

Warsaw, 26th January 2005

**INFORMATION FROM THE MEETING OF THE MONETARY POLICY  
COUNCIL****Held on 25-26 January 2005****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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In the period since the last meeting of the Monetary Policy Council both the business and household confidence indicators in the United States have improved, while the growth of industrial output and a high growth rate of retail sales have been continued. The positive data from the American market contributed to an increase in corporate sentiment in the euro area. The most pronounced improvement was observed in Germany, where the favourable assessments referred both to the present and future situation of the economy. However, the forecasted economic growth in the euro area is currently lower than it was assumed in the November *Inflation Report*. Expectations of euro-zone inflation have also registered a slight slide in relation to the information presented in the *Report*.

After the price falls observed in November and December 2004, crude oil prices picked up again in the first half of January. Even though oil price forecasts published by some external centres are lower than in the previous month, there persists a high uncertainty in relation to future oil prices.

In Poland, the annual growth of industrial output in December 2004 was lower than expected and amounted to 6.4% y/y. The enterprises surveyed by the NBP have signalled a decrease in new orders as well as a possible slide in production dynamics. These data, however, are not consistent with optimistic plans the surveyed enterprises declared for new investments and also with the sustained high level of production capacity utilisation. Thus, it is hard to conclude on the degree to which the short-term signals of a deteriorating economic climate will be reflected in the actual economic situation in the longer run.

The labour market has been sending conflicting messages. On the one hand, LFS data for 2004 Q3 point to an improvement of the overall situation in the labour market: the number of working persons in 2004 Q3 was 230 thousand (1.7%) higher than the year before, and the number of unemployed decreased by 194 thousand in the same period. On the other hand, December 2004 brought a stabilisation in the enterprise-sector employment. Moreover, according to the NBP's quarterly business survey, the outlook for corporate-sector employment growth in the coming quarter has deteriorated. The registered unemployment rate rose from 18.7% in November to 19.1% in December 2004, which can be attributed to seasonal factors.

December 2004 saw a continuation of the negative real wage growth in the enterprise sector (-1.1% y/y against -1.7% 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). At the same time, the NBP surveyed enterprises have reported moderate plans of pay rises in 2005.

Annual inflation in December 2004 stood at 4.4% against 4.5% in November, while net inflation remained unchanged at 2.4%. The higher than the target inflation observed since May 2004 is primarily the result of price increases related to Poland's accession to the European Union and also of the hikes in the prices of oil and other commodities in world markets. Inflation expectations of households, after a climb to 4.3% in December 2004, slid down to 4.1% in January 2005. At the same time, there was a greater than expected decrease in the dynamics of producer prices in industry – down to the level of 5.6% y/y.

Since the last meeting of the Council the foreign exchange market has witnessed fluctuations in the zloty exchange rate and the appreciation trend of the Polish currency, observed in the previous months, has been halted. The appreciation which took place in 2004 will be conducive to inflation decrease in 2005.

In view of available data it is difficult to assess whether in the next two years there may occur a slight drop in the rate of economic growth in relation to the expectations presented in November *Inflation Report*. Still, it is expected that in 2005 the contribution of net exports in economic growth will decrease, while the role of investment as a growth factor will increase. The Council upholds its conviction that a sustainable economic growth will hinge on the implementation of reforms which would result primarily in the reduction of expenditures and, in consequence, lead to a decrease in the deficit of the public finance sector and help remove the barriers to employment growth.

**In the Council's opinion the balance of risks for future inflation has not changed significantly since the previous meeting. Thus the Council maintained its tightening monetary policy bias.**

The next meeting of the Council will be held on 24-25 of February 2005.