MINISTRY OF ECONOMY

Economic Analyses and Forecasts Department

A STUDY OF POLAND'S ECONOMIC PERFORMANCE

AFTER THE FIRST SIX MONTHS OF 2002

Warsaw, August 2002

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POLAND'S ECONOMIC PERFORMANCE AFTER THE FIRST SIX MONTHS OF 2002

INTRODUCTION

GDP growth rate at about 0.5 -0.7 per cent after the first six month of 2002

Real GDP growth rate is estimated to have increased by about 0.5 – 0.7 per cent in the first six months of 2002. Decrease in domestic demand is considered as the main reason of this low economic growth rate. The most worrisome is downward trend of gross fixed capital formation, which is estimated to drop to 87-90 per cent of the level recorded a year before.

The projections regarding development of major elements of the economic growth in 2002 show that economic activity may increase in the IV quarter of this year. Supported by growth in domestic demand in the second half of 2002 and relatively high exports, **GDP will manage to be by 1.2 per cent higher than in 2001.**

Lower level of sold production

A rise in labour productivity

The sold production of industry was by 1.0 per cent lower than a year before. Labour productivity in industry, calculated as sold production of industry per employee, increased by about 6 per cent as compared with the corresponding period last year, while the average employment decreased by 6.6 per cent at the same time.

Taking into account prospects for gradual industrial production improvement during next months of the current year (January 2002 – drop in industrial production by 1.4 per cent, June 2002 - increase by 2.2 per cent) and expected consumption demand revival in the second half of the year, the sold production of industry is anticipated to grow by about 2 per cent in 2002.

Low level of construction and assembly production

The situation in the construction industry did not improve in the period January – June 2002. **The value of the construction and assembly production** (in entities employing more than 9 persons) **lowered by 13.4 per cent** as compared with a year before.

Fall in the number of flats completed

Taking into account current and prospective situation in the construction industry, it is estimated that in 2002 the construction and assembly production will decrease by about 6.0 per cent as compared with 2001.

The situation in the dwelling industry deteriorated in comparison with last year. According to the preliminary data in the period January – June 2002 **42.4 thousand flats were completed, i.e. by 11.0 per cent less than in the corresponding period last year.**

Lower foreign trade turnover

In the period January – June 2002 commodity export revenues (according to the National Bank of Poland balance of payments) amounted to USD 14,886 million, i.e. by 0.4 per cent less than a year before. Expenditures for imports amounted to USD 19.746 million, i.e. by 5.4 per cent less than a year before. **Trade deficit reached USD 4,860 million, i.e. by USD 1,063 million less than a year before.**

It is estimated that in 2002 exports will increase by about 2.0 per cent to the level of USD 30,9 billion, while imports will stagnate at the level of USD 41,9 billion, i.e. by 0.1 less than a year before.. **Trade deficit within the entire year 2002 should not exceed USD 11 billion.**

Current account deficit may amount to USD 8,5 billion in 2002, i.e. about 4.5 per cent of GDP.

A considerable slowdown in inflation growth rate

Inflation indices have decreased at a very quick pace. **In June 2002 as compared with December 2001 prices for consumer goods and services increased by 1.1 per cent, and the annual average inflation (January-June 2002/January-June 2001) amounted to 2.8 per cent (6.7 per cent a year before).**

At the end of this year the annual average inflation may reach the level 3.2 per cent (4.5 per cent envisaged in the state budget).

Higher rate of effective wages growth and salaries than in 2000

In the first half of 2002 average monthly gross wages and salaries, except for payments of profits and from

company remuneration fund in the enterprises sector, amounted to PLN 2,225.28 and were nominally by 4.4 per cent higher than a year before, which at the decreasing inflation means the effective growth by about 1.7 per cent.

A reduction in the number of people employed

The situation on the labour market has not improved. In the period January - June 2002 the average employment in the enterprise sector (in the economic entities employing 9 persons and more) **was by 4.8 per cent lower than a year before.**

Unemployment rate amounted to 17.3 per cent

Within the entire year 2002 the employment in industry sector is estimated to decrease by about 4.5 per cent as compared with last year.

Unemployment rate increased to 17.3 per cent (3,090.9 thousand unemployed) in June 2002.

Taking into account envisaged development of economic, social and demographic trends **unemployment rate may rise to about 18.6 per cent at the end of 2002.**

State budget deficit accounted for 62.5 per cent of the amount planned in the state budget

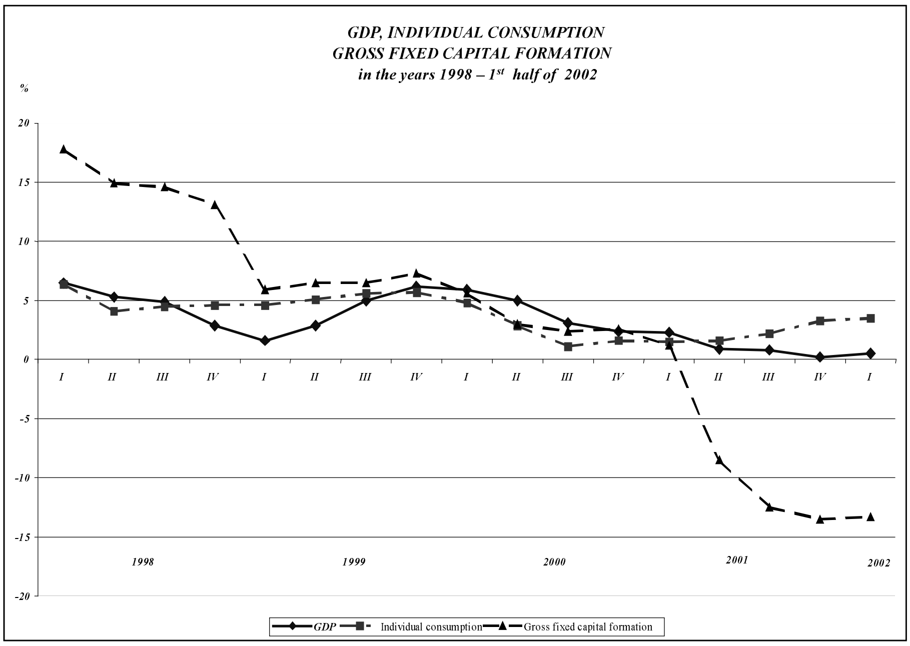
In the first half of 2002 state budget revenues reached PLN 65,051.0 million accounting for 44.8 per cent of the amount envisaged in the Budgetary Law for the year 2002. State budget expenditures amounted to PLN 90,031.0 million, i.e. 48.6 per cent of the budget expenditures planned for 2002. **State budget deficit amounted to PLN 24,980.0 million and accounted for 62.5 per cent of the amount envisaged in the Budgetary Law for the entire year.**

THE ECONOMIC GROWTH

GDP increased by about 0.5 – 0.7 per cent in the first half of 2002

Since the second half of 2000 the economic growth rate has been noticeably weakening.

