

Warsaw, 27 January 2009

INFORMATION FROM THE MEETING OF THE MONETARY POLICY COUNCIL

held on 27 January 2009

The Council decided to lower the NBP interest rates by 0.75 percentage points:

- **reference rate to 4.25% on an annual basis;**
- **lombard rate to 5.75% on an annual basis;**
- **deposit rate to 2.75% on an annual basis;**
- **rediscount rate to 4.50% on an annual basis.**

Data that have been released recently confirm that the economic growth in Poland has been slowing considerably. Stronger than previously expected economic slowdown is mainly driven by an unexpectedly strong decline in economic growth abroad, mainly in countries being Poland's major trading partners. This results in deteriorating expectations of economic agents (both enterprises and consumers). Limited credit availability stemming from considerable tightening of banks' lending conditions is also conducive to the economic slowdown. Despite increased 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 declining employment, increasing unemployment and decelerating wage growth in the enterprise sector which is conducive to diminishing inflationary pressure.

Since the Council's meeting in December growth forecasts for the global economy have been further revised downwards. Strong slowdown in the global economy and the accompanying faster than expected decline in inflation, have urged many central banks to further considerably decrease interest rates. The renewed deepening of the banking crisis in the developed countries and the resulting outflow of capital from the emerging economies contribute to further depreciation of those countries' currencies.

In December 2008 the annual growth of consumer prices in Poland decreased again (to 3.3%). Inflation remained above the NBP inflation target of 2.5%, yet, in line with expectations, fell below the upper limit for deviations from the target set at 3.5%. Decline in inflation was mainly driven by falling fuel prices. Yet, the majority of core inflation indices decreased as well. Earlier rises in the prices of energy products and services related to flat maintenance remained major factors contributing to annual inflation persisting at an elevated level.

In the Council's assessment, in the coming months inflation will continue to decline to the NBP inflation target. In the medium term stronger than previously expected slowdown in the global economy – in particular, the recession in Poland's major trading partners – and, consequently, the significant decline in domestic economic growth will contribute to lowering the inflationary pressure in Poland. Decreasing GDP growth and the related falling labour demand as well as deteriorating financial condition of enterprises will contribute to further easing the wage pressure.

NBP

Significant tightening of banks' lending conditions will also contribute to curbing the inflationary pressure. Factor limiting the decline in inflation may include significant zloty depreciation observed in the past few months, although its impact on inflation may be limited amidst the economic slowdown. Further rise in regulated prices, mainly the prices of electricity, will also drive price increases.

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 contribute to stabilising economic growth around potential output growth which, in the medium term, will support 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 and inflation in Poland and abroad. 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 approved *The Balance of Payments of the Republic of Poland in 2008 Q3*.