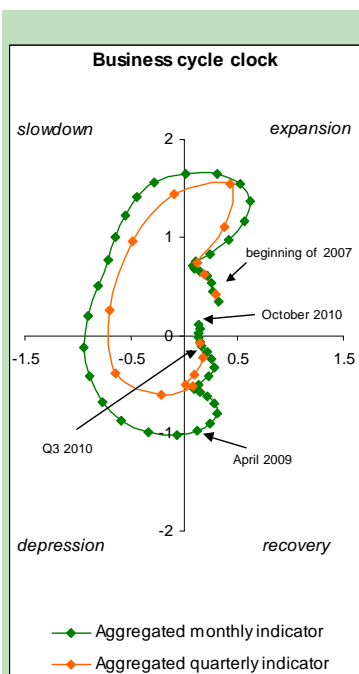


MACROscope

Polish Economy and Financial Markets

December 2010



Note: construction of business cycle clock, including concepts and methodology used for its creation was presented in November's MACROscope http://english.bzwbk.pl/items/english/doc/m_eng_2009_11.pdf

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Yet more than four

▪ **The growth of the Polish economy has exceeded 4% already in the third quarter of 2010 and there are indications that the GDP growth will remain above four in the final quarter of this year, and also next year.** October saw a slowdown in production growth, and some symptoms of weakening consumer demand, however, business climate indicators suggest that the next months should be much better. The continuation of positive trends in the economy resulted in a further upward revision of our GDP growth forecasts for this and next year (to 3.8% and 4.1% from 3.7% and 3.9%). Outlook for the domestic economy has also been improved by information coming from the global economy. Business climate in Germany, Poland's main trading partner, is still good; forecast of next year's economic growth in the US are being revised up, and in China the recent macro data are strong enough to spur concern about a clear tightening of monetary policy in this country.

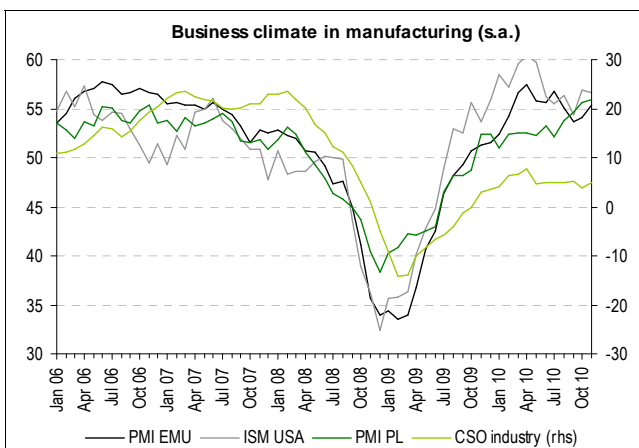
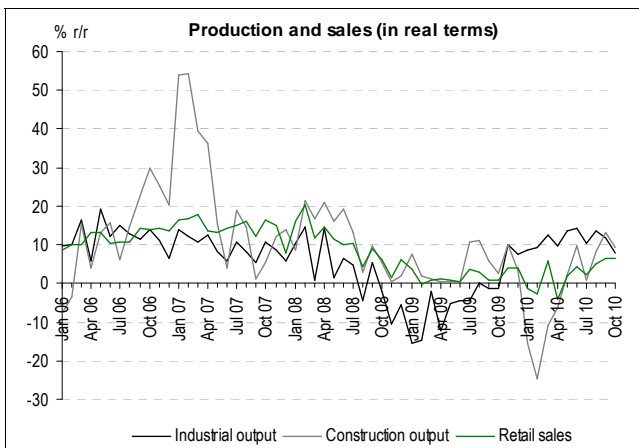
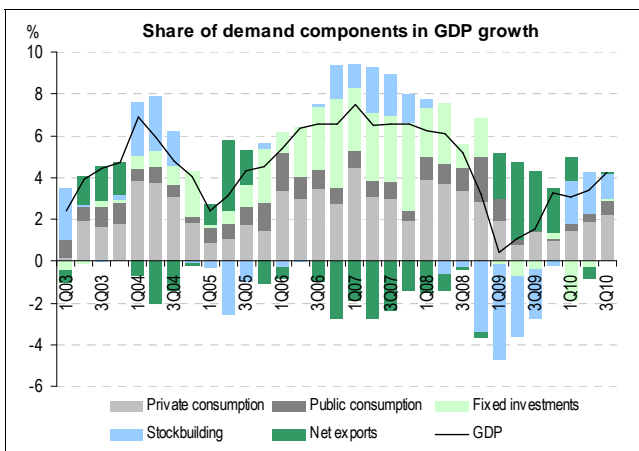
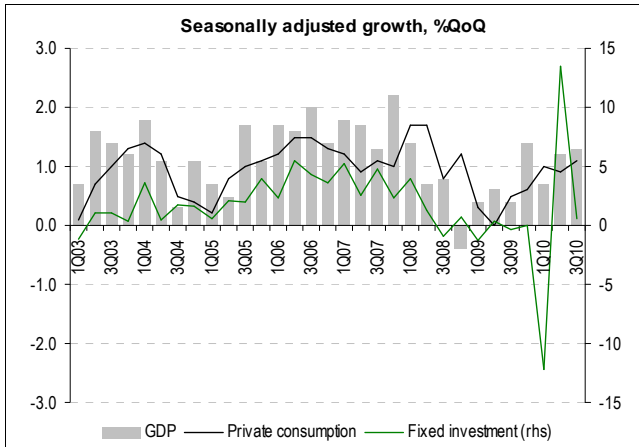
▪ **Domestic monetary policy so far unchanged - the MPC kept interest rates unchanged in November.** There was no breakthrough in justification of the decision in the communiqué, although at the press conference the NBP president signalled a readiness to hike rates in some future. On the other side, MPC members' comments introduced additional uncertainty – some of members who used to vote for rate hikes in the past, now said they are not needed, while there was also a voice calling for urgent rate hike to calm down situation in the FX market. We do not change our view that NBP interest rates will be kept on hold until the end of this year. We expect rate hikes totalling 100 bp in 2011, with the first hike of 25bps in the first quarter.

▪ **Last weeks in the financial markets were quite interesting.** Strengthening of concerns about debt problems in Europe, mainly due to Ireland burdened by costs of saving the banking sector, as well as worries about the possible consequences of increasingly expected tightening of monetary policy in China, have increased in recent weeks the risk aversion in global financial markets. The wave of clear zloty depreciation expected by us in the first quarter of 2011 came earlier, which influenced our exchange rate forecasts for the coming months. The sell-off of domestic currency was at some point so dynamic that triggered verbal intervention of part of government officials and central bankers. There were also unofficial information about the sale of hard currencies on the market by BGK (presumably on behalf of the Ministry of Finance). In recent days, the zloty has stabilized slightly above the 4.0 per euro, and we think that it may remain around this level until the end of this year. There should also be little changes in the debt market, amid gradually decreasing investors' activity during the holiday season.

Financial market on 30 November 2010:					
NBP deposit rate	2.00	WIBOR 3M	3.88	USDPLN	3.1308
NBP reference rate	3.50	Yield on 2-year T-bonds	4.78	EURPLN	4.0734
NBP lombard rate	5.00	Yield on 5-year T-bonds	5.45	EURUSD	1.3011

