

Warsaw, 29 September 2010

INFORMATION FROM THE MEETING OF THE MONETARY POLICY COUNCIL

held on 28-29 September 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.

Modest recovery in the global economy has continued and its pace in the second half of 2010 is likely to be lower than in the first half of the year. In the developed countries adjustments in the balance sheets of households, enterprises and financial institutions together with persistently unfavourable situation in the labour market, are conducive to weakening economic growth in the subsequent quarters. The effects of high fiscal imbalance and its anticipated reduction, as well as of monetary expansion, including non-conventional measures undertaken by central banks constitute an important risk factor for economic growth in those countries. At the same time, continuing high economic growth in major emerging economies supports global economic activity.

In the past few months prices of some agricultural commodities in the global markets have increased markedly. At the same time, the observed alleviation of tensions in the financial markets have favoured the inflow of capital to emerging economies and the appreciation of those countries' currencies, including the appreciation of the zloty.

According to GUS preliminary estimates in 2010 Q2, GDP rose by 3.5% y/y (as compared to 3.0% y/y in 2010 Q1). This was mainly driven by a rise in the domestic demand related to accelerating growth in the consumption demand and the continuing rebuilding of inventories. Gross fixed capital formation continued to decrease, yet, its decline was lower than in the previous quarter. Higher GDP growth was accompanied by a rise in the number of the economically active persons, including a rise in the number of working persons, and by continuing moderate wage growth. At the same time, financial situation of enterprises improved.

The data on the Polish economy in 2010 Q3 point at a gradual stabilisation of economic growth. Industrial output continues to grow rapidly; growth, yet irregular, has also been registered in the construction and retail sales. Capacity utilization in enterprises continues to grow gradually. Yet, certain deterioration has been seen in the enterprises' and households' assessment of the future economic situation. The situation in the labour market has been improving gradually which is reflected in the continuing rise of employment in enterprises and falling unemployment rate.

Lending to enterprises remains limited, mainly due to reasons related to the demand for credit. Growth in household mortgage lending continues to rise gradually.

NBP

In August 2010 the annual CPI inflation amounted to 2.0%, thus remained below the NBP inflation target set at 2.5%. Core inflation continued at a low level. Yet, the majority of measures of inflation expectation exceed the current CPI inflation. High growth has been recorded in producer prices. In the subsequent months rising food and energy prices may contribute to a gradual rise in CPI inflation; in 2011 the level of prices may also be slightly increased by the announced change in VAT rates.

In the Council's assessment, moderate economic growth and the accompanying limited wage and inflationary pressures, along with the risk of weakening global economic growth in the subsequent quarters justify keeping the NBP interest rates unchanged.

At the same time, the Council will analyse the signs of a possible rise in inflationary pressure, and will follow the developments in inflation expectations.

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

In the opinion of the Council, introducing measures aimed at preventing fast growth in foreign currency lending to households is important for macroeconomic stability. Such measures can also contribute to increasing the effectiveness of monetary policy transmission mechanism.

The Council maintains its view that Poland should join the ERM II and the euro area at the earliest possible date, after meeting the necessary legal, economic and organisational conditions.

The Council adopted the *Monetary Policy Guidelines for 2011* and approved the document *International Investment Position of Poland in 2009*.

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