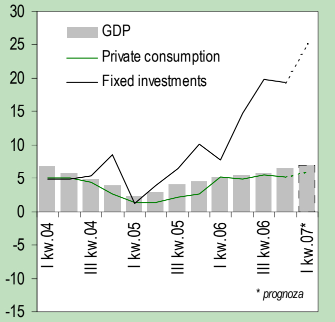
Bank Zachodni WBK

MACROscope

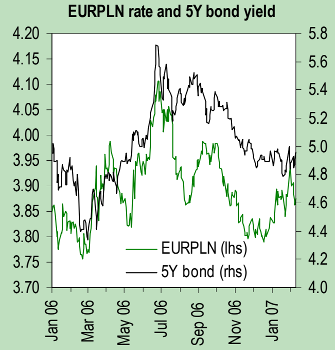
Polish Economy and Financial Markets

April 2007

Economic growth (%YoY)



EURPLN rate and 5Y bond yield



In this issue:

Another wave of optimism

- **After early spring correction that we wrote about last month, now it is time for another wave of optimism both in the financial markets and in the real economy.** Due to excellent economic results achieved in the first months of the year, we had revised our GDP growth forecasts for this year once again. It seems very likely now that economic growth rate was at 7% in the first quarter of this year, the level hardly anyone could dream about quite recently (official data will be released at the end of May). In the entire year the GDP growth rate will probably exceed 6%, which assumes a gradual deceleration in economic growth throughout the year, with last quarter's growth at 5.5%.

- **Faster economic growth and risk of further acceleration in wage growth were probably among arguments that convinced the Monetary Policy Council to change the rhetoric in March communiqué.** Certainly, it is also important that some market participants misinterpreted the February's MPC statement, and thus implied a necessity to correct market expectations regarding future changes in monetary policy. However, after the Council's communiqué clearly suggested that a rate hike could take place in the near future, it will be difficult to postpone a decision without loosing credibility (unless new economic data surprise on the downside). Therefore, we had changed expectations regarding NBP interest rates this year. Our forecast of the scale of monetary tightening, 75 bp by the end of 2008 is still valid, but the cycle will begin earlier than we had previously assumed.

- **Situation on the financial markets is more or less consistent with our predictions – the zloty has been strengthening, and bond yields have been rising.** We expect this trend should be maintained in the near term and we uphold forecast of zloty exchange rate against euro at 3.75 at the end of the year. However, it is possible that the level 3.80 would be broken earlier than assumed previously. At the same time, bond market will remain under influence of expectations for interest rate hikes, both in Poland and in the euro zone. At the same time, it is also worth mentioning that the American central bank has been mentioning more often about risks for inflation.

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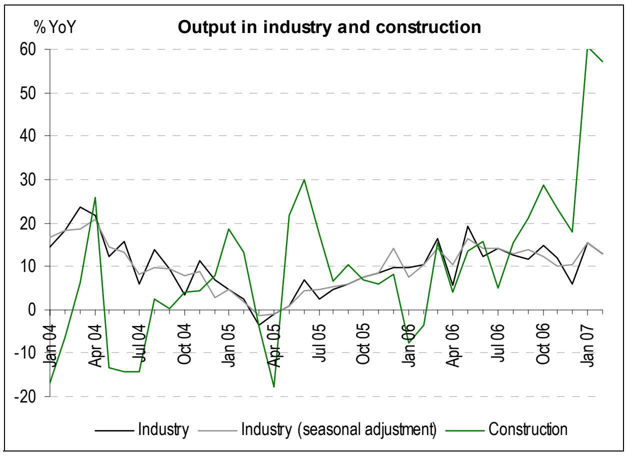
Financial market on 30 March 2007:

NBP deposit rate	2.50	WIBOR 3M	4.24	USDPLN	2.9058
NBP reference rate	4.00	Yield on 52-week T-bills	4.25	EURPLN	3.8695
NBP lombard rate	5.50	Yield on 5-year T-bonds	4.98	EURUSD	1.3316

This report is based on information available until 12.04.2007

Economic update



Output in industry and construction

Output growth remains solid

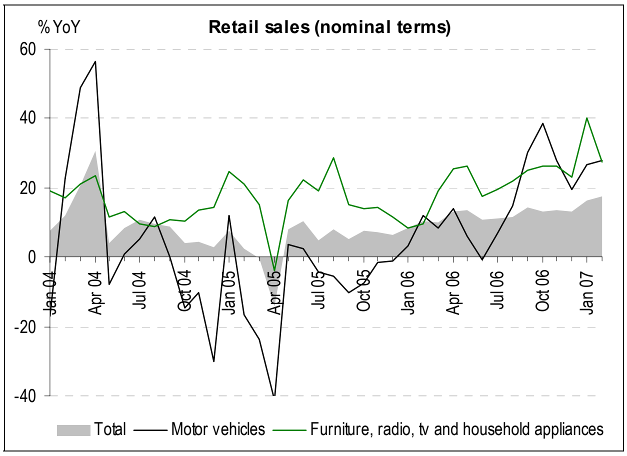
▪ Industrial output grew 12.9%YoY in February, which means slight deceleration as compared to 15.4%YoY increase in January.

▪ After seasonal adjustment industrial output in January grew was 0.1%MoM and 13%YoY.

▪ Similar to previous months, the main driver of industrial output growth was manufacturing (increase of 15.8%YoY). In other two sectors of industry (mining and utilities) there were annual decreases in output.

▪ Besides, very strong growth in construction output was maintained in February – the second month in a row with growth rate of around 60%YoY.

▪ Output figures suggested that the first quarter of this year saw significant rise in exports and investment.



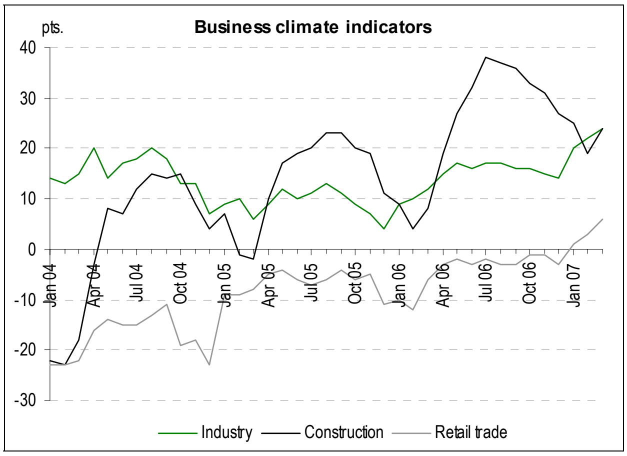
Retail sales (nominal terms)

Confirmation of very good ending of 2006…

▪ Nominal growth of retail sales in February was 17.5%YoY and real growth reached 16.9%YoY. These were the best results in three years.

▪ High growth rate was seen in virtually all components of retail sales, with particularly strong dynamics recorded in case of durable goods (motor vehicles 27.7%YoY, furniture and household appliances 27.4%YoY). This shows that consumption demand remains robust. We estimate that private consumption growth accelerated to some 6% in 1Q07.

▪ All in all, output and retail sales data for February caused another upward revision in our GDP growth forecasts for this year. Presently we predict that GDP growth in 1Q07 reached 7% and in the whole year will exceed 6%.



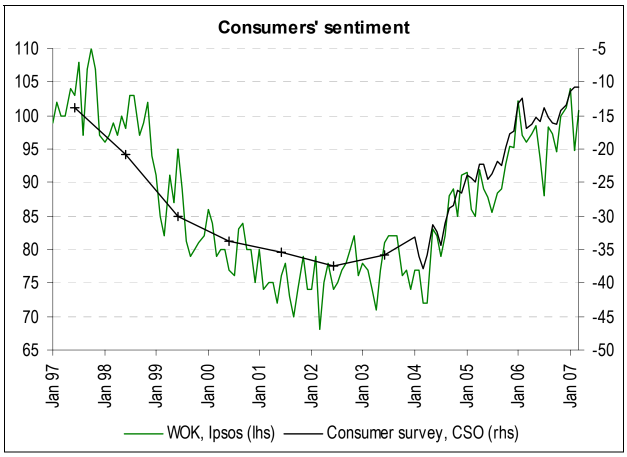
Business climate indicators

Enterprises the most optimistic in many years

▪ Business climate index for manufacturing in March was higher than in the corresponding period since 1993. This stemmed from faster than a month earlier rise in current and future orders' portfolio and production. In the forthcoming months manufacturers expect further improvement in their financial stance.

▪ Index for construction was higher than in analogous month for 6 years. This was related to more optimistic than a month earlier assessment of current and future orders' portfolio and production. Satisfying financial situation, which has been maintained since May 2006, is expected to improve further in the forthcoming months.

▪ Indicator for retailers in March was higher than in analogous month in 9 years.



Consumers' sentiment

Source: CSO, Ipsos, own calculations

Enterprises the most optimistic in many years

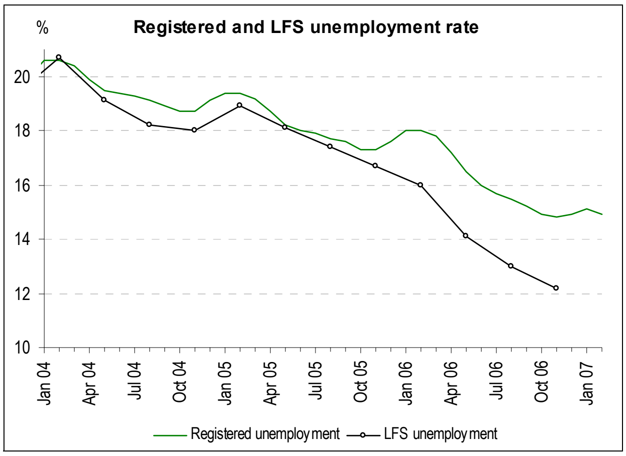
▪ Both indices of consumer confidence calculated by the CSO: the current one and the leading one, both in March and in 1Q07 reached the best results in the history of the survey.