This report is based on information available until 10.12.2010

Economic update



Source: CSO, Ipsos, Reuters, own calculations

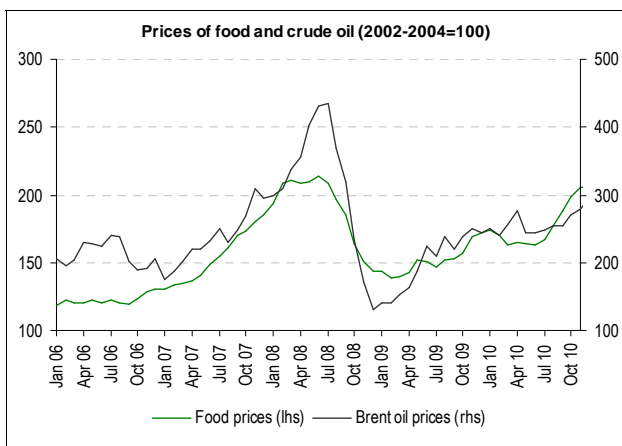
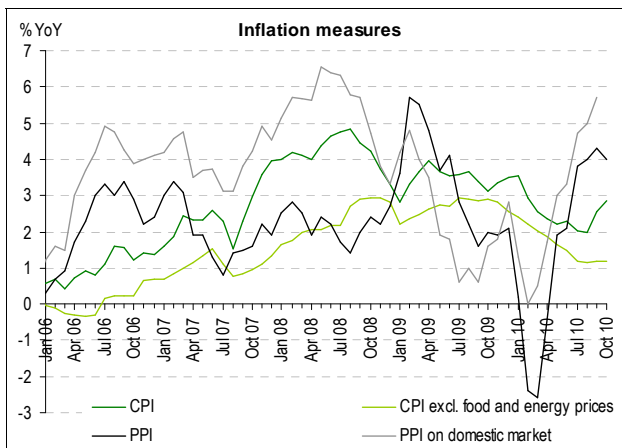
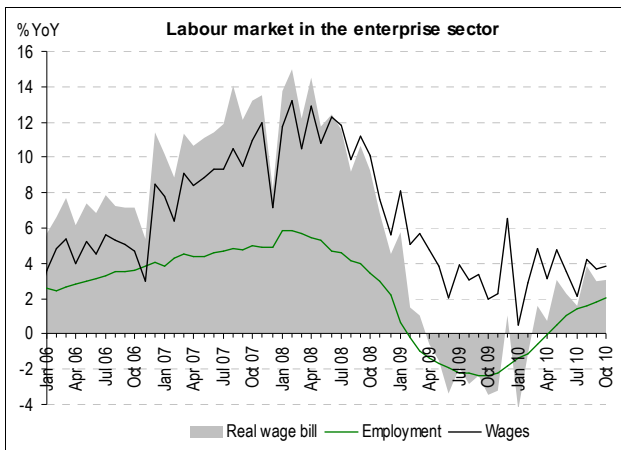
Faster GDP growth in Q3 despite investment stagnation

- GDP growth in Q3 2010 was much higher than forecasted and reached 4.2%YoY, the highest pace in two years. Seasonally adjusted quarterly growth reached 1.3%QoQ vs. 1.2% in Q2.
- The main engine of economic growth in the third quarter was consumption (private consumption growth accelerated to 3.5%YoY, public consumption to 4.3%YoY) and still positive contribution of changes in inventories (ca. 1.2 pp). The net exports balance had zero effect on annual GDP growth, despite a sizeable increase in the nominal deficit of goods and services account (this was due to much higher deflator of imports than exports).
- Investment growth rate was above zero, but only slightly (0.4%YoY). Seasonally adjusted figure shows continued stagnation in this area. We still expect a strong rebound of investment in the near future, supported by the record high financial results of companies and rapid growth in orders at the already high level of capacity utilization (above the long-term average).
- On the supply side, the third quarter saw a slowdown in value added growth in industry (to 10.2%YoY from 11.4% in Q2), and acceleration in construction (to 6.1% from 3.8%) and in market services (to 2.0% from 0.8%).
- Relying on the results of recent business climate surveys and our forecasts of economic activity in industry, trade and services in the coming months, we assume maintenance of GDP growth in the fourth quarter at a similar (or even slightly higher) level as in the third quarter, which would mean GDP growth in the entire year of ca. 3.8%. In 2011, we expect a mild acceleration of the economic growth (to just over 4%YoY).

Fourth quarter may be even better

- The first month of the fourth quarter saw a slowdown in production growth, and some signs of weakening in consumer demand. However, the next months should be much better.
- Growth of industrial production slowed in October to 8.0%YoY from 11.8% in September and was the lowest since December 2009. The seasonally adjusted output growth slowed to a lesser extent, from 11.7% to 11.2%YoY. Construction output slowed down in October to 9.4%YoY, but after seasonal adjustment its growth accelerated to 9.7%YoY (the highest in more than two years).
- PMI manufacturing index rose again in November, heralding a strong increase in production and new orders, as well as showing the pressures to increase capacity in the companies. We expect an improvement in industrial production growth in the coming months, although next year it will gradually fade along with the impact of increasing base effect and a slowdown in economic growth abroad. Investment boom at the end of this year should, in turn, bring back the output dynamics in the construction sector of a two-digit level.
- The retail sales growth accelerated in October to 9.0%YoY in nominal terms, and remained at 6.4%YoY in real terms. However, in some categories (mainly in the case of durable goods) a slowdown was recorded. Revival of consumer demand is supported by growth in households' income and the expected hikes in taxes and prices in 2011, but on the other hand, changes in the pattern of sales in October are a sure warning sign. Another worrying element is the downward trend in consumer confidence in recent months. One factor that may slow down consumer concerns, however, is the continuation of positive trends in the labour market.

Economic update



Source: CSO, NBP, Eurostat, own calculations

Employment growth accelerating, wages under control

Thus far, the data from the labour market are quite optimistic. The annual growth in average wages in the corporate sector accelerated in October to 3.9% from 3.7% in September. At the same time, average employment increased by 2.1%YoY, at the fastest since December 2008. Slight acceleration in wage growth in October, together with a slightly stronger than expected employment growth, confirmed that so far the increased demand for labour is not accompanied by excessive wage pressure. Workers' wage demands are probably constrained by the fact that the unemployment is still at quite high level (amid a rise in the population's activity rate) and by the continuing uncertainty about the sustainability of the global economic recovery.

The registered unemployment rate in October remained at 11.5%. The seasonally adjusted LFS unemployment rate reported by the Eurostat increased slightly in October to 9.7%.

For several quarters we are witnessing a clear increase in labour market participation rate in Poland. This is confirmed, among others, by the quarterly LFS data, according to which economic activity rate rose in the third quarter of 2010 to 56.2%, the highest level for nine years. Also the employment rate increased for the second consecutive quarter (to 51.1%). LFS unemployment rate (without seasonal adjustment) fell in the third quarter to 9.1%, its lowest level since the end of 2009. Increasing labour market participation is a phenomenon, which is very desirable from the perspective of medium-term prospects for economic growth, and is also positive from the MPC's point of view, reducing risk of excessive wage pressure.

According to our estimates, the growth of unit labour costs in the third quarter slowed down to almost zero.

Inflation in upward trend

Inflation rate rose in October to 2.8%YoY, the highest level for eight months. The rise in prices was again driven primarily by hikes in prices of food and clothing and footwear. Energy prices increased as well (due to introduction of new gas tariffs).

Core inflation excluding food and energy prices remained in October at 1.2%YoY, unchanged since July. The other three measures of core inflation recorded a second consecutive slight increase.

Growth in producer prices slowed down in October to 4.0%YoY from 4.3% in September. However, it seems that it was only a temporary drop, and in November PPI may rise again to 4.5%YoY, among others in response to higher prices of energy and commodities, and low base effect. It is worth noting that the PPI in the domestic market (ignoring export prices, being reduced by zloty appreciation) has increased to 5.7%YoY already in September.

The FAO index of world food prices continues an upward trend – in November the dollar-based index increased by almost 4%MoM (which implies ca. 5.5%MoM in zloty terms), getting closer and closer to the peak reached just before the outbreak of the financial crisis in 2008. There is also a substantial rise in prices of crude oil (in November up by ca. 3%; in the first days of December by ca. 5%MoM) and other commodities.

In subsequent months, the CPI upward trend will continue – we expect that inflation will exceed 3.0%YoY in December, and in the first quarter of 2011 it will be probably above 3.5% (upper end of the allowed fluctuation band around the inflation target). Core inflation excluding energy and food prices will also accelerate to ca. 2.5% in mid-2011.

Central bank watch

Selected fragments of the MPC statement in November

The moderate recovery in the world economy is continuing. (...) The effects of high fiscal imbalance and its planned reduction in the developed economies, as well as the effects of monetary expansion, including non-standard measures undertaken and envisaged by major central banks, continue to be an important uncertainty factor for the global economic growth.

In line with expectations, the scale of monetary expansion in the United States was increased, which helped maintain positive sentiment of investors in the financial markets and contributed to higher commodity prices. At the same time, the intensification of fiscal problems in some euro-area countries, in particular in Ireland, was conducive to increasing uncertainty in the financial markets.

Data on the Polish economy in the second half of 2010 signal faster economic growth than in the first half of the year. Industrial output continues to grow rapidly, construction and assembly output is also on the rise. Production capacity utilisation has been steadily rising. Enterprises continue to report a very good financial and liquidity situation. Enterprises increase their workforce, which approaches the pre-crisis levels. The employment rise is supported by continued high wage discipline. In 2010 Q3 the wage growth in the economy slowed down; limited wage pressure is also indicated by the data on wages in the enterprise sector. Wage growth may be slowed down by the growing number of economically active, which is also conducive to halting decline of the registered unemployment rate (adjusted for seasonal factors).

