

## Introduction

In the 1<sup>st</sup> half-year of 2007, a high pace of economic growth was observed, with a lower dynamics in the 2<sup>nd</sup> quarter than in the 1<sup>st</sup> quarter. National demand continued to be the main factor of economic growth. The positive tendencies in the labour market strengthened – employment grew and the unemployment rate went down to the lowest level in many years. In the conditions of stable inflation, the considerable increase in the average real wages and salaries continued, as well as the slight increase in social benefits. The high growth of the budgetary revenues from income tax indicates the continuation of the good financial situation of enterprises, which may positively affect their investment activity in the conditions of a very high level of capacity utilisation.

In the 2<sup>nd</sup> quarter, a high increase of production, although slower than in the preceding quarter of 2007, was observed in manufacturing and construction, as well as in retail sales. In the 1<sup>st</sup> half-year of 2007, sold production of industry went up by 10.7% as compared to the corresponding period of last year (in the 1<sup>st</sup> quarter – by 13.0%, and in the 2<sup>nd</sup> quarter – by 8.5%). The production growth in manufacturing amounted to 12.8%, while a slight increase was noticed in mining and quarrying (by 0.3%) and a fall in electricity, gas and water supply (by 5.9%). Production growth of capital goods and consumer durables goods (approx. 18% each), as well as intermediate goods (approx. 15%), was higher than average. The year-on-year increase of construction and assembly production after six months equalled to 30.2%. Retail sales went up by 15.6% as compared to the 1<sup>st</sup> half-year of last year. In the 2<sup>nd</sup> quarter of 2007, the increase in the sales of services in transport and communications was higher than in the previous quarter. The forecasts formulated in the business tendency surveys are still favourable, although slightly less optimistic. The dynamics of new orders in industry is high.

The dynamics (year-on-year) of turnover in foreign trade in the period of five months of 2007 was slower than in the previous year. The tendency of faster growth in import than in export, observed in 2006, continued, which worsened the negative exchange balance. In the geographical structure, with a continued predomination of the European Union share, an increase in the share of the Central and Eastern Europe countries can be clearly observed in export, while in import the rising share of the developing countries is particularly visible. The large growth of import applied mainly to capital goods (16.9%) and consumer goods (17.3%). Price conditions in foreign trade continued to improve (especially in trade with the Central and Eastern Europe countries), with the zloty strengthening at the same time. However, the profitability of trade with the EU deteriorated (terms of trade below 100).

In the 1<sup>st</sup> half-year of 2007, the year-on-year producer prices growth both in industry and in construction was higher than observed in the corresponding period of 2006. In industry in the recent months a slowdown in prices dynamics was noticed, while in construction a systematic acceleration of prices growth took place. As in the case of producers, the year-on-year dynamics of consumer prices was higher in the 1<sup>st</sup> half-year than the observed in the previous year, respectively, among others, due to the high increase in food prices (against the fall in the previous year).

In the subsequent months of 2007 a year-on-year systematic growth of employment in the enterprise sector was observed. In the 1<sup>st</sup> half-year, it was higher by 4.4% than in the previous year; in June, the year-

on-year increase amounted to 4.6%, but the level of employment was still lower than in 2000 (by 3.2%). Enterprises keep pointing to growing difficulties in recruitment of skilled labour force. The number of job vacancies is growing fast, in particular those related to craft and related trader workers, plant and machine operators and assemblers, as well as professionals. Further decrease of unemployment occurred – the number of the registered unemployed went down to 1895.1 thousand people, and the unemployment rate – to 12.4% (the year-on-year decrease – by 3.5 points). In the labour market, the situation of young people (despite a decreasing share of this group among the unemployed), long-term unemployed and old people (whose share has increased) remains difficult.

The high dynamics of nominal wages and salaries in the enterprise sector in the subsequent months, accompanied by the moderate inflation, resulted in the increased purchasing power of wages and salaries (in the 1<sup>st</sup> half-year of 2007, the year-on-year real growth amounted to 6.2%). The average real gross retirement pays and pensions rose insignificantly. The consumer tendency surveys indicate that households evaluate their financial situation and the possibility of substantial purchases within the next 12 months more optimistically than in the previous year. Households are more and more interested in loans (both housing and consumer ones), while the dynamics of deposits is weakening.