In the I quarter of 2001 GDP grew by 2.3 per cent, but in the next quarters it gradually decreased (0.9 per cent in the II quarter, 0.8 per cent in the III quarter) and in the IV quarter of 2001 GDP growth rate hardly amounted to 0.2 per cent. In the first half of 2002 GDP is estimated to have increased by about 0.5 – 0.7 per cent in comparison with corresponding period last year. Slight improvement in GDP growth rate may be anticipated in the next six months.



Economic activity slowdown has resulted from low domestic demand growth rate, especially investment one. Exports did not strongly support economy development, as in the first half of 2002 it did not exceed last year level.

Decreasing investment and export demand compensated for relatively strong consumer demand. Growth in individual consumption, estimated at the level of about 3.2 per cent in the period January – June 2002, arose from an increase in purchasing power of average wages and salaries, retirement pay and pension as well as of weakening propensity for saving.

General deterioration in economic results of the economic entities and high level of indebtedness in industry sector resulted in the considerable contraction of gross capital formation and development abilities. High effective credit costs (despite last and this year interest rates cuts), combined with low net profitability of enterprises and demand barrier on the domestic market were not and still are not conducive to investment.

Projections regarding developments in major elements of economic growth in 2002 indicate, that the economy will develop at a slower rate. A slight revival of domestic demand may be expected at the end of the year, what should be supported by the execution of the entrepreneurship development program, especially for small and medium size enterprises to foster the growth of investment.

More optimistic mood and expectations of both consumers and entrepreneurs (according to all recent polls on economic environment) as well as the contraction of final goods stocks constitute favourable premises that economic growth will improve. **Upon the assumption of gradual export growth in the second half of the year (with more favourable exchange rate conditions), GDP is expected to increase by about 1.2 per cent in 2002.** But in the presence of weaker economic growth in the West European countries and considerable decrease in exports in the period July-December 2002, GDP growth rate may be slightly lower.

Expected GDP growth rate in 2002 at the level of 1.2 per cent

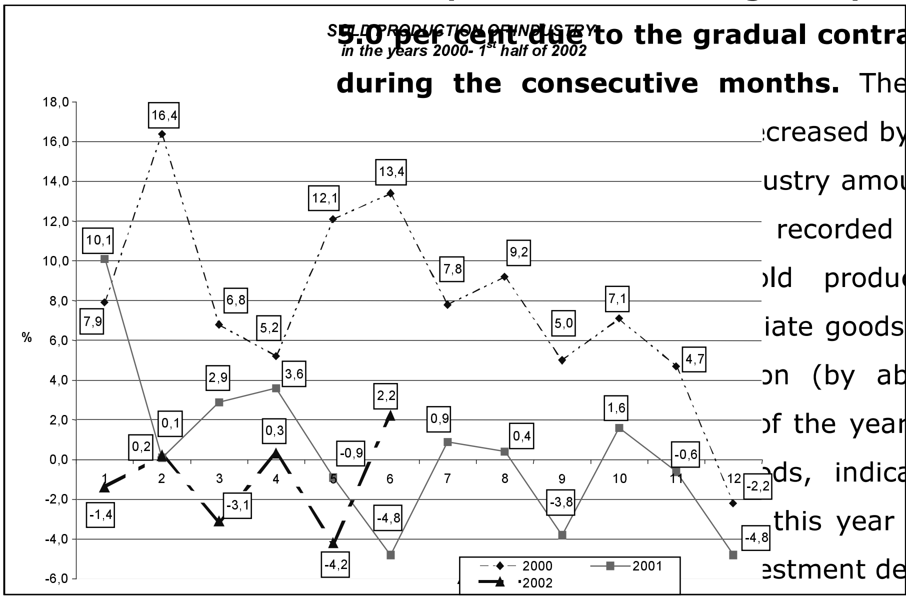
SOLD PRODUCTION OF INDUSTRY

Sold production of industry decreased by 1.0 per cent

In the period January - June 2002 sold production of industry (in entities employing more than 9 persons) **fell by 1.0 per cent in comparison with the corresponding months last year (in the I quarter 2002 a drop in production reached 1.6 per cent, in the II quarter – 0.3 per cent).**

The highest increase in sold production of industry was recorded in electricity, water and gas supply sector (by 2.6 per cent).

The production in mining and quarrying decreased by 5.0 per cent due to the gradual contraction of production during the consecutive months. The production of coal,



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Out of 29 industrial divisions in 13 a drop in the sold production of industry was noted. Their production accounted for 32.2 per cent of total production of industry. Also in industry sectors considered as carriers of technological progress the level of production decreased by 2.9 per cent in comparison with the first half of 2001. One of the main reasons for this results was considerable contraction in manufacture of motor vehicles, trailers and semi-trailers.

In 16 industrial divisions the production was higher than a year before, among others in manufacture of:

- office machinery and computers – by 20.2 per cent
- fibre and paper – by 12.2 per cent
- metal products – by 9.2 per cent
- rubber and plastic products – by 8.7 per cent

A decrease in sold production resulted not only from lower demand and restructuring processes in economy, but also from quality changes occurring in the Polish industry. In January-June 2002 labour productivity calculated as sold production per employee was by about 6 per cent higher than a year before, while the average employment was lower by 6.6 per cent.

Not satisfactory after the first half of 2002 situation in industry should improve in the next six months. Economy prospects for future demand are more optimistic than in June 2002. Manufacturers assess the environment as more favourable to improve financial standing of entities. Foreign demand is estimated as less favourable than in June. **Taking into account prospects for the improvement of sold production of industry in the second half of 2002, which result from anticipated slight revival in demand combined with very low inflation rate, sold production is estimated to grow by about 2.0 per cent in 2002.**

Sold production of industry is estimated to increase by about 2 per cent in 2002

CONSTRUCTION AND ASSEMBLY PRODUCTION

Construction and assembly production lowered by 13.4 per

Construction and assembly production lowered by 13.4 per cent in the period January – June 2002 as compared with the corresponding period last year.