In the months to come, the growth of food and energy prices may be expected to continue, which will be conducive to higher CPI inflation. In 2011 the level of prices may be additionally slightly increased by the announced change in VAT rates.

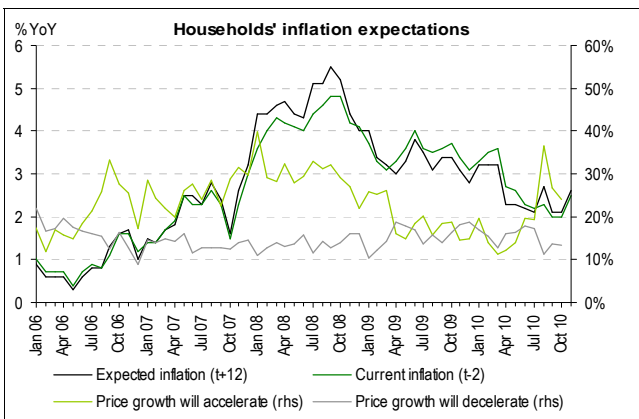
In the Council's assessment, the still limited inflationary and wage pressure in the Polish economy and the persistent risk of increased capital inflows to the emerging economies, including to Poland, amidst the extended period of expansionary monetary policy of major central banks, combined with the risk of weakening of global economic growth, justify keeping the NBP interest rates unchanged.

At the same time, the Council will continue to analyse the signs of a possible rise in inflationary pressure.

Dates of MPC meetings and releases of minutes in 2011

	Meeting	Minutes		Meeting	Minutes
Jan	18-19	20	Jul	5-6	-
Feb	15	17	Aug	23	25
Mar	1-2, 15	17	Sep	6-7, 20	22
Apr	4-5, 19	21	Oct	4-5, 18	20
May	10-11, 17	19	Nov	8-9, 15	17
Jun	7-8, 14	16	Dec	6-7, 20	22

Note: *minutes* published in a given month basically concern the meeting at the beginning of that month with except for January (*minutes* for December), February (*minutes* for January) and August (*minutes* for July).



Source: NBP

MPC meeting in November without surprises

- The MPC kept interest rates unchanged at its meeting in November, leaving the reference rate at 3.50%. Such a decision was widely expected in the market and should not be surprising in the context of the statement after October meeting and subsequent comments from MPC members, even those with a hawkish attitude.

- There was no breakthrough in justification of the MPC decision in the post-meeting statement. Key argument for leaving interest rates on hold remained unchanged. The Council again pointed to continued wage discipline, the risk of slowdown in the global economy and concerns that capital inflows may strengthen the zloty excessively.

- Hawkish arguments has also not changed, although one should note that at the post-meeting press conference NBP governor Marek Belka suggested that he Council may be afraid of the second-round effects and "is discussing the perspective in which one should react to such a threat".

- All in all, we keep our view that that the analysis of the current economic situation in Poland and forecasts for the next quarters could have led to interest rate hikes even a few months ago. Nevertheless, the Council is still in wait-and-see mode, though it is not certain what it is waiting for. Perhaps it will be just as we wrote in the previous monthly report – a crucial issue for the timing of rate hike will be just the current inflation rate and only when the CPI exceeds a certain critical level (e.g. 3.0% or 3.5%) the Council's response will be triggered. We stick to our forecast that NBP interest rates will be raised by 100bp in total until the end of 2011 with the first hike of 25bps in the first quarter of the next year.

...except from change in schedule of MPC meetings

- An additional source of uncertainty as regards exact timing of first interest rate hikes by the MPC is a change in the schedule of its meetings in 2011 as compared to usual pattern. Shortly after the November meeting the uncertainty was really high as NBP governor only said at the press conference that decision meetings will take place at the beginning of a given month instead of the end of the month, while official schedule was published only in a week time.

- One-day meeting in February will probably be non-decisive (similar as in August), and the MPC will get to know the new *Inflation report* probably only at the start of March, which may have some impact on expectations regarding timing of the first rate hikes. Minutes of MPC meetings in 2011 will be published with shorter lag than in the past.

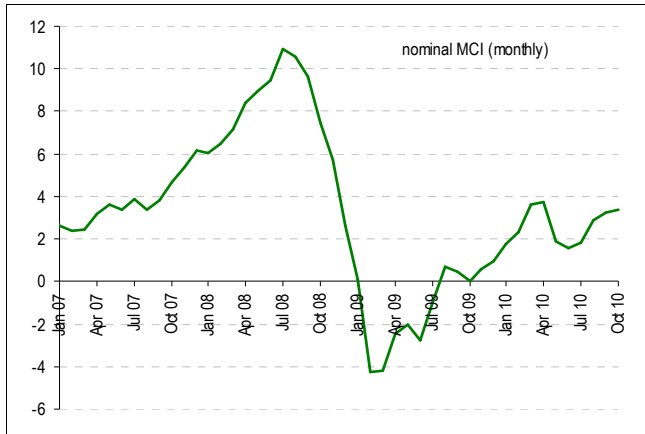
Higher inflation expectations

- NBP data showed that average expected CPI inflation rate in the next 12 months clearly rose in November to 2.6% from 2.1% in October.

- This was the fourth month in a row when the expected inflation rate was above the current inflation rate known to households at the time of the survey. Earlier, from April 2009 to July 2010, the expected inflation rate had been lower than the current inflation rate. Such a change of the situation may be worrisome for the MPC even more than the rise in the expected inflation alone.

- Continuation of such tendency may fuel concerns of the MPC about occurrence of the second-round effects and become one of important arguments for rate hikes.

Restrictiveness of the Monetary Policy (Council)



MCI slightly up again

- November, similar as October, brought a slight rise in the nominal MCI (monetary conditions index).
- The slight increase in restrictiveness of monetary conditions measures by our MCI index was driven both by some rise in WIBOR 3M and by delicate drop in the average monthly EURPLN.
- As regards factors affecting effective monetary policy restrictiveness, but not taken into account in the MCI, it is worth to note that average USDPLN rose clearly stronger than EURPLN dropped, which acted towards easing of overall monetary conditions. On the other hand, one should remember that according to NBP survey, banks planned to tighten their policy in most segments of the credit market, which would act towards higher effective restrictiveness of monetary conditions.



Bratkowski
Rzońca
Winiński
Zielińska-Głębocka

Glapiński
Gilowska
Hausner
Belka

Chojna-Duch

Kaźmierczak



Gilowska and Glapiński changed their minds

When a month ago we wrote about hawkish comments from Jan Winiński and Anna Zielińska-Głębocka, which appeared shortly after the MPC meeting in October, we wondered why there was no hike in NBP interest rates in October given that much earlier (already in August) four other rate-setters (Bratkowski, Gilowska, Glapiński and Rzońca) voted for an interest rate hike. We have argued that divergence between clearly hawkish comments from Winiński and Zielińska-Głębocka and the outcome of the MPC meeting in October (no interest rate hike and quite dovish statement) should not be seen as strange only if a part of central bankers who had voted for rate hikes earlier, recently changed their minds. It seems that such a change has actually taken place. Namely, prof. Zyta Gilowska and Adam Glapiński, who voted for a 50bps hike in NBP interest rates in August, clearly suggested in their comments in late November that now they do not see a need for monetary tightening. Gilowska said that “the current level of interest rates is appropriate for the Polish economy” while “inflationary pressures are under control”. In turn, Glapiński said that “a sudden appreciation of the zloty would be a negative phenomenon and thus currently the MPC should not create, through an interest rate hike, an additional impulse for inflow of foreign capital to Poland”. However, he added that the Council “is monitoring the situation and will not be late”, which suggests that in a few months time his opinion (and possibly also view of prof. Gilowska) on needed policy actions may change again.

...but hawks still ready to hike interest rates

The most recent comments from Andrzej Bratkowski and Andrzej Rzońca (i.e. those members of the new MPC, who seemed to be the most hawkish so far) showed that the hawkish faction in the Council has not forgotten about rate hikes. Rzońca stressed that his assessment of the situation had not changed since August (when he voted for a 50bps rate hike). Bratkowski also still thinks that rate hikes are needed, although he stated that as it is already too late for a really pre-emptive hike of 50bps (as “this would not make a large impression on the market”), “it is now better to begin a standard cycle of interest rate hikes, which starts at some point in time and is not conducted too fast, especially that demand side is quite stable”. Although the hawkish faction was weakened by departure (at least for some time) of Gilowska and Glapiński, it was reinforced by support from Winiński and Zielińska-Głębocka, which was indicated already by their comments described in our previous monthly report. The recent comments from Zielińska-Głębocka confirm that she sees a need for interest rate hikes “in December or in Q1”. What is important, Zielińska-Głębocka stressed that “one should take into account situation in the FX market” and in her opinion a rate hike “could help to stabilise the situation”.

