

Warsaw, 26 August 2009

INFORMATION FROM THE MEETING OF THE MONETARY POLICY COUNCIL

held on 25-26 August 2009

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 3.75% on an annual basis.**
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The recently released data – including those on GDP in 2009 Q2 – indicate easing of recessionary tendencies in the United States and in most EU countries. At the same time, most economic sentiment indicators have improved further and the forecasts of GDP growth in 2010 for the United States and the euro area have been slightly revised upwards. The global economic activity, however, is still low and it is currently difficult to assess how permanent the easing of the recession will be, especially given the persistent problems in the financial sector.

In major economies the decline in the general price level, which results from the slowdown in the world economic growth and the previously observed drop in commodity prices, has deepened. At the same time, core inflation have continued to decrease. In turn, the prices of energy commodities in the world markets have begun to rise again.

In the recent period the economic activity in Poland remained subdued, as indicated by the continuing decline in industrial output. At the same time, some acceleration in retail sales and a rise in the majority of economic sentiment indicators signal improvement of the economic situation in the months to come. Labour market has further deteriorated: the fall in employment in the corporate sector has deepened and the unemployment rate has risen. This was accompanied by a slightly higher than expected increase of wages in the corporate sector. Reduced lending, in particular to the corporate sector, continues to be a factor curbing economic growth.

In July 2009 the annual CPI inflation rose to 3.6%, i.e. above the NBP inflation target of 2.5% and also slightly above the upper limit for deviations from the target set at 3.5%. The rise in inflation was primarily driven by strongly rising prices of tobacco resulting from changes in the excise tax and by a further increase in fuel prices. Inflation remaining at the heightened level results, to a large extent, from the previous rises of regulated prices and an earlier depreciation of zloty exchange rate. The relatively high level of core inflation indicates that the scale of demand weakening so far failed to fully offset the effect of increases in regulated prices and an earlier depreciation of the exchange rate.

In the Council's assessment, inflation is likely to remain at an elevated level in the coming months, mainly due to the relatively high annual growth of food prices and regulated prices, including, above all, the prices of energy. The recently observed rise in crude oil prices, mitigated to a certain

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extent by the recent zloty appreciation, may also be conducive to inflation remaining at an increased level. In the medium term, however, low demand pressure and a slower growth of labour costs should be conducive to inflation decrease.

In the Council's assessment, the probability of inflation running below the inflation target in the medium term is higher than the probability of its running above the target. In the Council's view, the expected improvement in the global economic activity and the implemented cuts in the NBP interest rates together with the lowering of the required reserve rate will support the return of the economy to the potential growth path. The Council's decisions in the coming months will take account of the incoming information on the outlook for economic growth and inflation, the situation in the financial markets in Poland and abroad, information on the public finance sector and the zloty exchange rate developments.

The Council will continue to analyse the impact of developments in the domestic interbank market on the monetary policy transmission mechanism in Poland.

The Council maintains its view that Poland should join the Exchange Rate Mechanism II and the euro area at the earliest possible date, after achieving the necessary political support for amendments to the Constitution of the Republic of Poland and other legal acts required for euro adoption in Poland.

As regards the ongoing works on the Government's resolution on forming the National Coordination Committee on Euro Adoption, the Coordination Council and Inter-institutional Working Groups on Preparations for Euro Adoption by the Republic of Poland, the Monetary Policy Council adopted its stance on the role of the NBP in the process of Poland's accession to the euro area.