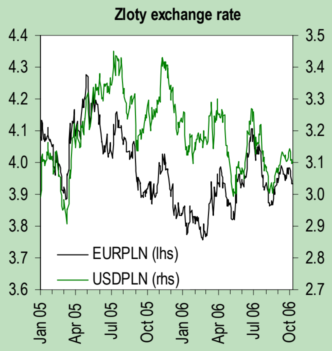
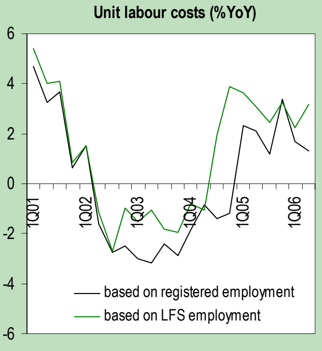
Bank Zachodni WBK

MACROscope

Polish Economy and Financial Markets

October 2006





In this issue:

Maciej Reluga
Chief economist
+48 22 586 8363

Piotr Bielski
+48 22 586 8333

Piotr Bujak
+48 22 586 8341

Cezary Chrapek
+48 22 586 8342

Email: ekonomia@bzwbk.pl

What about monetary policy?

- **Will there be a majority coalition? Are we heading for early election? If so, will it be in autumn or in spring? These questions do not seem particularly essential to the financial market, especially that nobody will answer to this.** Although we can risk the assumption that potential earlier election (we do not believe it will happen) will temporarily weaken the zloty, we keep our opinion that such a situation can be used to buy cheaper (hedging for exporters) and our forecast of the EURPLN rate for the end of the year remains unchanged at 3.90.

- **We are clearly more attracted by monetary policy perspectives than by the politics.** The communiqué after September MPC meeting was slightly "hawkish", as the Council affirmed that inflation in 2006-2007 would be higher than the July projection had forecasted. However, the inflation projection did not reach behind 2007 and this period is more interesting from the monetary policy point of view. Although some of the Council members are alarming that a rate hike is possible as soon as in October, it seems that such view is not shared by all the MPC members. This month, we will see what the new inflation projection will change in the MPC's view, and especially how the majority of the Council members will react to the report. We keep our view that the Council's strategy will be to wait for further figures (mainly about the labour market, while the next LFS report will be released only by December) in order to estimate the risk of appearance of second round effects for inflation when will temporarily exceed the target (probably in Q1 2007).

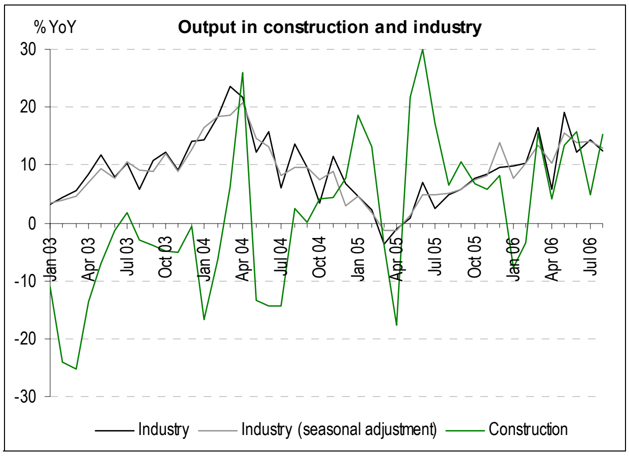
- ***Monetary Policy Guidelines for 2007* gave also no clear answer concerning interest rates perspectives.** The views concerning inflation perspectives presented in the *Guidelines…* were quite balanced. Hawkish arguments found their counterparts in factors neutralizing them (influence of factors linked to globalization, labour productivity rise thanks to higher investments, possibility of higher imports and not necessarily inflation). We can have the feeling that the document has been written on the "something nice for everyone" rule. In the *Guidelines…* the Council also promised it would make efforts to present arguments raised during meeting discussions in more details. We will remember the promise.

- **In the *Guidelines…* the Council affirmed that the monetary policy in 2007, and especially in the first months can be influenced the new NBP's governor.** We wrote about it last month. The name of potential candidate appeared – prof. Urszula Grzelońska. Her first declarations for Reuters were quite balanced and should not raise concerns on financial markets. She underlined that the first aim of the central bank was to maintain stable prices and currency should not be sacrificed for accelerating GDP growth.

Financial market on 29 September 2006:					
NBP deposit rate	2.50	WIBOR 3M	4.22	USDPLN	3.1425
NBP reference rate	4.00	Yield on 52-week T-bills	4.43	EURPLN	3.9835
NBP lombard rate	5.50	Yield on 5-year T-bonds	5.38	EURUSD	1.2676

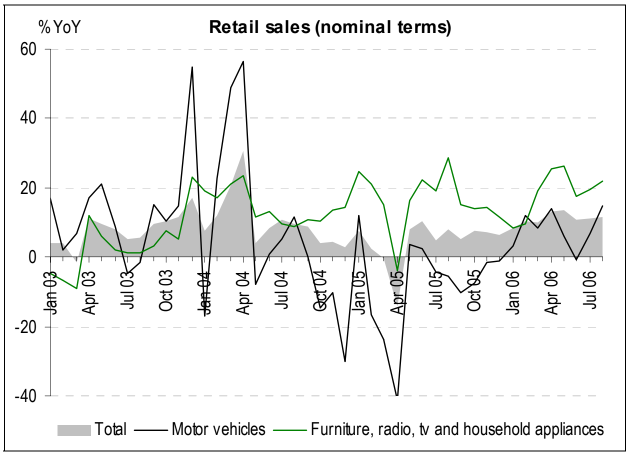
This report is based on information available until 9.10.2006

Economic update



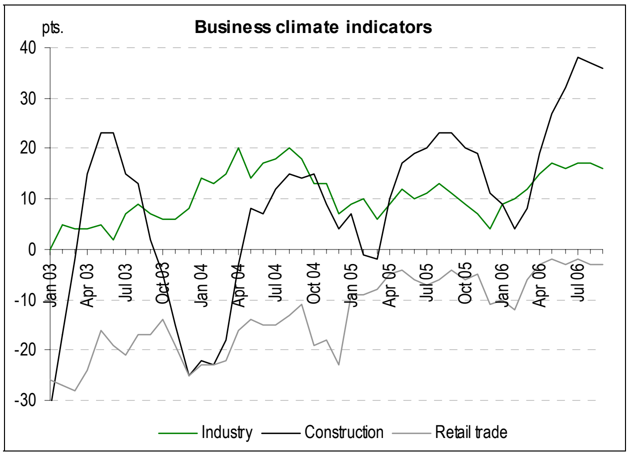
Fast expansion in industry and construction

- Sold industrial production rose in August by 12.5%YoY, and seasonally adjusted output increased 12.9%YoY (average rise in January-July amounted to 12.1%).
- Though the data was weaker than expected, such rise in output means that industry remains in expansion trend and we keep our expectations that GDP will reach 5% in 3Q06.
- Output rise took place in 28 of the 29 sectors showing that expansion in industry is broad-based.
- Output in construction rose by 15.3%YoY indicating the continuation of the improvement of the investment activity. A similar hypothesis was also supported by data about monetary statistics (see below), which indicated solid growth in credit for enterprises in August.



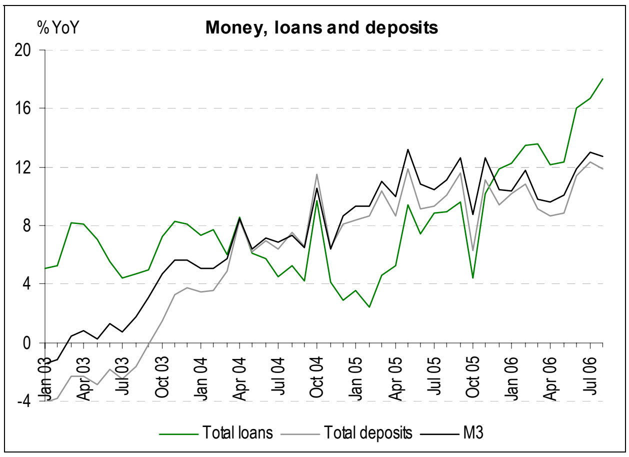
Retail sales growth also remains high

- Retail sales rise was slightly better than forecasts showed and amounted to 11.5%YoY in nominal terms and 10.9% YoY in real terms.
- Annual increase was noticed in all sectors, which means rise in consumption is broad-based and is not linked to temporary animation in one or two sectors.
- Bigger appetite for shopping is favoured by high wage rise for households and high credit accessibility (see further), which allows predicting the continuation of the trend in the next quarters.
- What matters is that the difference between nominal and real sales growth is still small (0.6 pp) suggesting that pressure on prices is still contained despite high demand.



Warm autumn beginning in business climate indicators

- Business climate indicators for September showed that the economy was still in expansion period.
- CSO's studies showed annual growth in all climate indicators (manufacturing by 5 pts, construction by 13 pts retail trade by 1pt.). In all sectors, an improvement of the financial situation and expectations for further progress have been noticed. Entrepreneurs had also positive declarations concerning recent and future demand.
- PMI indicator has slightly fallen in September but studies pointed out high improvement of economic conditions, among other things, through solid employment growth. Despite slower output and new orders rise, companies expect them to get better in the coming months. Pressure on higher costs, caused raise in producers' prices.

