

Warsaw, 15th December 2004

INFORMATION FROM THE MEETING OF THE MONETARY POLICY COUNCIL

Held on 14-15 December 2004

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

- reference rate 6.5% on an annual basis;
- lombard rate 8.0% on an annual basis;
- deposit rate 5.0% on an annual basis;
- rediscount rate 7.0% on an annual basis.

The Council maintains its tightening monetary policy bias.

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Over the period since the last meeting of the Monetary Policy Council the assessment of the outlook for the world economy has not changed significantly. The indicators of economic activity in manufacturing and services as well as business confidence in the United States slightly improved. The euro-zone saw deterioration in economic sentiment of enterprises, which mainly resulted from the appreciation of the euro against the US dollar and the lack of improvement in the labour market. As a result of the still persisting high crude oil prices and the euro appreciation the main international analytical centres slightly adjusted downwards their forecasts of economic growth in the euro-zone. Although in December oil prices in world markets were further decreasing, it is difficult to assess the sustainability of these developments.

According to GUS data, GDP growth rate in Poland in 2004 Q3 stood at 4.8% (in comparison with 6.1% in 2004 Q2) and was in line with the assessment presented in the November *Inflation Report*. However, the composition of GDP growth was different than expected. Individual consumption growth was somewhat lower, both in comparison with the previous quarters and as compared with the NBP estimates. The growth rate of gross fixed capital formation increased (4.1% in 2004 Q3, as compared with 3.6% in 2004 Q2), but this increase was markedly lower than expected in the *Inflation Report*. Very high dynamics in inventories growth was observed for the third consecutive quarter. Contribution of this factor to GDP growth amounted to 1.5 pp. (in comparison with 1.6 pp. in 2004 Q2). Such a high share of inventories growth in GDP growth together with accompanying lower than expected investment dynamics make the assessment of the outlook for economic growth difficult. The contribution of net exports to GDP growth decreased significantly as compared with the previous quarters. Overall, it is difficult to assess the extent to which GDP data for 2004 Q3 change the balance of risks (that is the composition of factors influencing future inflation) presented in the November *Inflation Report*.

Available data do not, as yet, indicate that the positive tendencies in the labour market will be sustained. Although according to preliminary information in November the unemployment rate stood at approximately the same level as in October, still no rise in employment in the corporate sector was observed. In November 2004 the growth of real wage in the corporate sector remained negative (-1.7% y/y in comparison to -2.0% y/y in the previous month). Inflation expectations, which have been higher since July, still have not translated into wage dynamics (no second-round effects observed).

The annual inflation rate in November 2004 was 4.5%. The inflation rate, higher than the inflation target, is primarily the effect of price increases associated with Poland's EU accession and the hike in the commodities' prices in world markets.

Since the last meeting of the Monetary Policy Council a proposal was put forth to change indirect tax rates. NBP estimates based on available data indicate that as a result of these changes the consumer price index may show a one-off increase, which may extend the process of lowering inflation in 2005-2006.

The tendency of zloty appreciation, observed in previous months, was sustained in December 2004. The appreciation which took place in 2004 will be conducive to inflation decrease in 2005.

The data collected since the last MPC meeting confirm the November *Inflation Report* expectations, according to which the GDP growth rate in the upcoming two years will stand somewhat lower than 4.5-5.5%. It is expected that in 2005 the role of net exports as a factor contributing to economic growth will diminish and the role of investment as a growth factor will rise. Should the information on the low investment dynamics be confirmed, the probability of economic growth dynamics in 2005-2006 running lower than expected in the *Report* would increase.

In the Council's opinion the balance of risks for future inflation has not changed significantly since the previous meeting. The probability of inflation staying above the target of 2.5% in 2006 is still higher than the probability of inflation falling below target. Thus the Council maintained its tightening monetary policy bias.

The Council also adopted a resolution on the principles of conducting open market operations shortening the time frame of basic operations from 14 to 7 days.

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