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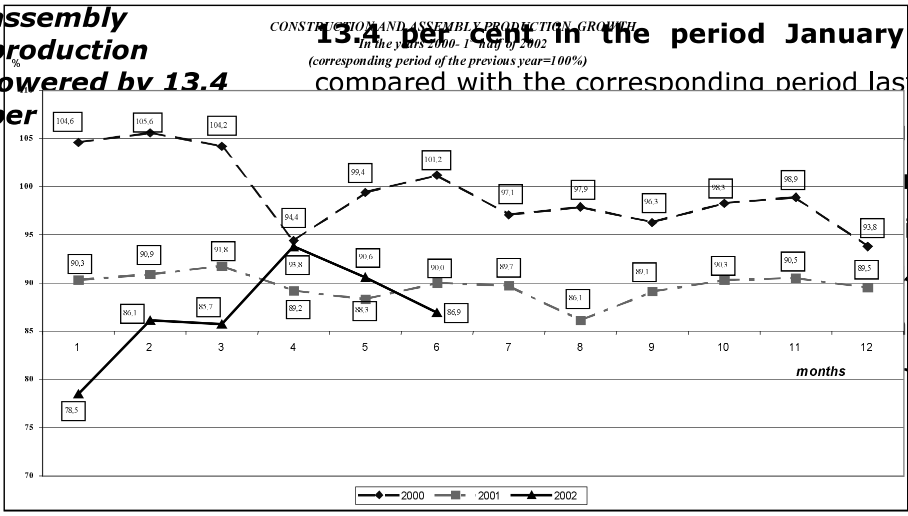


A drop in production has been noted all groups of construction enterprises, except for entities carrying out building completion – increase by 14.7 per cent.

The deepest fall in production (by 30.5 per cent in comparison to the first half of 2001) was recorded in entities dealing with site preparation and building installations (by 21.3 per cent).

In 2002 construction and assembly production is estimated to be by about 6 per cent lower

Taking into account the current situation in the construction industry and weak development prospects in the next six months of 2002, construction and assembly production is envisaged to fall by 6.0 per cent in 2002.

Deteriorated performance in dwelling industry

In January – June 2002 **42.4 thousand flats were completed, i.e. by 11.0 per cent less than a year before.** In the co-operative construction there were by 32.0 per cent less dwellings completed than a year before, in the construction for sale or rent - by 21.1 per cent less, in company construction - by 19.7 per cent less, and in public building society – by 7.7 per cent less. The highest results were recorded in municipal construction – increase by 13.8 per cent and in private one, where the number of flats completed rose by 8.5 per cent in relation to the corresponding period last year.

The average usable space floor of a dwelling was by 6.5 sq. m. larger than a year before.

In the first half of 2002 the construction of 38.3 thousand dwellings commenced (by 17.4 per cent less than a year before). The number of building permits for flats decreased by 35.2 per cent to the level of 33.7 thousand.

AGRICULTURE

Positive results in agriculture

In the period January-June 2002 meteorological conditions supported plant vegetation processes on the majority of Polish territory, what should bring in good crops. According to the

preliminary estimates crop production and yields will shape in 2002 as follows:

Specification	Yields of 1 ha in deci tonnes	Yields 2001=100	Crops in mln tonnes	Crops 2001=100
Wheat	37.4-38.2	110.0-112.4	9.1 – 9.3	98.0-100.2
Rye	24.9-25.5	102.5-104.9	4.1-4.2	84.3-86.4
Rape and agrimony	24.4	101.7	1.0	98.4
Field vegetables	x	x	4.6	88.1
Tree fruit	x	x	2.4-2.7	84.5-92.1

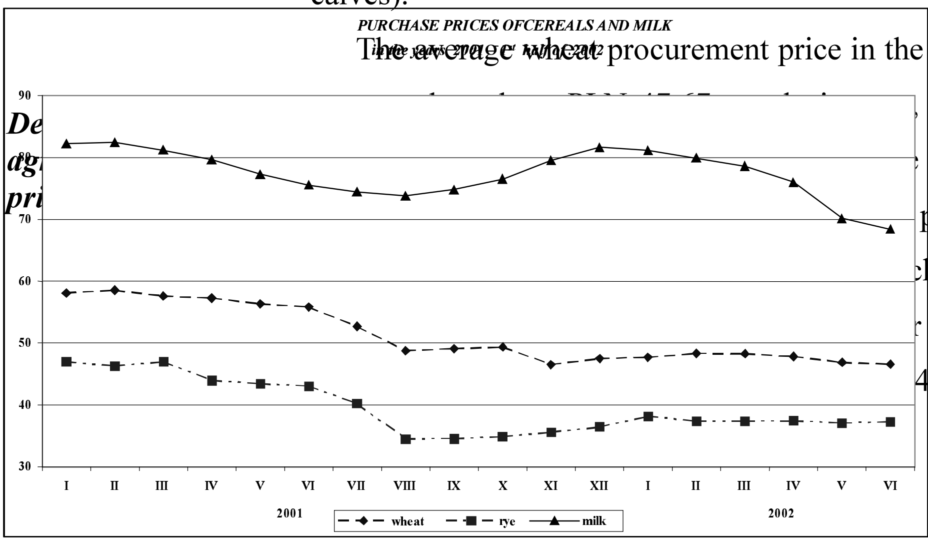
Higher cereal and animals for slaughter

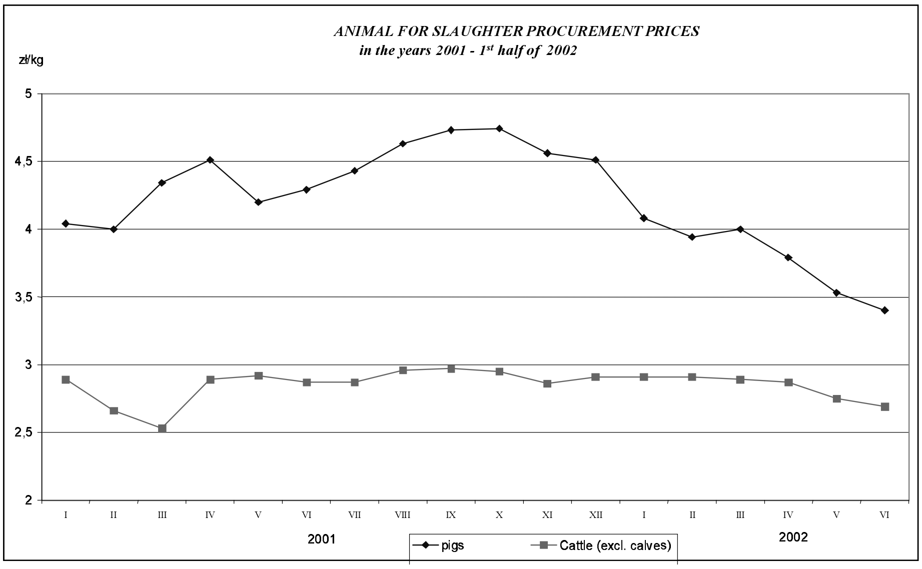
In the period July 2001 – June 2002 6,072.0 thousand tonnes of cereals were purchased, i.e. **by 0.7 per cent more than a year before, of which 4,750.4 thousand tonnes of wheat (by 4.5 per cent less), and 778.7 thousand tonnes of rye (by 48.1 per cent more).**

