

INFORMATION FROM THE MEETING OF THE MONETARY POLICY COUNCIL

held on 23-24 June 2009

The Council decided to lower the NBP interest rates by 0.25 percentage points:

- **reference rate to 3.50 % on an annual basis;**
 - **lombard rate to 5.00% on an annual basis;**
 - **deposit rate to 2.00% on an annual basis;**
 - **rediscount rate to 3.75% on an annual basis.**
-

In 2009 Q1 GDP declined in majority of EU countries and other developed economies, which indicates recession in the global economy. However, recently there were signs pointing to the possibility that recession may be gradually fading out. Also the situation in the global financial markets improved slightly. Despite less pessimistic sentiment of economic agents, economic growth forecasts for the majority of Central and Eastern European countries were further revised downwards.

The growth of prices in the major economies decelerated considerably which was due to the significant slowdown in world economic growth and concurrent drop in commodity prices. Yet, recently commodity prices in the world markets have increased again.

Recession in the global economy contributes to significant weakening of economic activity in Poland. In 2009 Q1 GDP growth decreased to 0.8% y/y i.e. showing a slightly stronger decline than anticipated in the February NBP projection. 2009 Q1 saw a rise in consumption and a slight growth in investment coupled with a strong decrease in inventories. Exports plunged considerably, yet, due to the zloty exchange rate depreciation and the resulting improvement in the competitiveness of Polish products, as well as declining domestic demand, the reduction in imports was larger, which resulted in positive contribution of net exports to GDP growth.

In 2009 Q2 economic activity in Poland remained subdued which is reflected in a decline in industrial output and a drop in growth of construction and assembly production. At the same time, some economic indicators were better than expected. The sentiment of enterprises and households also improved slightly, yet, it continues to be low. Further deterioration was seen in the labour market i.e. employment in the corporate sector was falling and unemployment (after seasonal adjustments) was rising which was accompanied by considerable decline in the growth of nominal and real wages. Reduced lending, in particular to the corporate sector, constituted an additional factor conducive to curbing economic growth.

Following a rise observed in the first months of 2009, CPI inflation declined in May 2009 to 3.6%, remaining, however, above the NBP inflation target of 2.5% and the upper limit for deviations from the NBP inflation target, set at 3.5%. Decline in inflation was driven by a drop in annual growth of food prices and administered prices whose increase in the preceding period drove CPI inflation to the currently elevated level. The growth of prices of some goods and services connected with the depreciation of the zloty exchange rate is also conducive to inflation continuing at elevated level; yet, the scale of this growth in May was smaller than in the preceding months. Increased inflation

NBP

results also from the persistence of inflationary processes which is reflected i.a. in the relatively high core inflation.

The Council got acquainted with the projection of inflation and GDP prepared by the Economic Institute of the NBP, being one of the inputs into the Council's decision-making on the NBP interest rates. In line with the June projection – under assumption of constant interest rates – there is a 50-percent probability of inflation lying within the range of 2.8–3.5% in 2009 (as compared to 2.5–3.9% in the February projection), 1.1–3.2% in 2010 (as compared to 0.5–3.2%) and 0.8–3.4% in 2011 (as compared to -0.9-2.6%). In line with the June projection, there is a 50-percent probability of the annual GDP growth lying within the range of -0.4–1.1% in 2009 (as compared to 0.3–1.9% in the February projection), 0.2–2.5% in 2010 (as compared to 1.2–3.3%) and 2.4–4.5% in 2011 (as compared to 2.5-4.8%).

In the Council's assessment, inflation in the coming months will probably decrease, though it will remain at an elevated level, mainly as a result of the relatively high annual growth of food prices and administered prices, including primarily prices of energy. The recently observed rise in crude oil prices may be conducive to rising inflation. Yet, in the medium term further decline in demand pressure should reduce inflation.

The Council assessed the probability of inflation running below the inflation target in the medium term to be higher than the probability of inflation running above the target and decided to lower the interest rates. In the Council's assessment, the already implemented cuts in the NBP interest rates together with the lowering of the required reserve rate will support 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 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 (ERM II) and the euro area at the earliest possible date, after achieving the necessary political support for amendments in the Constitution of the Republic of Poland and other legal acts required for euro adoption in Poland.

The Council adopted *Inflation Report – June 2009* which will be published on 26 June 2009.