

## Innovation activity

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Research on innovation activity shows that the share of businesses which introduced product or process innovations – new or significantly improved products or processes – in 2006-2008 was lower than in the previous period; in industry the share of such businesses was 21.3% and in the service sector 15.6%.

The percentage of businesses which introduced product or process innovations was the highest in the following industrial sectors: production of coke, oil products and nuclear fuel (52.5%), production of chemicals (42.3%), production of tobacco products (42.9%) and in the following service sectors: insurance and financial services.

In 2008 spending on innovation activity in the industrial sector was higher by 43.8% than in 2006. In the services sector it was higher by 51.8%. The percentage of businesses investing in innovation decreased but the value of innovation outlays per innovative business increased.

Producers of coke, oil products, nuclear fuels, electricity and motor vehicles had the largest share in investment in product and process innovation in the industrial sector in 2008. Wholesalers, retailers, and companies providing postal and telecom services had the largest share in such investment in the service sector. Spending on innovation was the highest in the provinces of Mazovia and Silesia. The category of innovation benefiting the environment was introduced for the first time in research on innovation activity in 2006-2008. Innovations of this kind were introduced by 26.2% of businesses operating in the industrial sector and 15.5% of businesses operating in the service sector.

**In August 2009 producer prices dropped compared with July. Construction prices decreased again year on year and industrial price growth slowed. Consumer prices increased more than in July. CPI inflation was 3.7% against 3.6% in July.**

The largest upward contribution to inflation came from housing and household services and food. Prices of alcoholic beverages, tobacco products, hotels and

restaurants, education, recreation, culture and health services also increased. Prices of communications services, transport, clothes and footwear decreased.

**In August 2009 the producer price index (PPI) was 2.5%, against 2.8% in July. In construction, the price index dropped to -0.7% from -0.4% in July.**

A significant increase in prices was recorded in August in the mining sector: 12.2% against 8.6% in July. In the electricity, gas and water sector the increase in prices reached 14.2% and was similar to that recorded in July (14.3%). In manufacturing, prices increased by 0.1% against 0.7% in July.

In construction, growth in prices was gradually slowing for several months and in August construction prices were down by 0.7% y/y. This was due to drops in prices of building materials and a slowdown in construction wages.

**The Monetary Policy Council keeps interest rates on hold, with the reference rate at 3.5%**

At a meeting on September 29 and 30, the Monetary Policy Council kept central bank interest rates on hold. The annual reference rate is 3.50%, lombard rate is 5.00%, deposit rate is 2% and rediscount rate is 4.75%. From October 2008 to August 2009 the key rate was reduced by 250 basis points (from 6% to 3.50%).

**According to the Monetary Policy Council, the probability that in the medium term inflation will be running below the target has diminished in recent months.**

NBP, RPP (Monetary Policy Council): In August CPI inflation increased to 3.7% and remained above the central bank's inflation target of 2.5% and slightly above the upper end of the inflation target band of 3.5%. The main factor behind the increase in inflation was the acceleration of food prices. Inflation remains at a heightened level largely because of regulated price hikes and an earlier depreciation of the zloty. The relatively high level of core inflation indicates that the weakening of demand was not strong enough to fully offset the effect of the regulated price hikes and the earlier depreciation of the zloty. The Council believes that in the near future inflation may still remain at a heightened level mainly as a result of relatively high year-on-year growth in food prices and regulated prices, especially prices of energy carriers. But in the medium term, low demand pressure coupled with a slower growth in labour costs should bring inflation down. The Council assesses that the probability of inflation undershooting the target is higher in the

medium term than the probability of its staying above the target. At the same time, the Council assesses that the probability that in the medium term inflation will be running below the target has diminished in recent months. In the Council's view, the expected improvement in global economic conditions, NBP interest rate cuts and the reduction in the required reserve ratio should help the economy return to the potential growth path. In its decisions in coming months, the Council will be taking into account new data concerning prospects for economic growth and inflation, the situation on financial markets in Poland and in the world, data on the public finance sector and the exchange rate of the zloty. The Council will still be analysing the impact of developments on the Polish interbank market on the transmission of monetary policy in Poland. The Council is sticking to its to-date position that Poland should enter ERM II and the euro zone as soon as possible (...). ("Minutes of the Monetary Policy Council Meeting on September 30, 2009"; p.1 and 2; [www.nbp.pl](http://www.nbp.pl))