Exchange rate crucial for the new MPC, but majority against interventions

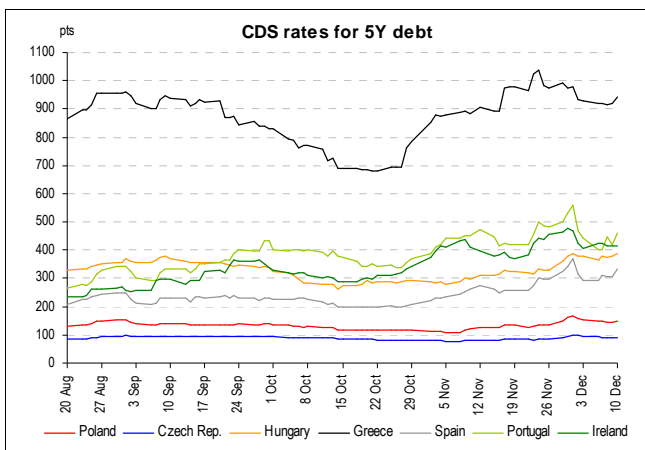
Not only the above mentioned comments from Anna Zielińska-Głębocka show that exchange rate performance is a crucial factor for the new Council and may affect decisions on interest rates. Andrzej Bratkowski reiterated his view that the central bank should be more active in the market as policy of verbal interventions may be insufficient. However, he revealed (in an interview with Bloomberg on December 9) that majority of MPC members is against it. Very active in commenting FX issues was NBP governor Marek Belka. He mentioned a few times that the zloty has large appreciation potential (once he said explicitly that at least 10%) and this affected the market (in a quite unfortunate manner, as he strengthened the zloty when it was relatively strong).

Prof. Kaźmierczak digs in at the dovish side

Latest comments from prof. Andrzej Kaźmierczak indicate that he digs in at the position of the extreme dove. In his view the Polish economy is not strong enough so that the MPC could start interest rate hikes.

Government and politics

	Spread vs Bunds (10Y) in bps			CDS (5Y)		
	10.12	change since 09.11	change since 31.12.09	10.12	change since 09.11	change since 31.12.09
Poland	303	-7	16	149	31	15
Czech Rep.	98	-27	36	89	7	-5
Hungary	508	18	23	389	89	145
Greece	889	-13	647	942	48	659
Spain	244	43	183	333	79	221
Ireland	559	-31	406	414	-23	303
Portugal	339	-111	270	462	13	372
Italy	158	-2	82	211	17	103
Germany	-	-	-	52	15	25



Aid package for Ireland calmed credit markets

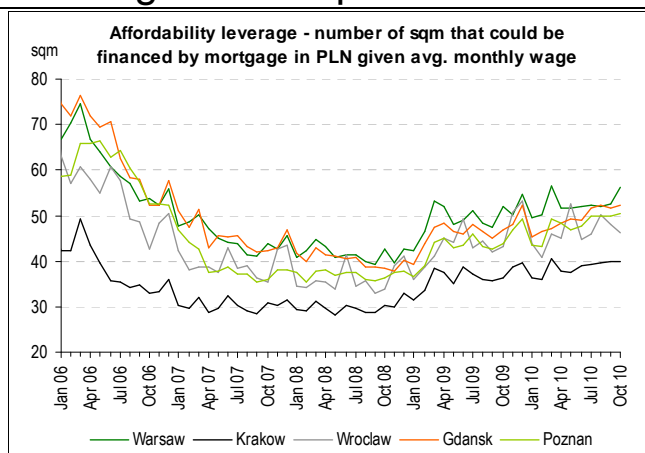
▪ An intensification of concerns about debt problems in the euro zone seen at the turn of October and November was temporarily halted in mid-November. However, later in the past month there was clear strengthening of fears of fiscal conditions of the euro zone's peripheries. The key focus of attention was on Ireland overwhelmed by costs of rescuing its banking sector.

▪ For some time Ireland tried to resist the pressure from other euro-area countries and did not declare interest in any aid package from the international community. This was increasing nervousness of markets and deteriorated situation in the credit market, not only that of Ireland, but also other countries of the euro zone with fiscal problems. However, eventually there was an agreement on EU/IMF aid package for Ireland (worth €85bn including Ireland's cash reserves), which led to drop in fiscal risk and an improvement in situation on the credit markets. As a result, CDS rates and spread to Bunds for Ireland and a few other countries of the euro zone dropped to below levels seen a month earlier.

▪ However, one should remember that fiscal situation in the many euro zone countries remains difficult. Political and social support for drastic savings is fragile and prospects for economic rebound are weak, which may undermine restoration of fiscal health and act towards increase in credit risk.

▪ In the CEE3 region the negative outlier recently was Hungary. The controversial decision of the Hungarian government to take over assets in the country's privately managed pension funds as well as downgrade of the country's rating by Moody's by two grades from Baa1 to Baa3 (with negative outlook) increased gauges of credit risk for Hungary. However, this has not affected other countries in the region.

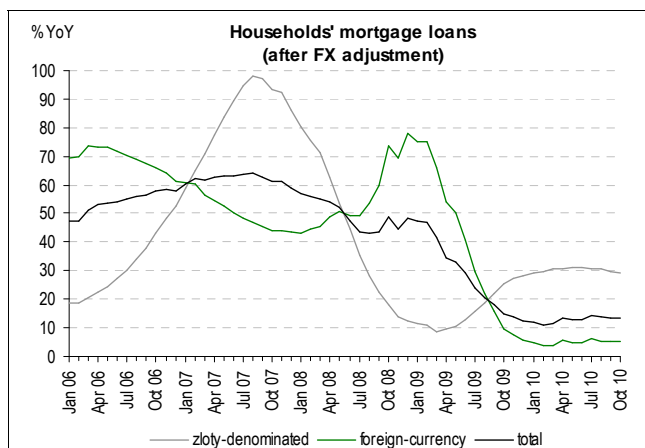
Housing market update



Housing market still in stagnation

▪ After the signals of a slight recovery in the housing market immediately after the holidays, recently the stagnation returned. In October, house prices in majority of Polish biggest cities were declining slightly, erasing earlier small gains.

▪ Demand for houses remains relatively sluggish, despite the fact that there are several factors supporting the increase in the number of transactions before year-end: looming increase in VAT in 2011, the planned cutback in the government's family support program, and the greater housing affordability, resulting from the improvement of relations between house prices and household income and more attractive offer of mortgage loans by banks (primarily in zloty). Only in November there were some first signals about growth in the volume of turnover in the housing market.



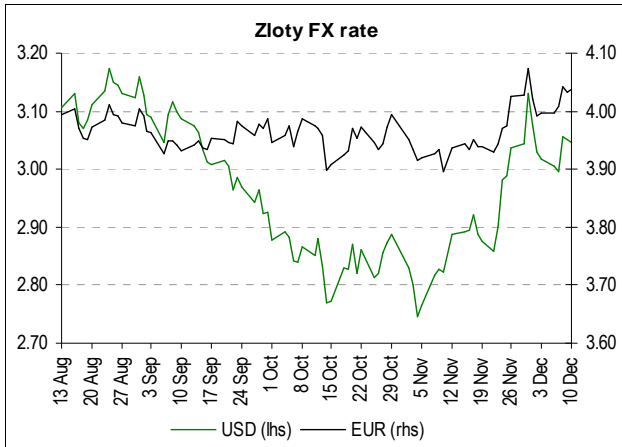
Stable growth in mortgage loans

▪ There is a gradual decline in banks' margins for mortgage loans visible in the Polish credit market. The biggest changes are taking place in case of zloty-denominated mortgage loans, which is associated with the upcoming restrictions on foreign lending by the banking supervision. As a result, even those banks that have so far been focused on foreign currency lending are now gradually changing their offer in order to increase market share in zloty-denominated mortgage loans.

▪ However, customer demand remains stable, and a growth rate of mortgage loans (after adjustment for exchange rate fluctuations) remains largely unchanged since the end of 2009, in the range of 12-14%YoY.

