: Final HICP (Mar)	**21** EMU: Foreign trade (Feb)
24 ***POL: Treasury bills auction*** ***POL: Business climate (Mar)*** ***POL: Net inflation (Mar)***	**25** ***POL: MPC meeting*** GER: IFO index (Apr) EMU: Current account (Feb) USA: Home sales (Mar)	**26** ***POL: MPC meeting – decision*** ***POL: Retail sales (III)*** ***POL: Unemployment (III)*** USA: Durable goods (Mar) USA: New homes sales (Mar)	**27**	**28** EMU: Money supply M3 (Mar) EMU: Consumer sentiment (Apr) USA: PCE (Q1) USA: Preliminary GDP (Q1) USA: Final Michigan (IV) USA: Chicago PMI (IV)
1 May ***POL: Market holiday*** GER, GB: market holiday USA: PCE (Mar) USA: Manufacturing ISM (Apr)	**2** EMU: PMI manufacturing (Apr)	**3** ***POL: Constitution Day - market holiday*** EMU: PPI (Mar) EMU: Unemployment (Mar) USA: Factory orders (Mar) USA: ISM non-manufacturing (Apr)	**4** ***POL: Auction of 2Y bonds*** EMU: PMI non-manufacturing (Apr) GB: BoE meeting – decision (May) EU: ECB rate decision (May) USA: Unit labour cost (Q1) USA: Labour productivity (Q1)	**5** USA: Capacity use (Apr) USA: Industrial output (Apr)
8 ***POL: Treasury bills auction***	**9** USA: Wholesale inventories (Mar)	**10** ***POL: Auction of 7Y floating rate bonds and 12Y CPI linked bonds*** USA: Fed meeting – decision USA: Fed budget (Apr)	**11** EMU: Preliminary GDP (Q1) USA: Retail sales (Apr)	**12** ***POL: Money supply (Mar)*** USA: Foreign trade prices (Apr) USA: Foreign trade (Mar)

Source: CSO, NBP, Finance Ministry, Reuters

MPC meetings and data release calendar for 2006

	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
MPC meeting	30-31	27-28	28-29	25-26	30-31	27-28	25-26	29-30	26-27	24-25	28-29	19-20
GDP*	-	-	2	-	31	-	-	30	-	-	30	-
CPI	16	15[a]	15[b]	14	15	14	14	14	14	16	15	14
Core inflation	24		23[b]	24	23	23	24	23	22	24	23	22
PPI	19	17	17	20	19	20	19	18	19	18	20	19
Industrial output	19	17	17	20	19	20	19	18	19	18	20	19
Retail sales	24	23	23	26	-	-	-	-	-	-	-	-
Gross wages, employment	16	15	15	18	17	16	17	16	15	16	16	15
Unemployment	24	23	23	26	-	-	-	-	-	-	-	-
Foreign trade	about 50 working days after reported period											
Balance of payments*	-	-	31	-	-	30	-	-	-	-	-	-
Balance of payments	13[c]	13	14	12	17	14	13	-	-	-	-	-
Money supply	13	14	14	14	12	14	14	-	-	-	-	-
NBP balance sheet	6	7	7	7	5	7	7	-	-	-	-	-
Business climate indices	23	23	23	24	23	23	24	23	25	23	23	22

* quarterly data, [a] preliminary data, January, [b] January and February, [c] November 2005, [d] January, [e] February