In the period January – June 2002 724.0 thousand tonnes of animal for slaughter were purchased, i.e. by 10.2 per cent more than a year before. The supply of poultry and pork had the main impact on the level of this procurement. The purchase of poultry amounted to 269.8 thousand tonnes, i.e. by 21.1 per cent more than a year before, and the procurement of pigs for slaughter amounted to 390.5 thousand tonnes and was by 11.1 per cent higher than a year before. A drop (by 20.6 per cent) to the level of 59.4 thousand t. was recorded in the procurement of cattle for slaughter (including calves).

De[illegible] ag[illegible] pri[illegible]

The average wheat procurement price in the first half of this year [illegible], i.e. by 16.7 per cent [illegible] (PLN 37.45 per deci [illegible] per cent lower than a [illegible] hed the level of PLN [illegible] than a year before, [illegible] 45.21 per deci tonne)





In the first half of 2002 average procurement price of pigs for slaughter shaped at the level of PLN 3.80 per kg and was by 10.3 per cent lower than a year before. Average price for one kg of poultry in the procurement was PLN 2.87, i.e. by 17.4 per cent less than a year before. Procurement prices of cattle for slaughter increased at a slight degree to PLN 2.84 per deci tonne on average (by 0.4 per cent more than a year before).

DOMESTIC TRADE

Increase in the volume of sales

T**he total volume of retail sales** (in fixed prices) carried out by commercial and non-commercial enterprises employing more than 9 persons, in the first half of 2002 was by 3.1 per cent higher than a year before. An increase in sales occurred in the presence of relatively low effective wages and salaries growth rate and deteriorating labour market, what may be a possible result of a drop in savings rate due to lower than in 2001 people deposit interest rates and the implementation of 20 per cent tax on banking interest rates (from 1st April 2002).

An increase in the volume of sales was recorded in the majority of enterprises selling solid, liquid and gaseous fuels (by 10.4 per cent), furniture, radio and television, household appliances (by 7.8 per cent), food, alcoholic beverages tobacco products (by 21.4 per cent), tobacco products sold at specialised points of sales (by 3.8 per cent), and the sales of pharmaceuticals, cosmetics and orthopaedic equipment (by 16.4 per cent).

A drop in sales was recorded in the enterprises selling motor vehicles, motorcycles (by 9.9 per cent) and in the so called group of other enterprises, selling amongst others jewellery products, pieces of modern art, sports articles and games, computers, flowers and seeds (by 2.8 per cent less than a year before).

In the period January – June 2002 **the wholesale trade in enterprises** (in current prices) increased by **8.7 per cent** as compared with the corresponding period of the previous year. The highest increase in the wholesale trade was noted in the enterprises distributing semi-finished products and waste of other than agricultural origin and scrap (an increase by 30.8 per cent in comparison with the first half of 2001), household appliances and articles of personal use (by 11.5 per cent) and carrying out sales on order (by 8.0 per cent).

A drop in the wholesale trade (by 4.1 per cent as compared to a year before) was recorded in enterprises selling agricultural products and live animals.

Businessmen expect an increase in investment expenditures in the next six months. Only entrepreneurs operating in furniture, radio and television, household appliances sectors forecast a drop in these expenditures.

TRANSPORT AND COMMUNICATIONS

In the first half of 2002 a decrease in demand for both cargo and passenger transport was noted, as well as for cargo handling at sea ports.

Lower passenger traffic than a year ago

In the period January - June this year public transportation means carried 619.3 million passengers, i.e. by 4.3 per cent less than a year before. A drop in passenger traffic resulted from decrease in railway transport (by 6.9 per cent) and road one (a fall of 3.4 per cent).

Air transport carried 1.6 million passengers (by 0.3per cent more

than a year before).

Cargo transport decreased

In the first half of this year **total cargo transport** was lower than a year before. A decrease in demand for cargo transport by all means of transportation was noted, except for maritime and pipeline transport. Transportation enterprises, employing more than 9 persons, carried 146.6 million tonnes of cargo (by 5.7 per cent less than a year before).

Road transport carried 33.6 million tonnes of cargo (by 5.4 per cent less than in the first half of 2001).

Railway transport carried 75.0 million tonnes of cargo, i.e. by 10.4 per cent less than a year before.

Inland **waterway transport** shaped at the level of 2.0 million tonnes of cargo, i.e. by 30.2 per cent less than a year before.

T**ransport via pipelines** carried 23.5 million tonnes of oil and oil products, i.e. by 3.8 per cent more than a year before.

The amount of goods loaded and unloaded in commercial seaports decreased by 5.4 per cent to the level of 23.1 million tonnes. The fall related in the first place to the handling of cereals – by 36.4 per cent, ores – by 37.8per cent, timber – by 3.7 per cent, oil and oil products – by 12.0 per cent and so called other bulk cargo - by 11.0 per cent

An increase in loading and unloading of general cargo (by 11.9 per cent) and coal and coke (by 1.0 per cent) was recorded in the period surveyed..

Dynamic development of mobile telecommunication

In the first six months of 2002 **total sale of transportation services** (in fixed prices) was by about 9.0 per cent higher than a year before.

In the first half of the current year significant development of cell telecommunication and new wire telecommunication technology (ISDN)[1] was continued. The number of telephone subscribers and cell telecommunication users amounted to 11.7 million at the end of June this year and was by 42.9 per cent

[1] Digital telephone network with the integration of services, allows the usage of the same network for the transfer of voice, pictures, facsimile and data.

higher than a year before.

Dynamic development of cell telecommunication resulted in the larger number of its users than the number of wire telecommunication subscribers. **The number of main lines in the net of public wire telecommunication increased by 3.5 per cent as compared with the first half of 2001 and amounted to 11.5 million.**

FOREIGN TRADE

Lower trade deficit than a year before

After the first five months of this year exports (based on the customs statistics) amounted to USD 14,989.1 million and were by 0.2 per cent higher than a year before. In the same period imports shaped at the last year level - USD 20,764.7 million. Trade deficit amounted to USD 5,775.6 million and was lower by USD 33.7 million than a year before.