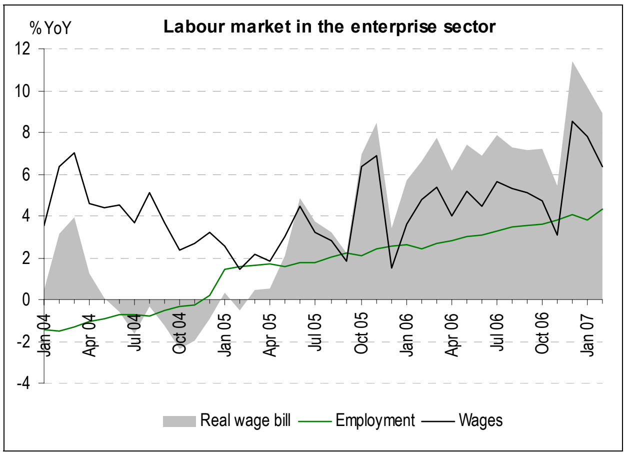
▪ Although there was worse assessment of general economic situation than in February (in the next 12 months) and worse evaluation of current possibility of serious purchases, all other indicators remained unchanged or improved – especially clear in case of expected changes (in the next 12 months) in households' financial situation.

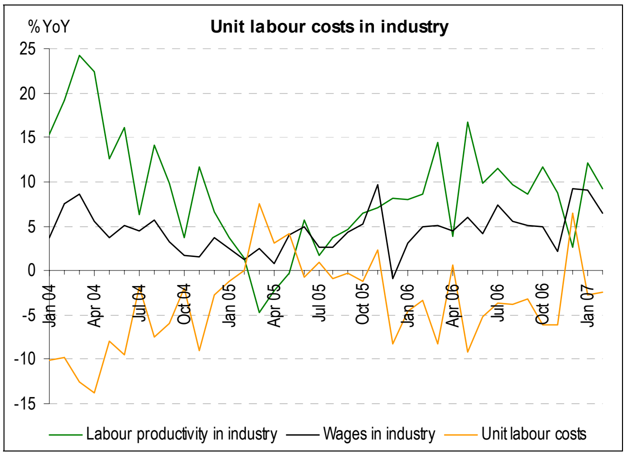
▪ Very upbeat moods of consumers were also reflected in the latest results of households' optimism conducted by the Ipsos.

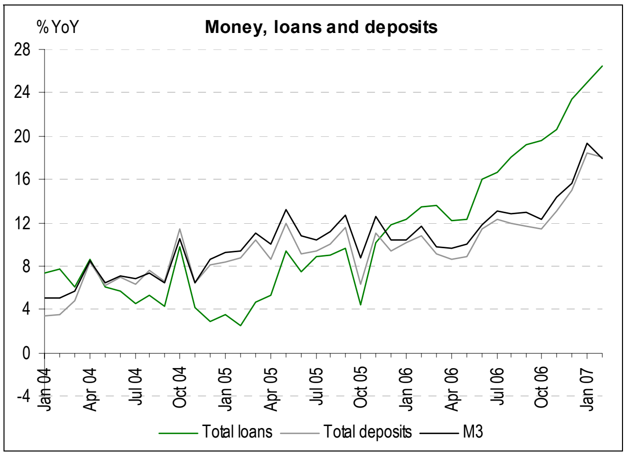
▪ The optimistic results support expectations of strong growth in consumption demand this year.

Economic update









Source: CSO, own calculations

Unemployment plunges

▪ The registered unemployment rate declined in February to 14.9% from 15.1% in January. In February the annual pace of unemployment reduction reached a record-high level of 3.1pp and the number of unemployed declined by almost 19%YoY (535k people in a year).

▪ This tendency has been systematically strengthening since 2005 and no signals of weakening have been noticeable, as for now. On the contrary, the Ministry of Labour and Social Policy said in early April that the registered unemployment rate at the end of March dropped to 14.4% which would mean further acceleration in unemployment reduction.

▪ This is very good news from households' point of view, but from the MPC's perspective this puts another question mark regarding the possible appearance of stronger wage pressure.

Slightly lower wage growth, much stronger employment rise

▪ Average wage in the corporate sector in February rose by 1.0%MoM and annual growth decelerated to 6.4% from 7.8% in January. Although wage growth in February slowed down it is still higher than the average rise of 5% in 2006. Simultaneously, the employment in corporate sector in February increased by 0.4%MoM, which contributed to acceleration in labour demand growth in enterprises to a record high level of 4.3% from 3.8% in January as compared to average growth of 3.2% in 2006.

▪ Due to weaker average wage growth, wage bill (a product of employment and average wage) in corporate sector slowed down in February, though thanks to very strong employment growth this slowdown was limited. In nominal terms the wage bill in February rose by 11%YoY (against 11.9%YoY in January and average increase of 8.4%YoY in 2006), while in real terms it increased by 8.9%YoY (10.1% in January and on average at 7.2% last year). The relatively high growth in wage bill supports forecasts pointing to fast growth in private consumption in 2007.

▪ At the same time, acceleration in jobs growth may raise concerns whether it will be possible to maintain fast pace of productivity gains, however taking into account much higher forecasts of production growth, at least in industry and construction, there should be no problems with it. Still, labour productivity growth in the economy as a whole could be gradually decelerating with simultaneous acceleration or stabilisation of wage growth, which would result in higher growth of unit labour costs. Such change would imply higher probability of reaction from the Monetary Policy Council in a form of interest rate hike. We think, however, that although majority of Polish central bankers is increasingly willing to hike rates, they are not convinced about a need to apply a series of sizeable rate hikes.

Monetary statistics point to economic boom

▪ Money supply increased 17.9%YoY in February, slightly slower than a month earlier, but annual growth in M3 remains in upward trend.

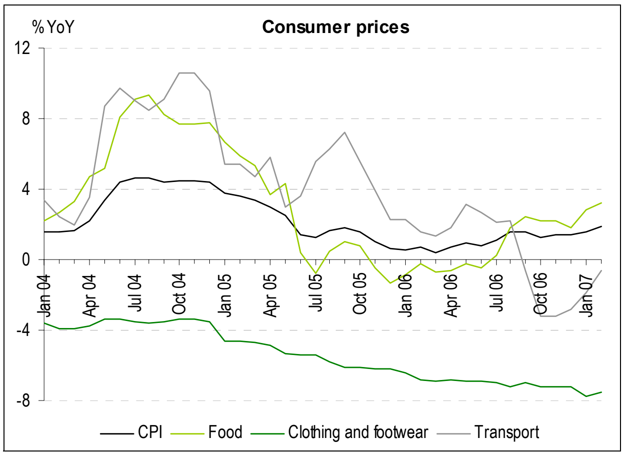
▪ Total deposits grew 18.1%YoY in February (households deposits by 12%YoY and corporate deposits by 30.5%YoY).

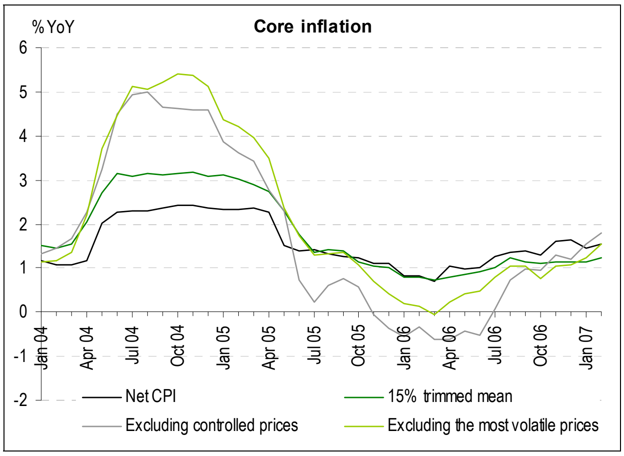
▪ Total loans rose 26.5%YoY (households borrowing by 38%YoY and corporate borrowing by 15.1%YoY).

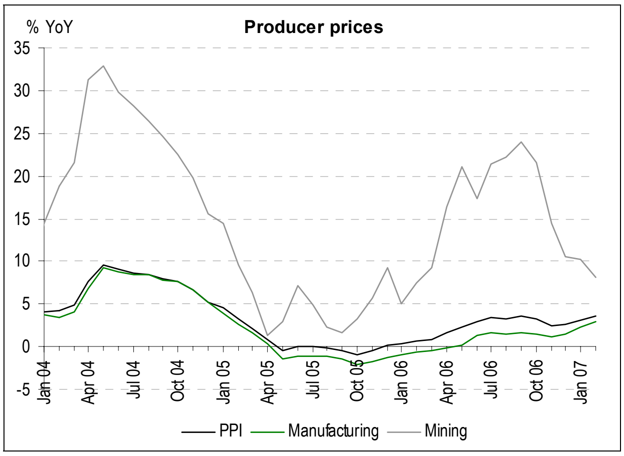
▪ The data do not leave doubts that the 2007 is another year of strengthening in economic activity.

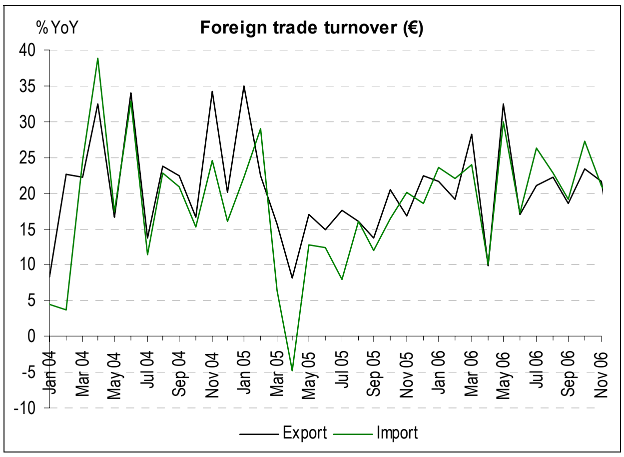
▪ At the same time, we think that pace of money supply and loans growth does not pose a threat of the economy's overheating and intensification of inflationary pressure. However, the data speaks for vigilance in monetary policy and support expectations of a rate hike.

