

Warsaw, 30 November 2005

**INFORMATION FROM THE MEETING OF THE MONETARY POLICY  
COUNCIL****Held on 29-30 November 2005****The Council decided to keep the NBP interest rates unchanged:**

- **reference rate 4.50% on an annual basis;**
- **lombard rate 6.00% on an annual basis;**
- **deposit rate 3.00% on an annual basis;**
- **rediscount rate 4.75% on an annual basis**

**and to maintain its easing monetary policy bias.**

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Since the last meeting of the Council, the outlook for economic growth in the euro area and the United States has not changed significantly. Euro-area inflation forecasts have not been revised, while the annual rate of price growth in October 2005 dropped slightly to 2.5%, from 2.6% in September. In turn, the US inflation forecasts for 2006 have been adjusted upwards, even though the current growth rate of consumer prices decreased from 4.7% y/y in September to 4.3% in October 2005. Crude oil prices have continued falling throughout November. Since the October meeting of the Council the price of Brent oil has decreased by USD 6.81 per barrel, i.e. by 11.4%. However, the price forecasts of this commodity for 2006 have not changed significantly and remain above the currently quoted prices. The uncertainty about the impact of the considerable accumulated growth of oil prices on economic growth and inflation remains significant and still has to be taken into consideration.

According to the estimates of the Central Statistical Office (GUS), the year-on-year GDP growth in Poland in 2005 Q3 was higher than in Q2. The annual GDP growth in Q3 amounted to 3.7%, which was in line with expectations presented in the August *Inflation Report*. Also consistent with NBP expectations was the dynamic of individual consumption and investments. Net exports – despite a strong appreciation of the zloty in 2004 and at the beginning of 2005 – remained the main demand factor of economic growth in 2005 Q3. Net exports' contribution to GDP growth proved significantly larger than anticipated in the August *Report*. GUS data point to a strengthening of the economic recovery, which is supported by gradual acceleration in domestic demand, including investments.

In October 2005 the growth rate of industrial output considerably exceeded the expectations of both external forecasters and the NBP, and amounted to 7.6% y/y, i.e. 6.8% in seasonally adjusted terms as compared to 5.7% a month before. The published data point to the strengthening of the rising tendencies in industry observed since the middle of 2005. The annual growth in construction and assembly output decreased from 10.5% in September to 6.8%, i.e. from 12.2% to 9.8% in seasonally adjusted terms. Thus, it is still running high, mainly due to a considerable revival in construction in 2005 Q2. There has also been a continuation to a moderate rising trend in

retail sales, which in October rose by 7.5% y/y in nominal terms (5.7% in real terms). November has not brought any significant changes in the assessment of economic climate as signalled by enterprises in GUS business tendency surveys, while the most optimistic assessments have been recorded in construction.

The favourable results of the non-financial sector in the first three quarters of 2005 published by the GUS point at good financial standing of the surveyed companies: growing revenue, high profitability and safe liquidity level.

The situation in the labour market has continued to improve. Since the beginning of the year moderate growth in employment in the corporate sector has been recorded. In October 2005 it increased by 2.0% y/y and the unemployment rate fell to 17.3% y/y, i.e. by 1.4 percentage point as compared to the corresponding month of the previous year.

In 2005 Q3 the growth of nominal wages in the economy fell to 3.4% y/y (against 3.9% y/y in 2005 Q2). However, the wage growth in the corporate sector in October 2005 was considerably higher than expected (nominal growth of 6.4% y/y against 1.8% y/y in September). This growth was fuelled by additional payments in certain sectors (*mining of metal ores* and *post and telecommunications*). Even after accounting for the above factors, the wage growth reported in October exceeded the average from the first three quarters of 2005. At present, it is difficult to assess whether this acceleration in wage growth will be maintained in the subsequent months. It should be emphasised that low unit labour cost growth rate is the necessary condition for sustained acceleration in economic growth grounded in the rise of employment.

In line with the expectations of the NBP's experts and external forecasters, in October 2005 the annual growth in consumer prices decreased and amounted to 1.6%. Core inflation indicators decreased (net inflation amounted to 1.2% against 1.3% in September). Inflation expectations of households were low (1.5%), similar to those in September 2005. It can be expected that until the end of 2005 inflation will remain low, i.e. markedly below the inflation target of 2.5%.

October 2005 saw a fall in producer prices in industry in year-on-year terms which has been continuing since May (fall by 0.9% y/y, i.e. 0.0% m/m). Low producer prices in industry were determined by moderate growth of domestic demand and stronger than last year zloty exchange rate.

Since the last meeting of the Council, zloty exchange rate has not changed significantly, yet, in the first two months of 2005 Q4 the zloty remained stronger than accounted for in the *August Inflation Report*.

The Council maintains its opinion that inflation may return to the target sooner than it was forecasted in the August inflation projection. It is expected that having achieved the target, inflation will remain at a level close to it. The moderate wage growth is an indication that no second round effects have materialised so far. Should there appear signals of increased probability that these effects should occur, the balance of risks might change, which would then affect the future decisions of the Council.

The Council maintains its belief that the most favourable for Poland would be to adopt an economic strategy focused on creating conditions that would guarantee the introduction of the euro at the earliest possible date, which should contribute to acceleration in the long-term economic growth.

The next meeting of the Council will be held on 20-21 December 2005.