The **European Union countries** are Poland's major trade partners. Exports to these countries decreased by 2.2 per cent to USD 10,432.4 million, and imports grew by 0.6 per cent to USD 12,794.3 million. **Negative trade balance with the EU countries amounted to USD 2,361.9 million in the period January – May 2002 and was by USD 312.3 million higher than a year before.**

Trade turnover with Germany – our main partner – resulted in balance deterioration in trade turnover with EU countries. Exports to Germany fell to the level of USD 4,950.6 million (by 6.0 per cent) and imports to USD 5,021.1 million (by 3.8 per cent more than a year before). Negative trade balance with this country amounted to USD 70.5 million after first five months of this year (USD 432.9 million a year before).

An increase in exports to Germany was recorded in the supply of food, live animals, beverages and tobacco, while in the remaining sections trade turnover dropped. The deepest fall was noted in the section "various industrial products" (furniture, bed clothing,

mattresses) – by 10.4 per cent and in industrial goods classified according to the raw material used (metal and wood products) – by 7.3 per cent.

In imports a rise was recorded in machinery and transport equipment (by 9.8 per cent) and in chemicals and chemical products (by 1.9 per cent). Germany share in total Polish exports decreased to 33.0 per cent (35.5 per cent a year before), while in imports grew from 24.2 per cent to 23.5 per cent after the first five months of this year.

The value of commodity exports to **Central East European countries** amounted to USD 2,776.5 million (growth by 12.2 per cent as compared with the first five months of 2001), and the value of imports decreased to the level of USD 3,475.2 million, i.e. by 7.1 per cent less than a year before. Trade deficit declined by USD 575.8 million and amounted to a negative USD 698.7 million. An increase in exports to Russia (by 37.5 per cent) contributed mostly to the improvement of trade balance with these countries as the negative balance shrank to the level of USD 1,108.2 million (negative USD 1,493.1 million a year before).

Lower merchandise trade deficit on the current account

In the first half of 2002 merchandise export revenues (according to NBP balance of payments) amounted to USD 14,886 million, i.e. by 0.4 per cent less than a year before. Import expenditures reached the level of USD 19,746 million, i.e. by 5.4 per cent less than a year before. After January - June 2002 trade deficit at the level of USD 4,860 million was by USD 1,063 million lower than in the corresponding period of 2001.

Balance of payments in the period January –June 2002

(selected items)

No

Specification

January - June

2001

2002

Growth rate

I

Current account

-4,440

-3,895

x

1.

Export revenues

14,944

14,886

99.6

2.

Import expenditures

20,867

19,746

94.6

3.

Trade balance

-5,923

-4,860

x

4.

Income from services

1,856

1,856

100.0

5.

The improvement of trade balance (by USD 1,063 million), net services (by USD 54 million), net portfolio investment (by USD393 million), net current transfers (by USD 91 million) and Polish assets (by USD 1,395 million) did not compensated for deterioration in the remaining items of the balance of payments. Current account deficit after the first half of 2002 reached the level of USD 3,895 million (by USD 545 million less than a year before).

Current account deficit after January-June 2002 is estimated to account for 4.4 per cent of GDP (about 5.6 per cent a year before).

The contraction of trade deficit resulted mainly from the continued regress in imports. A decrease in import expenditures is tightly combined with the weakened domestic demand, especially investment and supply one, which contribute to the development and modernization of the economy.

A drop in exports revenues arose from uncertain economic situation on global markets and in the European union, and especially in Germany, as well as from increasing export difficulties at the presence of still strong PLN (despite slight depreciation in May and June 2002) against EUR.

These factors will affect considerably foreign trade turnover in the next quarters of 2002. **Exports of goods (according to NBP balance of payments) are estimated to amount to USD 31 billion (increase by 2.0 per cent) in 2002 and imports - to about USD 42 billion (decrease by 0.1 per cent). Trade deficit of USD 11 billion will be by over USD 600 million lower than in 2001.**

INFLATION

Consumer goods and services prices decreased as compared to a

In January-June 2002 consumer goods and services prices increased by 2.8 per cent in comparison with

year before

corresponding period last year.

Transportation costs as well as prices for clothing and footwear decreased respectively by 0.8 and 0.5 percentage points in the first half of 2002.

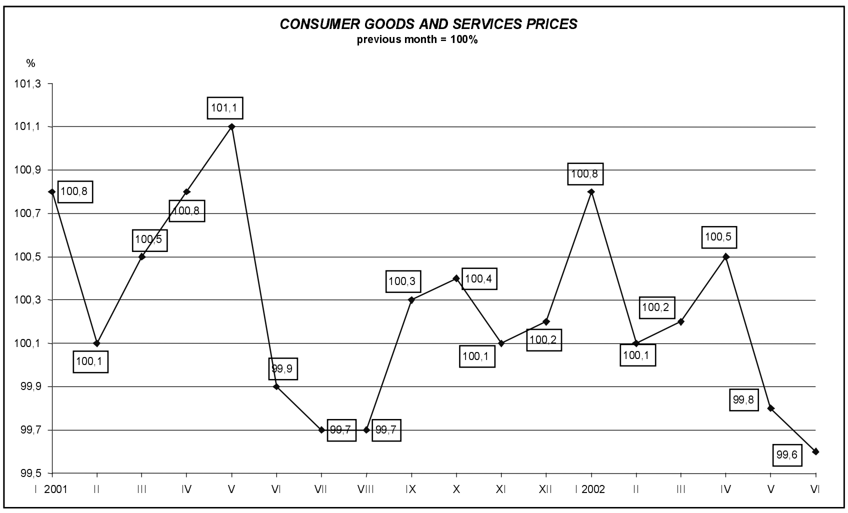
An increase was recorded in prices related to housing, water, electricity, gas and other fuels (by 6.7 per cent on average), healthcare, medical products and services (by 5.5 per cent) and education (by 4.8 per cent).

Food and non-alcoholic beverages prices at the same time increased by 1.0 per cent on average. In this group of products vegetable and fish prices increased considerably (respectively by 13.8 per cent and 5.1 per cent). Lower than a year before prices on poultry (by 17.3 per cent less), sugar (by 3.9 per cent less) and meat (by 1.7 less) contributed to a decline in food prices.