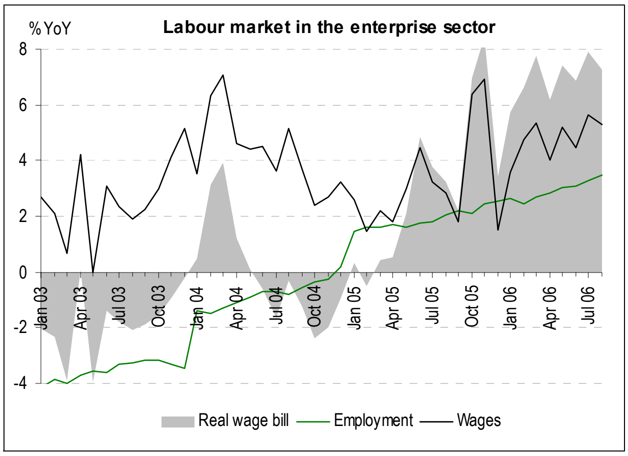


Source: CSO, NBP, own calculations

Credit rise in banking system is getting faster and faster

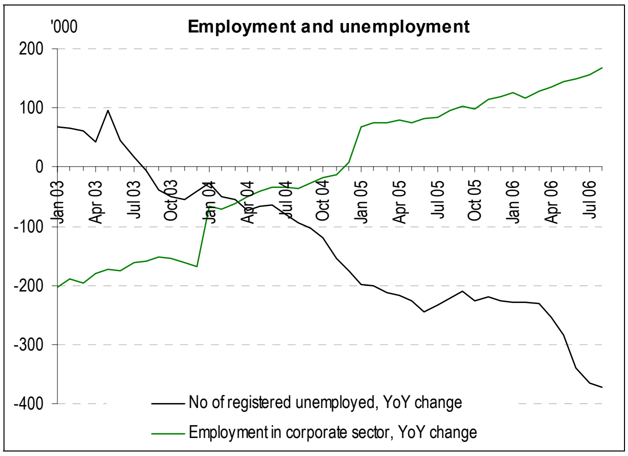
- Money supply rose by 12.8%YoY in August, marginally lower than in July but still fast.
- Credit growth acceleration trend has been maintained, for households as much as for the enterprises. The former grew by 29%YoY, probably mainly thanks to mortgage loans, while credits for firms grew by 8.9%YoY against 7.2%YoY last month; this confirms rising investment activity. It is a good sign to economic activity in Q3.
- Concerning the deposits in the banking sector, households' savings growth accelerated to 5.9%YoY from 5.2% while companies' deposits grew in August by over PLN3 bn, but it was a slower rise than a year before, so 12M growth rate slowed down to 23%YoY from 26%.

Economic update



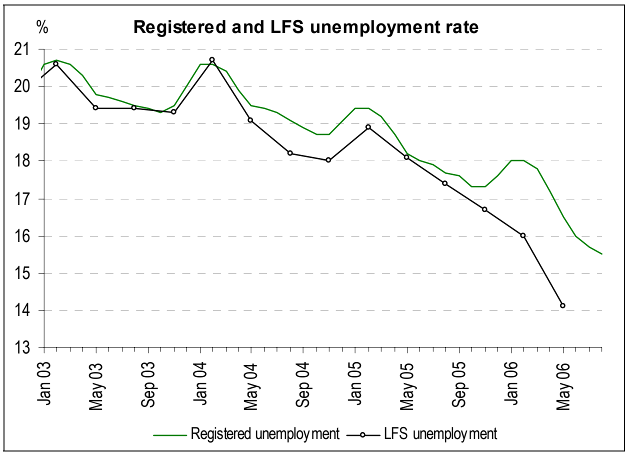
Growing companies' demand for labour

- Average wage in companies' sector rose in August by 5.3% YoY, slightly slower than in July, but in a faster pace than in the first seven months of the year (4.7%). Employment rise has accelerated again, to 3.5% YoY – the highest pace in the history of Polish free market economy.
- Thus, nominal wage bill in enterprises sector rose by 9%YoY, more or less as in July. In real terms, wage bill growth slowed down more clearly – to 7.3% YoY from 7.9% in the previous month. However, such pace of increase remains high and signals households' purchasing power is on the rise.
- Data confirmed economic expansion, and considerable rise in labour demand shows higher economic activity of the companies.



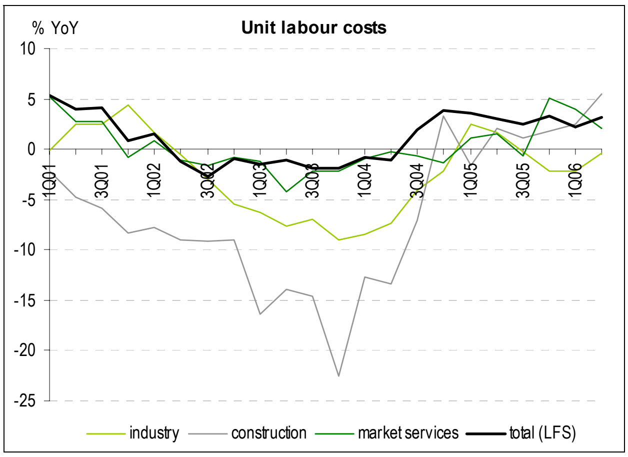
… results in accelerating unemployment fall

- Registered unemployment rate fell by the end of August to 15.5%, by 0.2pp against July and 2.2pp YoY. Fast unemployment reduction is due to rapid labour demand growth, which was showed by data about employment in companies' sector released earlier.
- Labour force survey (LFS) data were even more optimistic. They showed that unemployment rate in Q2 fell to 14.1% from 16.1% in Q1 and 18.1% in Q2 2005. It is the biggest fall range in the history of LFS studies in Poland.
- The amount of jobless claims diminished in Q2 by as much as 23%YoY, that is over 700k people. Meantime, according to the study, the number of employed rose by 500k people which is four times as much as figures about registered employment.



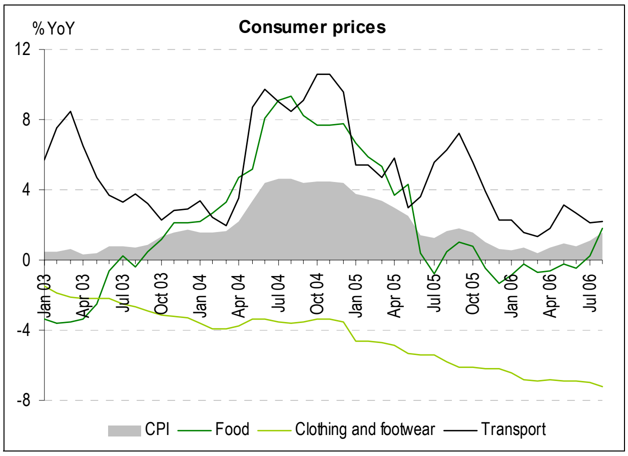
Can tensions on the labour market threaten inflation?

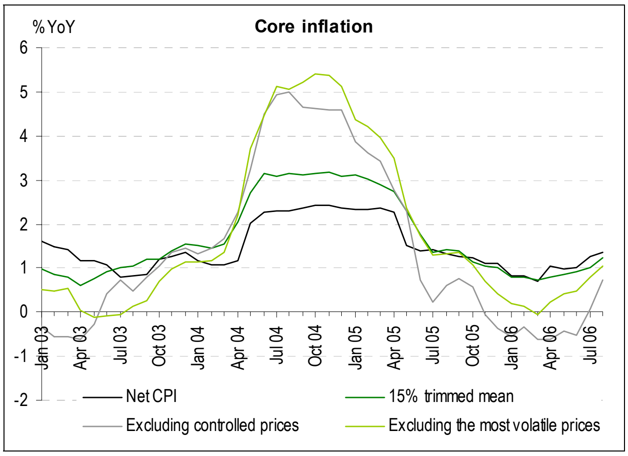
- Such a sharp rate of unemployment reduction and rise in households' earnings can increase concerns if labour market processes will start to put pressure on prices in the economy.
- Especially that labour activity ratio rose by only 0.1 pp in the second quarter as compared to Q1 and fell by 0.9pp against the corresponding period of the previous year, which means that higher labour demand is not compensated by higher labour supply.
- Although registered data from the labour market showed that pressure coming from the labour cost has slightly eased down in Q2 thanks to strong economic activity growth – according to our estimates rise in unit labour cost (ULC) slowed down by nearly 1% compared to the average for the four previous quarters, to ca. 1.3%YoY. But estimates based on the number of employed in LFS survey show opposite conclusions – rise in ULC by 3.2% YoY, 1 pp higher than in Q1.
- Moreover, the situation in particular sectors of the economy is diversified. In industry labour productivity rise is the biggest, and thus unit labour cost remains under control and pressure on prices is relatively the lowest. Situation in construction and market services is different as wages in those sectors grow faster and meantime productivity rise is not as fast.
- Situation in construction is not of a great interest as this sector is not big enough. But fast labour cost growth in market services (that represent over 40% of GDP) can have impact on strengthening pressure on inflation in the economy – as far as it keeps above the inflation target 2.5%. In this context, it is good that ULC growth in services slowed down to ca. 2%YoY in Q2. In the nearest months data about wages and employment in non-manufacturing sectors should be watched, as their acceleration in Q3 and Q4 would suggest faster rise in ULC given forecasted moderate slowdown in value added growth in the coming quarters.

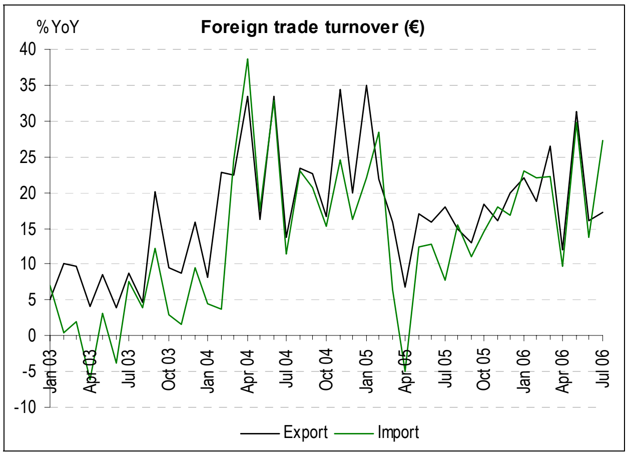


Source: CSO, NBP, own calculations

Economic update







Source: CSO, NBP, own calculations

Food prices boosting inflation

- CPI inflation rate increased in August to 1.6%YoY from 1.1% in July and was higher than predicted for the second straight month. The rise was triggered mostly by supply-side factors (food prices up 0.7%MoM, fuel prices up 1.5%MoM). Food prices increase was caused by summer dry weather and it seems that this effect was not over yet.
- In the subsequent months further CPI rise is possible, to ca. 1.7%YoY in September and 2.1-2.2% in December. Our forecasts show that inflation target will be temporarily breached in Q1 2007 and in March the inflation rate will reach 3%YoY. As this will be caused by supply-side shock on the food market, this effect alone will be insufficient argument for monetary policy reaction.
- Rise in producer prices was lower than expected and reached 3.4%YoY in August. PPI data showed lack of pressure on prices outside branches directly affected by high prices of oil and other commodities.
- All measures of core inflation increased in August. Net inflation reached 1.35%YoY against market consensus 1.3%. Most of the measures recorded weaker increase than the headline CPI, which confirmed that last inflationary impulse was mainly of an exogenous nature, and was connected with temporary rise in food prices, while the core of inflation processes remains under control.
- According to our predictions, net inflation will gradually pick up in the coming months but it is unlikely to reach 2.5% level at least until the end of 2007. In other words, we do not see a threat that fundamental inflationary pressure could start getting out of the central bank's control, which would call for the monetary policy reaction.

