

Warsaw, 28 September 2005

INFORMATION FROM THE MEETING OF THE MONETARY POLICY COUNCIL

Held on 27-28 September 2005

The Council decided to keep the NBP interest rates unchanged:

- **reference rate 4.50% on an annual basis;**
- **lombard rated 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 outlook for economic growth in the euro area and the United States has deteriorated, whereas the forecasted inflation in those economies was increased. August 2005 saw an increase in the consumer price inflation (up to 3.6% y/y) in the United States, which partly resulted from increased oil prices in the world markets. In the euro area, inflation stood at 2.2% y/y, i.e. at a same level as previous month. In September crude oil prices reported a certain decrease, yet, both current and forecasted oil prices remain high. According to current forecasts, in the medium term oil prices may increase or persist on an elevated level. There persists a large uncertainty about the influence of considerable accumulated oil price increase on economic growth and inflation.

In Poland, in August 2005 industrial output growth increased to 4.6% y/y, against 2.6% y/y in July. Allowing for seasonal factors, growth in industrial output in August amounted to 4.6% y/y, against 4.5% in July. The recovery in the construction sector observed since 2004 has continued, although its pace has decreased in the last two months. The annual growth in the construction and assembly production in August 2005 amounted to 6.5%. Nominal growth of retail sales in August was higher than a month ago and reached 7.9% y/y (5.6% y/y in real terms). August was the fourth consecutive month of relatively strong growth of retail sales, however the volume of retail sales in the first eight months of 2005 was 0.2% lower than in the corresponding period of the previous year. In September, positive enterprises' assessments of economic climate dominate as signalled in GUS business tendency surveys and they are close to those recorded in August.

Available data indicate a slight improvement in the labour market. In August 2005 the employment in the enterprise sector rose by 2.0% y/y, while the unemployment rate decreased to 17.8%, i.e. by 1.3 percentage point when compared with the corresponding month of the previous year. According to BAEL (Labour Force Surveys), in 2005 Q2 the number of working persons in the economy increased by 1.9% y/y, and in seasonally adjusted terms the number of working persons in the economy was – like in 2005 Q1 - close to the level recorded in the previous quarter. Stabilization of the number of working persons in the economy was accompanied by an increase in the number of persons working outside private farms in agriculture, which in 2005 Q2 stood at 2.7% y/y (i.e. 0.3% q/q in seasonally adjusted terms).

On the whole, the above data point to higher economic growth rate in 2005 Q3 than in 2005 Q2.

August saw a continuation of a moderate growth rate in nominal wages in the enterprise sector (2.8% y/y). Continuation of this tendency will favour further employment growth and – when accompanied by favourable developments in productivity – will limit inflationary pressure.

In line with the expectations of the NBP and external forecasters, in August 2005 the annual growth rate of consumer prices increased and amounted to 1.6% (against 1.3% in July). In August, most core inflation indicators remained at the level close to the one recorded in July (net inflation was equal to 1.3% y/y). September 2005 saw an increase in inflation expectations of households (up to 1.4% from 1.3% recorded in August 2005). It may be expected that, due to moderate growth in demand and to strong statistical base effect related to Poland joining the EU, until the end of 2005 inflation will remain at a low level i.e. well below the inflation target (2.5%). However, as a result of recently increased forecasts of oil and gas prices inflation may move back to the target faster than presented in August projection. It needs to be emphasised that increased oil prices may also weaken economic growth.

The impact of high oil prices on producer prices in industry has been so far offset by stronger than one year ago zloty exchange rate against the dollar and a moderate growth in domestic demand. In August, the growth rate of producer prices in industry was negative and reached - 0.1% y/y.

The zloty exchange rate developments in September 2005 have not deviated significantly from the exchange rate path accounted for in the August *Inflation Report*.

The Council maintains its opinion that the most favourable for Poland would be to adopt an economic strategy focused on creating conditions that would guarantee the introduction of the euro at the earliest possible date. Implementation of public finance reforms leading to the fulfilment of the fiscal convergence criteria is the necessary condition for the euro area membership.

The Council emphasises that maintaining the easing monetary policy bias does not have to imply a change in interest rates over the coming meetings.

The Council has adopted the *Monetary Policy Guidelines for the year 2006*. This document sets forth the monetary policy strategy, conditions of its implementation and objectives of monetary policy in 2006. The Council has maintained the present understanding of the inflation target and the way of its implementation, including the focus of monetary policy on maintaining inflation as close as possible to the 2.5% target in the medium term. In 2006, monetary policy will be conducted so as to achieve the target within the 5-7 quarters horizon. Yet, this period may be shorter or longer depending on the type and strength of shocks affecting Polish economy.

The Council has adopted the document on *International Investment Position of Poland in 2004*. The international investment position of Poland is a specification of foreign assets and liabilities of domestic entities. At the end of 2004, Poland's net international investment position was negative and reached EUR 93.3 billion, which accounted for 47.8% of GDP. It is a typical situation for open economies, running a current account deficit and importing capital from abroad. For example, international investment position of other countries in our region was also negative and the ratio of its ratio to GDP ranged from 112% for Hungary to 30% for the Czech Republic. Compared with those countries, the ratio of international investment position to GDP for Poland is at the medium level. Compared with 2003, Poland's negative international investment position has increased by EUR 19.1 billion, i.e. 25.7%, as a result of foreign liabilities increasing faster than foreign assets. Faster increase of foreign liabilities resulted, to a considerable extent, from exchange rate developments. Considerable part of Polish liabilities, including equity capital of Polish companies with foreign participation, is expressed in Polish zloty. As a result of strong appreciation of the Polish zloty against the euro, the value of those capitals expressed in EUR has significantly increased.

NBP

The Council has adopted the *Forecast of the Balance of Payments of the Republic of Poland for the Year 2006*. According to this forecast, given the expected acceleration of domestic demand and moderate revival in economic climate in the euro area as well as less favorable terms of trade in the Polish foreign trade, the year 2006 is likely to see deterioration in Poland's balance of trade in goods and services as compared with the year 2005. Yet, current account deficit will remain at a safe level. Moreover, it will be largely financed by the inflow of foreign capital in form of direct investment.

The next meeting of the Council will be held on 25-26 October 2005.