

Warsaw, 11 May 2011

INFORMATION FROM THE MEETING OF THE MONETARY POLICY COUNCIL

held on 10-11 May 2011

The Council decided to increase the NBP interest rates by 0.25 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.**
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Incoming data point to a continuing recovery in the global economy. According to preliminary estimates, GDP growth in the United States slowed down in 2011 Q1, which was probably a temporary phenomenon. Moderate recovery in the euro area has continued, including relatively fast expansion in economic activity in Germany, Poland's main trading partner. Economic growth in most developed countries is still being curbed by high unemployment and ongoing adjustments in the balance sheets of households, enterprises and financial institutions. In response to increasing inflationary pressures, major emerging economies and some developed economies have been tightening monetary policy.

The effects of high fiscal imbalances in several developed economies as well as strong monetary expansion by major central banks continue to add to uncertainty about the global economic outlook. This uncertainty has been heightened by the tensions in Northern Africa and the Middle East, the natural disaster in Japan as well as by the growth of commodity prices in the global markets.

The recent period has seen further appreciation of currencies of emerging market economies; the Polish zloty has also strengthened following its depreciation in 2011 Q1.

Recently released data on the Polish economy confirm the assessment that the annual growth of GDP in Q1 could be close to the one observed in the previous quarter. At the same time, the survey of the economic climate in the enterprise sector points to an improvement in the enterprises' expectations about demand, orders and production in 2011 Q2. Despite rising production capacity utilization and a very good financial situation of enterprises, firms do not declare a significant intensification of investment activity in the nearest future. Labour market data show that relatively fast growth in employment in enterprises has been coupled with moderate wage growth. At the same time, unemployment has remained at a heightened level (in seasonally adjusted terms).

Lending to enterprises remains limited mainly due to reasons related to the demand for credit, yet, in the recent period growth in the value of loans to this sector has increased. On the other hand, relatively fast growth in mortgage lending to households has continued (adjusted for the impact of foreign exchange rate fluctuations), whereas consumer loans declined.

NBP

In March 2011 annual CPI inflation increased to 4.3%, continuing to run above the NBP inflation target of 2.5%. Faster price growth, though stemming mainly from the further increase in food and energy prices, was also observed in most other categories of goods and services. As a result, core inflation increased further. PPI growth accelerated as well. On the other hand, April 2011 saw a slight decline in inflation expectations.

In the opinion of the Council, in subsequent months CPI inflation will run at a heightened level, which is connected primarily with increases in the prices of agricultural commodities and crude oil in the global markets, which so far have not been offset by changes in the zloty exchange rate.

In the medium term, continuing economic recovery in Poland together with further employment growth may gradually increase the wage pressure, and, in consequence, may cause stronger inflationary pressure to persist. The risk of persistently heightened inflation also stems from increased inflation expectations combined with fast growth in commodity prices in the world markets. In order to curb the risk of inflation running above the inflation target in the medium term, the Council decided to increase the NBP's interest rates, continuing the cycle of monetary policy tightening. At the same time, the Council will continue to analyze any potential signs of growing inflationary pressure.

An important factor affecting the monetary policy is the situation of public finances. In order to maintain macroeconomic stability, and comply with the euro adoption criteria, decisive measures need to be implemented, aimed at a lasting reduction of the deficit of the general government sector and at curbing the increase of public debt.

Although the share of foreign currency loans in new mortgage loans to households has decreased, undertaking measures aimed at preventing fast growth in foreign currency lending to households is, in the opinion of the Council, important for macroeconomic stability. Such measures can 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 date possible, after meeting the necessary legal, economic and organizational conditions.