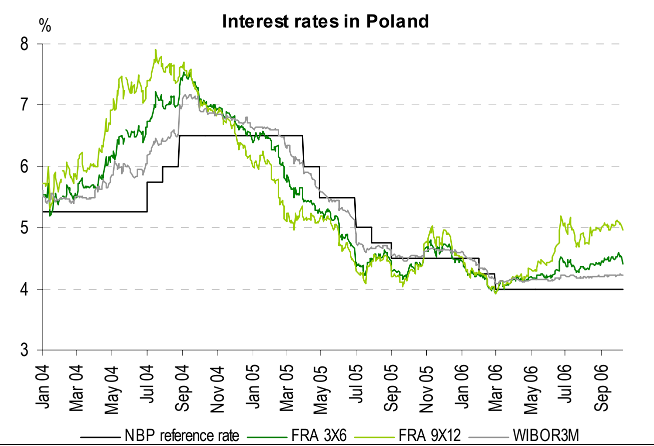
High balance of payments deficit

- In July, both balance of payments and trade balance were higher than the market expectations, amounting to respectively €794 m and €761 m. However, data about trade deficit have been very volatile recently (surplus in April and June, sizeable deficit in May), this is why it is hard to talk about changing trend in international trade.
- Cumulated current account deficit for the last 12 months rose to 2.2% of the GDP from 2.0% after June, but we expect it to remain fairly stable until the end of the year.
- Export rise was more or less in accordance with expectations and amounted to 17.3%YoY, import rise accelerated 27.2%YoY. We expect the upkeep of fast, two digit growth of trade turnover in the next months.

Foreign debt slightly higher

- According to the central bank's data Poland's foreign debt amounted to €115.9 bn at the end of Q2, that is PLN468.8 bn which represents ca. 46.6% of the GDP.
- Compared to 2Q05, foreign debt in euro increased by 11% where long-term debt rose by 8% and short-term by 24% YoY.
- After a clear rise at the beginning of the year, in Q2 foreign debt fell in government and local government sector, as a result of lower foreign investors' interest in Poland's treasuries.
- Fast foreign debt has been rising in the companies' sector (12.8% YoY), in a large scale due to trade credits given by direct investors and other international entities. In case of the latter, it may represent growing exposition of the companies to foreign exchange risk.

Central bank watch



Fragments of MPC statement, 27 September 2006
The latest data warrant the assessment that in 2006 Q3 both headline and "net" inflation will be higher than expected in the July inflation projection. In this way, headline inflation will be close to the lower limit for deviations from the inflation target. The released information concerning medium-term factors suggests that inflation in 2007 may prove higher than expected in the July inflation projection. A broader assessment of the inflation outlook will be formed in October 2006 after considering the new inflation projection.
The data for July-August 2006 on industrial output, construction and assembly production and retail sales indicate that high economic growth has continued in 2006 Q3.
Strong economic growth is accompanied by a fast growth of labour demand. (…) Economic growth is also accompanied by a high growth of wages.

Conditions for monetary policy implementation (fragments of Guidelines)
Globalization processes, which took place with a great intensity during the last years, caused, that the global inflation determinants seem more important compared to their domestic equivalent. Thus, it is worth following the development of global economy situation. Moreover, available data signal that future anti-inflation effect of the globalization processes can be weaker than in the past.
A factor, which may mitigate influence of faster increase in domestic demand on inflation, is a possibility of absorbing the rising demand by higher imports, although the importance of this influence will depend on the situation as regards import prices and the currency exchange rate.
Significant increase in labour demand and simultaneous deceleration in growth of labour supply – with mismatch between structure of labour supply and demand – may increase wage pressure in the economy. Remaining high, though decreasing unemployment can mitigate wage pressure. One can expect unit labour cost to grow quicker than in 2006. One can expect that higher investment will be a factor supporting higher productivity gains.

Fragments of MPC opinion on budget draft for 2007
Keeping state budget deficit at PLN30bn in 2007 means that the improvement of the primary balance won't occur. The primary balance will remain negative and will amount to around 0,2% of GDP, which is similar to the level for 2006. The NBP emphasises that reaching primary surplus in the short-term, which is a *sine qua non* condition of stopping the growing trend of the public debt and of decreasing it in future.
Substantial growth (by 35.5%) of potential amount of payments under guarantees and endorsements given by entities of the public finance sector is another risk to the public debt growth in the future.
There is a doubt about he amount of part of revenues in the budget, which are connected with EU budget (PLN14.7bn). Especially, there are doubts about the planned PLN 7.2bn revenues, which are due to be obtained as a refunding of spending on realisation of projects financed by structural and cohesion funds.

Source: NBP, Reuters

Nothing will change until the end of the year (at least)

▪ The Monetary Policy Council has not changed interest rates and suggested that it needs more time to estimate medium-term inflation prospects. The communiqué's tone suggested that in view of central bankers the inflation prospects has recently worsened, but not to an extent, which would require monetary tightening.

▪ The key paragraph including the Council's assessment of risks for future inflation path was more hawkish than a month earlier, focusing on the increase of the inflation forecast for the next year as compared to July's NPB projection.

▪ Unfortunately, this sentence does not tell anything about central bankers' perception of inflation prospects beyond 2007, which is crucial for monetary policy perspective. Given the ongoing food prices growth after summer drought, it is obvious that the inflation path for the nearest 12 months (and average inflation in 2007) will be higher than predicted earlier. However, such temporary exogenous shock is not an argument for rate increases.

▪ The question is whether second round effects, generated by sharply firming labour market conditions, will follow recent inflation rebound. Labour Force Survey for 2Q06 may be a warning, however the statement after MPC meeting did not give a clear clue what is the opinion of majority of rate-setters.

▪ We do not expect major changes in the economic picture after the release of monthly data, and the next quarterly Labour Force Survey will be published at the end of the year. Therefore, we find it quite unlikely the MPC will decide for pre-emptive move this year, which was suggested recently by one of MPC hawks (see the next page for MPC members' comments).

Monetary Policy Guidelines – something nice for everyone

▪ Elements of the guidelines regarding general strategy of monetary policy and understanding of the inflation target did not change. It means that inflation target of 2.5% +/- 1 pp will be treated symmetrically and the MPC will not necessarily react to inflation rising above/falling below the target if this is an effect of temporary supply-side shocks.

▪ The only new element concerning general rules of conducting monetary policy was a fragment stressing that the central bank has to take into account performance of assets prices. We think this factor is not significant in Poland, so that it could considerably affect MPC decisions in the nearest time.

▪ View on inflation outlook was balanced with no significant bias in any direction and it seems the guidelines include something for each of faction within MPC (see the table).

MPC also criticised the budget 2007

▪ The Council's opinion concerning the next year budget was not surprising and was broadly in line with our view and doubts expressed by various market economists.

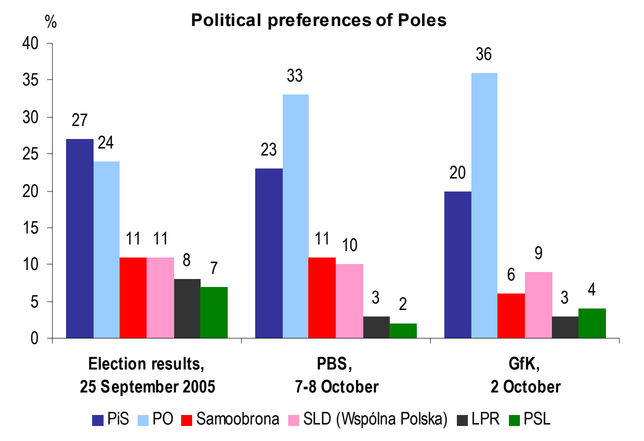
▪ According to projections of the central bank, primary structural balance of the public finance sector (i.e. deficit adjusted for debt servicing costs and economic growth fluctuations) will worsen at least by 0.1 pp in 2007, even adopting quite optimistic assumption in the draft budget on higher surpluses outside central budget.

▪ The Council expects balance of public finance outside the central budget will be at zero at best (e.g. as a result of co-financing EU-related projects) and thus the primary structural fiscal balance will worsen by 0.3 pp.