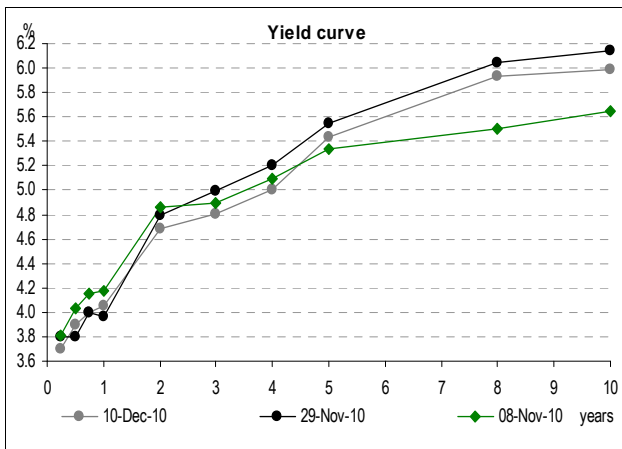
Source: Ministry of Finance, CSO, NBP, szybko.pl, own calculations

Market monitor



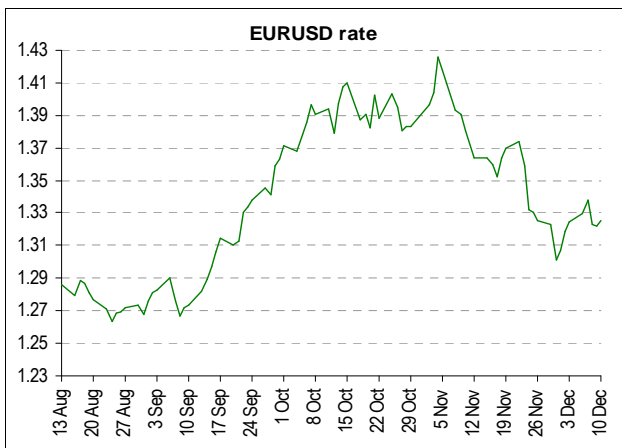
High volatility of the EURPLN

- For the better part of November the EURPLN hovered at around 3.92. Chinese data indicating that more actions towards cooling the economy are needed and debt problems in Ireland that intensified later in the month deteriorated market sentiment. High risk aversion pushed the EURPLN above resistance levels at 3.98 and 4.04 and the exchange rate reached nearly 4.11. Verbal interventions of the government, NBP officials and improvement of the market sentiment supported the zloty and until mid December the EURPLN declined to 4.03.
- We expect that in December the exchange rate will be stable. On one hand the FinMin will try to prevent from major zloty's depreciation, on the other hand, some negative information from the global market may emerge. We expect, that the EURPLN will end the year in the range of 3.98-4.04.



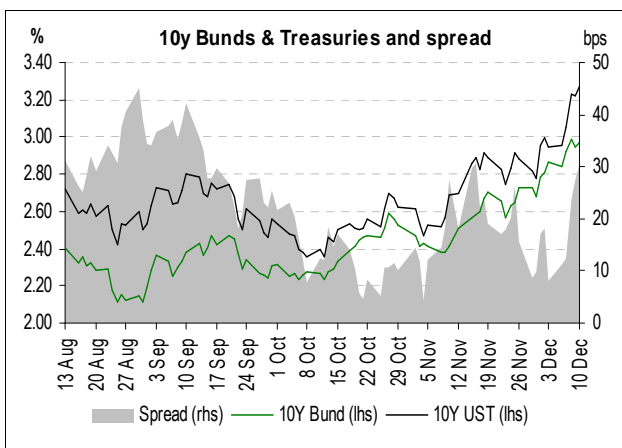
Long end of the curve under negative pressure

- In November the domestic yield curve clearly steepened. This was less due to a yields' decline on the short end, while primary contribution to that move was sell-off of the long-term bonds. Just as we expected, until the publication of CPI data, yields of 2Y bonds were stable. Later in the month – due to diminishing expectations for prompt interest rates hikes – yields declined. Long end of the curve was under the negative pressure from high and persisting risk aversion related to turmoil on the European debt market and rising yields on the core fixed income markets.
- We expect that in December the volatility will be traditionally constrained. Relatively more pronounced changes, due to swings of global market sentiment, may occur at the middle and long end of the yield curve.



Worries over fiscal stability in the euro zone support the dollar

- The downward correction of the EURUSD initiated few days after Fed had announced launching QE2.0 lasted far longer than expected. After breaking the support level at 1.37-1.38 the dollar's appreciation was continued until 1.30. The core factor that put a negative pressure on the euro were worries over fiscal stability of Euroland's countries, first Ireland, then Portugal, Spain. Slight improvement of the market sentiment that occurred at the beginning of December pushed the exchange rate up to 1.32.
- We anticipate, that in case of the EURUSD the scenario from August-September will be played, when after considerable dollar's appreciation the exchange rate remained in the horizontal trend. We expect that until year-end the EURUSD will be stable at around 1.32 with support level at 1.30 and resistance at 1.34.

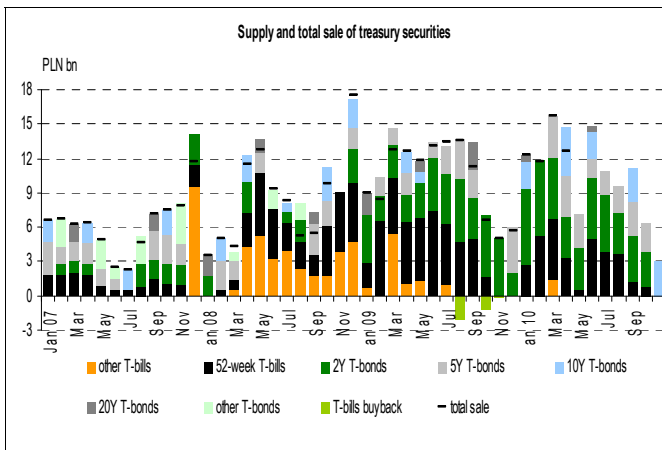
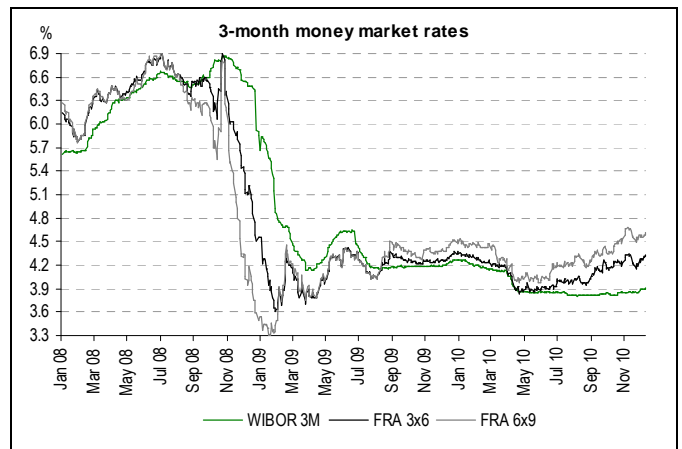
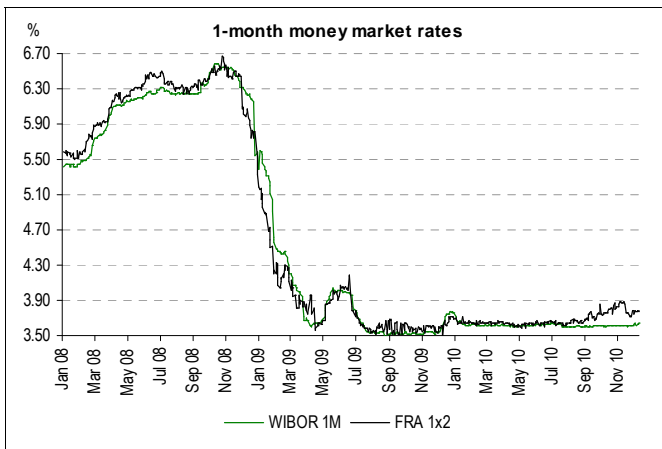
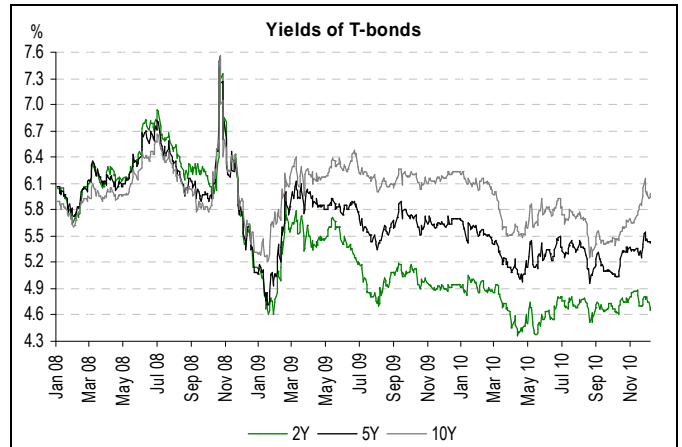
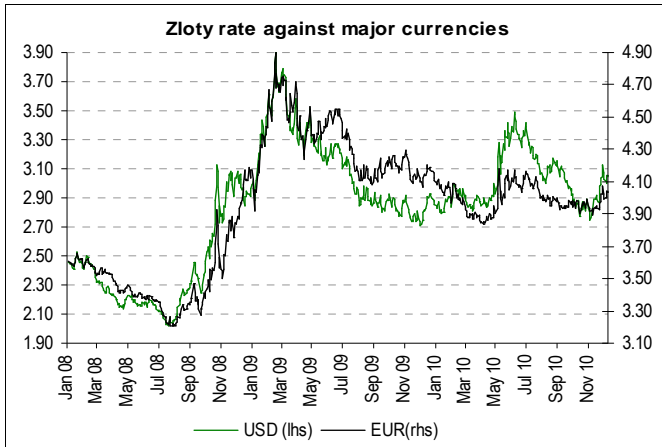