In agriculture, the yields of cereals, rape and agrimony (with a larger area of crops than in the previous year) will be considerably higher than last year, as well as than the average of 2001-2005. Also the yields of vegetables will be greater than in the previous year. However, the fruit yields, due to the ground frosts that occurred in May, will be much smaller than both the yields in 2006, and than on average for many years. The high growth in the cereal prices, after the low last-year yields, has slowed down in the recent months. The low profitability of pigs breeding (purchase prices still lower than last year) initiated the process of stock reduction. Due to the high supply, the prices of cattle for slaughter keep falling. The prices of poultry and milk showed further increase.

After six months of 2007, the implementation of the state budget was higher on the side of revenues than on the side of expenditures, and the state budget deficit accounted for 12.3% of the amount assumed in the Budget Act for 2007.

## Selected indicators regarding the economic situation of the country

Specification	June 2007		January-June 2007
	changes in % against:		
	June 2006	May 2007	January-June 2006
Paid employment in the enterprise sector .....	+4,6	+0,6	+4,4
Registered unemployed persons (end of period).....	-23,8	-4,5	x
Average monthly gross wage and salary in enterprise sector .....	+9,3	+3,3	+8,4
of which in industry.....	+10,0	+5,6	+8,4
Sold production of industry (constant prices) .....	+5,6	+0,2	+10,7
mining and quarrying .....	-4,5	-2,5	+0,3
manufacturing .....	+6,2	+0,5	+12,8
electricity, gas and water supply .....	+2,1	-2,5	-5,9
Construction and assembly production (constant prices).....	+3,7	+11,2	+30,2
Dwellings completed .....	+11,9	+3,2	+4,7

Specification	April	May	June
	changes in % as compared with the previous month		
Prices of sold production of industry .....	+0,5	+0,4	+0,6
Prices of consumer goods and services .....	+0,5	+0,5	0,0
of which:			
food and non-alkoholic beverages .....	+0,9	+1,2	-1,0
alkoholic beverages, tobacco .....	+0,1	+0,3	+0,9
dwelling .....	+0,3	+0,3	+0,3
housing, water, electricity, gas and other fuels .....	+0,3	+0,3	+0,3
of which electricity, gas and other fuels .....	-0,1	-0,1	+0,1
furnishings, household equipment and routine maintenance of the house .....	+0,3	+0,2	+0,2
transport .....	+1,9	+0,8	+1,5
of which fuels for personal transport equipment .....	+3,8	+1,6	+2,9

## Selected indicators regarding the economic situation of the country

Specification a - 2006, b - 2007	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
Registered unemployed persons (in thous.) ... a	2866,7	2865,9	2822,0	2703,6	2583,0	2487,6	2443,4	2411,6	2363,6	2301,8	2287,3	2309,4
b	2365,8	2331,1	2232,5	2103,1	1985,1	1895,1						
Unemployment rate <sup>1)</sup> (in %) ..... a	18,0	18,0	17,8	17,2	16,5	15,9	15,7	15,5	15,2	14,9	14,8	14,9
b	15,1	14,9	14,4	13,7	13,0	12,4						
Paid employment in the enterprise sector in thous. persons ..... a	4862	4861	4870	4889	4901	4918	4928	4943	4957	4971	4986	4995
b	5048	5070	5089	5105	5116	5144						
Sold production of industry <sup>2)</sup> : previous month=100 ..... a	92,0	100,0	116,4	90,4	107,3	102,6	93,8	102,4	109,2	104,3	97,3	93,3
b	100,2	97,9	114,7	91,4	103,0	100,2						
corresponding month of previous year=100 ..... a	109,8	110,2	116,4	105,7	119,1	112,2	114,3	112,6	111,6	114,8	112,0	105,9
b	115,4	113,0	111,3	112,6	108,1	105,6						
Construction and assembly production <sup>2)</sup> : previous month=100 ..... a	27,8	113,1	134,0	112,4	133,3	124,6	88,8	112,3	118,9	110,9	78,6	144,8
b	37,9	110,5	119,0	110,6	113,2	111,2						
corresponding month of previous year=100 ..... a	92,2	96,5	115,5	104,1	113,4	115,7	104,9	115,3	121,0	128,7	123,3	117,9
b	160,5	156,7	139,1	136,9	116,3	103,7						
Dwellings completed (from the beginning of year) ..... a	10192	18946	28284	35603	42206	50361	59906	68414	76581	87822	99363	115353
b	10138	18794	26454	34744	43583	52709						
Price indices of consumer goods and services: previous month=100 ..... a	100,2	100,0	99,9	100,7	100,5	99,7	100,0	100,3	100,2	100,1	100,0	99,8
b	100,4	100,3	100,5	100,5	100,5	100,0						
corresponding month of previous year=100 ..... a	100,6	100,7	100,4	100,7	100,9	100,8	101,1	101,6	101,6	101,2	101,4	101,4
b	101,6	101,9	102,5	102,3	102,3	102,6						
December of previous year=100 ..... a	100,2	100,2	100,1	100,8	101,3	101,0	101,0	101,3	101,5	101,6	101,6	101,4
b	100,4	100,7	101,1	101,6	102,2	102,2						
Price indices of sold production of industry: previous month=100 ..... a	100,2	99,9	100,7	101,5	100,4	100,9	100,7	99,9	100,0	99,5	99,3	99,5
b	100,6	100,3	100,5	100,5	100,4	100,6						
corresponding month of previous year=100 ..... a	100,3	100,7	100,9	101,7	102,3	103,0	103,5	103,3	103,6	103,2	102,5	102,6
b	103,1	103,5	103,3	102,2	102,1	101,8						