Central bank watch

Comments of the central bank representatives	Our remarks
MPC's press conference after the meeting of September 27 **Question of Gazeta Wyborcza's journalist:** You said inflation will be **slightly** above the level showed in July's projection… **Leszek Balcerowicz, MPC chairman:** I didn't say slightly. **Stanisław Nieckarz, MPC member:** Slightly, slightly...	There is no doubt the period of view convergence in the MPC is over. Council's members even argue if inflation will be above the target in 2007, or only slightly above. First, taking into account the influence of summer drought, it is clear that average inflation in 2007 will be higher than forecasted. Second, if this is the only factor, which will be responsible for inflation increase, it is not important because a rate rise is not necessary. Third, it seems quite clear that divergences about evaluation of 2008 are much bigger as the Council have not even mentioned them in the statement.
Jan Czekaj, MPC member **PAP, 5 October** Higher inflation is, in a large scale, the effect of higher food prices and this is a supply side shock and its consequences will extinguish in 2007. For the moment, one cannot see factors that would cause inflation rise above the target for the longer period, though the addition of factors can make inflation be temporary higher. It is likely that fuel prices will have no impact on inflation. For the moment, the current interest rate level does not endanger the target. We want to come back to the middle of the target, but in the medium-term, and not through reacting to supply-side shocks, until they don't threat with second round effects, but there is no reason we should talk about such a risk. Today, we are in a balanced point, though in the future rate hikes are more likely. Changes in interest rates will depend on economic growth projections. Moreover, we should remember that central banks around the world are rather finishing their rate hike cycle. We remember the year 2004, when supply side shocks and quickly rising inflation have inclined us to raise interest rates, though we are not really sure, whether it was necessary or not, but at the time, the situation seemed serious. We are before the projection and if it does not show dramatic inflation rise, then I don't think there will be a rate hike this year. Looking towards future a MPC move is more likely to happen the months when there are new projections.	According to the Council's member, Jan Czekaj, there is no risk of persistent inflation rise above the 2.5% target, despite new inflation projection, which will be released in October will show substantial inflation path rise. He expects inflation to be above 2% YoY by the end of the year, but in the second half of 2007, inflation can slow down, just because of higher statistical base taking into account food prices (supposing that after this year's drought, prices will stabilise). Czekaj said rate hikes in this year could occur only if inflation projections showed a rapid inflation rise. What is interesting is that, just as Dariusz Filar, in a recent interview to PAP, Czekaj remarked the best moments for rate hikes are month were inflation projections are released (January, April, July, October). This suggests that if the Council doesn't raise rates in October, the next possible date for a rate hike will be January 2007. As we wrote before, there is a probability, the MPC will make a pre-emptive move in January (especially if new NBP governor will want to build credibility as a price stability-keeper), but our base-case scenario still assumes there will be no rate hikes next year. Such a scenario, still possible, depends on a few factors, from which Czekaj quoted some. Though he said rate hikes are more likely than cuts, he underlined that the decision will depend on economic growth perspectives.
Dariusz Filar, MPC member **Reuters, 28 September** Last LFS data confirmed concern about danger coming from the labour market, because they are in touch with all the economy and not only industry, where technologies are enabled faster which increases productivity. We have to remember, productivity rises slower in services sector and services create the biggest part of added value in our economy. Looking at the whole economic picture and comparing it to the projection, we can see that unit labour cost are rising faster than in the July inflation report, which can provoke an inflation rise in the future. Concerning the risks that could influence an inflation rise, there is rising employment growth pace, accompanied by falling labour supply as people emigrate. Moreover, we don't know if the wages will keep rising in a 4-5% pace or higher. Concerning oil prices, if the prices of this commodity won't keep falling, then it is likely it has no influence on inflation. But considerable slowdown in the world economy is, for the moment, a hypothetical situation.	MPC's hawk Dariusz Filar said that a 25bp rate hike should take place as soon as in October and further ones of the same size could be delivered after release of next inflation projections. What is interesting, it was before LFS data publication for Q2, which must have confirmed his view (see the comments in the left column). In his opinion, in the next quarters, the reference interest rate should raise to around 5%, though hikes could be lower, if the economic growth slow down. However, it doesn't seem that the majority of the MPC members shares Filar's view. This is shown by the contrasting statement of other Council members,. It seems the main difference concerns the risk of second round effect. According to Filar, this risk is much higher than in 2004 (when the Council raised rates reacting to inflation rise due to tax raise and prices adaptation after accession to EU) and the Council should make a pre-emptive move in order to counter future inflation pressure strengthening.
Andrzej Sławiński, MPC member **PAP, 18 September** Growing domestic demand will have an influence on import increase rather than price growth, which should mitigate a potential inflation pressure. Thanks to favourable situation in current account balance, we can consider growing import as a safety guarantee. Negative trade balance is small compared to GDP. It's possible increase should not provoke an essential worsening of the whole current account balance as there is a big transfer flow from the EU. Price shock on the food market puts us in a less comfortable situation than the one we had to deal with during last months. (…) The situation is not easy, as it is accompanied by higher domestic demand; this creates necessity of careful analysis of the situation on the labour market, especially as regards unit labour cost.	In interviews for PAP and Reuters MPC member Andrzej Sławiński underlined that the inflation rises due to drought should be a temporary phenomenon and shouldn't be followed by second round effects because relation between wage rise and productivity is still positive from the inflation point of view. Sławiński affirmed meanwhile that the central bank feels less comfortable and should be vigilant against inflation risk, concentrating on stabilising inflation near 2.5% YoY. LFS data certainly provoke double vigilance. While demand factors will provoke inflation rise (and core inflation) in the coming quarters, let's remember that it rises from a very low level and the target in the medium term doesn't seem in danger even if it is temporarily reached at the beginning of the year. Moreover, an important element of Sławiński declaration's is the possibility of import growth (and not inflation), which was reflected in the *Monetary policy guidelines for 2007*.

Government and politics



Who wants the new coalition?

- The latest results of public opinion polls showed that parties engaged in coalition talks (PiS, LPR, PSL and Samoobrona) experience fall in popularity.
- Such tendency should incline them to bigger mutual concessions and creation of coalition, because early elections in the near time pose to them a threat of losing the power.
- Results of public opinion polls also lead to a conclusion that from a point of view of market participants a potential new shape of political scene after possible early election is not likely to be worse than the current situation, in which the ruling PiS is forced to share power with populist parties. This probably explains why the market reaction to recent political turmoil was quite calm. The alternative to current political situation is not disturbing investors.

Basic parameters of the 2007 budget

	2005	2006	2007	2005	2006	2007
	PLN bn			% of GDP		
Revenues of state budget	179.8	196.5	226.8	18.3	19.0	20.6
Spending of state budget	208.1	225.8	256.8	21.2	21.8	23.4
Balance of state budget	28.4	29.3	30.0	2.9	2.8	2.7
Revenues of publ. finance sector	384.5	416.6	458.6	39.2	40.2	41.7
Spending of publ. finance sector	410.0	445.2	485.4	41.8	43.0	44.1
Balance of publ. finance sector	25.5	28.7	26.9	2.6	2.8	2.4

Note: With no adjustment for inclusion of EU transfers.

The 2007 budget draft sent to the parliament

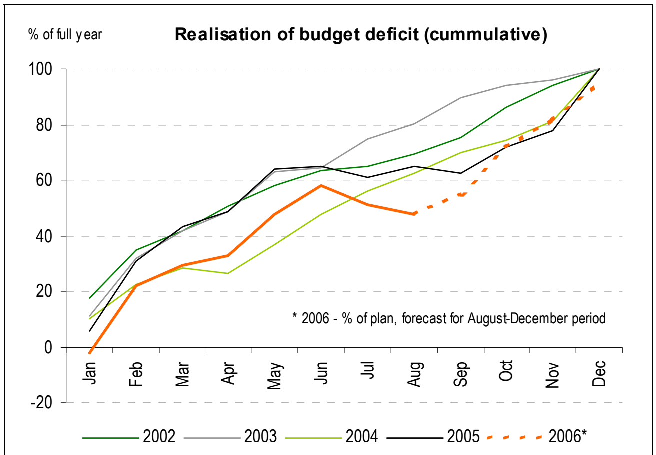
- At the sitting on September 27 the government finally approved the 2007 budget draft and sent it to the parliament. The document does not include major changes as compared to versions presented earlier by the Ministry of Finance.
- The novelty thing is that the government included to the state budget all revenues and spending related to transfers from the EU budget. Detailed solutions connected with that decreases transparency of the fiscal policy and will make it more difficult to assess actual size of the fiscal deficit.
- Due to political uncertainty, it is hard to tell who exactly will debate on the 2007 budget draft. Given that deputies usually worsen the draft prepared by the cabinet, (they cannot increase the deficit, but can lift spending by inflating revenues), it would be the best, if they do not change a thing in the document.

Forecasts of public debt in 2006-2009 (PLNbn)

	2005	2006	2007	2008	2009
Debt of State Treasury	440.2	483.0	532.1	575.5	621.3
in relation to GDP	44.9	46.6	48.4	48.9	49.1
State's public debt	467.7	510.2	556.5	599.3	654.0
in relation to GDP	47.7	49.2	50.6	50.9	51.0
Debt of general government sector (OFEs in the sector)	411.4	439.0	474.4	501.9	529.9
in relation to GDP	41.9	42.4	43.1	42.7	41.9
Debt of general government sector (OFEs outside the sector)	463.9	510.4	562.4	607.4	653.5
in relation to GDP	47.3	49.3	51.1	51.6	51.7

New old debt management strategy

- The government adopted, in the same time as the budget, the *Strategy for management of public debt of the public finance sector in 2007-2009*.
- In the period concerned, a gradual deceleration in public debt rise is planned (see table). Taking into account the adopted assumptions, the state's public debt is growing from 49.2% in 2006 to 51% of the GDP in 2009.
- The forecasted crossing the 50% level by the public debt relation to GDP in 2007 will imply the necessity of adopting a budget bill for 2009, in which the relation between the deficit and the revenues of the central budget will not be higher than the analogous relation in 2008.
- The main source of financing the borrowing needs will remain the domestic market.



Source: Ministry of Finance, opinion polls

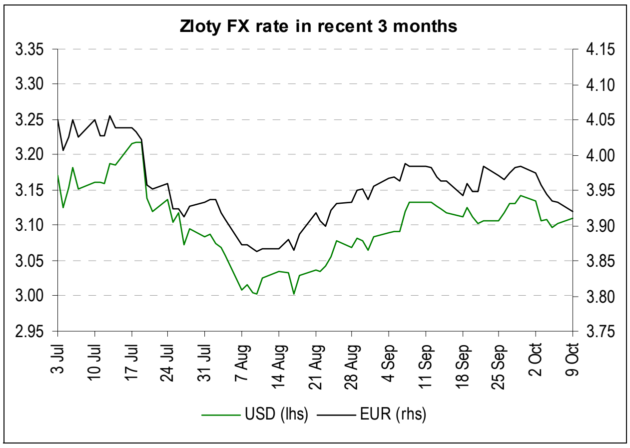
This year's budget performance remains very well

- After August, central budget deficit reached only PLN14.5bn, that is merely 47.5% of the full-year plan. In August alone, for the second time on a row, a surplus of revenues over spending was noticed (PLN 1.1bn). Likewise in the previous month, this is a consequence not only of high revenues (reflecting strong economic activity), but also a result of a delay in realization of some spending.
- An accumulation of spending in the remainder of the year will worsen budget result. At this stage, it is nearly sure that actual budget deficit will be lower than the initially planned PLN30.5bn. Borrowing needs will not be lower than planned taking into account low privatization revenues. PLN1bn is more likely to be collected than the PLN5bn originally assumed in the budget act.

