

Warsaw, 28 April 2010

INFORMATION FROM THE MEETING OF THE MONETARY POLICY COUNCIL

held on 27-28 April 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.**

Further signs of recovery are appearing in the world economy, even though the scale of improvement in economic activity varies across regions. In developed economies the recovery is proceeding at a relatively slow pace and – as expected in a post-recession period – is mainly observed in manufacturing. In the United States, a gradual revival in consumption demand is recorded alongside some signals pointing to improvement in the labour market situation. In the euro area, economic activity remains weak in most sectors and labour market developments are still unfavourable. At the same time, fast economic growth is recorded in the largest emerging economies. The ensuing risk of increasing economic imbalances leads to a gradual macroeconomic policy tightening in those countries.

The signs of recovery are conducive to the growth of commodity prices, including oil prices. High annual growth of energy prices, which also results from a low reference base, is raising the annual inflation rate in developed countries, though core inflation indices remain at low levels in those countries. The negative consequences – mainly those related to public debt accumulation – of strongly expansionary macroeconomic policies, which have so far supported the global economic recovery, are becoming more and more evident. The fiscal crisis in Greece is increasing the uncertainty in international financial markets.

The data on the Polish economy in 2010 Q1 indicate a continuing economic recovery in some sectors, including primarily a significant rise in activity in industry. At the same time, 2010 Q1 brought a strong fall in the construction and assembly output. After a two-month decline mainly related to – similarly as in the case of the construction output – unfavourable weather conditions, in March the growth of retail sales increased. Consumer confidence indicators are still improving together with enterprises' expectations with regard to economic conditions – among others, expectations about demand, including foreign demand for Polish goods. After a decline in investment in 2009 Q4, currently most enterprises do not envisage an increase in their investment activity, though at the same time they do not reduce their previous investment plans, which is a favourable development in comparison to previous quarters. A slight employment rise in the enterprise sector, stabilisation of the unemployment rate (adjusted for seasonal factors), an increase in the number of new vacancies and accelerated wage growth in March 2010 as well as enterprises'

NBP

expectations concerning their employment level and pay rises may all signal a gradual deceleration of the unfavourable labour market tendencies.

Bank loans to enterprises continue to fall, which is primarily due to low demand for credit on the part of large enterprises. At the same time, the latest data point to some recovery in lending to households. The recovery is particularly visible in housing loans.

In line with expectations, in March 2010 annual CPI inflation decreased again (to 2.6%) approaching the level of the NBP inflation target of 2.5%. The inflation decline was largely driven by lower annual growth of food prices. At the same time core inflation continued to decrease.

In line with available forecasts, in the months to come the annual CPI will still be lowered by negative base effects connected with the surge in the prices of excise goods and food prices in 2009. Other factors conducive to lower inflation include: currently low demand pressure, the hitherto considerable zloty appreciation and moderate growth of labour costs. In turn, inflation decline in 2010 may be curbed by rises in commodity prices in the world markets as well as by persistently elevated growth of some administered prices, including the prices of energy carriers and services related to house maintenance.

On 9 April 2010, the National Bank of Poland purchased a certain amount of foreign currencies in the market. This operation was consistent with the *Monetary Policy Guidelines for the Year 2010*.

In the Council's assessment the probabilities of inflation running below or above the inflation target in the medium term are balanced.

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 maintains 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 financial statement of the National Bank of Poland for the year 2009.