Economic update









Source: CSO, NBP, own calculations

CPI inflation slightly up, as expected

- The inflation rate in February amounted to 1.9%YoY. After introduction of new weights in the CPI basket, based on the last year's consumption structure of households, the inflation rate for January was downwardly revised to 1.6%YoY.
- The biggest change in the weight basket occurred in food and non-alcohol drinks category (weight declined by 1pp). On the other hand, the weight of such categories as "clothing and shoes", "recreation and culture" and "restaurants and hotels" rose by 0.4pp each. Given all changes in the weights structure, they seem slightly positive for the expected inflation path for this year, as significant decline in food weight (which annual growth will be certainly higher than CPI) as well as increase in the weight of clothing and shoes (where prices fall strongly), will contribute to lower CPI growth. It seems to us that changes in weights in the remaining categories are not significant enough to compensate for this effect, at least until acceleration of services and energy prices growth is not strong.
- Food and fuel prices experienced the biggest rise in February as compared to the previous month (0.7%MoM and 1.7%MoM, respectively), while prices of clothing and shoes recorded the deepest decline (-1.7%MoM). Price changes in the remaining categories were either much more moderate or there were no changes. As a result, net inflation in February remained at 1.6%YoY seen in December 2006.
- Overall, the CPI data for February did not change inflation prospects and they are not an argument for a swift rate hike. However, one should remember that the MPC does not focus on current inflation indicators, yet on factors which may affect medium-term inflation outlook. Therefore, given other data pointing to very fast economic growth and tightening labour market conditions, the MPC is likely to hike rates.

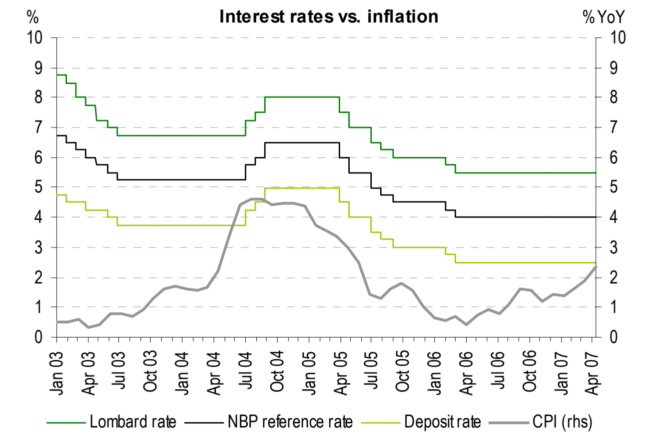
Higher than predicted PPI inflation

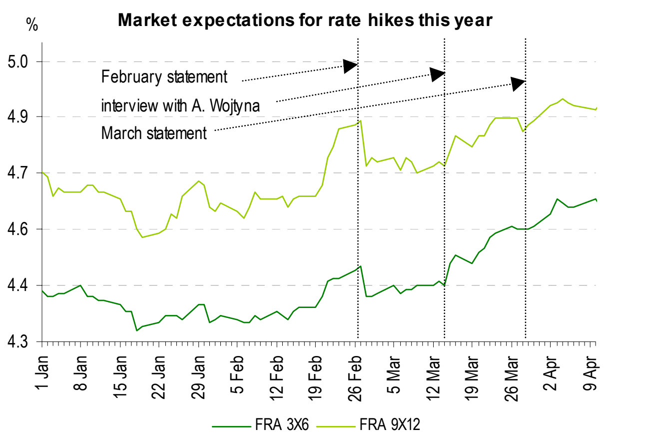
- PPI inflation in February was higher than expected. The annual PPI index rose by 3.6% as compared to our and market's expectations of 3.2%. While prices in the mining sector fell, and in the utilities sector they were unchanged, prices in the manufacturing sector rose by 0.4%MoM. This drove the annual growth rate in this sector up to 3% from 2.3% in January, which was the highest level since the beginning of 2005.
- At the first glance it seems to be a "hawkish" argument for the MPC, but it is worth noting that it resulted to a large extent from higher prices of refined petroleum products by as much as 3.4%MoM. Prices in construction sector rose by 0.6%MoM and 5.3%YoY. However, the sector which recorded the fastest pace of prices growth in annual terms remained the mining sector (8.1%YoY).

Deteriorated balance of payments position

- According to the NBP data, current account deficit in January amounted to €678m and was clearly higher than market forecasts. Exports growth rebounded to 15.5%YoY in January from a significant slowdown to 8.3%YoY in December, but at the same time imports growth accelerated to 21.3%YoY from 17% in December. Trade gap in January was €387m. Quite wide deficit was also recorded in income account (-€771m) which is related to large transfers of profits to foreign owners of Polish firms.
- In total, balance of payments position still does not pose a threat to overall macroeconomic stability. 12-month cumulated current account deficit is still low and reached 2.5% of GDP after January. As regards prospects for exports we remain quite optimistic improving economic situation in Poland's main trading partners and increased inflow of FDIs.

Central bank watch





Key changes in the MPC's statement in March

In the medium term, ~~the growth of wages may gradually increase~~, **the gradual increase in wage growth is likely to be sustained**, ~~leading to higher inflation~~ **which may lead to higher inflation**.

~~The Council judged that the current level of NBP interest rates makes it possible for inflation to be kept close to the target of 2.5% in the medium term. However,~~ Maintaining inflation close to target and thus creating conditions for sustainable long-term economic growth may require monetary policy tightening **in the near future**. ~~Future decisions of the Council~~ **The scale of the tightening** will depend, to a large extent, on whether ~~rising economic activity proves more permanent~~. **the incoming data confirm the expectations that the high growth of domestic demand, which most probably outpaces the growth of potential GDP, will be sustained in the next few quarters.** ~~It~~ **Future decisions** will also depend on other economic developments in Poland and in the world and also on their impact on the inflation outlook in Poland.

Dates of publication of MPC minutes in 2007

month	*minutes*	MPC decision
April	-	25
May	24	30
June	21	27
July	19	25
August	23	29
September	20	26
October	25	31
November	22	28
December	13	19

Note: The minutes will be published every month, on Thursday, in the week before the next decision-making meeting of the MPC.

Source: NBP, Reuters

No rate hike in March, but possibly in April

- The Monetary Policy Council kept interest rates unchanged again (the reference rate still at 4%), which was consistent with market expectations. At the same time, in line with our expectations, in the statement released after the meeting, the Council considerably strengthened the signal that a tightening in monetary policy may be needed in the forthcoming months in order to keep inflation under control.
- Despite the fact that the MPC communiqué was much more hawkish as compared to the previous one (details below), the short-term market reaction was moderate. This was connected with the fact that adjustment in market rates took place earlier in reaction to the interviews with MPC members, especially the one with Andrzej Wojtyna (details on next page).
- The money market in pricing-in rate hike already in April. Also, according to our forecasts data due for publication in April will be quite strong (high retail sales growth, solid increase in output, employment, and inflation acceleration), confirming continuation of rapid economic expansion and rising risks for inflation. This suggests rate hike may be delivered this month.
- A possible delay in monetary tightening could take place, if there are weaker than expected data, which could induce the Council to wait with a hike until May when important data for 1Q07 will be released: GDP numbers and results of Labour Force Survey.
- In our opinion, if the MPC increases official interest rates in April, the accompanying statement would not be hawkish and it would not suggest a possibility of further steps already in May. The next move will be a question of quarters, not months.

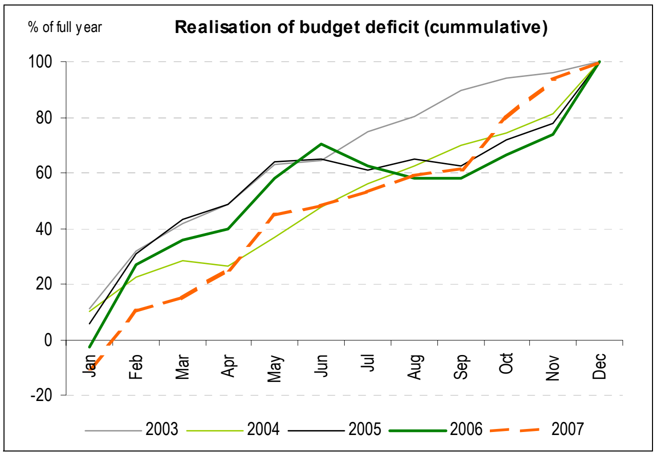
… which was suggested by the statement

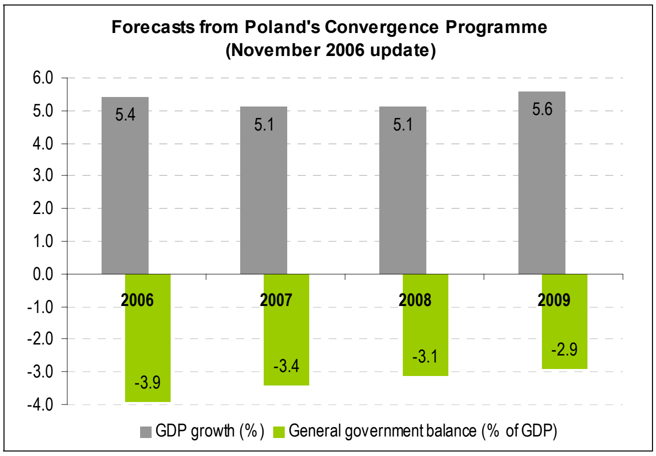
- The changes in the statement (presented in the table) suggested that interest rate hike in 1-2 months horizon is almost certain while a scale of overall monetary tightening in future (a number of hikes) will be determined by upcoming economic data, depending on whether they will indicate further inflation acceleration or suggest a possibility of moderate inflation increase and its stabilisation near the target.
- However, if the sentence about appropriate level of today's rates in order to keep inflation close to the target disappears, the question arises why there was no rate hike already in March.
- It seems the central bankers preferred to wait with the decision so that confront their concerns about inflation with the new inflation projection that will be estimated on the basis of updated and somewhat modified econometric model. Additionally, the perspective of inflation increase above the target is not so obvious and in such environment the MPC did not want to surprise the market.
- In our opinion, rate hike in April will put the MPC in a difficult situation in terms of communication with financial markets. Firstly, this will be the month of publication of new inflation projection and a hike could suggest that importance of the projection is increasing (while in our view this is not likely to be the case). Secondly, if the forecast of the Ministry of Finance materialises as regards the level of inflation in March (2.4%), some comments will certainly appear about backward-looking policy of the central bank and reaction to current inflation increase.
- However, it is well possible that the statement in the new format can cope with this problem.