Government and politics

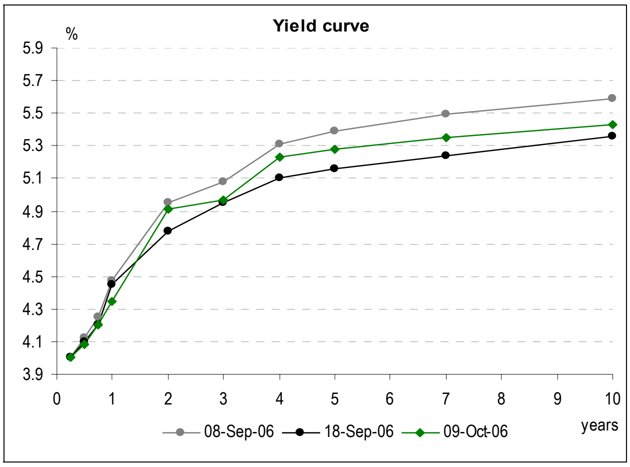
Comments of government representatives and politicians	Our remarks
Jarosław Kaczyński, Prime Minister ***Nasz Dziennik* daily, PAP, 6 October** It is a relatively unknown person, although of course not in the economic sphere. Perhaps she didn't oppose directly to Leszek Balcerowicz, but she often said what would happen in the Polish economy. And opposite to the present Governor, who was always wrong, she was right.	From this PM declaration and from some earlier declarations, we can conclude that one of a possible candidate for central bank governor is professor Urszula Grzelońska. From her first public comments as a potential candidate, it seems she is not in favour of a substantial change of the monetary policy line. She is against stimulating of the economic growth by the central bank at the expense of price stability. At the same time she refused to comment current monetary policy decisions, so her detailed views will be known in some time.
Zyta Gilowska, deputy PM, finance minister **Radio PiN, 4 October** More or less since March 2003 until the end of 2006, public debt will grow by more than PLN90 mld. We can say it did grow, because all of this already happened, that is three times the budget anchor. This shows that lack of political stabilization prevents, from a political view, from a deeper reflexion concerning the beginning of a change and the way it should go. If we will remain in this political campaign during the next 3 years, then we will be nearly obligated to hit the constitutional limit. Because public debt cannot exceed 60% of the GDP, as written in the constitution. But the concern to us is not that we are running into debt but that if we exceed the constitutional limit, then it will be incredibly difficult. As Finance Minister with the whole responsibility, I ascertain we are not planning any increase in any tax, in any sector. There is no tax rise. I also count on decreasing the weight of fiscal pressure by unfreezing income tax thresholds, and by getting rid of the duty of taxing heritage and donation in the closest family. This is minimum. I also count on a lump VAT payment, for single amortisation for people having a business.	It happened. Zyta Gilowska came back to the government. In line with our expectations, the realisation of such a scenario had no impact on the market. Since the first days of her continued work, the deputy PM warns politicians against lack of responsibility concerning fiscal policy. Unfortunately, despite earlier Gilowsk'a suggestions, the political situation prevented the government from dealing with major changes in public finance as soon as in 2007. Despite deputy PM and finance minister promises there will be no rise in tax pressure in the next year, questions remain concerning small changes that would benefit to tax payers, such as unfreezing tax thresholds or getting rid of inheritance or donation tax for the closest family. We don't expect Zyta Gilowska's comeback to considerably influence politicians to make hard decisions concerning fiscal policy. Similar to the former ministers, she will have to make efforts in order to convince the deputies about any unpopular changes. Taking in to account that politicians are busy because of the local elections, one shouldn't expect major, positive legislative offers concerning changes in public finance.
Marek Kuchciński, PiS caucus leader **PAP, 9 October** Our aim is a majority coalition for the government of Jarosław Kaczyński. In this coalition, we will find those who will want to support the program. It is hard to say that the coalition partners in the local institutions [PO] were in the same time with us in the parliament. (…) This [PO-PSL deal] complicates the situation in our talks with PSL concerning joining the government.	Talks concerning the setting up of a new coalition are not easy to handle. This is not favoured by the behaviour of a potential coalition partner that is PSL, who said it would ally with PO in the upcoming local elections. It is not surprising that PiS had a negative reaction to this information and doubts prevail on the future of the negotiations concerning the next coalition. Generally, all the scenarios remain still valuable options of further development on the political scene.
Piotr Soroczyński, deputy finance minister **PAP, Reuters, 5 October** Inflation rise in November 2006 – March 2007 will be mainly due to statistical factors [effect of low statistical base]. The NBP target will be reached in March-April and inflation should begin decreasing due to base effect resulting from food prices. (…) If nothing unpredicted happens, inflation will be below 2% by the end of 2007, maybe 1.8%, 1.9%, but I won't argue on that. If there are any resources from privatization likely to appear, than in Q4 there are possibilities of reducing the debt emission, though lower privatization resources are not a problem to us, we are prepared for it. **Reuters, 2 October** We expect inflation at the end of the year to rise to 2.1-2.2 percent and in March it may reach 2.5 percent. In our opinion the Monetary Policy Council has time until the end of the first quarter to analyse the situation and does not have to rush with increasing rates. Inflation rise was mainly caused by food prices rise, due to drought, real estate prices growth and energy prices have also contributed to price rise. In September, prices have not fell in the clothes and shoes group as well, on the other hand we have noticed a fell in transport prices due to lower oil prices. We assess that in Q3 and Q4, economic growth will be around 5% and 5.2% for the whole year; the slowdown in the third and fourth quarters is mainly due to statistical effects.	FinMin said in its communiqué (2nd October) that consumer prices in September rose by 0.3-0.4%MoM, which means, year inflation can amount to 1.7, 1.8%YoY. Deputy minister Soroczyński confirmed that the latest inflation rise is mainly due to food prices rise, and higher hosing and energy costs. Fuel prices fall, noticed in September did not balance the other rises. The deputy minister declaration implies the ministry is expecting further inflation rise in the last months of the year as in the beginning of 2007. However, he underlined, that faster prices growth is due to statistical effects and momentary supply-side shocks. Furthermore, he remarked these factors will begin to extinguish and maybe the trend will change further on in 2007, which should provoke a fall in inflation after a temporary rise in the first part of the next year. Our inflation predictions are close to those presented by the deputy minister and this is why, like him, we believe, the Monetary Policy Council does not have to hurry raising interest rates. Until there is no serious risk of second-round effects and strengthening of underlying inflation pressure (not linked to statistical effects or exogenous shocks such as food or fuel prices), the Council can watch development of the situation and keep the current, relatively high (even taking into account inflation) interest rates level. Our economic growth forecasts for H2 are in consistent with ministry's expectations. As regards privatization revenues, we wouldn't count on acceleration in this area, so debt issuance plan will not change significantly in our opinion.

Market monitor



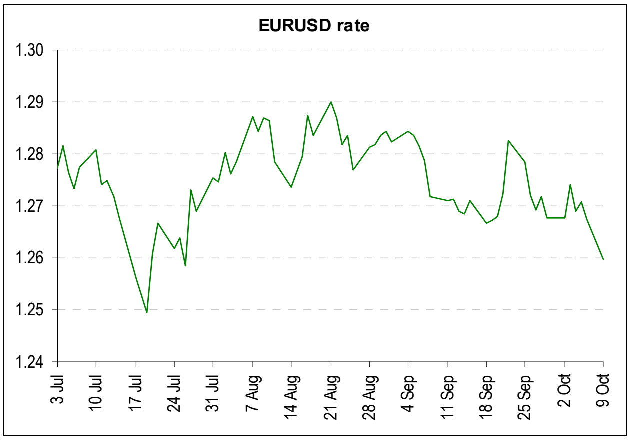
Zloty strengthens after political turmoil in the region

- Since the start of September the zloty traded for some time near 4.0 vs. euro, however it did not manage to break this important level and began to slide near to 3.93. Polish currency gained despite unstable situation in Hungary as well as jitters on the domestic political stage, which only slightly affected the investors' sentiment to the region.
- Foreign investors started to gradually ignore Polish politics assuming the probable scenarios as not worse than the previous situation. The range of 3.88-3.90 may be a strong resistance level for the zloty, supported by the annual rising trend line of the EURPLN. We assume that the zloty will not go below this range, which may be supported by the weakening of debt market. However if the EURPLN rate breaks 3.88-3.9 and the situation in the region stabilizes zloty may significantly strengthen further.



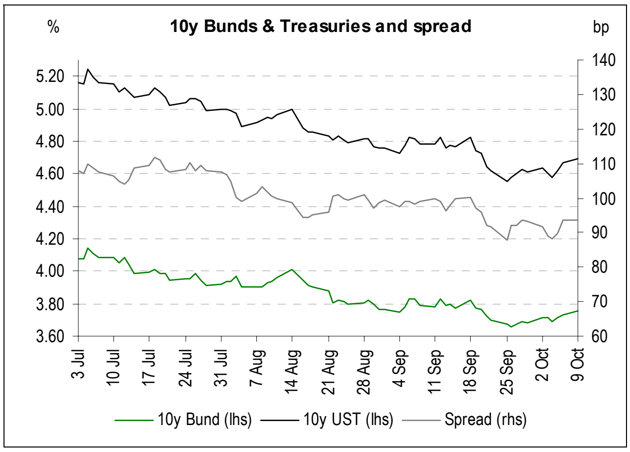
Strong debt market despite higher economic data

- Since the release of the previous report the prices of Polish government bonds rose, and the yield curve flattened. This resulted despite higher than expected CPI and labour market data, and was a consequence of heavy strengthening in the core markets. Turmoil in Hungary and the reconstruction of Polish government contributed to a slight correction, which was supported by a slight bonds sale in US.
- In the base scenario we still assume no rate changes till the end of 2007. However, if the price and employment growth dynamic stays high and the unit labour costs rise, the MPC members may decide for a rate hike at the start of next year, willing among other to build credibility of the new NBP's president. The bond prices are high, while the weakening in the core markets and the negative evolution of the situation in Hungary may be a risk factor for the region.



