

## INFORMATION FROM THE MEETING OF THE MONETARY POLICY COUNCIL

**held on 6-7 September 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.**
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Since the previous meeting of the Council, further signs of weakening global economic activity have appeared. In 2011 Q2, annual GDP growth in the United States declined and data on GDP in the previous quarters were revised downwards. In the euro area and in some emerging economies, GDP growth also slackened in 2011 Q2. At the same time, consumer and corporate sentiment deteriorated in many countries, whereas inflation persisted at an elevated level.

The heightened risk of a global economic slowdown along with the persisting fiscal problems in some countries contributed to mounting tensions in the financial markets worldwide. There was a significant fall in equity prices accompanied by a further decline in global commodity prices. Given the increased risk aversion in the financial markets, the currencies of emerging economies, including the zloty, weakened. Heightened financial asset price volatility is also driven by the significant surplus of liquidity in the financial markets, related to the strongly expansionary monetary policy of the major central banks.

In Poland, data on GDP in 2011 Q2 confirmed relatively high and stable growth in the first half of 2011. GDP growth was mainly driven by expanding domestic demand, fuelled by both rising private consumption and accelerated investment growth. Moreover, enterprises continued to build up their inventories at a robust pace. However, data on economic activity in the first months of 2011 Q3 signal a possibility of a slowdown in economic growth, in particular, of weaker growth in industry.

In 2011 Q2, stable economic growth was accompanied by a slower increase in the number of the employed than the one registered in the previous quarter. Data from the enterprise sector also indicate weaker employment growth, following a period of strong performance. Amidst a concurrent continued, although slower than hitherto recorded, rise in the number of economically active persons, this results in the unemployment rate running at an elevated level.

2011 Q2 brought a certain acceleration in wage growth, which might have been driven, to some extent, by the disbursement of additional remuneration components in some sectors in connection with very good financial results of enterprises. July data indicate no further wage growth acceleration in the corporate sector. At the same time the revival in lending to enterprises, including

investment loans, continues. The relatively fast growth in mortgage lending to households has also been sustained while consumer loans continue to decline.

In July, annual CPI inflation decreased to 4.1%, but remained markedly above the NBP's inflation target of 2.5%. Inflation fell mainly due to a decline in food prices, notwithstanding a simultaneous rise in energy prices. Core inflation net of food and energy prices remained unchanged. As current inflation fell, households' inflation expectations eased accordingly, however PPI inflation accelerated somewhat.

In the coming months, annual CPI inflation will still run at an elevated level, primarily due to the previously observed sharp rise in global commodity prices.

In the medium term, inflation will be curbed by slower domestic GDP growth, amidst a fiscal tightening, including reduced public investment spending, coupled with interest rate increases implemented in the first half of 2011 and a likely global economic slowdown. On the other hand, the potential impact of the situation in global financial markets upon the zloty exchange rate is an upside risk factor to domestic price developments.

In the opinion of the Council, the significant monetary policy tightening implemented since the beginning of 2011 should facilitate inflation's return to the target in the medium term. Given the above the Council decided to keep the NBP interest rates at the current level. The Council does not rule out the possibility of further monetary policy adjustment, should the outlook for inflation returning to the target deteriorate.

At its meeting held on 23 August 2011, the Council adopted the *Monetary Policy Guidelines for 2012*. As in previous years, in the *Guidelines* presented are the key elements of the monetary policy strategy pursued by the National Bank of Poland. The *Guidelines* also contain an overview of macroeconomic developments which may influence monetary policy in 2012, as well as a description of monetary policy instruments.

In the *Guidelines*, the Council maintained the key elements of its monetary policy strategy, including a permanent inflation target of 2.5%, with a symmetric fluctuation band of  $\pm 1$  pp., implemented under a floating exchange rate regime which does not rule out foreign exchange interventions.

At the meeting held on 23 August 2011 the Council also adopted the *Balance of Payments of the Republic of Poland in Q1 2011*, whereas at the meeting held on 6-7 September 2011 the Council adopted the *Forecast of the Balance of Payments of the Republic of Poland in 2012*.