Central bank watch

Comments of the central bank representatives	Our remarks
Jan Czekaj, MPC member **PAP, 29 March** In the last statement the MPC signalled a possibility of interest rate hikes, but it was not determined. Nevertheless, the recent development of economic situation shows a rising probability of monetary tightening. Time to a rate hike should be counted in months, and not quarters. (…) Economic situation is stable with current inflation low and that's why monetary tightening should be a gradual process. There is no need of sudden changes. **Gazeta Prawna, 2 April** Recent economic forecasts suggested that in the second half of the year GDP growth may decelerate somehow. If this is to be the case, the hike in interest rate might not be necessary. If GDP growth rate fell to ca. 5%, this would be economic growth close to the potential growth rate, which is neutral for inflation (…). For the central banker the key factor is the relation between actual and potential growth. Currently, actual growth rate exceeds the potential i.e. creates some risks for inflation.	Professor Jan Czekaj is undoubtedly the member of the Monetary Policy Council, whose view will be crucial in determining whether (and when) will see interest rate hikes. He confirmed that while he leans towards he view that interest rate hikes may be needed, it is hard to state unambiguously that it will be necessary. He said explicitly that he may be convinced to hike rates if next macroeconomic data suggest deterioration in inflation perspective in the horizon of monetary transmission mechanism. As the inflation projections prepared by central bank analysts, which were one of arguments behind monetary policy decisions, were not entirely correct in the past, a decision to change interest rates should be based on intuition. Also, it is worth to notice that when talking about risks for inflation MPC members has been recently mentioning the output gap as the key factor. Possibly then, in the April's new NBP's inflation projection GDP growth forecasts will be equally important as inflation projections. Professor Czekaj expressed also some doubts as regards communication policy of the central bank (not only with financial markets, but with wide audience) – how to justify rate hike when inflation is low? However, in April the problem may be the opposite – how to avoid an accusation that MPC reacts to current inflation figure? Well, as Czekaj said, the MPC has to make difficult decisions as well.
Andrzej Sławiński, MPC member **PAP, 3 April** Central banks tighten monetary policy when expected inflation is above the target ad when GDP growth rate is above the potential growth rate. The incoming data confirm that the situation is still favourable, as high economic growth is accompanied by low inflation, but the data do not leave doubts that actual GDP growth exceeds potential growth. In such situation central banks buy insurance against a risk of inflation increase, through tightening monetary policy. (…) In my opinion, there is no risk of something sudden and particularly dramatic, but the role of the central bank is to stabilise inflation close to the target. And delays in monetary transmission mechanism requires early reaction.	While the expected inflation is below the inflation target of the central bank, GDP growth seems to exceed its potential level. As Sławiński noticed, low inflation is a global phenomenon and thus it is not so obvious that higher economic activity will translate into higher inflation pressure to the extent, which would be risky for the target. Especially, as the zloty continues appreciation trend. That's why, we think that risk of permanent inflation increase above the target is rather limited. On the other hand, it is quite easy to understand central bankers, who decide to tighten monetary policy moderately seeing some risks for inflation in the medium term. By doing this they can also send a signal strengthening credibility of monetary authorities. However, as professor Sławiński said, there is nothing particularly dramatic on the horizon. Also, as regards the scale of monetary tightening.
Andrzej Wojtyna, MPC member **PAP, 14 March** In my opinion, a horizon of decision on rate hike is clearly shortening, because there is intensification of such processes in the economy which may lead to price growth. There is rising probability of rate hikes in 1H07. (…) Such signal was sent by us in the last statement, but reaction of many analysts shows that it was not unambiguous and was interpreted as less and not more hawkish. This was not consistent with our intentions.	In the middle of March, comments by MPC's Andrzej Wojtyna confirmed our view as regards the February's statement of the Council. As the market misinterpreted the communiqué, this interview led to an increase of market rates. Comments by Wojtyna showed that stronger than previously expected economic expansion increased willingness of central bankers to adjust interest rates in the following months. What is important, however, he said that if monetary tightening took place this would rather moderate. He mentioned that this does not necessarily mean only one hike. So, first move in April-May and second in 3Q07?
Stanisław Nieckarz, MPC member **PAP, 11 April** There is a possibility that balance of risk factors will move towards higher than currently inflation pressure as a result of migration's influence on wage growth, which would not be accompanied by productivity gains. (…) that's why I do not exclude that a pre-emptive rate hike will take place in the forthcoming months.	If Stanisław Nieckarz, who is perceived as one of the most "dovish" members of the MPC, does not exclude a possibility of higher interest rates, it means that a hike may come really soon. On the other hand, while the first hike seems to be a deal done, further monetary policy tightening is not so obvious. It seems that the MPC members will need new strong arguments, suggesting higher inflationary pressure in the medium term, to deliver more hikes.
Mirosław Pietrewicz, MPC member **PAP, 4 April** In my opinion there is not need to hike interest rates, and while it is not necessary the monetary policy parameters should remain unchanged. I think we can calmly analyse the economic situation at least until the end of the first half of the year. I do not exclude a possibility of rate hike if the situation changes. If a tendency of inflation increase towards the end of the year will be clear and high GDP growth will maintain, then the situation will be clearer and arguments for monetary tightening more credible.. (…) I may be convinced to increase rates if GDP growth maintains at the level achieved in the first quarter, salaries together with wage bill accelerate, inflation maintains at the level close to that achieved in March and, trade balance deteriorates, especially as regards exports. Overall, if the economy shows some signs of overheating and structure of GDP growth deteriorates.	Mirosław Pietrewicz was the only MPC member, who distanced himself from the March statement of the Council. Based on his interview with Polish Press Agency, it seems that Pietrewicz's interpretation of a possibility of monetary tightening "in the near future" expression, which was included in the statement, means quarters than months. Taking into account comments of other members of the Council, which we presented above, Pietrewicz is in minority, especially as even Stanisław Nieckarz (who before March meeting said that expectations for swift rate hikes are exaggerated) did not exclude a possibility of pre-emptive move. For Pietrewicz, the main argument behind keeping rates on hold is the breakdown of GDP growth – "economic growth driven by strong investments and exports, while consumption is rising moderately" and "high investment growth shows also favourable structure with high share of machines and other equipment, which suggests higher potential growth". Additionally, in his opinion wage growth si not excessive given strong employment increase.

Government and politics

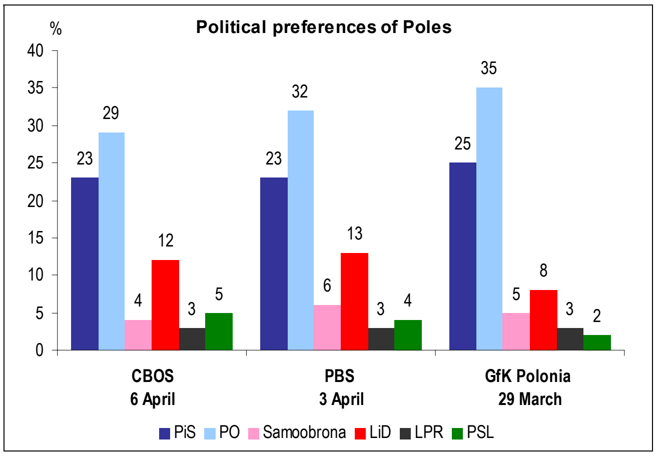




Long-term sovereign ratings in foreign currency for countries in the region

	S&P's	Fitch	Moody's
Poland	A– (stable)	A– (stable)	A2 (stable)
Hungary	BBB+ (stable)	BBB+ (negative)	A2 (stable)
Czech Republic	A– (positive)	A (stable)	A1 (positive)
Slovakia	A (stable)	A (stable)	A1 (stable)

Note: rating perspective in parenthesis



Source: BZWBK, Ministry of Finance, Reuters, opinion polls

Excellent budget performance in the first quarter

- Budget deficit in January-February period was at 10.1% of the annual plan, i.e. reached PLN3.03bn. In February there was an increase in budget revenues of almost 27%, much stronger than rise in budget spending (10.6%).
- As according to the Ministry of Finance's estimates March saw a continuation of very good budget results (deficit at merely 15% of the annual plan), the data for the first quarter would give reasons to believe the actual deficit in the whole year could be smaller than projected. The only problem could be planned reduction in pension contribution in the mid-year.
- The government should have no problems at all this year with financing several billion shortage after reduction in tax wedge in the second year-half. Instead, a question is how much revenues will be left for difficult 2008.

... but what will be in 2008?

- Undoubtedly, passing some revenues into the next year would make budget planning much easier for the Ministry of Finance.
- Total cost of pension premium reduction in 2008 will reach ca. PLN20bn. If we add costs of annual indexation of old-age and disability pensions (PLN5-6bn) and cost of pro-family policy (PLN1bn), then minor savings connected with so-called public finance reform (PLN5bn per annum) would be not enough to keep budget deficit anchor at PLN30bn. Although one should notice that changes in public finances planned by the government are good in terms of higher transparency of fiscal policy, the lacking element is a change in spending structure.
- According to our estimates, even with budget revenue growth of 10% due to fast GDP rise, other spending would have to remain at 2007 level to keep deficit in curbs.

Everything will be fine if economic growth persists

- Overall, Polish public finances have been still very much liable (for many years) to a risk of economic slowdown. But at the same time, even with fast GDP growth budget construction remains a big challenge.
- Possibly, it will be achievable, as the economy may show another positive surprise and appetites of minor coalition parties for big spending increase could be constrained.
- As far as the economy has solid and healthy fundamentals, nothing terrible should happen. It seems this message comes from international rating services. Standard&Poor's upgraded Poland's rating recently. Before that, S&P's rating for Poland was lower than ratings approved by Fitch and Moody's, and lower than its ratings for some other countries with poorer economic situation and worse fiscal stance.

