

Warsaw, 19 January 2011

## INFORMATION FROM THE MEETING OF THE MONETARY POLICY COUNCIL

held on 18-19 January 2011

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

- **reference rate to 3.75% on an annual basis;**
  - **lombard rate to 5.25% on an annual basis;**
  - **deposit rate to 2.25% on an annual basis;**
  - **rediscount rate to 4.00% on an annual basis.**
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The recovery in the world economy is continuing. Data from the United States and the euro area point to stable moderate economic growth. New data on Germany, Poland's main trading partner, confirm positive economic developments in that country. Yet, 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. Major emerging economies have witnessed the tightening of monetary policy aimed at limiting growing macroeconomic imbalances, including rising inflation. 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 by major central banks, continue to be an uncertainty factor for the global economic growth.

The recent period has witnessed some improvement of sentiment in the international financial markets. Yet, uncertainty about the fiscal situation in some euro area countries has continued. For a few quarters now world prices of commodities, including the prices of crude oil and food, have again been rising strongly, which has triggered an acceleration in inflation in most countries.

Data on the Polish economy, including strong growth in industrial output, construction and retail sales in October and November 2010, as well as favourable business sentiment suggest that economic growth in Q4 has continued at the level close to the one in 2010 Q3. Lending to enterprises remains limited, mainly due to reasons related to the demand for credit. On the other hand, loans to households continue to grow.

In December 2010 the annual CPI inflation rose to 3.1%, remaining above the NBP's inflation target of 2.5%. The inflation increase was primarily connected with a strong rise in fuel prices driven by growing prices of energy commodities in the global markets. According to preliminary estimates, also core inflation increased. The inflation rise was accompanied by an increase in inflation expectations.

In the months to come, CPI inflation may be expected to continue above the inflation target due to previous strong rises of food prices, high growth in fuel prices and the effected increase in the majority of VAT rates in 2011.

# NBP

In the Council's assessment, the acceleration of economic growth in Poland supporting the improvement in the labour market may lead to a gradual rise in wage and inflationary pressure in the medium term. At the same time, a strong rise in commodity prices in the global markets – amid economic recovery – creates a risk that heightened inflation expectations persist. In order to curb the risk of inflation remaining above the inflation target in the medium term, the Council decided to raise the NBP's interest rates. 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 finances. An implementation of 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 the monetary policy transmission mechanism. Therefore, the Council expects that measures aimed at curbing the supply of new foreign currency loans to households will be introduced.

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.