

Warsaw, 27 October 2010

INFORMATION FROM THE MEETING OF THE MONETARY POLICY COUNCIL

held on 26-27 October 2010

The Council decided to keep the NBP interest rates unchanged:

- **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.**

At the same time, the Council decided to increase the required reserve rate by 0.5 percentage points from 3.0% to 3.5%. This decision applies to the required reserve to be maintained from 31 December 2010.

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. Economic growth in the developed countries is curbed by high unemployment and ongoing adjustments in the balance sheets of households, enterprises and financial institutions. The rapid growth in the major emerging economies has been decelerating slightly, which is driven by tightening of the economic policy in some of those countries aimed at limiting the risk of growing macroeconomic imbalance. The effects of high fiscal imbalance and its planned reduction in the developed economies, as well as the effects of monetary expansion, including non-standard measures undertaken and envisaged by major central banks continue to be an important uncertainty factor for the global economic growth.

In the recent period expectations of increased scale of monetary expansion in the United States were accompanied by improved investors' sentiment in the financial markets. Both factors, on the one hand, supported the appreciation of currencies against the US dollar, including that of the zloty as well as of currencies of other emerging economies. On the other hand, they were also conducive to a rise in prices of some commodities in the world markets.

The data on the Polish economy in 2010 Q3 signal slightly higher economic growth as compared to the previous quarter. Industrial output continues to grow rapidly. In the recent period the growth of construction and assembly output accelerated. Production capacity utilization has been steadily rising. Enterprises continue to have very good financial and liquidity situation. At the same time, despite improvement in current activity, in the majority of sectors expectations of enterprises about demand and output have deteriorated. Enterprises continue to increase employment, albeit the decline in the registered unemployment rate has halted (in seasonally adjusted terms). Rise in employment is supported by continued high wage discipline in enterprises. In 2010 Q3 wage growth declined in the corporate sector. Growing number of economically active persons may have a dampening effect on wage growth.

NBP

Lending to enterprises remains limited, mainly due to reasons related to the demand for credit. Stable growth in mortgage loans to households continues. The share of foreign currency loans in the newly granted mortgage loans to households is on the rise again.

In September 2010 the annual CPI inflation increased to the level of the NBP inflation target set at 2.5%. This rise in CPI inflation was mainly driven by an increase in the growth of food prices and – to a lesser degree – of energy prices. Core inflation net of food and energy has not changed. At the same time, other core inflation measures and PPI growth increased. The majority of inflation expectation measures are close to the NBP inflation target. In the coming months a further rise in CPI inflation may be expected, which shall be driven by growing food and energy prices. Moreover, in 2011 the level of prices may be slightly increased by the announced change in VAT rates.

The Council has 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 October projection – under the assumption of constant NBP interest rates – there is a 50-percent probability of inflation running in the range of 2.4-2.6% in 2010 (as compared to 2.3-2.9% in the June projection), 2.5-3.5% in 2011 (as compared to 2.1-3.3%) and 2.4-3.7% in 2012 (as compared to 2.2-3.7%). In turn, the October projection sees the annual GDP growth with a 50-percent probability in the range of 3.3-3.7% in 2010 (as compared to 2.5-3.9% in the June projection), 3.3-5.5% in 2011 (as compared to 3.3-5.9%) and 2.8-5.5% in 2012 (as compared to 2.2-5.0%).

In the Council's assessment, the currently limited inflationary and wage pressure in the Polish economy and – not accounted for in the baseline scenario of the October inflation and GDP projection – the possibility of growing capital inflows to the emerging economies, including to Poland, amidst the extended period of expansionary monetary policy of major central banks, combined with the risk of further weakening of the global economic growth justify keeping the NBP interest rates unchanged.

At the same time, the Council will continue to analyse the signs of possible rise in inflationary pressure.

The Council decided to increase the required reserve rate by 0.5 percentage points from 3.0% to 3.5%. This decision applies to the required reserve to be maintained from 31 December 2010. As a result of this decision the required reserve rate will return to the level effective before 30 June 2009.

An important factor affecting the 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 has adopted the *Inflation Report – October 2010*, the *Balance of Payments of the Republic of Poland for 2010 Q2* and the *Opinion of the Monetary Policy Council on the Draft Budget Act for 2011*.