

Warsaw, 24 February 2010

INFORMATION FROM THE MEETING OF THE MONETARY POLICY COUNCIL

held on 23-24 February 2010

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;**
- **discount rate at 4.00% on an annual basis.**

Released data point to a further increase in economic activity in the United States and a slow improvement in economic conditions in the euro area. However, the labour market situation in the developed economies remains unfavourable, which is in line with expectations. Moreover, lending continues to shrink, though the difference between the share of banks tightening and those loosening their credit policies in the euro area has narrowed. At the same time, the largest emerging economies, including China, see their GDP growth accelerate. The recovery in economic activity around the world is still being supported by strongly expansionary macroeconomic policies based on both conventional and non-standard instruments.

In the recent period, the risk aversion in international financial markets has risen, which was largely related to fears about the effects of the fiscal problems in some of the euro-area economies. The rise in risk aversion contributed to declines in prices of some financial assets. At the same time, oil prices remained highly volatile. Inflation increase in emerging market economies was accompanied with a slight rise in inflation in some of the developed economies.

Preliminary GUS data on GDP in 2009 imply that 2009 Q4 saw further recovery of economic growth. The newest monthly data on the Polish economy also point to improved economic activity. Some stabilisation of employment in the enterprise sector may signal a gradual deceleration of the unfavourable labour market tendencies, though unemployment rate is still rising, which is largely driven by increasing labour force participation. The growth in loans to the non-financial sector remains low, though banks envisage higher lending to this sector in the coming period.

According to GUS preliminary data, in January 2010 annual CPI inflation rose to 3.6%, i.e. slightly above the upper limit for deviations from the inflation target of 2.5%. The rise in the annual inflation rate was primarily driven by higher annual rate of fuel prices, largely due to a positive base effect.

The Council got acquainted with the projection of inflation and GDP prepared by the Economic Institute of the NBP, which is one of the inputs into the Council's decision-making on the NBP interest rates. In line with the February projection – under the assumption of constant NBP interest rates – there is a 50-percent probability that inflation will remain within the range of 1.3–2.2% in

NBP

2010 (compared to 0.8–2.2% in the October projection), 1.7–3.1% in 2011 (compared to 1.1–3.2%) and 2.6–4.6% in 2012. According to the February projection, there is a 50-percent probability that the annual GDP growth will remain within the range of 2.1–4.1% in 2010 (compared to 0.8–2.8% in the October projection), 1.8–4.0% in 2011 (compared to 2.2–4.2%) and 1.9–4.3% in 2012.

In line with available forecasts, in the months to come the annual CPI will be lowered by negative base effects connected with the surge in administered prices and food prices at the beginning of 2009. Other factors conducive to lower inflation include: low demand pressure, previously observed moderate growth of labour costs and the hitherto observed zloty appreciation. In turn, inflation decline in 2010 may be curbed by rises in: commodity prices in the world markets, fees subject to local governments' decisions and administered prices.

In the Council's assessment the probabilities of inflation running below or above the inflation target in the medium term 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 impact of the hitherto pursued expansionary macroeconomic policies abroad and their prospective reversal are an important source of uncertainty for future economic growth and inflation in the world economy and, consequently, also for the domestic monetary policy.

An important factor affecting monetary policy is the situation of the public finance sector. Introducing measures aimed at permanently reducing the deficit of the general government sector and at curbing the increase of the public debt will support macroeconomic stability and allow to meet the criteria for euro adoption.

The Council expresses the opinion that Poland should join the Exchange Rate Mechanism II and the euro area at the earliest possible date, after meeting the necessary legal, economic and organisational conditions.

The Council adopted the *Inflation Report – February 2010*.