

Warsaw, 25 November 2009

## INFORMATION FROM THE MEETING OF THE MONETARY POLICY COUNCIL

**held on 24-25 November 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.**
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Further signals of recovery can be observed in the world economy. After several quarters of decline, 2009 Q3 brought GDP growth in the United States and in the euro area. At the same time, a strong increase in activity has continued in the largest emerging market economies. The recovery around the world is to a large extent driven by expansionary macroeconomic policies, in particular fiscal stimulus packages. In the developed economies, however, labour market situation is still deteriorating and – despite some improvement – problems persist in the financial sector. Lending is still being reduced.

The improvement in the real economy around the world is accompanied by appreciating financial assets, including emerging market economies' currencies, and commodities in the international markets. This is supported by the expansionary policy of major central banks and the ensuing global surplus liquidity. At the same time, the largest economies are still witnessing a drop in the overall price level, while core inflation remains positive.

The recently released data on the Polish economy, including data on industrial output and retail sales as well as the financial results of enterprises, point to an improvement in economic activity in 2009 Q3. Yet, the unfavourable situation in the labour market persists; in particular, the unemployment rate is rising. Bank lending to the corporate sector shows further decline and low growth of loans to the household sector continues.

In October 2009 annual CPI inflation decreased to 3.1%, which was mainly driven by a fall in the annual growth of food and energy prices. At the same time, core inflation net of food and energy prices remained unchanged. The persistent relatively high core inflation means that the demand weakening so far has not fully offset the increase of administered prices and the earlier exchange rate depreciation.

In the Council's assessment, in the near term annual CPI inflation may temporarily increase due to the positive base effect connected with the strong drop in oil prices observed in late 2008. Yet, subsequent quarters are expected to bring a significant fall in annual CPI inflation driven mainly by negative base effects connected with the strong growth in administered prices and food prices recorded at the beginning of 2009. Low demand pressure, slower growth of labour costs and the hitherto zloty appreciation will also be conducive to inflation decrease. In turn, a decline in inflation

# NBP

in 2010 may be mitigated by an increase of commodity prices in the global markets and increases in taxes and administered prices.

The Council assesses the probabilities of inflation in the medium term running below or above the inflation target to be balanced. In the Council's view, the improvement in global economic activity and the previously implemented monetary policy easing 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, the public finance sector and 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.