

Warsaw, 29 July 2009

INFORMATION FROM THE MEETING OF THE MONETARY POLICY COUNCIL

held on 28-29 July 2009

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

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

Recently released data suggest that in 2009 Q2 GDP declined further in most EU countries and other developed economies. However, some economic indicators suggest that recession may be gradually fading out. Though in the past few months forecasts of economic growth in the euro area have been revised further downwards, the outlook for economic growth in the world economy, including the United States, has shown some improvement.

Major developed economies have recorded a decline in the general price level, which is due to the slowdown in the world economic growth and the previously observed drop in commodity prices. Yet, in the past few months some commodity prices in the world markets have increased again.

In 2009 Q2 economic activity in Poland remained subdued which is reflected in the decline in industrial output and the low growth of construction and assembly production, as well as retail sales. At the same time, those indicators have recently been better than expected, and some business tendency indicators point to a certain improvement in the sentiment of enterprises, although it continues to be low. The labour market has deteriorated further, i.e. employment in the corporate sector fell deeper and the (seasonally-adjusted) unemployment rate rose, accompanied by a further decline in the growth of nominal wages and a fall in real wages. Reduced lending, in particular to the corporate sector, constituted an additional factor conducive to curbing economic growth.

In June 2009 annual CPI inflation declined to 3.5%, i.e. to the upper limit for deviations from the NBP inflation target set at 2.5%. Inflation remaining at an increased level is largely the result of the previous rises in regulated prices. Increased inflation is also driven by the persistence of inflationary processes, which is reflected, inter alia, in the relatively high – despite a certain decline – core inflation. The growth of prices of some goods and services connected with the previously observed depreciation of the zloty exchange rate is also conducive to inflation running at an elevated level, although this effect is gradually fading out.

In the Council's assessment, inflation is likely to remain at an elevated level in the coming months, mainly due to the relatively high annual growth of food prices and regulated prices, including, above all, the prices of energy. The recently observed rise in crude oil prices, mitigated to a certain extent by the recent zloty exchange rate appreciation, may also be conducive to inflation remaining

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at an increased level. Yet, in the medium term a further decline in the demand pressure should reduce inflation.

In the Council's assessment, the probability of inflation running below the inflation target in the medium term is higher than the probability of inflation running above the target. In the Council's view, the already implemented cuts in the NBP interest rates together with the lowering of the required reserve rate will support the return of the economy to the potential growth path. The Council's decisions in the coming months will take account of incoming information about the outlook for economic growth and inflation, the situation in the financial markets in Poland and abroad, and information about the public finance sector as well as zloty exchange rate developments.

The Council will continue to analyse the impact of developments in the domestic interbank market on the monetary policy transmission mechanism in Poland.

The Council maintains its view that Poland should join the Exchange Rate Mechanism II (ERM II) and the euro area at the earliest possible date, after achieving the necessary political support for amendments in the Constitution of the Republic of Poland and other legal acts required for euro adoption in Poland.

The Council approved *The Balance of Payments of the Republic of Poland in 2009 Q1*.