

Warsaw, 21 December 2005

INFORMATION FROM THE MEETING OF THE MONETARY POLICY COUNCIL

held on 20-21 December 2005

The Council decided to keep the NBP interest rates unchanged:

- **reference rate 4.50% on an annual basis;**
- **lombard rate 6.00% on an annual basis;**
- **deposit rate 3.00% on an annual basis;**
- **rediscount rate 4.75% on an annual basis**

and to maintain its easing monetary policy bias.

Since the last meeting of the Council, the forecasts of economic growth in 2006 for the euro area have been slightly revised upwards. Yet, the outlook for economic growth in the United States has not changed significantly. In November the annual growth rate of consumer prices in the euro area decreased to 2.3% from 2.5% y/y recorded in October while in the United States it dropped from 4.3% to 3.5%. Both the euro area and the United States inflation forecasts for 2006 have not changed significantly. Crude oil prices have increased in December. Since the November Council meeting the price of Brent oil has risen by USD 6.1 per barrel i.e. by 11.6%. The forecasted prices of this commodity for 2006 have not changed significantly. The uncertainty about the impact of the considerable accumulated growth of oil prices on economic growth and inflation remains significant and has to be taken into consideration.

The data published since the last meeting of the Council point to a strengthening of the economic recovery in Poland observed since 2005 Q2. In November, the industrial output growth was higher than expected both by external forecasters and the NBP, and amounted to 8.5% y/y, i.e. 7.4% in seasonally adjusted terms as compared to 6.8% a month before. The annual growth in construction and assembly output decreased from 6.8% in October to 5.9% in November, i.e. from 9.8% to 8.6% in seasonally adjusted terms.

Since the beginning of the year, moderate growth in employment in the corporate sector has been recorded. In November 2005, the employment in the corporate sector increased by 2.4% y/y, and its annual growth was the highest in 2005. This would suggest a continuing gradual improvement in the labour market.

November 2005 was the second consecutive month of wage growth in the enterprise sector, which was considerably faster than that anticipated by the NBP and external forecasters (nominal wage growth of 6.9% y/y as compared with 6.4% y/y in October). Such a high growth was driven by a shift of annual bonus payment in the mining sector. Yet, even excluding such one-off factors, the wage growth reported in the first two months of 2005 Q4 exceeded the average for the first three quarters of 2005. This means that accelerated output growth is accompanied by higher wage

growth. It should be emphasised that maintaining wage discipline in enterprises is the necessary condition for sustained acceleration in economic growth grounded in the rise of employment.

The November inflation was consistent with the expectations for 2005 Q4 presented in the *August Inflation Report*. The annual consumer price growth in November declined to 1.0%. The decrease in annual inflation was mainly driven by a fall in food and non-alcoholic beverages prices and fuel prices. The fall in food prices in November resulted i.a. from introduction of restrictions in the Polish food exports to Russia and decreased demand for poultry caused by the bird flu effect.

November 2005 saw a continued fall in producer prices in industry in year-on-year terms (fall by 0.4% y/y, i.e. growth by 0.1% m/m). Low indicator of producer prices in industry was determined by stronger than a year ago zloty exchange rate and moderate growth of domestic demand.

Since the Council's last meeting, zloty exchange rate has not changed significantly and has remained stronger than forecasted in the *August Inflation Projection*.

In the Council's assessment low inflation in November may indicate that inflation will return to the target later than it was assessed in the previous meetings. It is expected that – assuming no shocks occur - having achieved the target, inflation will remain at a level close to it. Broader assessment of the inflation outlook will be possible in January 2006 once the *Inflation Projection* is published.

The Council maintains its belief that implementing an economic strategy focused on creating conditions which ensure introduction of the euro at the earliest possible date would be most favourable for Poland and would contribute to higher long-term economic growth.

Moreover, in the meeting the Council:

- Adopted a resolution amending the resolution on accounting principles, the format of reporting assets and liabilities in the balance sheet and the profit and loss account of the National Bank of Poland, due to the expiry of the validity of interim regulations relating to recording and valuation of operations in foreign currency. In line with the adopted changes, from 1 January 2006 the accounting principles used in the European System of Central Banks, previously applicable to assets and liabilities in foreign currency connected with holding and management of foreign exchange reserves only, will apply also to assets and liabilities in foreign currency not connected with holding and management of foreign exchange reserves (foreign currency held at the NBP's branches). The resolution will be published in the NBP's Official Journal.
- Adopted a resolution amending the resolution on principles of conducting open market operations, aligning it with the provisions of the Monetary Policy Guidelines for the year 2006 adopted by the Monetary Policy Council. The amendments include, among others, the following modifications:
 1. in the case of fine-tuning operations there is a possibility for the NBP to execute, regardless of repo transactions, also reverse repo transactions,
 2. within the framework of structural operations, the NBP may – apart from purchasing securities on the secondary market – also sell securities.
- Approved the Financial Plan of the NBP for the year 2006.

The next meeting of the Council will be held on 24 January 2006 and will focus on the draft *Inflation Report*. *The Report* will finally be adopted at the Council's meeting held on 30-31 January 2006.