

Warsaw, 23 November 2010

INFORMATION FROM THE MEETING OF THE MONETARY POLICY COUNCIL

held on 22-23 November 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.**

The moderate recovery in the world economy is continuing. Data on GDP in 2010 Q3 in the major developed economies point to a slight acceleration of the economic growth in the United States, with a concurrent slowdown observed – in quarter-on-quarter terms – in euro-area GDP growth. The continued favourable economic situation in Germany supports the rise in Polish exports. Economic growth in the majority of developed countries is still being curbed by high unemployment and ongoing adjustments in the balance sheets of households, enterprises and financial institutions. The continued rapid growth in the major emerging economies has been decelerating slightly, which is related to tightening of the economy 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 line with expectations, the scale of monetary expansion in the United States was increased, which helped maintain positive sentiment of investors in the financial markets and contributed to higher commodity prices. At the same time, the intensification of fiscal problems in some euro-area countries, in particular in Ireland, was conducive to increasing uncertainty in the financial markets.

Data on the Polish economy in the second half of 2010 signal faster economic growth than in the first half of the year. Industrial output continues to grow rapidly, construction and assembly output is also on the rise. Production capacity utilisation has been steadily rising. Enterprises continue to report a very good financial and liquidity situation. Enterprises increase their workforce, which approaches the pre-crisis levels. The employment rise is supported by continued high wage discipline. In 2010 Q3 the wage growth in the economy slowed down; limited wage pressure is also indicated by the data on wages in the enterprise sector. Wage growth may be slowed down by the growing number of economically active, which is also conducive to halting decline of the registered unemployment rate (adjusted for seasonal factors).

Lending to enterprises remains limited, mainly due to reasons related to the demand for credit. There is a stable rise in mortgage loans to households, despite the fact that banks are tightening the

NBP

criteria for granting loans to this sector, which is primarily connected with an ongoing implementation of Recommendation T. At the same time, banks are gradually lowering their margins included in interest charged on this type of loans.

In October 2010 the annual CPI inflation rose to 2.8%, i.e. above the NBP's inflation target of 2.5%. The inflation rise was primarily connected with a further increase in food and energy prices, while core inflation net of those prices remained unchanged. At the same time, the remaining core inflation indices increased. In the months to come, the growth of food and energy prices may be expected to continue, which will be conducive to higher CPI inflation. In 2011 the level of prices may be additionally slightly increased by the announced change in VAT rates.

In the Council's assessment, the still limited inflationary and wage pressure in the Polish economy and the persistent risk of increased 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 weakening of global economic growth, justify keeping the NBP interest rates unchanged.

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

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.