Source: CSO, NBP

Economic data and forecasts

Monthly economic indicators

		Mar 05	Apr 05	May 05	Jun 05	Jul 05	Aug 05	Sep 05	Oct 05	Nov 05	Dec 05	Jan 06	Feb 06	Mar 06	Apr 06
Industrial production	%YoY	-3.7	-1.1	0.9	6.9	2.6	4.8	5.9	7.6	8.5	9.6	9.8	10.1	13.9	2.9
Retail sales [c]	%YoY	-0.3	-14.4	8.0	10.5	5.0	7.9	5.4	7.5	7.3	6.3	8.6	10.2	3.7	11.8
Unemployment rate	%	19.3	18.8	18.3	18.0	17.9	17.8	17.6	17.3	17.3	17.6	18.0	18.0	17.8	17.4
Gross wages [b c]	%YoY	2.2	1.8	3.0	4.5	3.2	2.8	1.8	6.4	6.9	1.5	3.6	4.8	4.4	4.8
Employment [b]	%YoY	1.6	1.7	1.6	1.7	1.8	2.0	2.2	2.1	2.5	2.6	2.6	2.4	2.4	2.4
Export (€) [d]	%YoY	20.0	35.0	21.9	15.8	6.9	17.0	15.9	18.0	14.9	12.9	18.0	14.8	22.0	19.6
Import (€) [d]	%YoY	16.2	22.1	28.4	6.4	-5.0	12.4	12.8	7.8	15.5	11.0	14.6	17.5	17.4	20.6
Trade balance [d]	EURm	-549	90	-53	-299	-94	-454	-80	-113	-378	-107	-28	-270	-395	53
Current account balance [d]	EURm	-722	-358	-453	-237	6	-678	181	-247	-381	-237	-326	-408	-359	-163
Current account balance [d]	% GDP	-4.2	-3.9	-3.9	-3.4	-2.8	-2.6	-2.2	-1.8	-1.8	-1.5	-1.5	-1.6	-1.5	-1.4
Budget deficit (cumulative)	PLNbn	-41.5	-1.6	-8.8	-12.3	-13.9	-18.3	-18.5	-17.5	-18.5	-17.8	-20.6	-22.2	-28.6	0.7
Budget deficit (cumulative) [e]	% realisation	100.0	5.5	30.9	43.2	48.6	64.0	64.8	61.1	64.7	62.3	72.1	77.7	100.0	-2.3
CPI	%YoY	3.4	3.0	2.5	1.4	1.3	1.6	1.8	1.6	1.0	0.7	0.6	0.7	0.6	0.4
PPI	%YoY	2.2	0.9	-0.5	0.0	0.0	-0.2	-0.5	-0.9	-0.4	0.2	0.3	0.7	0.3	-0.1
Broad money (M3)	%YoY	11.0	10.0	13.2	10.8	10.4	11.1	12.7	8.7	12.6	10.4	10.4	11.7	11.5	11.4
Deposits	%YoY	10.4	8.7	11.9	9.2	9.4	10.1	11.6	6.3	11.1	9.4	10.2	10.8	10.4	11.1
Loans	%YoY	4.6	5.3	9.4	7.4	8.8	9.0	9.6	4.4	10.2	11.8	12.3	13.4	13.5	13.4
USD/PLN	PLN	3.04	3.21	3.29	3.34	3.40	3.29	3.20	3.26	3.37	3.25	3.16	3.18	3.23	3.20
EUR/PLN	PLN	4.02	4.16	4.18	4.06	4.10	4.05	3.92	3.92	3.97	3.85	3.82	3.79	3.88	3.90
Reference rate [a]	%	6.00	5.50	5.50	5.00	4.75	4.75	4.50	4.50	4.50	4.50	4.50	4.25	4.00	4.00
Lombard rate [a]	%	7.50	7.00	7.00	6.50	6.25	6.25	6.00	6.00	6.00	6.00	6.00	5.75	5.50	5.50
WIBOR 3M	%	6.15	5.78	5.48	5.22	4.66	4.67	4.57	4.50	4.64	4.62	4.49	4.26	4.12	4.20
Yield on 52-week T-bills	%	5.51	5.36	5.19	5.09	4.30	4.33	4.15	4.19	4.35	4.38	4.22	3.97	3.87	4.00
Yield on 2-year T-bonds	%	5.43	5.39	5.27	5.14	4.50	4.60	4.22	4.42	4.75	4.64	4.40	4.20	4.10	4.30
Yield on 5-year T-bonds	%	5.56	5.50	5.38	5.25	4.70	4.84	4.51	4.85	5.23	5.04	4.82	4.60	4.59	4.80
Yield on 10-year T-bonds	%	5.57	5.49	5.36	5.24	4.72	4.87	4.57	4.90	5.36	5.14	4.94	4.78	4.78	5.00

Source: CSO, NBP, Finance Ministry, BZ WBK own estimates

[a] at the end of period [b] in corporate sector [c] in nominal terms [d] balance of payments data on transaction basis [e] 2005 - % of Dec, 2006 - % of plan

