

Warsaw, 25 May 2005

INFORMATION FROM THE MEETING OF THE MONETARY POLICY COUNCIL

Held on 24-25 May 2005

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

- **reference rate 5.5% on an annual basis;**
- **lombard rate 7.0% on an annual basis;**
- **deposit rate 4.0% on an annual basis;**
- **rediscount rate 6.0% on an annual basis.**

The Council maintained its neutral monetary policy bias.

Since the last meeting of the Monetary Policy Council no significant changes in the external environment of the Polish economy have been observed that could affect the outlook for economic growth and inflation in Poland. The data on GDP in the United States and the euro area in 2005 Q1 suggest that economic growth is still markedly faster in the United States than the euro area. No significant changes in the forecasts for crude oil prices have been noted and a negative effect of high oil prices on the assessment of economic climate both on the part of consumers and enterprises in the euro area and United States alike has continued.

Basing on preliminary data it is estimated that the annual GDP growth in Poland may have reached approximately 3.0% in 2005 Q1. In seasonally adjusted terms, the GDP growth has accelerated slightly as compared with the previous quarter. April 2005 saw a smaller than expected decline in industrial output (a drop of 1.0% y/y). An annual drop in industrial output was mainly caused by the high growth of output recorded in April 2004 (when the growth stood at 21.8% y/y). In seasonally adjusted terms, industrial output declined by 1.5% y/y, while in month-on-month terms it rose by 2.3%.

Increased activity of construction site development companies may be evidence of the sustained investment revival, which may be favoured by still robust financial results of enterprises. Moreover, business confidence signalled by enterprises in GUS business tendency surveys have stopped deteriorating.

Available data signal a gradual improvement in the labour market. In April 2005, employment in the corporate sector reported a year-on-year growth of 1.7%, while the unemployment rate decreased to 18.8%, i.e. by 1.1 percentage point y/y. In 2004 Q4, for the first time since 1999, the number of working persons in the economy increased by 0.2% y/y (as reported by companies employing more than 9 people). It confirms the positive tendencies visible in BAEL (Labour Force Survey) since 2003.

This gradual improvement in the labour market is accompanied by a low wage growth. In April 2005, the nominal wage growth in the enterprise sector was still low and stood at 1.8% y/y (i.e. a drop of 1.2% y/y in real terms). In 2005 Q1 wage growth in the economy as a whole amounted to 3.6% y/y and 0% y/y in real terms, which was lower than expected and than in the previous quarter.

As expected, in April 2005 the annual growth of consumer prices decreased to 3.0% y/y against 3.4% recorded in the previous month. April's inflation decline was mainly driven by lower annual growth rate of food and non-alcoholic beverage prices. A drop was also recorded in all core inflation indicators (net inflation amounted to 2.3% y/y as compared to 2.4% recorded in March 2004). The fall in the current inflation and also the shrinking gap between inflation measured with the price index of consumer goods and services and net core inflation both confirm the disappearance of transitory factors which contributed to inflation increase in 2004. Moreover, May 2005 saw a slight decrease in inflation expectations of households (down to 2.9% from 3.0% in April 2005). The downward trend in producer prices in industry started last year has continued. In April the annual growth of those prices amounted to 0.8 % (as compared to 2.2% in March 2005).

The zloty exchange rate developments in May 2005 have been broadly consistent with the path accounted for in the May *Inflation Report*. The exchange rate developments may be affected by the situation in the international financial markets and the uncertainty related to the pre-election period.

Numerous legislative proposals put forward in the recent months may cause a widening of the public finance deficit and, in consequence, postpone the compliance with of the euro-area membership criteria. The uncertainty about the prospects for public finance reforms and the extent of implementation of other necessary structural reforms is a significant inflation risk factor.

According to the NBP staff inflation projection presented in the May *Inflation Report*, the annual GDP growth rate is expected to reach approximately 4% and thus be lower than expected in the February *Report*. It is expected that starting from 2005, the main demand factors driving economic growth will be consumption and investment. In the years 2006-2007, GDP dynamics should accelerate to 5.0%-5.5% unless the business conditions in Poland deteriorate or some negative shocks in the world economy occur.

NBP

According to this inflation projection, the price growth should be lower than that expected in the February *Report*. Assuming unchanged interest rates, there is a 50-percent probability that inflation will stay within the range of 1.1%-2.2% in 2005 Q4, 1.2%-3.8% in 2006 Q4 and 0.7%-4.3% in 2007 Q4.

In the Council's assessment, the May inflation projection and the currently available data indicate that the balance of risks for future inflation has not changed enough to warrant a change of the monetary policy parameters.

The next meeting of the Council will be held on 28-29 June 2005.