

Warsaw, 30 September 2009

INFORMATION FROM THE MEETING OF THE MONETARY POLICY COUNCIL

held on 29-30 September 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 point to further improvement in economic activity in the United States and in the euro area, though the activity remains low. Both economies have recorded further improvement in most economic sentiment indicators and the forecasts of GDP growth in 2010 have been slightly revised upwards. At present, it is difficult to assess the scale and sustainability of the expected recovery, especially given the persistent problems in the financial sector and gradual restraint of stimulus packages.

In major economies the decline in the general price level continued – driven by the slowdown in the world economic growth and the previously observed drop in food and other commodity prices – though its scale was smaller than in the preceding month.

According to GUS preliminary estimates, in 2009 Q2 in Poland GDP increased by 1.1% y/y, which constituted a stronger than expected rise. GDP growth in 2009 Q2 resulted mainly from a positive contribution of net exports combined with a simultaneous decline in domestic demand driven by further curbing of consumption as well as by a decline in investment and inventories.

Monthly data for 2009 Q3, including the data on industrial output, construction and assembly production and retail sales, as well as the majority of business confidence indicators signal further improvement in economic activity. Unfavourable situation is continuing in the labour market: employment in the enterprise sector is falling and the unemployment rate (seasonally-adjusted) is rising, accompanied by a further decline in the growth of both nominal and real wages. Economic growth is also constrained by reduced lending, in particular to the enterprise sector.

In August 2009 the annual CPI inflation rose to 3.7%, remaining above the NBP inflation target of 2.5% and also slightly above the upper limit for deviations from the target set at 3.5%. A slight rise in inflation was mainly driven by an increase in the annual growth of food prices. The continuation of the annual inflation at a heightened level results, to a large extent, from the previous rises in regulated prices and the previously observed depreciation of zloty exchange rate. The relatively high level of core inflation indicates that the scale of demand weakening so far failed to fully offset the effect of increases in regulated price and the earlier depreciation of the exchange rate.

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,

NBP

above all, energy prices. In the medium term, however, low demand pressure and a slower growth of labour costs should be conducive to inflation decrease.

In the Council's assessment, the probability of inflation running below the inflation target in the medium term is higher than the probability of its running above the target. At the same time, in the Council's assessment, the probability of inflation running below the inflation target in the medium term has decreased in recent months. In the Council's view, the expected improvement in the global economic activity and the 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 the incoming information on the outlook for economic growth and inflation, the situation in the financial markets in Poland and abroad, information on the public finance sector and the 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 and the euro area at the earliest possible date, after achieving the necessary political support for amendments to the Constitution of the Republic of Poland and other legal acts required for euro adoption in Poland.

The Council has adopted a resolution on the *Monetary Policy Guidelines for the Year 2010* and approved the *Forecast of the Balance of Payments of the Republic of Poland for the Year 2010* together with the *International Investment Position of Poland in 2008*.