Quarterly and annual economic indicators

		2003	2004	2005	2006	1Q05	2Q05	3Q05	4Q05	1Q06	2Q06	3Q06	4Q06
GDP	PLNbn	842.1	922.2	967.7	1 018.6	226.2	235.7	237.2	268.5	238.5	247.6	249.6	283.0
GDP	%YoY	3.8	5.3	3.3	4.6	2.1	2.8	3.7	4.2	4.8	4.5	4.6	4.5
Domestic demand	%YoY	2.7	5.9	1.9	4.3	1.1	-0.5	1.6	5.0	4.2	4.2	4.4	4.4
Private consumption	%YoY	1.9	4.0	2.3	3.8	1.7	1.6	2.7	3.1	3.7	3.9	3.9	3.7
Fixed investments	%YoY	-0.1	6.3	6.2	7.8	1.2	3.8	5.7	9.8	9.5	8.0	8.0	7.0
Industrial production	%YoY	8.4	12.3	4.0	8.1	0.7	2.3	4.5	8.3	11.3	6.5	7.3	7.4
Retail sales (real terms)	%YoY	3.6	7.1	1.5	8.6	-0.4	-3.2	4.1	5.4	7.2	9.3	9.4	8.6
Unemployment rate [a]	%	20.0	19.1	17.6	16.6	19.3	18.0	17.6	17.6	17.8	16.8	16.3	16.6
Gross wages (real terms) [c]	%YoY	2.0	0.8	1.2	3.6	-1.3	0.8	1.1	3.8	3.6	4.0	4.9	2.2
Employment [c]	%YoY	-3.5	-0.8	1.9	2.4	1.5	1.7	2.0	2.4	2.5	2.3	2.4	2.3
Export (€) [b]	%YoY	9.1	22.3	17.1	9.4	23.2	12.9	15.0	18.0	18.0	9.1	7.5	4.4
Import (€) [b]	%YoY	3.3	19.5	12.6	10.4	17.6	6.0	11.2	16.5	16.9	8.7	9.0	7.9
Trade balance [b]	EURm	-5 077	-4 552	-2 182	-3 159	-259	-633	-599	-691	-109	-600	-950	-1 500
Current account balance [b]	EURm	-4 108	-8 542	-3 503	-4 095	-1 043	-500	-861	-1 099	-635	-710	-1 080	-1 670
Current account balance [b]	% GDP	-2.1	-4.2	-1.5	-1.6	-3.4	-2.2	-1.5	-1.5	-1.3	-1.3	-1.4	-1.6
Budget deficit (cumulative) [a]	PLNbn	-37.0	-41.5	-28.6	-30.5	-12.3	-18.5	-17.8	-28.6	-12.2	-18.3	-24.4	-30.5
Budget deficit (cumulative) [a]	% GDP	-4.4	-4.5	-3.0	-3.0	-	-	-	-	-	-	-	-
CPI	%YoY	0.8	3.5	2.1	0.6	3.6	2.3	1.6	1.1	0.6	0.5	0.6	0.9
CPI [a]	%YoY	1.7	4.4	0.7	1.4	3.4	1.4	1.8	0.7	0.6	0.7	0.4	1.4
PPI	%YoY	2.6	7.0	0.7	0.6	3.3	0.1	-0.2	-0.4	0.3	0.0	0.5	1.5
Broad money (M3) [a]	%YoY	5.6	8.7	10.4	10.7	11.0	10.8	12.7	10.4	11.5	11.7	10.3	10.7
Deposits [a]	%YoY	3.7	8.1	9.4	10.3	10.4	9.2	11.6	9.4	10.4	12.2	10.2	10.3
Loans [a]	%YoY	8.1	2.9	11.8	15.0	4.6	7.4	9.6	11.8	13.5	15.2	17.4	15.0
USD/PLN	PLN	3.89	3.65	3.23	3.21	3.07	3.28	3.30	3.29	3.19	3.19	3.23	3.25
EUR/PLN	PLN	4.40	4.53	4.02	3.95	4.03	4.13	4.02	3.91	3.83	3.83	3.97	4.02
Reference rate [a]	%	5.25	6.50	4.50	4.00	6.00	5.00	4.50	4.50	4.00	4.00	4.00	4.00
Lombard rate [a]	%	6.75	8.00	6.00	5.50	7.50	6.50	6.00	6.00	5.50	5.50	5.50	5.50
WIBOR 3M	%	5.69	6.21	5.29	4.22	6.44	5.49	4.63	4.59	4.29	4.29	4.20	4.20
Yield on 52-week T-bills	%	5.33	6.50	4.92	4.05	5.91	5.21	4.26	4.31	4.02	4.02	4.00	4.05
Yield on 2-year T-bonds	%	5.38	6.89	5.04	4.28	5.83	5.27	4.44	4.60	4.23	4.23	4.35	4.25
Yield on 5-year T-bonds	%	5.61	7.02	5.25	4.91	5.89	5.38	4.68	5.04	4.67	4.67	4.85	5.00
Yield on 10-year T-bonds	%	5.77	6.84	5.24	5.03	5.76	5.37	4.72	5.13	4.83	4.83	5.00	5.10

Source: CSO, NBP, Finance Ministry, BZ WBK own estimates

[a] at the end of period; [b] balance of payments data on transaction basis [c] in corporate sector

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