Prices on coffee, tea and cocoa decreased by 2.6 per cent in this period, on fuels - by 4.5 per cent, on transportation means - by 1.5 per cent, on audio-visual, photographic and information processing equipment - by 4.2 per cent.

Domestic telephone calls cost by 11.1 per cent less than a year before.

Households' expenditures on actual rentals for housing increased by 9.2 per cent on average and for electricity by 8.5 per cent in comparison with the first half of 2001.



At the existing range between slight increase in consumer prices and savings and credits interest rates, significant inflation growth should not be expected.

This year inflation rate may reach the level of 3.2 per cent

Year-on-year inflation rate may amount to about 3.2 per cent at the end of 2002 against 4.5 per cent envisaged in the Budgetary Law.

WAGES AND SALARIES, SOCIAL BENEFITS

The average monthly wages and salaries in the enterprise sector amounted to PLN 2,225.28 and was by 4.4 per cent higher than a year before.

In the public sector the level of average wages and salaries increased by 5.1 per cent to about PLN 2,518.34, and in the private sector by 4.4 per cent to the level of PLN 2,132.47.

Real wages and salaries increased by 1.7 per cent

In the first half of 2002 the average monthly gross wages and salaries, except for payments for profits and from the company remuneration fund in the enterprise sector amounted to PLN 2,219.72 and was by 4.5 per cent higher in nominal terms than a year before, meaning, at the presence of curbing inflation, real growth by about 1.7 per cent.

Specification	Nominal gross wages and salaries 1st half of 2002	
	PLN	1st half of 2001=100%
Enterprise sector	2,219.72	104.5
Industry	2,218.15	104.6
- mining and quarrying	3,314.04	107,0
- manufacturing	2,027.36	103.9
- electric energy, gas and water supply	2,912.52	104.3
Construction	2,002.58	101.5
Trade and repairs	2,129.48	103.8
Hotels and restaurants	1,660.43	101.5
Transport, storage management, telecommunication	2,525.32	109.6

Real estates and business activities	2,321.21	102.1

Total average gross monthly wages and salaries increased in all sections of industry sector but were diversified depending on the type of business conducted by economic entities.

The highest increase in wages and salaries was recorded in transport, storage and communications (by 9.6 per cent) and in mining and quarrying (by 7.2 per cent).

The lowest growth of average wages and salaries was noted in hotels and restaurants section (by 1.4 per cent), construction (by 1.5 per cent) and other community, social and personal service activities (by 1.9 per cent).

The highest level of wages and salaries recorded employed in computer and related activities sector– PLN 5,192.55.

In industry, depending on the type of economic activity carried out by entities (employing more than 9 persons), the highest wages and salaries noted employees manufacturing:

- tobacco products– PLN 4.2 thousand, i.e. by about PLN 2.0 thousand more than the average wages and salaries in the industry sector;
- coke, refined petroleum product and derivatives – about PLN 3.9 thousand, i.e. by about PLN 1.7 thousand more than average;

and the lowest in entities connected with the manufacture of:

- wearing apparel and furriery – about PLN 1.2 thousand, i.e. by over PLN 1,000 less than average in the industry sector;
- leather and leather products – about PLN 1.4 thousand, i.e. by about PLN less than average in industry sector;

– textiles – about PLN 1.6 thousand, i.e. by over PLN 600 less than average in industry sector.

Increase in effective retirement pay and pensions

In the first half of 2002 average number of retirees and pensioners amounted to 9,254.6 thousand persons and was by 0.9 per cent lower than a year before.

Average monthly retirement pay and pension from non-agricultural social security system amounted in this period to PLN 1,032.41 and was higher by 8.8 per cent in real terms than a year before.

Average monthly retirement pay and pension of individual farmers was by 6.9 per cent higher in real terms than a year before (PLN 697.63).

LABOUR MARKET

Due to weaker economic growth, group dismissals in privatised enterprises as a result of expiration of employers' commitments regarding employment guarantees and continuation of restructuring processes **the situation on the labour market has been deteriorating for several months.**

Lower employment in the enterprise sector

In the entire last year and till June 2002 average employment in enterprise sector was declining. **In the period January – June 2002 average employment in enterprise sector amounted to 4,928.2 thousand persons and was by 4.8 per cent lower than a year before.**

Considerable employment reduction occurred in the following sections: industrial processing, transport, storage and communication (by 7.4 per cent each), mining and quarrying (by 5.8 per cent), and construction (by 11.8 per cent).

In trade and repairs average employment increased by 0.9 per cent, in hotels and restaurants by 3.9 per cent, in real estate and business activities section (by 2.6 per cent) and in electric energy, gas and water supply by 0.7 per cent in relation to the

first half of 2001.

Among divisions of manufacturing industry **the highest decrease in employment occurred in the manufacture of the following: motor vehicles, trailers and semi-trailers (by 13.5 per cent), basic metals (by 12.9 per cent less than a year before), wearing apparel and furriery (by 11.3 per cent), products from non-metal raw materials (by 11.1 per cent) machinery and equipment as well as in textiles (by 10.2 per cent) wood and wood, straw and wicker products (by 8.0 per cent less than a year before) and furniture and the remaining manufacturing activity (by 7.9 per cent).**

An increase in employment by 6.8 per cent in relation to January - June 2001 occurred only in the manufacture of medical, precision and optical instruments, watches and clocks (by 7.4 per cent).

Weakened economic growth and the envisaged reduction in employment in the enterprises restructured will adversely contribute to the level of employment, which is forecast to decrease by 2.5 per cent in the entire year.

High unemployment rate

In June 2002 unemployment rate increased to 17.3 per cent (15.9 per cent a year before). At the end of June 3,090.9 thousand unemployed were registered, i.e. by 241.3 thousand people more than a year before (by 8.5 per cent).

