NBP

National Bank of Poland

Monetary Policy Council

Warsaw, 2 March 2011

INFORMATION FROM THE MEETING OF THE MONETARY POLICY COUNCIL

held on 1-2 March 2011

The Council decided to keep the NBP interest rates unchanged, i.e.:

- **reference rate at 3.75% on an annual basis;**
- **lombard rate at 5.25% on an annual basis;**
- **deposit rate at 2.25% on an annual basis;**
- **rediscount rate at 4.00% on an annual basis.**

Incoming data confirm consolidating recovery of the global economy at the turn of 2010 and 2011. In 2010 Q4 GDP accelerated slightly in the United States and the economic growth in the euro area stabilized at a moderate level. Rising external demand and the recovery in domestic demand have contributed to maintaining favourable economic conditions in Germany, Poland's main trading partner. 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 and some small open developed economies have been tightening monetary policy. 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 add uncertainty for global economic growth outlook.

Favourable macroeconomic data on major developed economies supported an improvement in financial market sentiment, yet, in the recent period, uncertainty about the political situation in the Middle East and Northern Africa has enhanced risk aversion. At the same time it strengthened growth of commodity prices in the global markets. High growth of those prices has triggered a rise in headline inflation in the global economy, especially in emerging economies. Surging commodity prices may also weaken economic activity.

Data on GDP in Poland confirm that economic growth in 2010 Q4 stabilized at a level close to the previous quarter. Continuing relatively high economic growth was supported by a strong increase in consumption. The latter was driven by a rise in employment and accelerated growth in wages in the economy. It was also strengthened by a surge in advance purchases by households in anticipation of VAT rates increases in January 2011. Investment growth, on the other hand, remained low. The latest monthly data point to a continuing rapid growth in industrial output at the beginning of 2011 as well as to the absence of clear signals of recovery in investment demand and a decline in retail sales growth. At the same time, wage growth in enterprises remained moderate and employment growth accelerated, whereas unemployment rate (in seasonally adjusted terms) increased again. A further rise in labour force participation is conducive to an increase in unemployment.

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Lending to enterprises remains limited mainly due to reasons related to demand for credit. On the other hand, a relatively rapid growth in mortgage lending to households has continued (adjusted for the impact of foreign exchange rate fluctuations) whereas consumer loans declined.

In January 2011, CPI inflation rose to 3.8%, i.e. considerably above the NBP's inflation target of 2.5%. The rise in CPI inflation resulted largely from the increase in most VAT rates, increases in the prices of agricultural commodities and crude oil in the global markets and a rise in administered prices. According to preliminary estimates, core inflation also increased. The rise in inflation was accompanied by a pick-up in inflation expectations.

The Council got acquainted with the projection of inflation and GDP 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. In line with the March projection – under the assumption of constant NBP interest rates – there is a 50-percent probability of inflation running in the range of 2.8-3.7% in 2011 (as compared to 2.5-3.5% in the October projection), 2.2-3.4% in 2012 (as compared to 2.4-3.7%) and 2.1- 3.7% in 2013. In turn, the March projection sees the annual GDP growth, with a 50-percent probability, in the range of 3.3-5.1% in 2011 (as compared to 3.3-5.5% in the October projection), 2.3-4.8% in 2012 (as compared to 2.8-5.5%) and 1.7-4.4% in 2013.

In the assessment of the Council, continuing economic recovery in Poland, which should support employment growth, may gradually increase wage and inflationary pressures in the medium term. At the same time, a considerable increase of current inflation - amidst economic recovery – creates a risk that heightened inflation expectations persist and may require further tightening of monetary policy. Yet, the Council decided that the January interest rates increase combined with uncertainty about the sustainability of acceleration in consumer demand and no signs of considerable recovery in investment, as well as sustained moderate wage pressure in the corporate sector and continuing rise in unemployment decrease the risk of inflation remaining above the inflation target in the medium term. Therefore, the Council decided to keep the NBP interest rates unchanged.

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.

The Council has adopted the *Inflation Report – March 2011.*