



Warsaw, 9 November 2011

## INFORMATION FROM THE MEETING OF THE MONETARY POLICY COUNCIL

**held on 8-9 November 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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In 2011 Q3 economic sentiment deteriorated considerably in the global economy, including, in particular, in the euro area and the United States. Nevertheless, the released data, including preliminary estimate of GDP in Q3 in the United States, have not so far confirmed a further significant weakening in activity in those economies. At the same time, however, economic growth forecasts for 2012 were further revised downwards and inflation remained elevated. There persists heightened uncertainty about global economic developments in the coming quarters and about the scale of economic slowdown in countries being Poland's main trading partners.

The risk of a global economic slowdown combined with fiscal problems faced by some countries, are behind the enduring tensions in the financial markets worldwide. The decisions taken at the Euro Area Summit supported improvement of financial markets' sentiment, yet, amidst persistently uncertain situation in Greece, risk aversion remains heightened, which adds to increased volatility of asset prices, including of foreign exchange rates. Increased asset price volatility is also driven by ample liquidity in the global financial markets, related to strongly expansionary monetary policy of the major central banks.

According to incoming information on the Polish economy – including favourable data on industrial output, construction and assembly output and retail sales – GDP growth in 2011 Q3 continued to be relatively high and presumably close to the one recorded in 2011 Q2. At the same time, majority of business sentiment indicators suggest that economic activity may weaken somewhat in the coming quarters, which is largely connected to the anticipated economic slowdown in countries being Poland's major trading partners. Data on the enterprise sector point to continued moderate growth in wages amidst concurrent further decline in employment. Unemployment rate remains elevated. Lending to enterprises is growing, a relatively high growth continues also in mortgage lending to households, whereas consumer loans continue to decline in annual terms.

In September, annual CPI inflation decreased to 3.9%, remaining markedly above the NBP's inflation target of 2.5%. Decrease in inflation was related to further decline in food prices, despite continued strong rise in energy prices. Core inflation net of food and energy prices

slowed down slightly. Yet, at the same time, continued strong growth was recorded in PPI, and inflation expectations of households shifted somewhat upwards.

In the coming months, annual CPI inflation will continue to run at an elevated level, primarily due to the previous sharp rise in global commodity prices and the zloty depreciation of recent months. Waning impact of VAT rate increases and considerable rises in food and energy prices observed in the first half of 2011 will be conducive to lowering inflation at the beginning of 2012.

The Council got acquainted with the projection of inflation and GDP prepared by the Economic Institute of the NBP, being one of the inputs to the Council's decisions on the NBP interest rates. In line with the November projection – under the assumption of constant NBP interest rates – there is a 50-percent probability of inflation running in the range of 3.9-4.2% in 2011 (as compared to 3.7-4.4% in the July projection), 2.5-3.9% in 2012 (as compared to 2.1-3.4%) and 2.2-3.7% in 2013 (as compared to 1.8-3.4%). In turn, with a 50-percent probability the November projection sees the annual GDP growth in the range of 3.7-4.3% in 2011 (as compared to 3.0-4.9% in the July projection), 2.0-4.1% in 2012 (as compared to 1.9-4.5%) and 1.5-4.0% in 2013 (as compared to 1.5-4.3%).

In the opinion of the Council, in the medium term inflation will be curbed by somewhat lower domestic economic growth amidst fiscal tightening, including reduced public investment spending, and interest rate increases implemented in the first half of 2011, as well as the expected global economic slowdown. Such an assessment is also supported by the November projection of inflation and GDP. The impact of the situation in the global financial markets on zloty exchange rate continues to be an upside risk to domestic price developments.

In the opinion of the Council, the significant monetary policy tightening implemented in the first half of 2011 should enable inflation to return to the target in the medium term. Given the above, the Council decided to keep the NBP interest rates unchanged. The Council does not rule out the possibility of further monetary policy adjustments in the future, should the outlook for inflation returning to the target deteriorate.

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