The number of unemployed without a right for unemployment benefit amounted to 2, 513.2 thousand people . Out of the total number of unemployed 221.3 thousand people

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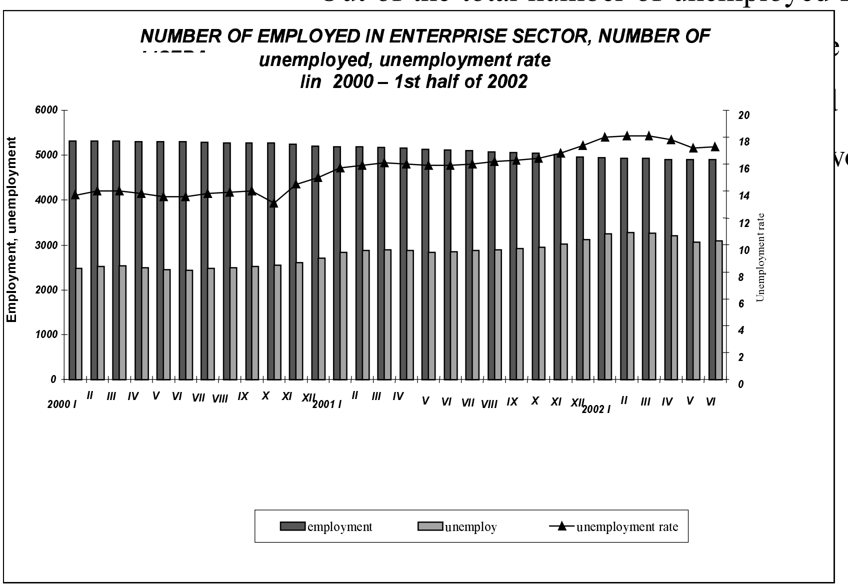


The major factors contributing to unemployment growth include:

- demographic pressure
- labour productivity increase due to technological progress
- restructuring of enterprises
- rationalisation of employment in enterprises being still under the competitiveness pressure.

At the end of June 2002 **the number of job offers announced** by enterprises to labour offices increased by 17.3 per cent as compared to June 2001 and amounted to 14.2 thousand.

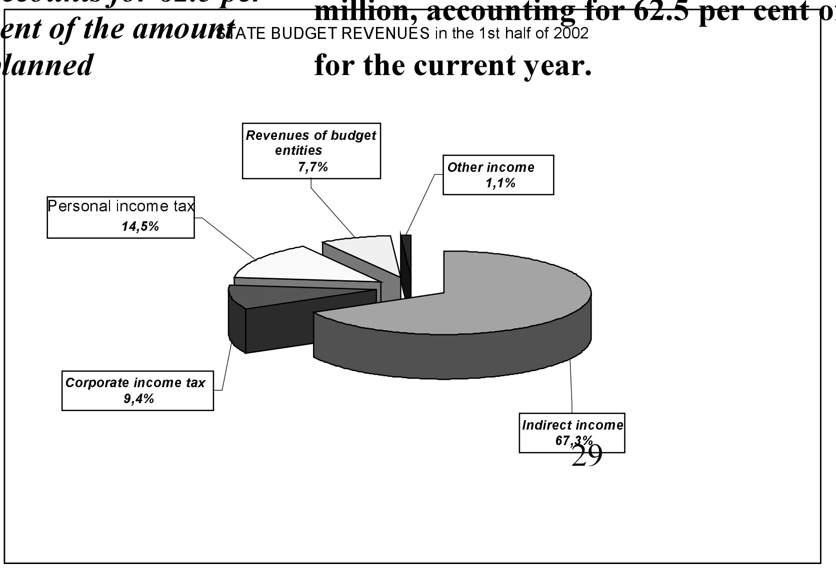
Taking into account the expected development of economic, social and demographic processes in the second half of this year unemployment rate may exceed 18.6 per cent at the end of 2002.

STATE BUDGET

In the first six months of 2002 the state budget revenues amounted to PLN 65,051.0 million, accounting for 44.8 per cent of the amount envisaged in the Budgetary Law for 2002. State budget expenditures amounted to PLN 90,031.0 million, i.e. 48.6 per cent of the amount envisaged for the entire year.

State budget deficit accounts for 62.5 per cent of the amount planned

The state budget deficit amounted to PLN 24,980.0 million, accounting for 62.5 per cent of the amount planned for the current year.

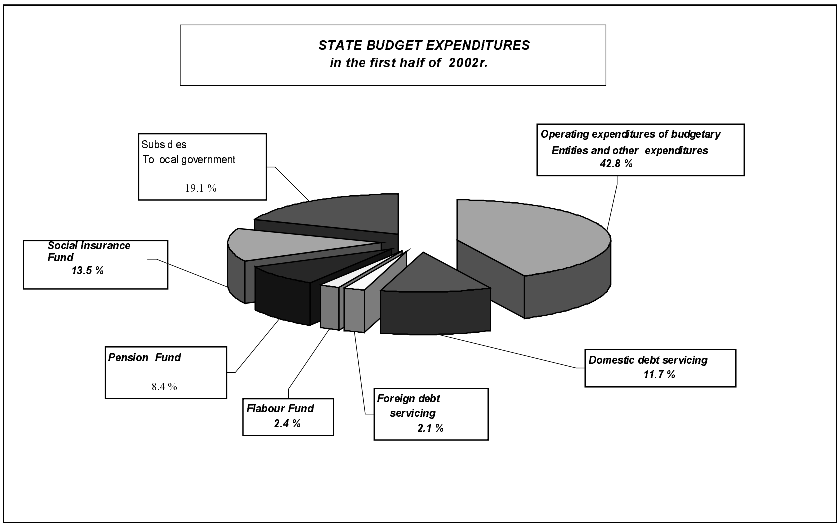


In the first half of 2002 budget revenue collection was by 4.0 per cent lower than a year before[2]. Custom duty revenues decreased by 11.1 per cent, revenues of budgetary entities were by 36.2 per cent lower and other income (of which revenues from NBP profit) declined by 88.0 per cent.

Revenues from corporate income tax increased by 13.2 per cent, from indirect taxes (VAT, excise tax) by 12.2 per cent and from personal income tax by 0.6 per cent.

State budget revenues lowered in the first half of 2002, while expenditures increased at the same time by 4.0 per cent.

Allocation of expenditures to the Labour Fund increased at the highest degree (by 27.2 per cent), domestic debt servicing – by 17.5 per cent and allocations to the Social Insurance Fund grew by 16.5 per cent.



TOURISM

In the first half of 2002 the number of domestic and foreign tourists continued to decrease.

According to the information of the Border Guard in the

[2] In 2001 state budget collected revenues from the sale of collateral (PLN 990.9 million) and UMTS licences (PLN 903 million); in the current year additional revenues did not occur.

first six months of 2002 the number of border clearances on Poland's borders amounted to 89.1 million of people arriving in and leaving Poland, i.e. by 18.8 per cent less than a year before.

The number of tourists visiting Poland decreases

In the first half of 2002 the number of clearances of Poles travelling abroad amounted to 22.1 million, i.e. by 10.7 per cent less than a year before. Departures of persons crossing the border within the framework of cross border traffic accounted for 9.3 per cent of total clearances of Poles.

At the same time 23.2 million clearances of foreigners arriving in Poland were made, what indicates for a considerable drop (by 25.1 per cent less) in comparison with the corresponding period last year.

