

Warsaw, 26 October 2005

**INFORMATION FROM THE MEETING OF THE MONETARY POLICY
COUNCIL****Held on 25-26 October 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.

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Since the last meeting of the Council, the outlook for economic growth in the euro area and the United States has not changed significantly. However, the US inflation forecasts for the next year have been revised upwards. In September 2005 the growth rate of consumer prices in the United States rose to its highest level since 1991, up to 4.7% y/y as compared to 3.6% in August. In the euro area, inflation increased to 2.6% y/y against 2.2% in August. In both cases, inflation hike was mainly fed by high oil prices in the world markets. October 2005 saw a slight decrease of crude oil prices. As compared with August, Brent oil prices decreased by 7.5 USD per barrel, i.e. by 11.1%. However, both current and forecast oil prices remain high. There still persists large uncertainty about the impact of the considerable accumulated growth of oil prices on economic growth and inflation

In Poland, industrial output in September 2005 grew by 5.5% (y/y), which equals 5.1% in seasonally adjusted terms. The recovery in construction, observed since 2004, has continued. The annual growth of construction and assembly output in September 2005 stood at 10.5% (y/y) and in seasonally adjusted terms at 12.7%. This was primarily the result of an almost twofold increase of output in construction site development companies. Retail sales rose by 5.4% y/y. The October business tendency surveys conducted by GUS did not reveal any significant change in enterprises' assessment of economic climate.

The September data do not suffice to assess if economic growth acceleration was actually as large as expected in the August *Inflation Report*. The more complete assessment will be possible once GUS data on Q3 have been released.

Available data point to a steady improvement in the labour market. In September 2005 the employment in the enterprise sector rose by 2.2% y/y, while the unemployment rate declined to 17.6%, i.e. by 1.3 percentage point as compared to the corresponding month of the previous year.

In September 2005, the growth in nominal wages in the enterprise sector fell to 1.8% y/y (against 3.2% in July and 2.8% in August). The moderate wage growth, if sustained, would contribute to a further growth in employment and – with labour productivity growth still considerably higher than wage growth – to limiting inflationary pressure. Due to a lack of data on wages outside the corporate sector in Q3 2005, it is difficult to assess the future wage developments in the whole economy.

In line with the expectations of the NBP and external forecasters, in September 2005 the annual growth of consumer prices increased and amounted to 1.8%. Core inflation indicators remained low and stayed below the inflation target (net inflation had not changed since August and stood at 1.3%). Inflation expectations of households have edged up, yet they still stay below the inflation target. It can be expected that, due to the moderate growth in demand and the disappearance of the statistical base effect, inflation will remain low until the end of 2005, i.e. markedly below the inflation target of 2.5%.

The impact of high oil prices on producer prices in industry has so far been offset by the stronger than last year zloty exchange rate against the dollar and by a moderate growth of domestic demand. In September 2005, like in August, producer prices in industry decreased by 0.2% y/y (0.0% m/m).

In October 2005 the zloty exchange rate was stronger than accounted for in the August *Inflation Report*. Zloty appreciation was conducive to sustaining low inflation despite high crude oil prices.

The Council expresses the hope that the parliament and the government formed after the general election will introduce necessary structural reforms, in particular by acting towards a prompt reduction of public finance sector deficit, which should support long-term economic growth and ensure Poland's entry to the euro area at the earliest possible date.

The Council maintains its opinion that inflation may return to the target sooner than it was forecasted in the August inflation projection. It is expected that having achieved the target, inflation will remain at a level close to the target. The moderate wage growth is an indication that no second round effects have materialised so far. Should there appear signals of increased probability that these effects should occur, the balance of risks might change, which would then affect the future decisions of the Council.

The Council has also decided to change the release schedule of the *Inflation Report* and the NBP staff inflation projection, which is a part of the *Report*. This decision is due to a new schedule of quarterly GDP estimates releases by GUS (CSO). The GDP estimates are now released no later than 60 days after the end of each quarter, i.e. a few days before or after the publication of the *Inflation Report*. Therefore, with the previous *Report* publication schedule in place, it would not be possible to include the GUS estimates in the *Report*. For this reason the upcoming *Report* will be released in January 2006, after the Council meeting. Subsequent *Reports* are to be released quarterly, i.e. in April, July and October 2006.

The Council has also adopted *The Balance of Payments of the Republic of Poland for 2005 Q2*.

The next meeting of the Council will be held on 29-30 November 2005.