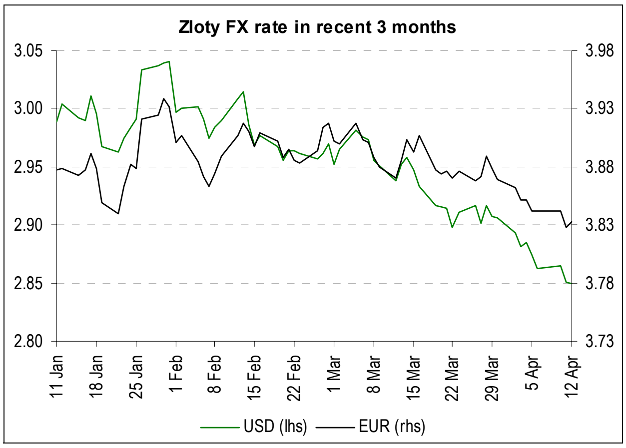
Politics remains a (moderate) risk factor

- Changes in Poland's ratings, both in S&P's case, as well as earlier by Fitch, were justified by well-balanced economic growth, competitive economy and falling external debt.
- Rating services were saying that economy remains independent from politics. Although one should notice that current rating is somewhat reduced by political instability that obstructs further progress in structural reforms and reduction in public debt.
- On the other hand, some time ago one could be afraid that in a scenario of significant revenue growth we will face even higher desire to spend extra public money. Persistently low public support for populist parties in opinion polls effectively curbs such inclinations.

Government and politics

Comments of government representatives and politicians	Our remarks
Jarosław Kaczyński, Prime Minister **Dziennik, 5 April** Public finance reform is a politically complicated issue. (...) Although a persuasion is mainly a Ministry of Finance's task, I will be also convincing the parliament to the reform. **Andrzej Lepper, deputy PM and agriculture minister** **Rzeczpospolita, 5 April** Public finance reform is necessary. Samoobrona will support it. However we do not know the details of the reforms. **Zyta Gilowska, deputy PM and finance minister** **TVN 24, 4 April** Elimination of capital income tax is possible not earlier than in 2009. We cannot make further promises for 2008, as the portfolio of possible expenditures is already very tight. (...) If we can afford it, we will see. As far as it goes, it seems it could be possible, then we will think about elimination of this tax, bot not earlier than in 2009. **Dziennik, 5 April** We had not assumed that savings from the reform will offset new spending. But the spending may be increased only to the extent that Poland can afford it. (...) I am warning in advance that making further demands is useless, as the state would not be able to finance it. (...) As long as I am the minister I will not allow for breaching budget balance.	The Ministry of Finance keeps ensuring that public finances will get balanced in the next few years. The deficit of the general government sector is planned to be below 3.4% of GDP in 2007 and at 3.1% of GDP in 2008. The forecasts were maintained despite faster and more decisive reduction in tax wedge plus appearance of additional costs in a form of pro-family package, which will strip 2008 budget of ca. PLN450m revenues, at the same time adding ca. PLN500m of extra spending (according to the finance minister's words). More importantly, Zyta Gilowska seems to be aware that "we have to tighten spending and curb our appetites". An interesting question is whether other ministers and parliament members also realise this, as their appetites for higher spending may be quite substantial. Naturally, everyone wants to take profit from higher economic growth, and at the same time hardly anyone thinks about what happens when economic climate gets worse. PM Jarosław Kaczyński ensured he would be fighting for political support for public finance reform, while deputy PM Andrzej Lepper backed the draft even though he did not know the details. The near future will show what will be the real support for the specific draft bills in the parliament, as well for the budget draft for the new year that must assume very little spending increase in order to keep budget deficit limit intact. Minister Gilowska declared she would not allow for breaching budget discipline and it remains to keep fingers crossed and hope she will succeed. On the other hand, one has to admit that in the last few years in the middle of the year, when budget realisation goes on quite well, everyone starts worrying about budget for the next year, which seems very unlikely to be matched. And later on the next budget is being realised again better than planned, mostly due to excellent economic climate.
Elżbieta Suchocka-Roguska, deputy finance minister **PAP, 22 March** This is a return to old rules of pension indexation. I cannot understand why the Ministry of Finance should not agree to that. The assumption is that old-age and disability pensioners should also participate in economic growth. A return to old rule where pension indexation is annual is a result of earlier planned agreements, controversies were only as regards 2007. (...) Despite plans to cut tax wedge – according to our current information – there should be no tension in the budget because of this.	Deputy PM Zyta Gilowska said one month ago that she was sceptical about idea of annual indexation of old-age and disability pensions. Gilowska argued that "technical costs of such operation are very high and record-low inflation in the last year and low predicted inflation this year result in a situation when hikes in net pensions are modest, in fact frustratingly low". One has to agree with that. The problem is also that due to other government decisions that we discussed above, burden for next years' budgets will be quite high anyway and public finances will remain vulnerable to economic climate. In such situation, less frequent pension indexation (and smaller in scale) would allow for some deeper breath at budget planning.
Zyta Gilowska, deputy PM and finance minister **Polskie Radio PR 1, 29 March** Currently there is no need in cooling down the economy by interest rate hikes. We have 14th month of fast economic growth, connected with a control of all possible deficits. (...) Interest rates should rise when there is a risk of economic overheating, while now there in no overheating at all. **Katarzyna Zajdel-Kurowska, deputy finance minister** **Reuters, 2 April** We estimate that inflation rose to 2.4%YoY in March, but one can say that such result was caused mainly by factors of supply-side nature. The forecast was influenced by food prices (plus 0.7%MoM) and fuel prices (plus 6%MoM). Inflation rise in March was anticipated, it is a result of statistical base. In the following months inflation should be falling. At the end of the year it is likely to accelerate and in December it should approach the central bank's inflation target.	Recently we have been observing an interesting divergence of views between finance minister Zyta Gilowska and her deputy. While in Gilowska's opinion there are no reasons for monetary policy tightening, Katarzyna Zajdel-Kurowska quite recently was speaking in favour of interest rate hikes. Leaving apart from the curious difference of views between the two, an important question is why the Ministry of Finance's representatives do comment on a desired level of interest rates? We believe that much more adequate answer to journalists' questions about monetary policy would be a statement that it is the central bank, not the government, that is responsible for monetary policy. Is this (bilateral) rule good only for periods when interest rates remain unchanged or are coming down? Now, when a perspective of rate hikes comes closer, the Ministry of Finance started to be active. Ministry of Finance's forecasts of inflation were more of less consistent with our predictions, although we had increased CPI forecast for March after their information.
Andrzej Lepper, deputy PM and agriculture minister **PAP, 4 April** Minister Zyta Gilowska has one argument – that by reducing an excise tax or canceling a fuel fee, we will use public aid. I declare this is not a public aid but a promotion program. (...) If other arguments fail to convince the finance minister and (...) if there is no agreement to use such allowances that would allow the entrepreneurs to produce bio-fuels, and farmers will get a good price for production, there will be simply no more coalition.	On one hand, deputy PM Lepper and his party declared to support an idea of public finance reform, while on the other hand from time to time they find some problem that could be used to threat with coalition breakdown. For the last few months, such problem is a subject of bio-fuels, causing conflict between Andrzej Lepper and Zyta Gilowska. Nevertheless, it seems unlikely that this time the problem remains unsettled, and early election are likely to remain only in dreams of Civic Platform leaders. Last week, Donald Tusk called the Prime Minister to back off from ruling the country, dismiss the government, and hold election as soon as possible.

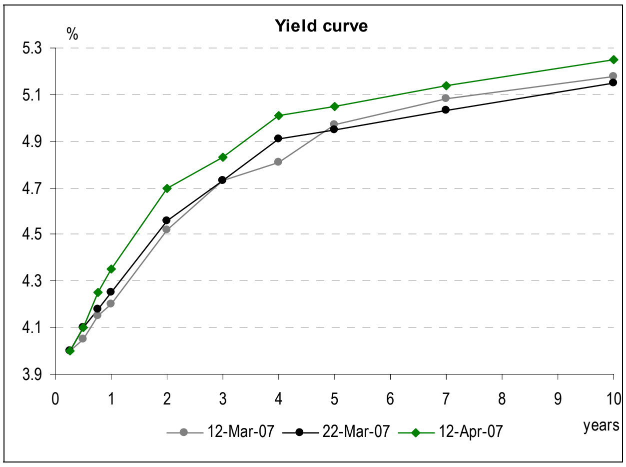
Market monitor



Zloty strengthened after rating upgrade

▪ Since the release of our last report the risk aversion diminished, which was supported by the Fed's quite dovish statement. At the end of March Poland's rating upgrade by S&P's to A- was a very positive factor. On this event Polish currency gradually appreciated. The EURPLN rate broke important technical resistance range of 3.845-3.86 and fell below 3,83. Polish currency strengthened despite nervousness over Iran and rating deterioration in the region.

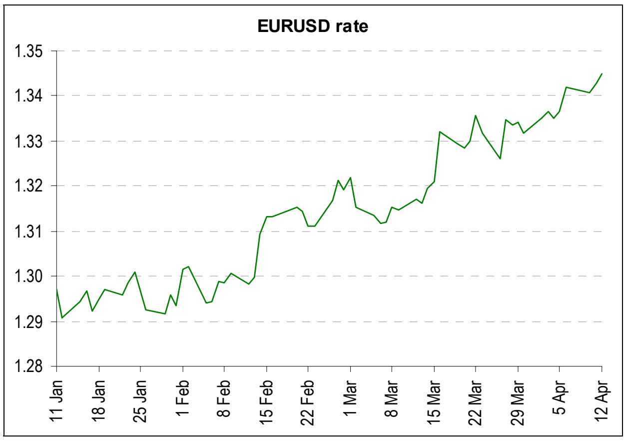
▪ For a long time we have sustained the view that despite temporary retreat from risky assets at the start of the year very good fundamentals may positively affect the Polish currency in the mid-term. Strong economic expansion should last in the next quarters. In the nearest term an interest rate hike May be additional boost for zloty.



Slight rise of yields

▪ Since the half of March bonds weakened and yield curve flattening was continued. The main reason were the hawkish comments of the MPC members and changes in the statement released after March meeting, which significantly increased expectations for interest rate hikes in the nearest two months. Another negative factors was the CPI forecast of the Ministry of Finance. Amid substantial weakening in the core markets the longer end was supported by rating upgrade by S&P's.