Higher inflation expectations in the US

- Despite high risk aversion prevailing on the market due to uncertainty on the European debt market, yields of Bunds and Treasuries advanced visibly during the past month. The upward trend was fuelled by worries, that Fed's bonds buying program will trigger too high inflation in the US and the future of German budget, that may be badly affected if next bailout programs for peripheral euro zone countries would have been established. As a result, the yields of 10Y Bunds and Treasuries reached levels last seen in May and June, respectively.
- Although the first hike of interest rates in the euro zone and the USA is still a distant prospect, the Fed's actions fuelling market worries over too fast increase of inflation – together with assumption of stabilisation of market sentiment – may cause that yields of Treasuries will rise faster than Bunds.

Source: Reuters, BZ WBK

Market monitor



Treasury bills auctions (PLN m)

Auction date	OFFER	DEMAND/SALE
16.08.2010	52 week.: 700-1000	2108/917
23.08.2010	52 week.: 500-800	2680/800
30.08.2010	52 week.: 500-700	2592/551
6.09.2010	Cancelled	-
13.09.2010	Cancelled	-
20.09.2010	52 week.: 500-600	3438/600
27.09.2010	52 week.: 500-600	1150/580
4.10.2010	Cancelled	-
11.10.2010	Cancelled	-
18.10.2010	52 week.: 500-600	977/546
25.10.2010	52 week.: 500-600	861/276
22.11.2010	Cancelled	-
20.12.2010	Depending on the budget situation	-

* based on data of the Ministry of Finance

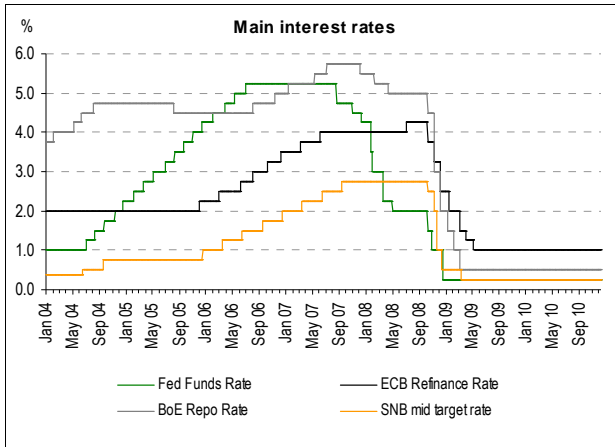
Treasury bond auctions in 2009/2010 (PLNm)

month	First auction			Second auction			Switch auction				
	date	T-bonds	offer	sale	date	T-bonds	Offer	sale	date	T-bonds	sale
January	13.01*	OK0712	6600	6600	20.01*	DS1019/WS0429	2400/600	2409/591	6.01	PS0415/WZ0118	2494/2383
February	10.02*	OK/PS	6600	6600	17.02	DS/WS/WZ/IZ	-	-	3.02	-	-
March	10.03	OK0712	3500-5400	5448	17.03	WZ0121	2000-3600	3600	3.03	PS0415/DS1019/WS0429	1784/2662/315
April	7.04	OK0712	2500-3600	3219	14.04	DS1020	2000-4200	3600	21.04**	PS0415	3600/3000***
May	5.05	OK0712	2500-4500	3700	12.05	PS0415	1500-3000	2989	27.05	WZ0121	422
June	2.06	OK0712	3000-5400	5400	16.06	DS/WS/WZ/IZ	1500-3000	2430	23.06	PS0415/WS0429	1549/54
July	7.07	OK1012	3000-5000	4971	14.06	PS0415	-	-	21.07	DS1110	DS1020
August	4.08	OK1012/PS0415	3000-6000	6000	11.08	-	-	-	25.08	DS1110	PS0415/DS1020
September	1.09	OK1012	2500-4000	4000	8.09	PS0415	1500-3000	3000	15.09**	DS1020	3000/3000***
October	6.10	OK0113	2000-3000	3000	13.10	PS0416	-	-	21.10	-	-
November	17.11	DS1020	1500-3000	3000	-	-	-	-	10.11	DS1110/PS0511	-
December	1.12	OK0113	2000-4000	4076*	8.12	WZ0121/IZ0823	1000-2000	2050	15.12	Conditioner tender	-

* with supplementary auction, ** primary auction, *** demand/sale

Source: Ministry of Finance, Reuters, BZ WBK

International review



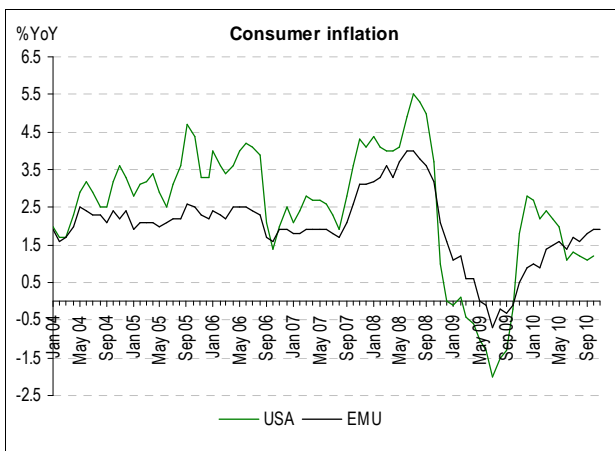
ECB also intensifies bonds purchases

- After the Fed, also the ECB decided to intensify its euro zone peripheral bonds purchases. The aim is to calm the situation on the European debt market. In the communiqué released after the ECB meeting there was no clear declaration on scale and intensity of further actions under the bond buying program. Only at the press conference, Jean-Claude Trichet confirmed that the ECB started buying bonds aggressively, particularly Irish and Portuguese ones. He stressed that no limits had ever been put on that program. He repeated his opinion that leaders of euro zone countries are aware of seriousness of the situation and investors should not doubt in their determination to find a solution of the debt problems.

- In line with expectations, the ECB left the interest rate unchanged at 1%. The communiqué released after the meeting says that the 1-week, 1-month and 3-month liquidity operations at full allotment will be continued at least until Q3 2011. According to the ECB, the inflation will be moderate in the medium term and positive tendencies in the euro zone's economy will be maintained, but – just as in the previous statements – it was stressed that risks still exist.

- According to the minutes of the FOMC meeting in November, the US central bankers were divided as regards introduction of QE2. A part of them was afraid that further monetary easing could be too risky for future inflation and may not have expected positive impact on the economy. The Fed lowered GDP forecast for 2011 to 3.0-3.6% from 3.5-4.2% predicted in June and revised upwards forecast for the unemployment rate to 8.9-9.1% from 8.3-8.7%.

- The annual US CPI accelerated slightly in October, to 1.2%. Flash estimate of euro zone's HICP indicates that in November prices increased by 1.9%YoY.



Uneven recovery worldwide, as well as in the euro zone

- In November the US manufacturing activity index declined on monthly basis, while euro zone's and Chinese ones advanced. Though the interpretation of that data is not clearly optimistic, for the time being the risk of materialization of double-dip scenario is rather low. Still, it should be anticipated that pace of recovery in industry will be moderate for some time.