EURUSD quite stable, dollar gradually recovers

- For some time the EURUSD fluctuated in a quite narrow range, and for over a month the greenback slowly recovered against the single currency, among others after high Q2 unit labour costs, good retails sales, production and inflation data in US. There was quite significant weakening after the release of Philadelphia Fed index, the market started to discount rate cuts. After another portion of US data, weak Ifo, falling oil prices and labour market data the dollar regained strength to 1.26 vs. euro.
- Despite recent greenback's strengthening we still assume, that the economic slowdown in United States with falling inflation is going to effect in rate cuts by Fed next year, what with high trade deficit may negatively affect the dollar. We hold the view that the EURUSD rate will have reached 1.3 by the year's end.

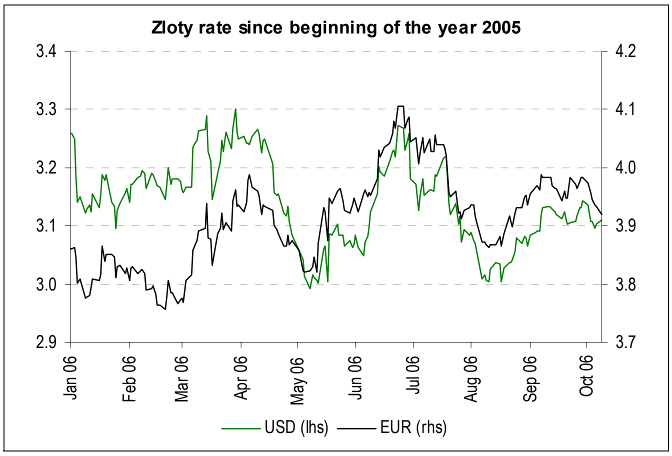


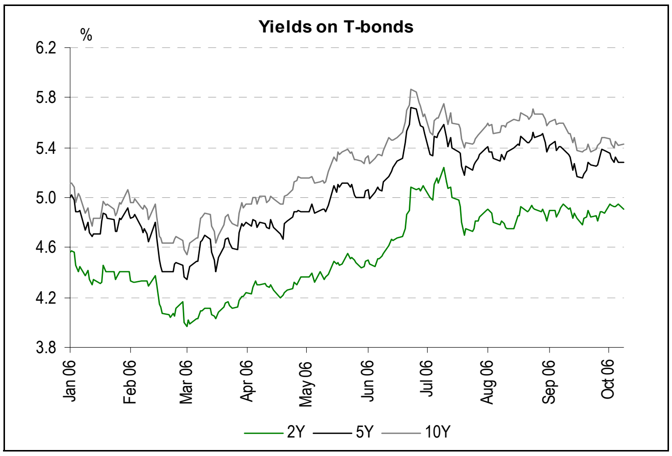
Source: Reuters, BZ WBK

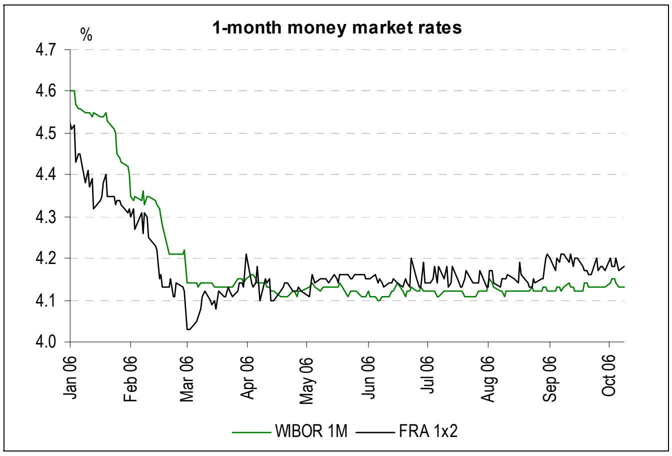
Significant strengthening in US, spread falls

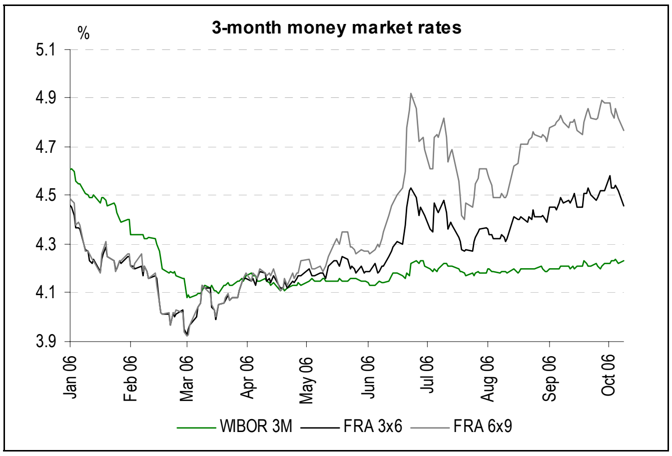
- Since the release of the September report the strengthening in the core markets was continued thanks to positive reaction to inflation data in US and weaker than expected Philadelphia index. Moreover falling oil prices and other commodities diminished fear of significant economic slowdown in US and decreased the risk for inflation. Bunds were supported by the expectations component of Ifo index. In the last few days there was a slight correction after US labour market data.
- The FOMC minutes may put some light on the probable Fed moves. In our view the US rates will stay unchanged till the end of the year and will fall to 4.75 in Q2 2007. Further ECB's communiqués may indicate the moves in the monetary policy of the euro zone next year. After another rate hike expected at the end of this year we anticipate yet another in the Q1 2007.

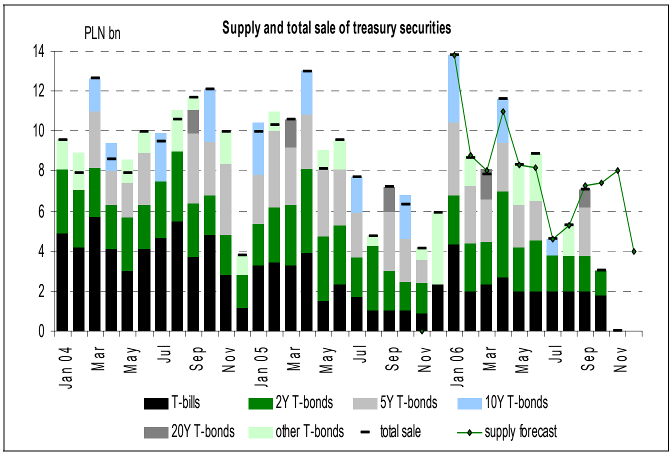
Market monitor











Treasury bill auctions (PLN m)

Date of auction	OFFER / SALE 52-week	OFFER / SALE Total
07.08.2006	1 000 / 1 000	1 000 / 1 000
21.08.2006	1 000 / 1 000	1 000 / 1 000
Total August	**2 000 / 2 000**	**2 000 / 2 000**
04.09.2006	1 000 / 1 000	1 000 / 1 000
18.09.2006	1 000 / 1 000	1 000 / 1 000
Total September	**2 000 / 2 200**	**2 000 / 2 000**
09.10.2006	800 / 800	800 / 800
23.10.2006	700 - 900	700 - 900
Total October*	**1 500 – 1 700**	**1 500 – 1 700**

* estimations based on Ministry of Finance preliminary information

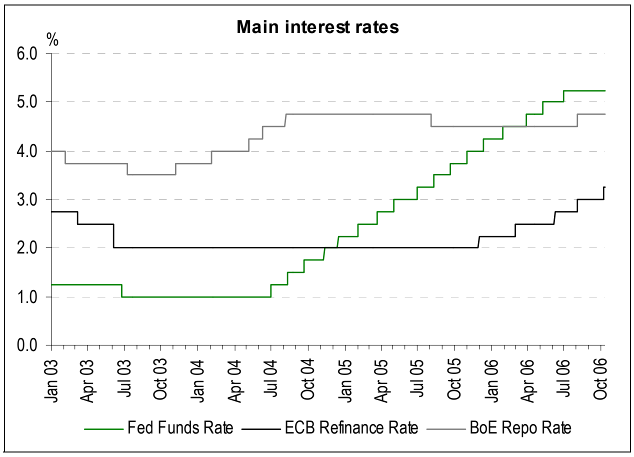
Treasury bond auctions in 2006 (PLN m)

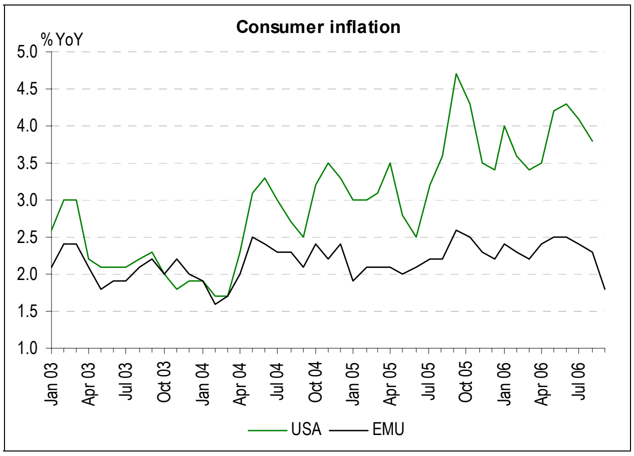
month	First auction				Second auction				Third auction			
	date	T-bonds	offer	sale	date	T-bonds	offer	sale	date	T-bonds	offer	sale
January	04.01	OK0408	2 500	2 500	11.01*	DS1015	3 360	3 360	18.01*	DS1110	3 600	3 600
February	01.02*	OK0408	2 400	2 300	08.02	WZ0911 | IZ0816	1 000 | 500	1 000 | 493	15.02*	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	2 160	2 160	19.04*	PS0511	2 400	2 400
May	04.05*	OK0808	2 160	2 160	10.05	WZ0911 | IZ0816	500 | 1 500	500 | 1 500	17.05	PS0511	2 000	2 000
June	07.06*	OK0808	2 520	2 520	14.06*	WZ0911 | IZ0816	1 800 | 500	1 800 | 500	21.06	PS0511	2 000	2 000
July	05.07	OK0808	1 800	1 800	12.07	DS1015	800	800	-	-	-	-
August	02.08	OK0808	1 800	1 800	09.08	WZ0911	1 500	1500	-	-	-	-
September	06.09	OK1208	1 800	1 800	13.09*	WS0922	840	840	20.09	PS0511	2 400	2 400
October	04.10	OK1208	1 200	1 200	11.10	DS1017	2 000	-	18.10	PS0511	1 500-2 500	-
November	02.11	OK1208	-	-	08.11	7L WIBOR | 12L CPI	-	-	15.11	5L	-	-
December	06.12	2Y	-	-	-	-	-	-	-	-	-	-

