

INFORMATION FROM THE MEETING OF THE MONETARY POLICY COUNCIL

held on 24 - 25 February 2009

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

- **reference rate to 4.00% on an annual basis;**
- **lombard rate to 5.50 % on an annual basis;**
- **deposit rate to 2.50% on an annual basis;**
- **rediscount rate to 4.25% on an annual basis.**

Data that have been released recently confirm that economic growth in Poland has been slowing considerably. Strong economic slowdown, which is mainly driven by recession in Poland's major trading partners, has been spilling over to further sectors of the economy. Similarly to other countries, limited credit availability stemming from increased risk aversion and considerable tightening of banks' lending conditions as well as deteriorating sentiment of economic agents contribute to slowing economic growth. Despite persisting excess liquidity of the banking sector, the cost of credit remains at a relatively high level which results from high risk premium incorporated in market interest rates and from increased margins. At the same time, information on labour market developments points to increasing unemployment and decelerating wage growth in the economy which is conducive to curbing inflationary pressure.

The recent period saw a strong depreciation of Central and Eastern European currencies, including the zloty, which was accompanied by a considerable rise in the exchange rate volatility. In the Council's view, the zloty is currently weaker than the equilibrium exchange rate and does not reflect the relatively favourable condition and outlook for the Polish economy.

According to GUS preliminary data, in January 2009 the annual growth of consumer prices in Poland decreased further (to 3.1%). Decline in inflation was mainly driven by falling fuel prices, yet the decrease in inflation was mitigated by a strong rise in administered prices (prices of energy carriers and services related to housing) and the depreciation of the zloty.

The Council got acquainted with the projection of inflation and GDP based on the NECMOD model, 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. The macroeconomic projection which will be presented in the *Inflation Report* has been prepared based on data released until 23 January 2009. The annual growth of consumer prices forecasted in the February projection is lower than expected in the October projection throughout the projection horizon. Under constant interest rates, there is a 50-percent probability that inflation will lie within the range of 2.5–3.9% in 2009 (compared to 3.9–5.7% in the October projection), 0.5–3.2% in 2010 (compared to 1.9–4.5%) and –0.9–2.6% in 2011. According to the February projection, the annual GDP growth will remain, with a 50-percent probability, within the range of 0.3–1.9% in 2009 (compared to 1.9–3.7% in the October projection), 1.2–3.3% in 2010 (compared to 2.7–4.5%) and 2.5–4.8% in 2011.

NBP

In the Council's assessment, inflation may temporarily increase slightly in the coming months as a result of rising administered prices, primarily electricity and fuel prices.

In the medium term, the recession in the global economy bringing about the decline in the domestic economic growth will contribute to lowering the inflationary pressure in Poland. Banks' tightening of their lending terms and conditions will also be conducive to curbing demand and, consequently, inflationary pressure. On the other hand, the considerable depreciation of the zloty exchange rate, observed in the past few months, will drive price increases. Weakening of the zloty exchange rate increases also the zloty value of liabilities of economic agents (both households and enterprises) denominated in foreign currency, which might lead to lowering domestic demand.

The Council assessed the probability of inflation running below the target in the medium term to be higher than the probability of inflation running above the target and decided to lower the NBP interest rates.

The easing of monetary policy should support the economy returning to the potential growth path, which in the medium term supports the achievement of the inflation target. The Council's decisions in the coming months will take account of the incoming information on the outlook for economic growth, inflation and situation in the financial markets in Poland and abroad and information on zloty exchange rate developments.

The Monetary Policy Council pursues the direct inflation targeting under a floating exchange rate. In line with this strategy, the National Bank of Poland may use instruments directly affecting the zloty exchange rate.

Maintaining fiscal discipline in the public finance sector may be conducive to easing the monetary policy.

The Council will 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 necessary for the euro adoption in Poland.

The Council adopted the *Inflation Report – February 2009*.