<sup>1)</sup> Ratio of registered unemployed persons to the economically active civil population.

<sup>2)</sup> Indices were calculated in constant prices of 2000.

(cont.)

Specification a - 2006, b - 2007	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
Average monthly nominal gross wage and salary in the enterprise sector <sup>1)</sup> (in zł) .....	2471,0	2526,2	2613,6	2570,0	2549,7	2624,9	2647,8	2611,9	2611,1	2657,9	2759,6	3027,5
a	9	2	7	5	0	3	0	3	6	9	5	1
b	2663,5	2687,4	2852,7	2786,2	2776,9	2869,6						
previous month=100 .....	88,6	102,2	103,5	98,3	99,2	103,0	100,9	98,6	100,0	101,8	103,8	109,7
a												
b	88,0	100,9	106,1	97,7	99,7	103,3						
corresponding month of previous year=100 .....	103,6	104,8	105,4	104,0	105,2	104,5	105,6	105,3	105,1	104,7	103,1	108,5
a												
b	107,8	106,4	109,1	108,4	108,9	109,3						
Average monthly real gross wage and salary in the enterprise sector monthly average of 2000=100 .....	105,0	107,3	111,2	108,6	107,2	110,6	111,5	109,6	109,5	111,5	115,7	127,2
a												
b	111,6	112,4	118,7	115,4	114,5	118,2						
Profitability rate of gross turnover <sup>2)</sup> - from the beginning of year (in %) .....	.	.	4,8	.	.	5,6	.	.	5,8	.	.	5,8
a												
b	.	.	6,1	.	.	.	.	.	.	.	.	.
Profitability rate of net turnover <sup>3)</sup> - from the beginning of year (in %) .....	.	.	3,6	.	.	4,5	.	.	4,7	.	.	4,7
a												
b	.	.	4,9	.	.	.	.	.	.	.	.	.
State budget balance - from the beginning of year (in mn zł) .....	772,2	-6716,2	-9275,4	10070,	14717,	17694,	15543,	14482,	14610,	16636,	18580,	25063,
a				2	9	2	4	5	2	7	5	1
b	3144,1	-2992,3	-5177,0	-2090,9	-4297,2	-3678,0						
Average exchange rates in zł – National Bank of Poland:												
100 US dollars .....	315,99	317,44	322,29	319,82	304,91	317,13	314,92	304,54	311,53	309,19	297,35	288,68
a												
b	298,37	298,05	293,59	282,79	279,97	283,99						
100 EUR .....	382,45	379,37	387,48	391,94	389,41	401,64	399,70	390,14	397,02	390,26	382,99	381,30
a												
b	387,87	389,58	388,69	381,92	378,24	380,79						
Foreign trade in mn zł												
exports .....	24577,	24983,	29384,	26564,	28668,	29939,	27790,	27487,	32108,	33560,	32070,	26643,
a	0	4	8	7	5	6	1	6	5	8	2	8
b	28740,	28890,	33064,	29302,	30101,							
imports .....	27428,	28094,	33006,	29459,	33826,	33354,	32932,	31746,	35988,	38329,	36266,	33596,
a	1	0	6	6	8	7	9	5	1	2	7	8
b	33109,	32114,	38918,	34530,	35070,							
balance .....	-2851,1	-3110,6	-3621,8	-2894,9	-5158,3	-3415,1	-5142,8	-4258,9	-3879,6	-4768,4	-4196,5	-6953,0
a												
b	-4369,5	-3223,9	-5853,7	-5228,9	-4969,5							

<sup>1)</sup> Including contributions to compulsory social security.

<sup>2)</sup> Relation of gross financial result to revenues from total activity.

<sup>3)</sup> Relation of net financial result to revenues from total activity.