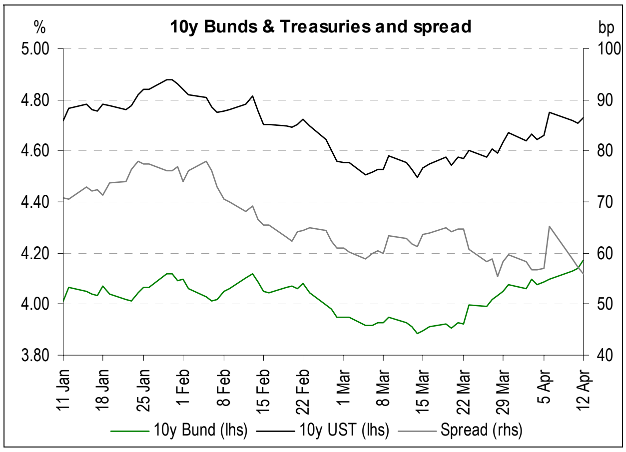
▪ In our opinion interest rate May rise already in April. If the rate hike will not materialize there may be some slight strengthening in the short end of the curve. However market expectations will move to May. Further monetary policy tightening will depend on the doming data and May follow in the second part of the year and at the start of 2008. Consequently the market may stabilize at slightly lower levels.



Dollar still weakens ... EURUSD above 1.34

▪ In the last weeks the dollar experienced significant weakening against the euro. US currency depreciated with regards to some weaker than expected data from the US, after Fed's statement, with regards to nervousness in relations with Iran and mounting tensions in trade relations between the US and China. What is more data from the euro zone were good and ECB members made comment suggesting interest rates may still rise.

▪ We assume it is not the end of the dollar weakening and that the EURUSD rate May rise even to 1.36. This should occur rather in months perspective, mainly on interest rate cuts in the US and rate hikes in the euro zone. Further data from the EU should confirm good economic situation. High US inflation may pose risk to this scenario.



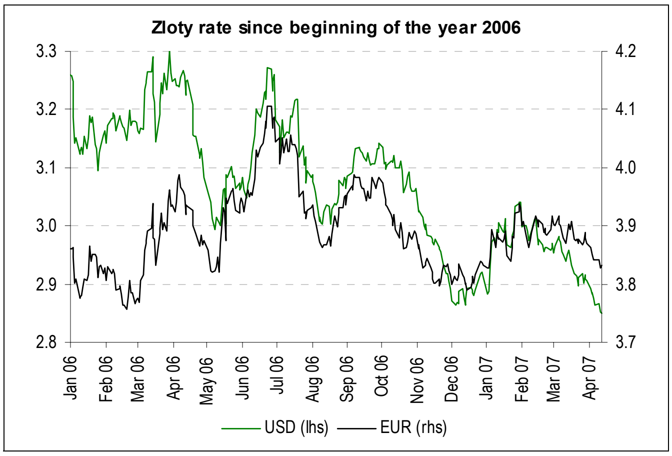
Another sell-off in the core markets

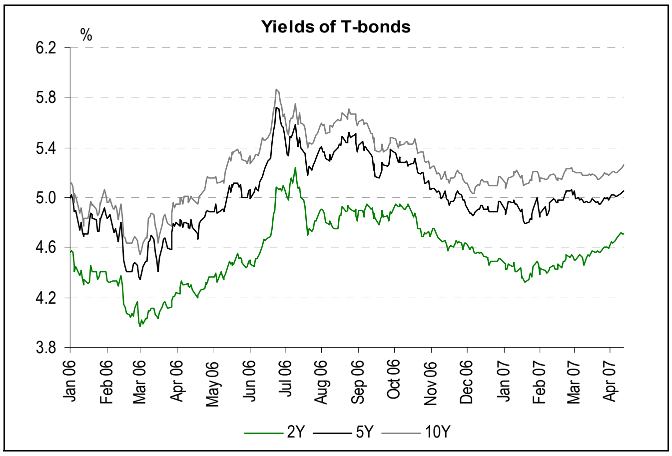
▪ Since our last release the risk aversion waned. The first reaction to the Fed statement resulted in the strengthening, however expressions on the importance of inflation weakened US debt in second reaction. The fall of bonds prices occurred after some good data from US (housing market, GDP, Chicago PMI, non-farm payrolls) and the euro zone. At the end, yield of 10Y Treasuries rose since the mid-March by 18 bp and of 10 Bunds by 23 bp.

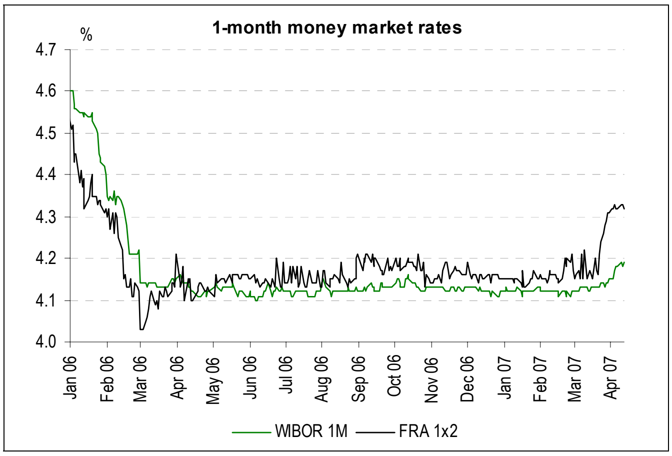
▪ Higher inflation In the US than accepted by the Fed May negatively affect the US debt, though after significant weakening in the US market there may be some stabilization. We still maintain our forecast the interest rate may fall in US even to 4.5%. In the euro zone there will be more hikes, and the Treasuries & Bunds spread May still narrow.

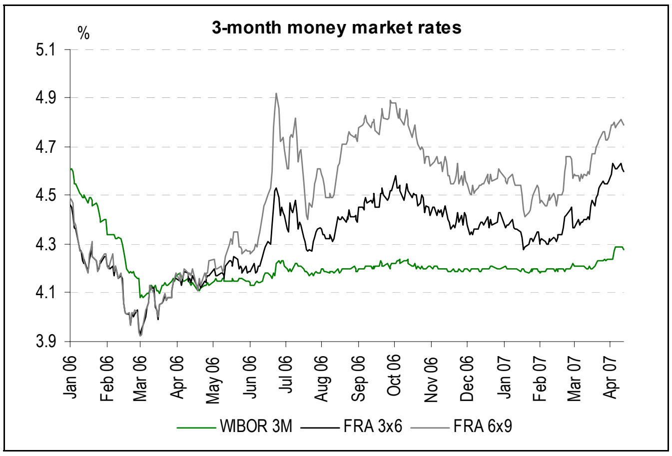
Source: Reuters, BZ WBK

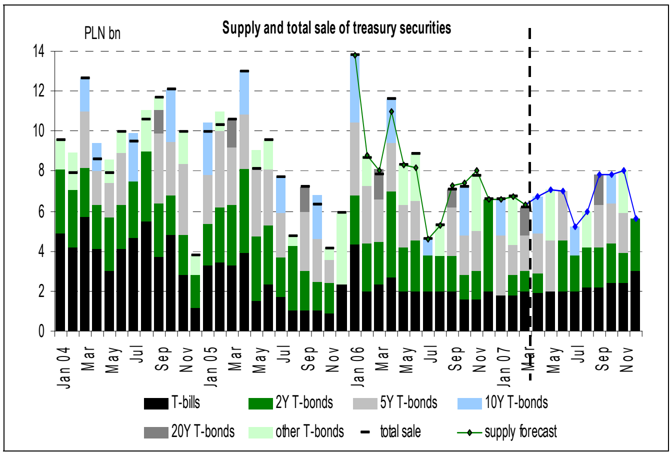
Market monitor











Treasury bill auctions (PLN m)

Date of auction	OFFER / SALE 52-week	OFFER / SALE Total
05.02.2007	900 / 900	900 / 900
19.02.2007	900 / 900	900 / 900
Total February	**1 800 / 1 800**	**1 800 / 1 800**
05.03.2007	1 000 / 1 000	1 000 / 1 000
19.03.2007	1 000 / 1 000	1 000 / 1 000
Total March	**2 000 / 2 200**	**2 000 / 2 200**
02.04.2007	900 / 900	900 / 900
23.04.2007	900 - 1 000	900 - 1 000
Total April*	**1 800 - 1 900**	**1 800 - 1 900**

* estimations based on Ministry of Finance preliminary information

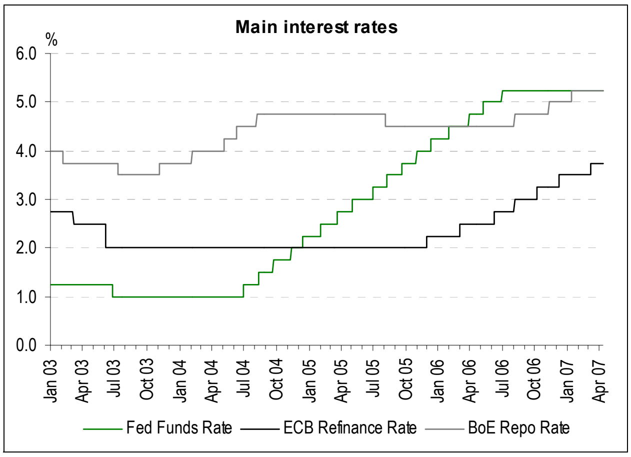
Treasury bond auctions in 2007 (PLN m)

