

Warsaw, 30 June 2010

## INFORMATION FROM THE MEETING OF THE MONETARY POLICY COUNCIL

held on 29-30 June 2010

The Council decided to keep the NBP interest rates unchanged, i.e.

- reference rate 3.50% on an annual basis;
- lombard rate 5.00% on an annual basis;
- deposit rate 2.00% on an annual basis;
- rediscount rate 3.75% on an annual basis;
- discount rate 4.00% on an annual basis.

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Further signals of recovery can be seen in the world economy. However, the rate of economic growth varies across regions.

The recovery in the United States has continued, even though some economic activity indicators (including the latest data on GDP growth in 2010 Q1, the real estate market and retail sales) have deteriorated in this country in the recent period. At the beginning of 2010 Q2 the level of economic activity in the euro area proved higher than in Q1. However, the slight worsening in the business climate indicators in subsequent months may be signalling the slower pace of activity improvement in this region. The short-term growth outlook for the euro area is negatively affected by the uncertainty regarding the pace of reducing public finance imbalance in the region, including the uncertainty connected with the fiscal crisis in Greece.

At the same time, fast economic growth is continuing in the largest emerging economies. The ensuing risk of a significant deepening of economic imbalance as a result of the economic boom leads to a gradual tightening of macroeconomic policy in these countries.

Disruptions in the international financial markets, connected with the uncertainty as to the reduction of fiscal imbalances in some of euro-area countries, continued. The scale of those disruptions has nevertheless decreased recently, which has contributed to halting the fall in prices of some financial assets.

The data on the Polish economy indicate a stabilisation of the rate of economic growth. Robust increase in industrial output continued. Following a strong decline at the beginning of the year, construction output is also gradually increasing. In May retail sales rose as well. Employment growth in the enterprise sector (for the first time since January 2009 also in year-on-year terms) and stabilisation of the unemployment rate (in seasonally adjusted terms) observed in May 2010 are signs of a gradual improving labour market situation. At the same time, in May 2010 real wages in the enterprise sector increased (in year-on-year terms) for the third consecutive month. The growth of loans to households stabilised at a moderate level. The investment activity of enterprises is still limited and will probably remain so in the quarters to come, especially because the production capacity utilisation in enterprises – though rising – remains low. No revival in lending to the

# NBP

corporate sector can be seen, which is characteristic amid a low investment activity and good financial situation of enterprises, including their good liquidity standing.

In May 2010 the annual CPI inflation fell back again (to 2.2%), running below to the NBP's inflation target of 2.5%. This decline in CPI inflation was mainly connected with a decrease in core inflation. In the coming period, inflation will be further lowered by negative base effects stemming from a strong increase in the prices of excise goods in 2009.

The Council has got acquainted with the projection of inflation and GDP prepared by the Economic Institute of the NBP, which is one of the inputs into the Council's decision-making on the NBP interest rates. In line with the June projection – under the assumption of constant NBP interest rates – there is a 50-percent probability of inflation running in the range of 2.3-2.9% in 2010 (compared to 1.3-2.2% in the February projection), 2.1-3.3% in 2011 (compared to 1.7-3.1%) and 2.2-3.7% in 2012 (compared to 2.6-4.6%). In turn, the June projection sees the annual GDP growth with a 50-percent probability in the range of 2.5-3.9% in 2010 (compared to 2.1-4.1% in the February projection), 3.3-5.9% in 2011 (compared to 1.8-4.0%) and 2.2-5.0% in 2012 (compared to 1.9-4.3%).

The Council has discussed factors that may fuel inflationary pressures in the medium term.

An important factor affecting monetary policy is the situation of public finance, especially in the face of changing attitude in many European countries to high budget deficits and growing public debts. Introducing decisive measures aimed at permanently reducing the deficit of the general government sector and at curbing the increase of the public debt is necessary for macroeconomic stability and will allow the meeting of euro adoption criteria.

The Council maintains its view that Poland should join the ERM II and the euro area at the earliest possible date, after meeting the necessary legal, economic and organisational conditions.

The Council has adopted the *Inflation Report – June 2010*.