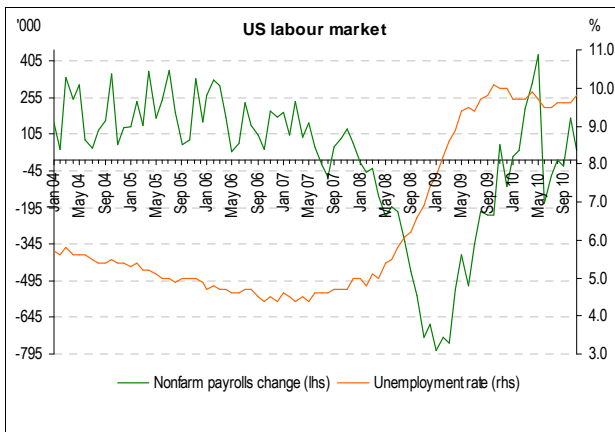
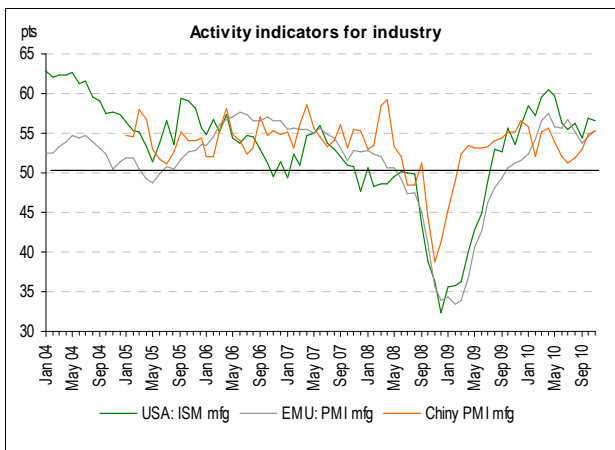
- The ISM index for the US manufacturing declined to 56.6pts from 56.9pts. Slight drop after biggest increase (2.5pts) since January 2010 does not question the upward trend.

- The Chinese PMI manufacturing increased to 55.3pts, the highest since April 2010. Strong data from the Chinese economy have ambiguous impact on sentiment in the global markets, as there are increasing concerns about aggressive tightening of economic policy in China.

- The PMI-manufacturing for the euro zone rose for the third consecutive month, to 55.3pts. However, the data show that the level of activity in manufacturing is well uneven, with considerable increase seen in Germany and France and declining activity in Spain and Greece.

- The preliminary data on the US GDP growth in Q3 showed an increase by 2.5%QoQ versus advanced announcement pointing to 2.0%. The upward revision was mainly due to private consumption, government spending and net exports.

- In November there were 39k of payrolls added in the non-farm sector versus 172k after the revision in October. Unexpectedly, the unemployment rate increased to 9.8%, the highest level since April 2010. The continuing high ratio of people without work indicates, that present pace of US GDP growth is too low to lead to a clear, sustainable improvement on the labour market.



Source: Reuters, ECB, Federal Reserve

Economic calendar

Monday	Tuesday	Wednesday	Thursday	Friday
13 December PL: Balance of payments (Oct)	14 PL: CPI (Nov) PL: Money supply (Nov) DE: ZEW index (Dec) EZ: Industrial output (Oct) US: Retail sales (Nov) US: Fed decision	15 US: CPI (Nov) US: NY Fed index (Dec) US: Industrial output (Nov) US: Capacity utilization rate (Nov)	16 PL: MPC minutes PL: Wages and employment (XI) EZ: HICP (Nov) US: Building permits (Nov) US: House starts (Nov) US: Philly Fed index (Dec)	17 PL: PPI (Nov) PL: Industrial output (Nov) DE: Ifo index (Dec) EZ: Trade balance (Oct) US: Leading indicators (Nov)
20 EZ: Consumer confidence (Dec)	21 PL: Core CPI (Nov) DE: Flash PMI – manufacturing (Dec) EZ: Flash PMI – manufacturing (Dec)	22 PL: MPC decision PL: Business climate (Dec) US: Final GDP (Q3) US: Core PCE (Q3) US: Home sales (Nov)	23 PL: Retail sales (Nov) PL: Unemployment rate (Nov) US: Consumer spending (Nov) US: Personal income (Nov) US: Core PCE (Nov) US: Durable goods orders (Nov) US: Michigan index (Dec) US: New home sales (Nov)	24 US: Market holiday
27	28 US: S&P/Case-Shiller home price index (Oct) US: Consumer confidence (Dec)	29 DE: GfK index (Jan) EZ: Money supply (Nov)	30 US: Pending home sales (Nov)	31 US: ISM NY index (Dec) US: Chicago PMI index (Dec)
3 January PL: PMI – manufacturing (XII) EZ: PMI – manufacturing (XII) US: ISM – manufacturing (XII)	4 US: Industrial orders (Nov) US: Fed minutes	5 US: ADP report (XII) US: ISM – services (Dec)	6	7 US: Non-farm employment change (Dec)
10	11	12 US: Import prices (Nov) US: Fed's Beige Book	13 US: Trade balance (Nov)	14 US: CPI (Dec) US: Retail sales (Dec) US: Industrial output (Dec) US: Consumer confidence (Jan)

Source: CSO, NBP, Ministry of Finance, Reuters, Bloomberg.

MPC meetings and data release calendar for 2010

	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
MPC meeting	25-26	23-24	30-31	27-28	24-25	29-30	6	23-24	28-29	26-27	22-23	21-22
MPC minutes	21	19	18	22	20	24	15	-	23	21	18	16
GDP*	-	-	2	-	31	-	-	30	-	-	30	-
CPI	14	15 ^a	15 ^b	15	14	15	13	13	14	13	15	14
Core inflation	21	-	22	22	21	22	20	20	21	20	22	21
PPI	21	18	17	20	20	18	19	18	17	19	19	17
Industrial output	21	18	17	20	20	18	19	18	17	19	19	17
Retail sales	28	23	24	23	26	24	23	24	24	26	-	-
Gross wages, employment	19	16	16	19	19	17	16	17	16	18	18	16
Foreign trade	about 50 working days after reported period											
Balance of payments*	-	-	31	-	-	29	-	-	28	-	-	30
Balance of payments	15	12	12	13	17	16	13	11	10	12	10	13
Money supply	14	12	12	14	14	14	14	13	14	14	12	14
Business climate indices	22	23	22	23	21	22	23	20	22	22	22	22