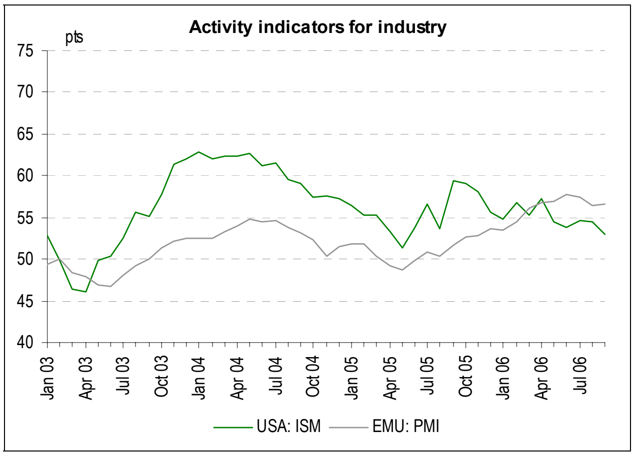
* with supplementary auction

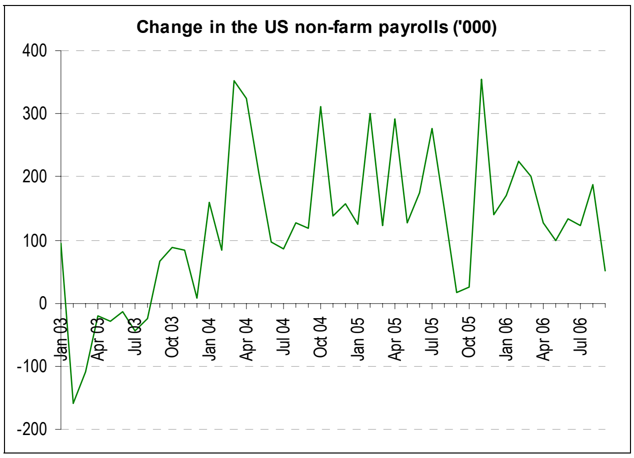
Source: Ministry of Finance, Reuters, BZ WBK

International review









Source: Reuters, ECB, Federal Reserve

The end of rate hikes in US but not in the EU-12

▪ The U.S. Federal Reserve held its benchmark interest rate steady for a second straight meeting, biding time to assess whether cooling economic growth will curb price pressures. For now, the monetary tightening is paused due to the moderation in the economy, especially as shown by a cooling housing market. However, the Fed still sees core inflation as elevated and points to some inflation risks remaining.

▪ On Thursday the European Central Bank raised the main interest rate in the euro zone by 25 bp to 3.25% though gave little suggestion on ECB's moves beyond December, when further monetary policy tightening is expected. Jean Claude Trichet said the bank would closely monitor inflation, while the policy in the EU-12 remained accommodative, as inflation risks still remain on the upside.

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Decline of CPI in US and the euro zone

▪ The US core CPI prices rose as expected by 0.2%MoM and 2.8%%YoY, which is together with November 2001 the highest reading YoY since February 1996. Overall CPI also rose 0.2%MoM (3.8%YoY) in August as energy price increases slowed to 0.3%. The US Labour Department said that lower gasoline prices could subtract at least 0.5pp from the September CPI. PPI inflation rose by only 0.1%MoM (market consensus at 0.2%) and additionally core PPI fell by 0.4%.

▪ HICP in the euro zone grew 0.1%MoM and 2.3%YoY in August against 2.4%YoY rise in July, the Eurostat said on Friday. The data were in line with market expectations. According to preliminary data, HICP inflation in the euro zone amounted to 1.8%YoY in September, a bit lower than 1.9% expected by the market.

Lower GDP in US, ISM indices confirm slowdown

▪ The US ISM index declined in September to 52.9 from 54.5. Manufacturing prices paid index fell to 61 from 73, while employment index decreased to 49.4 from 54. The US non-manufacturing ISM index reflecting activity in the services sector in United States slumped to 52 (the lowest since April 2003) from 57 in August. The employment index rose to 53.6 from 51.4, the prices paid index collapsed to 56.7 from 72.4 in August and this was the lowest value since August 2003.

▪ The PMI survey showed the manufacturing sector in the euzo zone continued to expand at high pace in September. The PMI stayed at 56.6 in line with economists forecast and the value in August. The input prices index rose to 69.3 from 68.7, while the output prices to 56 from 55.2. The PMI index for the services sector in the euro zone amounted to 56.7 in September and was slightly below the 6-year peak reached in July at upwardly revised 57.4 and below the forecasted 57. The input prices index eased to 15-month low of 57.9 from 59.9.

▪ In the second quarter US GDP rose by 2.6%, downwardly revised from the previous estimate of 2.9% as compared to 5.6% in the Q1. Final Q2 GDP deflator was unchanged at 3.3%, the PCE price index was downwardly revised from 4.1% to 4.0% (3.3%) similar as the core figure from 2.8% to 2.7% (2.2%YoY), the sharpest rise since Q1 2001.

Further drop of US unemployment rate

▪ According to the non-farm payrolls report for September, there were 51k jobs created in the United States, while the August and July figures were upwardly revised from 128k to 188k, and from 121k to 123k, respectively. The analysts anticipated the September figure at 125k. The unemployment rate unexpectedly fell to 4.6% from 4.7%, while the market forecasted no change.

Economic calendar

Monday	Tuesday	Wednesday	Thursday	Friday
9 ***POL: Treasury bills auction***	**10** US: Wholesale inventories (Aug)	**11** ***POL: Auction of 10Y bonds*** EMU: revised GDP (Q2) USA: FOMC minutes	**12** US: Trade Balance (Aug)	**13** ***POL: CPI (Sep)*** ***POL: Balance of payments (Aug)*** ***POL: Money Supply (Sep)*** JP: BoJ meeting - decision & report US: Foreign trade prices (Sep) US: Retail sales (IX) US: Preliminary Michigan (Oct)
16 ***POL: Wages and Employment (Sep)***	**17** GER: ZEW Index (Oct) EMU: Industrial production (Aug) EMU: Final HICP (Sep) US: Net capital flow (Aug) US: Capacity use (Sep) US: Industrial production (Sep) US: PPI (Aug)	**18** ***POL: Auction of 5Y bonds*** ***POL: Industrial production (Sep)*** ***POL: PPI (Sep)*** US: House starts (Sep) US: CPI (Sep)	**19** US: Philadelphia Fed Index (Oct)	**20**
23 ***POL: Business climate (Oct)*** ***POL: Treasury bills auction***	**24** ***POL: Net inflation (Sep)*** ***POL: Retail sales (Sep)*** ***POL: Unemployment (Sep)*** ***POL: MPC meeting*** EMU: Current account (Aug) US: Fed meeting – decision	**25** ***POL: MPC meeting – decision*** GER: Ifo Index (Oct) US: House sales (Sep)	**26** ***POL: Switch auction*** US: New homes sales (Sep) US: Durable goods orders (Sep)	**27** EMU: M3 money supply (Sep) US: Final Michigan (Oct) US: Core PCE (Q3) US: GDP deflator (Q3) US: Advanced GDP (Q3)
30 US: Core PCE (Sep)	**31** EMU: Business climate (Oct) EMU: Preliminary HICP (Oct) US: Chicago PMI (Oct) US: Consumers confidence (Oct)	**1 November** ***POL: All Saints Day*** US: Manufacturing ISM (Nov)	**2** ***POL: Auction of 2Y bonds*** GB: BoE meeting – decision EMU: Manufacturing PMI (Oct) EMU: EBC meeting – decision US: Factory orders (Sep) US: Unit labour costs, labour productivity (Q3)	**3** EMU: Retail sales (Sep) US: Non-farm payrolls (Oct) US: Unemployment (Oct) US: Non-manufacturing ISM (Oct)
6 ***POL: Treasury bills auction*** EMU: Non-manufacturing PMI (Nov) EMU: PPI (Sep)	**7**	**8** ***POL: Auction of 7Y floating rate bonds and 12Y CPI linked bonds***	**9** US: Wholesale inventories (Sep) US: International trade (Sep) US: International trade prices (Sep)	**10**

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	16	14	13	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	24	23	25	24	25	24	-	-
Gross wages, employment	16	15	15	18	17	19	17	16	15	16	16	15
Unemployment	24	23	23	26	24	23	25	24	25	24	-	-
Foreign trade	about 50 working days after reported period											
Balance of payments*	-	-	31	-	-	30	-	-	-	2	-	-
Balance of payments	13[c]	13	14	12	17	14	13	11	12	13	14	-
Money supply	13	14	14	14	12	14	14	14	14	13	14	-
NBP balance sheet	6	7	7	7	5	7	7	7	7	6	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