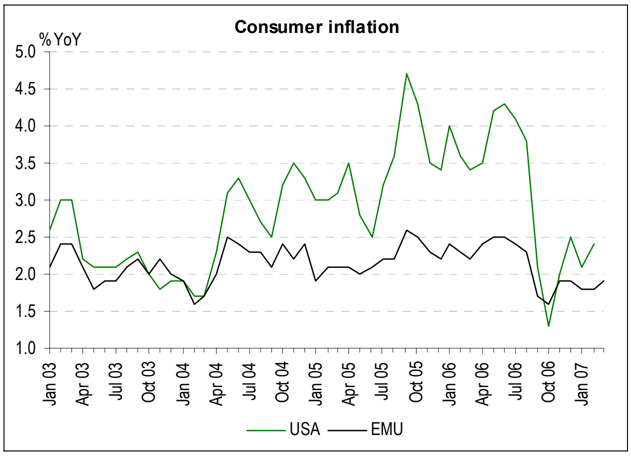
month	First auction date	T-bonds	offer	sale	Second auction date	T-bonds	offer	sale	Third auction date	T-bonds	offer	sale
January	-	-	-	-	10.01	DS1017	1 800	1 800	17.01	PS0412	3 000	3 000
February	07.02	OK0709	1 000	1 000	14.02	WZ0118 | IZ0816	2400 | 0	2400 | 0	21.02	PS0412	1 500	1 500
March	07.03	OK0709	1 000	1 000	14.03	WS0922	1 400	1 400	21.03	PS0412	1 800	1 800
April	04.04	OK0709	1 000	1 000	11.04	DS1017	1 800	1 800	18.04	PS0412	1 500 - 2 500	-
May	-	-	-	-	09.05	10L WIBOR | 12L CPI	-	-	16.05	5L	-	-
June	06.06	2Y	-	-	-	-	-	-	20.06	5Y	-	-
July	04.07	2Y	-	-	11.07	10Y	-	-	-	-	-	-
August	01.08	2Y	-	-	08.08	10Y WIBOR | 12Y CPI	-	-	-	-	-	-
September	05.09	2Y	-	-	12.09	20Y	-	-	19.09	5Y	-	-
October	03.10	2Y	-	-	10.10	10Y	-	-	17.10	5Y	-	-
November	07.11	2Y	-	-	14.11	10Y WIBOR | 12Y CPI	-	-	21.11	5Y	-	-
December	05.12	2Y	-	-	-	-	-	-	-	-	-	-

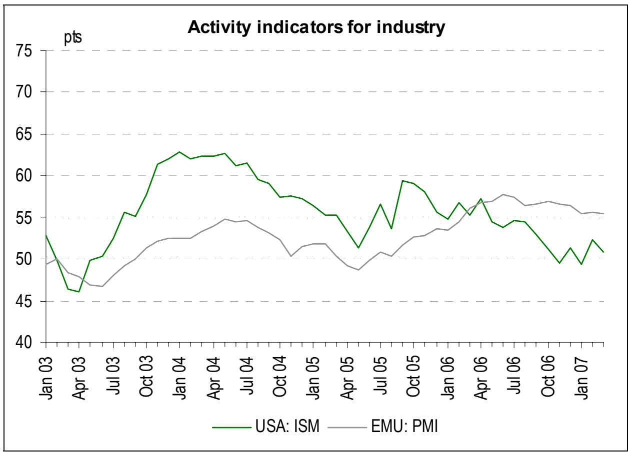
* with supplementary auction

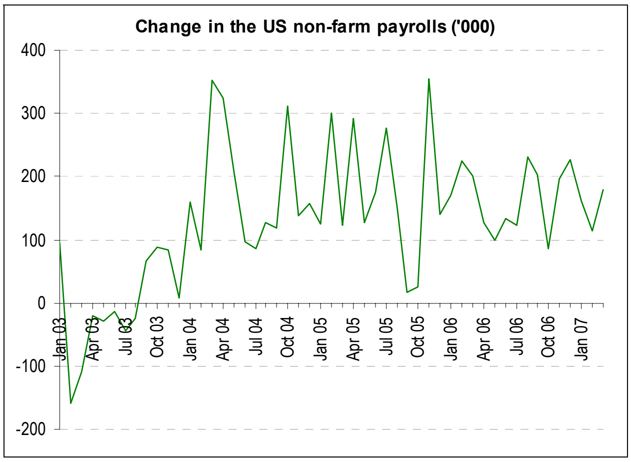
Source: Ministry of Finance, Reuters, BZ WBK

International review









Source: Reuters, ECB, Federal Reserve

Yet more rate hikes to come in the euro zone

▪ In March, the American central bank kept main interest rates on hold at 5.25%. The statement said that adjustment in the housing sector is ongoing and the economy seems likely to continue to expand at a moderate pace over coming quarters. Fed said that inflation is still its biggest concern. However, in March communiqué it dropped the reference to the possibility of additional firming to limit risks for inflation.

▪ At the April meeting the European Central Bank decided to leave the main interest rate at 3.75% level. The statement signalled further rate hikes. ECB still considers interest rates level in the euro zone as moderate and monetary policy as accommodative. The communiqué suggested that the last data confirm risks of prices growth in the mid term and robust economic growth.

Fears of inflation still elevated

▪ In February Consumer Price Index in United States amounted to 0.4%MoM, while the market forecasted a 0.3% rise. In annual terms it increased by 2.4%YoY as compared to 2.1% in January. Core CPI index rose by 0.2%MoM, which was in line with market expectations, but the annual index increased up to 2.7%YoY, which is still above the comfort zone of Fed (1-2%). Producer prices in the US increased 1.3%MoM in February (2.5%YoY). Core PPI rose 0.4%MoM and 1.8%YoY, while analysts predicted 0.2%MoM.

▪ HICP inflation in the euro zone rose 1.8%YoY in February, which was in line with expectations. The producer prices index rose by 0.3%MoM and 2.9%YoY. According to preliminary data inflation measured by HICP index increased in March by 1.9%YoY, which was also in line with market consensus.

Still high PMI indices in the euro zone

▪ ISM index describing activity in the US manufacturing sector fell in March to 50.9 from 52.3, while analysts expected a fall to 51.1. ISM non-manufacturing index was released, showing a decline in March to 52.4 from 54.3, while market had expected an increase to 55.0.

▪ PMI index for the euro zone for the manufacturing sector fell from 55.6 to 55.4 in March, which was below market expectations (55.7). PMI services index in the euro zone fell in March to 57.4 from 57.5 last month, against forecasted 57.6.

▪ U.S. 4Q06 GDP growth figure was revised from 2.2% to 2.5%, surprisingly for the market. GDP deflator was not revised and amounted to 1.6%, while economists expected a rise to 1.7%. Core PCE index increased in 4Q06 by 1.8%, which was below consensus and previous estimation at 1.9%.

▪ Final GDP data in the euro zone showed a growth by 0.9%QoQ and 3.3%YoY, which was in line with expectations, against 0.6%QoQ and 2.8%YoY in Q3 2006.

Strong labour market data despite fears over economic growth

▪ ADP report, which was based on a new methodology aimed at improving its quality and increasing accuracy of targeting trends in non-farm payrolls, showed increase in new jobs in the US in the private sector by 106,000 against forecasted 110,000 and 57k in February.

▪ The non-farm payrolls rose in March by 180k. What is more data for the previous two months were upwardly revised (from 97k to 113k in February and from 146k to 162k in March). Moreover the unemployment rate dipped to 4.4% from 4.5%, while the market expected a rose to 4.6%.

Economic calendar

Monday	Tuesday	Wednesday	Thursday	Friday
9 April DE, GB: Market holiday	**10** JP: BOJ meeting – decision	**11** ***POL: Auction of 10Y bonds***	**12** EMU: GDP (Q4) EMU: Industrial production (Feb) EMU: EBC meeting - decision US: Foreign trade prices (Mar)	**13** ***POL: CPI (Mar)*** ***POL: Money supply (Mar)*** ***POL: Balance of payments (Feb)*** US: Trade balance (Feb) US: PPI (Mar) US: Preliminary Michigan (Apr)
16 EMU: Final HICP (Mar) US: Retail Sales (Mar) US: Net capital flows (Feb)	**17** GER: ZEW Index (Mar) US: CPI (Mar) US: House starts (Mar) US: Capacity utilization (Mar) US: Industrial output (Mar)	**18** ***POL: Auction of 5Y bonds*** ***POL: Wages and Employment (Mar)*** GER: Ifo Index (Apr)	**19** US: Philadelphia Fed index (Apr)	**20** ***POL: PPI (Mar)*** ***POL: Industrial Output (Mar)***
23 ***POL: Treasury bills auction*** ***POL: Business climate (Apr)*** ***POL: Core inflation (Mar)***	**24** ***POL: MPC meeting*** US: Home sales (Mar) USA: Consumer confidence (Apr)	**25** ***POL: Retail sales (Mar)*** ***POL: Unemployment (Mar)*** ***POL: MPC meeting – decision*** US: Durable goods orders (Mar)	**26** ***POL: Switch auction*** US: New homes sales (Mar)	**27** US: Advance GDP (Q1) US: Core PCE (Q1) US: GDP deflator (Q1) US: Final Michigan (Apr)
30 JP: Market holiday EMU: M3 money supply (Mar) EMU: Business climate (Mar) EMU: Preliminary HICP (Apr) US: Core PCE (Mar) US: Chicago PMI (Apr)	**1 May** ***POL: Labour Day*** GER: Market holiday US: Manufacturing ISM (Apr)	**2** EMU: Manufacturing PMI (Apr) US: ADP report (Apr) US: Factory orders (Mar)	**3** ***POL: Constitution Day*** JP: Market holiday US: Unit labour costs & labour productivity (Q1) US: Non-manufacturing ISM (Apr)	**4** EMU: Non-manufacturing PMI (Apr) US: Non-farm payrolls (Apr) US: Unemployment (Apr)
7 ***POL: Treasury bills auction***	**8** US: Wholesale inventories (Mar)	**9** ***POL: Auction of 10Y floating rate bonds and 12Y CPI linked bonds*** USA: Fed meeting – decision	**10** GB: BoE meeting decision EMU: EBC meeting - decision US: Foreign trade prices (Apr) US: Trade balance (Mar) US: Federal budget (Mar)	**11** US: PPI (Apr) US: Retail Sales (Apr)

Source: CSO, NBP, Finance Ministry, Reuters

MPC meetings and data release calendar for 2007

	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
MPC meeting	30-31	27-28	27-28	24-25	29-30	26-27	24-25	28-29	25-26	30-31	27-28	18-19
GDP*	-	-	2	-	31	-	-	30	-	-	30	-
CPI	15	15[a]	14[b]	13	15	13	13	14	13	15	14	13
Core inflation	22		23[b]	23	23	22	23	23	24	22	23	21
PPI	19	19	19	20	21	20	19	20	19	18	20	19
Industrial output	19	19	19	20	21	20	19	20	19	18	20	19
Retail sales	29	23	23	25	-	-	-	-	-	-	-	-
Gross wages, employment	16	15	15	18	17	19	17	16	15	16	16	15
Unemployment	29	23	23	25	-	-	-	-	-	-	-	-
Foreign trade	about 50 working days after reported period											
Balance of payments*	2	-	30	-	-	29	-	-	-	-	-	-
Balance of payments	16[c]	12	14	13	18	15	13	-	-	-	-	-
Money supply	12	14	14	13	14	14	13	-	-	-	-	-
NBP balance sheet	5	7	7	6	7	6	6	-	-	-	-	-
Business climate indices	23	22	22	23	23	22	23	23	24	23	23	21

