

Warsaw, 31 May 2006

INFORMATION FROM THE MEETING OF THE MONETARY POLICY COUNCIL

held on 30-31 May 2006

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

- **reference rate 4.00% on an annual basis;**
- **lombard rate 5.50% on an annual basis;**
- **deposit rate 2.50% on an annual basis;**
- **rediscount rate 4.25% on an annual basis.**

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Since the Council's meeting in April 2006, the forecasts of economic growth for 2006 and inflation for 2006-2007 in the United States have been slightly revised upwards. Growth and inflation forecasts for 2006-2007 in the euro area have remained unchanged. In April, the annual growth of consumer prices increased both in the euro area (to 2.4% from 2.2% in March) and in the United States (to 3.5% from 3.4%). Since the Council's meeting in April, oil prices in the world markets have fallen (by 5.3%). In contrast, April saw a rise in the average price of this commodity as forecast for the years 2006-2007 by analysts in the Reuters survey (3.5% for 2006 and 4.4% for 2007 as compared to the previous month's forecasts). Still, uncertainty persists as to the effect of high oil prices on economic growth and inflation.

Since the Council's meeting in April 2006, the GUS (CSO) revised upwards the nominal GDP growth in particular quarters of 2005. At the same time, the GUS revised upwards the growth of prices in the economy (GDP deflator) in 2005. As a result, GDP growth in real terms in 2005 amounted to 3.4% y/y (as compared to the initial estimate of 3.2% y/y).

GUS data on GDP in 2006 Q1 confirm that since 2005 Q2 the economic growth has been accelerating. The real GDP growth in 2006 Q1 amounted to 5.2% y/y (compared with 4.3% in 2005 Q4). The real GDP growth in 2006 Q1 was higher than expected in the April *Inflation Report*. Private consumption rose by 5.1% y/y (as compared with 2.8% in 2005 Q4) and the contribution of net exports to GDP growth was 0.7 percentage point (versus minus 1.1 percentage point in 2005 Q4). Gross fixed capital formation increased by 7.4% y/y (against 10.1% y/y in 2005 Q4) and public consumption rose by 3.4% y/y (against 5.1% y/y in 2005 Q4). Growth of private consumption and the contribution of net exports to GDP growth were higher than forecasted in the April *Inflation Report*, whereas the increase in gross fixed capital formation and public consumption was lower than expected in the April *Report*.

The April figures on output, retail sales and labour market indicate the ongoing economic recovery in Poland. The growth of industrial output in April 2006 reached 5.8% y/y (as compared to 16.4% y/y in March) and was in line with the NBP's expectations, although below the average of forecasts of external analysts. Lower output growth as compared to the previous month was mainly the result of a lower number of business days than a year before. In seasonally adjusted terms, the

growth of industrial output remained high and amounted to 10.2% y/y (against 13.6% y/y in March 2006). In April the construction and assembly output increased by 4.1% y/y as compared to 15.5% y/y in March - 4.9% y/y as compared to 8.3% y/y, respectively, in seasonally adjusted terms. The growth in retail sales – although slightly below market expectations – accelerated (an increase by 13.2% y/y against 10.1% y/y in March in nominal terms). This was the highest increase since April 2004, when retail sales jumped significantly preceding Poland's EU entry. The growth of household lending has continued at a robust pace: in April consumer loans registered an increase of 17.6% y/y (against 18.9% y/y in March) while the growth of housing loans amounted to 41.1% y/y (against 45.9% y/y in March). The growth of corporate lending remains moderate (an increase of 3.4% y/y in April against 3.8% y/y in March).

The accelerating economic growth increases the demand for labour. Since December 2004 the growth of employment in the corporate sector has been accelerating. In April 2006 employment in enterprises was 2.8% higher than a year before. April also saw a fall in the rate of registered unemployment in annual terms (down to 17.2% from 18.7% recorded one year before).

The economic recovery is accompanied by wage growth. In 2006 Q1 the average wage growth in the economy reached 4.7% y/y in nominal terms (against 5.1% y/y in 2005 Q4). In April 2006 the corporate sector registered a wage growth of 4.0% (as compared to 5.4% y/y in March). In industry, total labour productivity growth in January-April 2006 amounted to approx. 9.0% y/y while the growth rate of average nominal wage over the same period reached 4.4% y/y. In the recent period the declarations of wage increases as well as signals of rising wage demands in part of the public sector have intensified. If these demands are met wage pressure in the remaining part of the public sector may rise and in this way wage growth in the whole economy may accelerate. At the same time, higher wage rises would have led to increased tensions in the public finance and, consequently, would hamper the reduction of the public finance deficit. A necessary condition of sustainable acceleration of economic growth not threatening the achievement of the inflation target is to ensure that wages do not grow faster than labour productivity in the long run.

The annual growth of consumer prices in April rose to 0.7% (as compared with 0.4% y/y in March). This rise in the annual inflation against March 2006 was mainly the result of increased energy prices, primarily due to the increase of prices of natural gas connected with a hike in gas tariffs' – and fuel prices. The majority of core inflation measures went up as well, even though their level remained low (core inflation measures in April ranged between -0.6% y/y and 1.0% y/y). This low level of all core inflation indices indicates that inflationary pressure continues to be low. May 2006 did not bring any significant changes to the inflation expectations of households, which also remained low.

In April 2006, producer prices in industry reported a rise of 1.4% m/m against 0.7% m/m in March, i.e. 1.8% y/y against 0.9% y/y. This rise was mainly brought about by a considerable growth in commodity prices. The increase in annual growth rate of producer prices (PPI) occurred even though the effective exchange rate of the zloty was 7.7% stronger than a year before.

The Council maintains its belief that implementing an economic strategy focused on creating conditions which ensure introduction of the euro at the earliest possible date would be most favourable for Poland and would contribute to higher long-term economic growth.

The balance of risk for future inflation has not changed significantly since the Council's last meeting, yet a risk factor related to wage pressures in the budget sector has appeared.

The Council has also approved the *Report on Monetary Policy Implementation in 2005* and the *Report on the Operations of the National Bank of Poland in 2005*.

The next meeting of the Council will be held on 27-28 June 2006.