		Sep 05	Oct 05	Nov 05	Dec 05	Jan 06	Feb 06	Mar 06	Apr 06	May 06	Jun 06	Jul 06	Aug 06	Sep 06	Oct 06
Industrial production	%YoY	5.9	7.6	8.5	9.6	9.8	10.2	16.4	5.7	19.1	12.2	14.3	12.5	6.3	13.3
Retail sales [c]	%YoY	5.4	7.5	7.3	6.3	8.6	10.2	10.1	13.2	13.7	10.7	11.0	11.5	13.4	12.0
Unemployment rate	%	17.6	17.3	17.3	17.6	18.0	18.0	17.8	17.2	16.5	16.0	15.7	15.5	15.3	15.0
Gross wages [b c]	%YoY	1.8	6.4	6.9	1.5	3.6	4.8	5.4	4.0	5.2	4.5	5.6	5.3	6.3	3.2
Employment [b]	%YoY	2.2	2.1	2.5	2.6	2.6	2.4	2.7	2.8	3.0	3.1	3.3	3.5	3.5	3.6
Export (€) [d]	%YoY	13.8	20.6	16.8	22.5	21.7	19.2	28.2	10.6	32.2	16.4	17.9	23.6	17.4	12.5
Import (€) [d]	%YoY	12.1	16.4	20.1	18.6	23.7	22.0	23.9	10.7	30.4	16.2	27.0	22.1	17.2	15.3
Trade balance [d]	EURm	-141	9	-322	-425	6	-229	-130	-92	-483	-75	-761	-300	-150	-200
Current account balance [d]	EURm	-328	-357	-502	-530	-211	-839	-356	-570	-404	-215	-794	-50	-300	-300
Current account balance [d]	% GDP	-1.7	-1.6	-1.8	-1.7	-1.6	-1.8	-1.9	-2.1	-1.9	-2.0	-2.2	-2.0	-2.0	-1.9
Budget deficit (cumulative)	PLNbn	-17.8	-20.6	-22.2	-28.6	0.7	-6.7	-9.0	-10.0	-14.6	-17.7	-15.6	-14.5	-18.0	-22.0
Budget deficit (cumulative) [e]	% realisation	62.3	72.1	77.7	100.0	-2.3	21.9	29.4	32.8	47.8	57.8	51.1	47.5	58.9	72.0
CPI	%YoY	1.8	1.6	1.0	0.7	0.6	0.7	0.4	0.7	0.9	0.8	1.1	1.6	1.7	1.6
PPI	%YoY	-0.5	-0.9	-0.4	0.2	0.3	0.7	0.9	1.7	2.3	3.0	3.5	3.4	3.6	3.7
Broad money (M3)	%YoY	12.7	8.7	12.6	10.5	10.4	11.7	9.8	9.6	10.1	11.9	13.0	12.8	12.1	11.7
Deposits	%YoY	11.6	6.3	11.1	9.4	10.2	10.8	9.1	8.6	8.9	11.4	12.3	11.9	10.7	10.9
Loans	%YoY	9.6	4.4	10.2	11.8	12.3	13.5	13.6	12.2	12.4	16.0	16.7	18.0	19.3	19.1
USD/PLN	PLN	3.20	3.26	3.37	3.25	3.16	3.18	3.23	3.20	3.05	3.17	3.15	3.05	3.12	3.11
EUR/PLN	PLN	3.92	3.92	3.97	3.85	3.82	3.79	3.88	3.92	3.90	4.02	4.00	3.90	3.97	3.93
Reference rate [a]	%	4.50	4.50	4.50	4.50	4.50	4.25	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00
Lombard rate [a]	%	6.00	6.00	6.00	6.00	6.00	5.75	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50
WIBOR 3M	%	4.57	4.50	4.64	4.62	4.49	4.26	4.12	4.14	4.15	4.17	4.19	4.19	4.21	4.20
Yield on 52-week T-bills	%	4.15	4.19	4.35	4.38	4.22	3.97	3.87	3.95	4.02	4.20	4.30	4.35	4.44	4.40
Yield on 2-year T-bonds	%	4.22	4.42	4.75	4.64	4.40	4.20	4.10	4.28	4.44	4.75	4.95	4.85	4.87	4.94
Yield on 5-year T-bonds	%	4.51	4.85	5.23	5.04	4.82	4.60	4.59	4.80	5.00	5.33	5.37	5.41	5.31	5.30
Yield on 10-year T-bonds	%	4.57	4.90	5.36	5.14	4.94	4.78	4.78	5.02	5.26	5.54	5.55	5.61	5.48	5.45

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

		2004	2005	2006	2007	1Q05	2Q05	3Q05	4Q05	1Q06	2Q06	3Q06	4Q06
GDP	PLNbn	923.2	980.7	1,041.1	1,120.6	228.7	238.2	241.0	273.0	240.3	251.9	256.7	292.2
GDP	%YoY	5.3	3.5	5.2	5.0	2.2	2.9	3.9	4.3	5.2	5.5	4.9	5.0
Domestic demand	%YoY	5.9	2.2	5.1	5.0	1.1	0.0	1.9	5.4	4.5	5.1	5.3	5.4
Private consumption	%YoY	4.0	2.0	4.9	4.2	1.4	1.4	2.3	2.8	5.2	4.9	5.0	4.5
Fixed investments	%YoY	6.3	6.6	10.5	10.0	1.4	4.0	6.5	10.1	7.4	14.4	10.0	10.0
Industrial production	%YoY	12.3	4.0	11.1	8.0	0.7	2.3	4.5	8.4	12.4	12.1	11.0	9.0
Retail sales (real terms)	%YoY	7.1	1.5	10.4	9.0	-0.4	-3.2	4.1	5.4	9.0	11.8	11.1	9.7
Unemployment rate [a]	%	19.1	17.6	15.4	14.2	19.2	18.0	17.6	17.6	17.8	16.0	15.3	15.4
Gross wages (real terms) [c]	%YoY	0.8	1.2	3.5	2.9	-1.3	0.8	1.1	3.8	4.3	3.9	4.2	2.2
Employment [c]	%YoY	-0.8	1.9	3.1	2.5	1.5	1.7	2.0	2.4	2.6	3.0	3.4	3.3
Export (€) [b]	%YoY	22.3	17.8	18.9	15.0	23.4	13.1	15.6	19.8	23.3	19.5	19.7	14.2
Import (€) [b]	%YoY	19.5	13.4	19.7	17.0	17.8	6.1	11.8	18.4	23.3	19.0	22.0	15.2
Trade balance [b]	EURm	-4,552	-2,242	-3,259	-5,658	-277	-612	-619	-734	-352	-646	-1,211	-1,050
Current account balance [b]	EURm	-8,670	-4,130	-5,024	-8,722	-842	-743	-1,161	-1,384	-1,396	-1,184	-1,144	-1,300
Current account balance [b]	% GDP	-4.3	-1.7	-1.9	-3.0	-3.3	-2.2	-1.7	-1.7	-1.9	-2.0	-2.0	-1.9
Budget deficit (cumulative) [a]	PLNbn	-41.5	-28.6	-29.0	-30.0	-12.3	-18.5	-17.8	-28.6	-9.0	-17.7	-18.0	-29.0
Budget deficit (cumulative) [a]	% GDP	-4.5	-2.9	-2.8	-2.7	-	-	-	-	-	-	-	-
CPI	%YoY	3.5	2.1	1.2	2.5	3.6	2.3	1.6	1.1	0.6	0.8	1.5	1.9
CPI [a]	%YoY	4.4	0.7	2.2	2.5	3.4	1.4	1.8	0.7	0.4	0.8	1.7	2.2
PPI	%YoY	7.0	0.7	3.0	2.0	3.3	0.1	-0.2	-0.4	0.9	3.0	3.6	4.7
Broad money (M3) [a]	%YoY	8.7	10.5	11.6	11.1	11.0	10.8	12.7	10.5	9.8	11.9	12.1	11.6
Deposits [a]	%YoY	8.1	9.4	9.9	10.7	10.4	9.2	11.6	9.4	9.1	11.4	10.7	9.9
Loans [a]	%YoY	2.9	11.8	14.9	13.0	4.6	7.4	9.6	11.8	13.6	16.0	19.3	14.9
USD/PLN	PLN	3.65	3.23	3.12	2.94	3.07	3.28	3.30	3.29	3.19	3.14	3.10	3.05
EUR/PLN	PLN	4.53	4.02	3.91	3.89	4.03	4.13	4.02	3.91	3.83	3.95	3.96	3.92
Reference rate [a]	%	6.50	4.50	4.00	4.00	6.00	5.00	4.50	4.50	4.00	4.00	4.00	4.00
Lombard rate [a]	%	8.00	6.00	5.50	5.50	7.50	6.50	6.00	6.00	5.50	5.50	5.50	5.50
WIBOR 3M	%	6.21	5.29	4.21	4.30	6.44	5.49	4.63	4.59	4.29	4.15	4.20	4.20
Yield on 52-week T-bills	%	6.50	4.92	4.21	4.35	5.91	5.21	4.26	4.31	4.02	4.06	4.37	4.40
Yield on 2-year T-bonds	%	6.89	5.04	4.63	4.90	5.83	5.27	4.44	4.60	4.23	4.49	4.89	4.91
Yield on 5-year T-bonds	%	7.02	5.25	5.09	5.60	5.89	5.38	4.68	5.04	4.67	5.04	5.36	5.30
Yield on 10-year T-bonds	%	6.84	5.24	5.28	5.80	5.76	5.37	4.72	5.13	4.83	5.27	5.55	5.48

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

Bank Zachodni WBK

This analysis is based on information available until 9.10.2006 has been prepared by:

ECONOMIC ANALYSIS UNIT

TREASURY DIVISION

ul. Marszałkowska 142, 00-061 Warszawa, fax +48 022 586 83 40

Email: ekonomia@bzwbk.pl Web site (including Economic Service page): http://www.bzwbk.pl

Maciej Reluga – Chief Economist

tel. +48 022 586 83 63, Email: maciej.reluga@bzwbk.pl

Piotr Bielski	+48 022 586 83 33
Piotr Bujak	+48 022 586 83 41
Cezary Chrapek	+48 022 586 83 42

TREASURY SERVICES DEPARTMENT

Gdańsk

Długie Ogrody 10
80-765 Gdańsk
tel. +48 058 326 26 40
fax +48 058 326 26 42

Kraków

Rynek Główny 30/8
31-010 Kraków
tel. +48 012 424 95 01
fax +48 012 424 21 41

Poznań

pl. Gen. W. Andersa 5
61-894 Poznań
tel. +48 061 856 58 14
fax +48 061 856 55 65

Warszawa

ul. Marszałkowska 142
00-061 Warszawa
tel. +48 022 586 83 20
fax +48 022 586 83 40

Wrocław

ul. Rynek 9/11
50-950 Wrocław
tel. +48 071 370 25 87
fax +48 071 370 26 22