* quarterly data, [a] preliminary data, January, [b] January and February, [c] November 2006, [d] January, [e] February

Source: CSO, NBP

Economic data and forecasts

Monthly economic indicators

		Mar 06	Apr 06	May 06	Jun 06	Jul 06	Aug 06	Sep 06	Oct 06	Nov 06	Dec 06	Jan 07	Feb 07	Mar 07	Apr 07
Industrial production	%YoY	16.4	5.7	19.1	12.2	14.3	12.6	11.6	14.8	12.0	5.9	15.4	12.9	10.1	15.9
Retail sales [c]	%YoY	10.1	13.2	13.7	10.7	11.0	11.5	14.5	13.3	13.6	13.3	16.5	17.5	16.5	16.7
Unemployment rate	%	17.8	17.2	16.5	16.0	15.7	15.5	15.2	14.9	14.8	14.9	15.1	14.9	14.7	14.2
Gross wages [b c]	%YoY	5.4	4.0	5.2	4.5	5.6	5.3	5.1	4.7	3.1	8.5	7.8	6.4	6.6	7.0
Employment [b]	%YoY	2.7	2.8	3.0	3.1	3.3	3.5	3.5	3.6	3.8	4.1	3.8	4.3	4.5	4.4
Export (€) [d]	%YoY	28.2	9.8	32.5	16.9	21.0	22.3	18.6	23.4	21.7	8.0	15.5	12.7	9.4	15.6
Import (€) [d]	%YoY	23.9	10.1	29.9	17.2	26.2	22.9	19.2	27.4	21.0	17.2	21.3	19.4	19.4	30.2
Trade balance [d]	EURm	-130	-108	-439	-103	-519	-434	-212	-283	-339	-1119	-387	-736	-950	-1173
Current account balance [d]	EURm	-356	-597	-374	-300	-527	-646	222	-728	-738	-1201	-678	-956	-950	-1233
Current account balance [d]	% GDP	-1.9	-2.1	-1.9	-2.0	-2.1	-2.1	-1.9	-2.0	-2.1	-2.3	-2.5	-2.5	-2.7	-2.9
Budget deficit (cumulative)	PLNbn	-9.0	-10.0	-14.6	-17.7	-15.6	-14.5	-14.5	-16.6	-18.5	-25.1	3.1	-3.0	-6.5	-7.6
Budget deficit (cumulative) [e]	% realisation	35.8	40.0	58.2	70.4	62.3	57.9	57.8	66.3	73.9	100.0	-10.3	10.1	15.0	25.4
CPI	%YoY	0.4	0.7	0.9	0.8	1.1	1.6	1.6	1.2	1.4	1.4	1.6	1.9	2.4	2.1
PPI	%YoY	0.9	1.7	2.3	3.0	3.5	3.3	3.6	3.2	2.5	2.6	3.1	3.6	3.8	3.0
Broad money (M3)	%YoY	9.8	9.6	10.1	11.9	13.0	12.9	13.0	12.3	14.4	15.6	19.3	17.9	18.5	18.2
Deposits	%YoY	9.1	8.6	8.9	11.4	12.3	12.0	11.6	11.4	13.1	15.0	18.4	18.1	18.4	18.5
Loans	%YoY	13.6	12.2	12.4	16.0	16.7	18.0	19.2	19.5	20.7	23.4	25.0	26.5	26.1	26.2
USD/PLN	PLN	3.23	3.20	3.05	3.17	3.15	3.05	3.12	3.09	2.97	2.88	2.98	2.98	2.94	2.89
EUR/PLN	PLN	3.88	3.92	3.90	4.02	4.00	3.90	3.97	3.90	3.82	3.81	3.88	3.90	3.89	3.84
Reference rate [a]	%	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.25
Lombard rate [a]	%	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.75
WIBOR 3M	%	4.12	4.14	4.15	4.17	4.19	4.19	4.21	4.22	4.20	4.20	4.20	4.20	4.22	4.25
Yield on 52-week T-bills	%	3.87	3.95	4.02	4.20	4.30	4.35	4.44	4.35	4.29	4.20	4.14	4.07	4.23	4.25
Yield on 2-year T-bonds	%	4.10	4.28	4.44	4.75	4.95	4.85	4.87	4.84	4.65	4.54	4.41	4.46	4.55	4.68
Yield on 5-year T-bonds	%	4.59	4.80	5.00	5.33	5.37	5.41	5.31	5.24	5.01	4.91	4.90	4.97	4.98	5.10
Yield on 10-year T-bonds	%	4.78	5.02	5.26	5.54	5.55	5.61	5.48	5.39	5.18	5.10	5.16	5.18	5.18	5.20

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	1Q06	2Q06	3Q06	4Q06	1Q07	2Q07	3Q07	4Q07
GDP	PLNbn	923.2	980.7	1 050.9	1 138.5	240.9	251.7	258.6	299.7	262.7	273.6	278.7	323.4
GDP	%YoY	5.3	3.5	5.8	6.2	5.2	5.5	5.8	6.4	7.0	6.5	5.9	5.5
Domestic demand	%YoY	5.9	2.4	5.9	6.8	4.8	4.8	6.1	7.7	7.2	7.3	6.5	6.3
Private consumption	%YoY	4.0	1.9	5.2	5.6	5.2	4.9	5.5	5.2	6.0	5.5	5.5	5.5
Fixed investments	%YoY	6.3	6.5	16.7	15.2	7.7	14.8	19.8	19.3	25.0	17.0	15.0	11.0
Industrial production	%YoY	12.3	4.0	12.5	12.3	12.4	12.1	12.3	10.7	12.8	11.4	12.0	13.0
Retail sales (real terms)	%YoY	7.1	1.5	11.9	13.9	9.0	11.8	13.8	12.6	16.4	15.4	12.8	10.7
Unemployment rate [a]	%	19.1	17.6	14.9	12.8	17.8	16.0	15.2	14.9	14.7	13.4	12.8	12.8
Gross wages (real terms) [c]	%YoY	0.8	1.2	4.2	4.6	4.3	3.9	4.1	4.5	4.9	4.7	5.0	3.9
Employment [c]	%YoY	-0.8	1.9	3.2	4.1	2.6	3.0	3.4	3.8	4.2	4.3	4.0	3.8
Export (€) [b]	%YoY	22.3	17.8	20.2	13.1	23.3	19.5	20.7	18.0	12.4	14.0	13.0	13.0
Import (€) [b]	%YoY	19.5	13.4	21.8	17.1	23.3	19.0	22.8	21.9	20.0	17.5	15.5	16.0
Trade balance [b]	EURm	-4 552	-2 242	-3 896	-8 330	-352	-646	-1 165	-1 733	-2 073	-1 552	-1 932	-2 773
Current account balance [b]	EURm	-8 670	-4 130	-6 273	-8 749	-1 396	-1 266	-949	-2 662	-2 584	-1 697	-1 241	-3 227
Current account balance [b]	% GDP	-4.3	-1.7	-2.3	-3.0	-1.9	-2.0	-1.9	-2.3	-2.7	-2.8	-2.8	-3.0
Budget deficit (cumulative) [a]	PLNbn	-41.5	-28.6	-25.1	-30.0	-9.0	-17.7	-14.5	-25.1	-6.5	-14.4	-18.4	-29.9
Budget deficit (cumulative) [a]	% GDP	-4.5	-2.9	-2.4	-2.6	-	-	-	-	-	-	-	-
CPI	%YoY	3.5	2.1	1.0	2.0	0.6	0.8	1.4	1.3	1.9	2.1	1.7	2.3
CPI [a]	%YoY	4.4	0.7	1.4	2.5	0.4	0.8	1.6	1.4	2.4	2.2	1.8	2.5
PPI	%YoY	7.0	0.7	2.5	3.0	0.9	3.0	3.6	2.6	3.5	2.6	2.3	3.5
Broad money (M3) [a]	%YoY	8.7	10.5	15.6	14.4	9.8	11.9	13.0	15.6	18.5	16.9	15.9	14.4
Deposits [a]	%YoY	8.1	9.4	15.0	15.0	9.1	11.4	11.6	15.0	18.4	17.4	17.1	15.0
Loans [a]	%YoY	2.9	11.8	23.4	22.3	13.6	16.0	19.2	23.4	26.1	25.4	24.3	22.3
USD/PLN	PLN	3.65	3.23	3.10	2.89	3.19	3.14	3.10	2.98	2.97	2.89	2.87	2.85
EUR/PLN	PLN	4.53	4.02	3.90	3.85	3.83	3.95	3.96	3.85	3.89	3.84	3.88	3.80
Reference rate [a]	%	6.50	4.50	4.00	4.50	4.00	4.00	4.00	4.00	4.00	4.25	4.50	4.50
Lombard rate [a]	%	8.00	6.00	5.50	6.00	5.50	5.50	5.50	5.50	5.50	5.75	6.00	6.00
WIBOR 3M	%	6.21	5.29	4.21	4.48	4.29	4.15	4.20	4.20	4.20	4.38	4.63	4.70
Yield on 52-week T-bills	%	6.50	4.92	4.18	4.39	4.02	4.06	4.37	4.28	4.14	4.30	4.52	4.60
Yield on 2-year T-bonds	%	6.89	5.04	4.57	4.75	4.23	4.49	4.89	4.67	4.47	4.73	4.85	4.95
Yield on 5-year T-bonds	%	7.02	5.25	5.03	5.14	4.67	5.04	5.36	5.05	4.95	5.10	5.20	5.30
Yield on 10-year T-bonds	%	6.84	5.24	5.22	5.30	4.83	5.27	5.55	5.22	5.17	5.23	5.30	5.50

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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