

INFORMATION FROM THE MEETING OF THE MONETARY POLICY COUNCIL

held on 5-6 July 2011

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

- reference rate at 4.50% on an annual basis;
 - lombard rate at 6.00% on an annual basis;
 - deposit rate at 3.00% on an annual basis;
 - rediscount rate at 4.75% on an annual basis.
-

The incoming data indicate continued moderate economic growth in the United States. At the same time, GDP growth in the euro area most probably declined in 2011 Q2 after an exceptionally strong surge in Q1. Inflation in most countries continues to run at an elevated level, largely due to high commodity prices. In the past two months, however, growth in commodity prices in the global markets has been halted. Moreover, concerns about the stability of the economic situation in Greece have continued, which has contributed to an increase in risk aversion in the international financial markets.

In the first months of 2011 Q2 economic activity growth in Poland was close to the one observed in the previous quarters. Some slowdown in industrial output was accompanied by higher growth in construction and in retail sales. Employment in enterprises remained stable and wage growth, following a temporary acceleration in April, fell to a moderate level. At the same time, the rebound in corporate lending, including in investment loans, was sustained. Relatively rapid growth in mortgage loans to households also continued and further negative growth in consumer loans was observed.

In May annual CPI inflation rose to 5.0%, remaining significantly above the NBP's inflation target of 2.5%. The acceleration in price growth was mainly connected with a rise in the prices of food and clothing and footwear, which was also driven by changes in the treatment of prices of seasonal goods implemented at the beginning of 2011. May saw an increase also in core inflation. Inflation expectations of households remained at a heightened level. At the same time, PPI inflation declined.

In the coming months, the annual CPI inflation rate will continue at an elevated level, mainly due to the strong growth in global commodity prices observed prior to the inflation increase.

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 to the Council's decisions on the NBP interest rates. In line with the July projection – under the assumption of constant NBP interest rates – there is a 50-percent probability of inflation running in the range of 3.7-4.4% in 2011 (as compared to 2.8-3.7% in the March projection), 2.1-3.4% in 2012 (as compared to 2.2-3.4%) and 1.8-3.4% in 2013 (as compared to 2.1-3.7%). In turn, with a 50-percent probability, the July projection sees annual GDP growth in the range of 3.0-4.9% in 2011 (as compared to 3.3-5.1% in the March projection), 1.9-4.5% in 2012 (as compared to 2.3-4.8%) and 1.5-4.3% in 2013 (as compared to 1.7-4.4%).

In the opinion of the Council, the substantial monetary policy tightening implemented since the beginning of 2011 should enable inflation to return to the target in the medium term. Such an assessment is also supported by the July projection of inflation and GDP. In the medium term,

inflation will be curbed by a likely slowdown of economic growth amidst fiscal policy tightening, including a decline in public investment, and the implemented interest rate increases.

The Council does not rule out a further adjustment of monetary policy, should the outlook for inflation's return to the target deteriorate.

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 declined, 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.

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