The citizens of the neighbouring countries accounted for 93.5 per cent of the total number of visitors.

The majority of tourists arriving in Poland constituted Germans (10.9 million of persons, i.e. 46.9 per cent of the total foreigners' arrivals).and they were followed by tourists from the Czech Republic – 3.5 million of persons, Ukraine – 2.8 million and Belarus – 2.1 million people.

REGIONAL VARIATIONS OF DEVELOPMENT

Economic entities

The number of economic entities increased

As at the end of June 2002 458.4 thousand of economic entities (excl. civil law partnerships) were registered in REGON, i.e. by 5.5 per cent more than at the end of 2001. The number of entities in private sector increased by 6.2 per cent (344.7 thousand) and in the public one - by 3.4 per cent.

In the period January –June 2002 12,550 entities emerged in the private sector, what accounted for 2.9 per cent of the total entities registered in REGON as at the end of 2001.

At the end of 2001 the biggest share of new entities out of total

number of them (in particular voivodships) was recorded in: Dolnośląskie (4.0 per cent), West Pomerania 93.5 per cent) and Wielkopolskie (3.4 per cent) voivodships.

At the same time 1,171 entities were liquidated in the private sector, i.e. 0.3 per cent of total number of entities registered in REGON at the end of 2001. The highest percentages of entities liquidated were recorded in the following voivodships: Lubuskie (0.6 per cent), Podlaskie (0.5 per cent) and Podkarpackie (0.4 per cent).

In the first half of 2002 1,152 entities were liquidated in the public sector. The highest scores were recorded in the following voivodships: Warmińsko-Mazurskie and Świętokrzyskie (0.5 per cent each) and Kujawsko – Pomorskie (2.4 per cent).

Sold production

In the period January – June 2002 an increase in sold production of industry (in fixed prices) was recorded only in four voivodships.

The highest sold production of industry in Pomerania voivodship

The highest growth in sold production of industry in comparison with the corresponding period last year was recorded in the following Provinces:

- Pomerania - increase by 6.2 per cent
- Lubelskie - increase by 3.2 per cent

Considerable drop in production in West Pomerania

The deepest drop in production occurred in:

- West Pomerania - fall by 12.4 per cent,
- Podkarpackie - fall by 8.9 per cent,
- Świetokrzyskie - fall by 5.3 per cent.

The highest share in sold production of industry recorded the following Provinces: Mazovia (21.4 per cent), Silesia (17.6 per cent) and Wielkopolskie (10.3 per cent).

Decline in construction and assembly production in all voivodships

None of voivodships reached the level of construction and assembly sold production as a year before. The slightest drop in this production (in current prices) was noted in Świetokrzyskie (by 0.9 per cent), Łódzkie (by 3.6 per cent) and Mazovieckie (by 5.4 per cent).

A considerable decline in sold production of construction and assembly was recorded in the following voivodships: Lubuskie (by 32.0 per cent), Lubelskie (by 24.8 per cent) and Kujawsko-Pomorskie (by 22.1 per cent).

Mazovia, Silesia, Wielkopolskie, Małopolskie and Pomerania Provinces enjoyed the biggest share in the total sold production of construction in the first six months of 2002. The total value of sold production in these voivodships accounted for 67.7 per cent of the Polish sold production of construction .

Employment

Considerable drop in emloyment in Świętokrzyskie voivodship

A drop in average employment in industry (as compared to the first half of 2001) was recorded in all voivodships, and the deepest in Świętokrzyskie (by 13.6 per cent). Relatively significant contraction in employment also occurred in West Pomerania (by 9.9 per cent), Kujwsko-Pomorskie (by 9.3 per cent), Lubuskie and Opolskie (by 9.0per cent each) voivodships..

A fall in average employment in the construction was noted in all voivodships, of which the deepest in Lubuskie and Opolskie (by 22.2 per cent) and Świętokrzyskie (by 21.3 per cent).

Unemployment

In the first half of 2002 an increase in the number of unemployed registered in labour offices was recorded in six voivodships. The highest growth in unemployment in comparison with the December 2001 level occurred in Mazovia Province (3.7 per cent), Lubuskie (by 3.1 per cent) and Pomorskie (by 2.3 per cent).

The deepest drop in the number of unemployed was noted in the following voivodships: Podkarpackie (by 7.4 per cent), Małopolskie (by 5.9 per cent) and Warmińsko-Mazurskie (by 4.2 per cent).

The highest unemployment rate in Wrmińsko-Mazurskie Province

Regional diversification in unemployment rate was significant –from 13.4 per cent in Mazovia and Małopolskie Provinces to 27.9 per cent in Warmińsko-Mazurskie voivodship.

High unemployment rate was also recorded in: Lubuskie (24.8 per cent), West-Pomerania (24.1 per cent), and Kujawsko-Pomorskie (21.7 per cent).

A relatively low unemployment rate occurred in Podlaskie Province (14.6 per cent), Wielkopolskie and Lubelskie Provinces (15.3 per cent) and Silesia Province (15.9 per cent).

MINISTRY OF ECONOMY

Economic Analyses and Forecast Department

Specification	2001	2002		
	performance	*Budgetary Law*	*Forecast * MG*	*performance 1st quarter*
GDP (growth %)	1.0	1.0	1.2	0.5-0.7
Total consumption (growth %)	2.1	0.8	1.3	3.2
Gross expenditures on fixed assets (growth %)	-9.8	1.1	1.0	-10.0/-13.0
Commodity exports, NBP statistics (USD bln)	30.3	31.5	30.9	14.9
growth %	7.1		2.0	-0.4
Commodity imports, NBP statistics NBP (USD bln)	42.0	43.5	41.9	19.7
growth %	1.3		99.9	-5.4
Trade balance (USD bln)	-11.7	-12.0	-11.0	-4.8
Current account balance (USD bln)	-7.2	-8.6	-8.5	-3.9
Sold production of industry [1)] (growth %)	-0.1	2.2	2.0	-1.0
Construction and assembly production [1)] (growth %)	-4.1	0.0	-6.0	-13.4
Employment in enterprises sector (growth %)	-3.3	-1.5	-4.5	-4.8
Unemployment rate (%)	17.4	18.6	18.6	17.3
Consumption goods and services price index (growth %) :				
- annual average	5.5	4.5	3.2	2.8
- December /December	3.6	-	-	1.1

* envisaged performance – assessment of the Economic Analyses and Forecast Dep., ME

1) in 2001 relates to the entire set of entities and

in 2002 entities employing more than 9 people