* quarterly data, ^a preliminary data for January, ^b January and February

Source: CSO, NBP

Economic data and forecasts

Monthly economic indicators

		Nov 09	Dec 09	Jan 10	Feb 10	Mar 10	Apr 10	May 10	Jun 10	Jul 10	Aug 10	Sep 10	Oct 10	Nov 10	Dec 10
PMI	pts	52.4	52.4	51.0	52.4	52.5	52.5	52.2	53.3	52.1	53.8	54.7	55.6	55.9	55.6
Industrial production	%YoY	9.9	7.4	8.5	9.2	12.5	9.7	13.5	14.3	10.5	13.6	11.8	8.0	10.7	15.8
Construction production	%YoY	9.9	3.2	-15.3	-24.7	-10.9	-6.3	2.3	9.6	0.8	8.4	13.4	9.4	12.6	15.8
Retail sales ^a	%YoY	6.3	7.2	2.5	0.1	8.7	-1.6	4.3	6.4	3.9	6.6	8.6	9.0	9.2	8.2
Unemployment rate	%	11.4	12.1	12.9	13.2	13.0	12.4	12.1	11.7	11.5	11.4	11.5	11.5	11.7	11.9
Gross wages in enterprises sector ^a	%YoY	2.3	6.5	0.5	2.9	4.8	3.2	4.8	3.5	2.1	4.2	3.7	3.9	3.9	4.1
Employment in enterprises sector	%YoY	-2.2	-1.8	-1.4	-1.1	-0.6	0.0	0.5	1.1	1.5	1.6	1.8	2.1	2.2	2.3
Export (€)	%YoY	1.8	15.1	12.5	19.9	22.6	23.1	24.4	27.0	17.5	22.9	17.9	15.6	20.5	30.5
Import (€)	%YoY	-10.5	-3.2	7.2	21.6	23.4	22.1	28.9	23.9	18.9	26.2	23.9	20.1	23.9	35.1
Trade balance	EURm	-266	-442	-109	-154	-419	-152	-399	-101	-606	-825	-537	-805	-640	-976
Current account balance	EURm	-1 637	-884	-826	512	-821	-312	-453	-757	-1 518	-1 255	-1 417	-1055	-990	-1276
Current account balance	% GDP	-2.4	-2.2	-2.1	-2.1	-2.2	-2.1	-2.1	-2.1	-2.3	-2.6	-2.9	-3.0	-2.8	-2.9
Budget deficit (cumulative)	PLNbn	-24.4	-23.8	-4.8	-16.7	-22.7	-27.0	-32.1	-36.8	-34.9	-36.9	-39.5	-41.8	-42.5	-48.2
Budget deficit (cumulative)	% of FY plan	102.6	100.0	9.3	32.1	43.5	51.8	61.6	70.5	66.9	70.7	75.7	80.1	81.5	92.3
CPI	%YoY	3.3	3.5	3.5	2.9	2.6	2.4	2.2	2.3	2.0	2.0	2.5	2.8	2.9	3.3
CPI excluding prices of food and energy	%YoY	2.8	2.6	2.4	2.2	2.0	1.9	1.6	1.5	1.2	1.2	1.2	1.2	1.3	1.7
PPI	%YoY	1.9	2.1	0.2	-2.4	-2.6	-0.4	1.9	2.1	3.8	4.0	4.3	4.0	4.5	4.6
Broad money (M3)	%YoY	8.0	8.1	6.3	5.1	5.5	6.1	7.7	7.1	7.8	9.4	8.9	6.3	8.7	8.2
Deposits	%YoY	10.3	9.8	7.5	6.8	6.2	7.0	8.5	8.1	8.5	9.9	9.6	7.7	9.0	8.7
Loans	%YoY	13.4	8.6	5.4	3.0	2.2	3.8	5.1	8.0	8.6	10.1	8.6	6.3	8.1	8.6
USD/PLN	PLN	2.79	2.83	2.85	2.93	2.87	2.89	3.24	3.36	3.20	3.09	3.03	2.85	2.90	3.05
EUR/PLN	PLN	4.17	4.14	4.07	4.01	3.89	3.87	4.06	4.10	4.08	3.99	3.96	3.95	3.95	4.02
Reference rate ^b	%	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50
Lombard rate ^b	%	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
WIBOR 3M	%	4.19	4.23	4.24	4.17	4.13	3.92	3.85	3.86	3.84	3.81	3.82	3.83	3.86	3.85
Yield on 52-week T-bills	%	4.26	4.25	4.01	3.90	3.92	3.84	3.71	3.93	4.08	3.97	4.02	4.04	4.10	4.10
Yield on 2-year T-bonds	%	4.92	4.92	4.95	4.90	4.76	4.47	4.52	4.66	4.73	4.68	4.69	4.72	4.79	4.75
Yield on 5-year T-bonds	%	5.64	5.67	5.58	5.51	5.27	5.10	5.26	5.35	5.35	5.23	5.15	5.09	5.36	5.45
Yield on 10-year T-bonds	%	6.14	6.21	6.12	6.09	5.71	5.56	5.74	5.83	5.73	5.54	5.45	5.36	5.82	5.95

Source: CSO, NBP, Finance Ministry, BZ WBK own estimates; ^a in nominal terms. ^b at the end of period

Quarterly and annual economic indicators

		2008	2009	2010	2011	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11	4Q11
GDP	PLNbn	1 275.4	1 343.7	1 416.2	1 520.8	324.0	343.2	348.9	400.1	348.9	368.0	372.7	431.1
GDP	%YoY	5.1	1.7	3.8	4.1	3.0	3.5	4.2	4.3	4.3	3.9	3.8	4.4
Domestic demand	%YoY	5.6	-1.0	3.9	5.0	2.0	4.0	4.2	5.3	5.4	5.1	4.3	5.2
Private consumption	%YoY	5.7	2.1	3.0	3.2	2.2	3.0	3.5	3.5	3.0	3.1	3.3	3.5
Fixed investments	%YoY	9.6	-1.1	-0.1	11.6	-12.8	-1.7	0.4	6.0	18.0	14.0	10.0	9.0
Industrial production	%YoY	3.6	-3.5	11.5	8.3	9.5	11.6	10.9	11.4	8.9	8.8	9.2	6.4
Construction production	%YoY	12.1	2.5	4.1	7.8	-16.7	2.5	7.6	12.8	25.5	2.7	3.3	8.4
Retail sales ^a	%YoY	13.1	3.5	5.8	8.4	4.0	3.1	6.5	9.0	5.8	8.6	9.0	9.7
Unemployment rate ^b	%	9.5	12.1	11.9	10.2	13.0	11.7	11.5	11.9	12.4	10.7	10.2	10.2
Gross wages in enterprise sector ^a	%YoY	10.3	4.4	3.5	5.5	2.8	3.8	2.0	4.0	4.2	4.9	6.7	6.4
Employment in enterprise sector	%YoY	4.8	-1.2	0.7	2.3	-1.3	0.4	1.5	2.2	2.4	2.3	2.3	2.3
Export (€)	%YoY	14.2	-15.8	21.0	11.8	18.0	24.9	19.3	21.7	18.0	11.0	11.0	8.0
Import (€)	%YoY	17.2	-24.3	22.9	15.4	17.2	24.9	23.0	26.0	23.0	16.0	14.0	9.8
Trade balance	EURm	-17 724	-3 102	-5 718	-10 970	-676	-653	-1 968	-2 421	-2 251	-2 296	-3 170	-3 253
Current account balance	EURm	-17 384	-6 749	-10 179	-10 570	-1 134	-1 534	-4 190	-3 321	-2 201	-2 096	-3 270	-3 003
Current account balance	% GDP	-4.8	-2.2	-2.9	-2.7	-2.2	-2.1	-2.9	-2.9	-3.1	-3.2	-2.9	-2.7
General government balance	% GDP	-3.7	-7.2	-7.9	-6.5	-	-	-	-	-	-	-	-
CPI	%YoY	4.2	3.5	2.6	3.4	3.0	2.3	2.2	3.0	3.6	3.5	3.4	3.0
CPI ^b	%YoY	3.3	3.5	3.3	2.9	2.6	2.3	2.5	3.3	3.7	3.4	3.2	2.9
CPI excluding food and energy prices	%YoY	2.3	2.7	1.6	2.4	2.2	1.7	1.2	1.4	2.2	2.4	2.5	2.5
PPI	%YoY	2.2	3.3	2.0	4.1	-1.6	1.2	4.0	4.4	4.8	4.1	3.7	3.8
Broad money (M3) ^b	%YoY	18.6	8.1	8.2	8.3	5.5	7.1	8.9	8.2	7.4	6.3	6.5	8.3
Deposits ^b	%YoY	20.6	9.8	8.7	8.1	6.2	8.1	9.6	8.7	7.7	6.4	6.6	8.1
Loans ^b	%YoY	36.0	8.6	8.6	10.0	2.2	8.0	8.6	8.6	13.4	10.1	11.4	10.0
USD/PLN	PLN	2.41	3.12	3.01	2.83	2.88	3.15	3.10	2.93	3.00	2.87	2.74	2.70
EUR/PLN	PLN	3.52	4.33	4.00	3.88	3.99	4.01	4.01	3.98	3.98	3.93	3.84	3.77
Reference rate ^b	%	5.00	3.50	3.50	4.50	3.50	3.50	3.50	3.50	3.75	4.00	4.25	4.50
Lombard rate ^b	%	6.50	5.00	5.00	6.00	5.00	5.00	5.00	5.00	5.25	5.50	5.75	6.00
WIBOR 3M	%	6.36	4.42	3.93	4.41	4.18	3.88	3.82	3.85	4.03	4.31	4.53	4.78
Yield on 52-week T-bills	%	6.26	4.54	3.97	4.61	3.94	3.83	4.02	4.08	4.30	4.55	4.80	4.80
Yield on 2-year T-bonds	%	6.22	5.17	4.72	5.14	4.87	4.55	4.70	4.76	4.90	5.10	5.25	5.30
Yield on 5-year T-bonds	%	6.15	5.65	5.31	5.58	5.46	5.24	5.24	5.30	5.45	5.55	5.60	5.70
Yield on 10-year T-bonds	%	6.06	6.11	5.74	5.95	5.97	5.71	5.57	5.71	5.90	5.95	5.95	6.00

Source: CSO, NBP, Finance Ministry, BZ WBK own estimates; ^a in nominal terms. ^b at the end of period

This analysis is based on information available until 10.12.2010 has been prepared by:

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