



Warsaw, 7 December 2011

INFORMATION FROM THE MEETING OF THE MONETARY POLICY COUNCIL

held on 6-7 December 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 growth remained weak in the euro area. Moreover, the incoming data indicate a possible further deterioration in business conditions in the region. Economic activity may be dampened by increasingly pessimistic expectations of agents, rising funding costs and possible constraints on lending by banks. In the United States, in turn, economic growth recovered somewhat in 2011 Q3, although business activity indicators - despite their slight improvement observed recently - continue to run at historically low levels. Both in the euro area and in the United States inflation remains elevated, triggered by a prior rise in commodity prices. In the developing countries, on the other hand, there are signs of easing inflationary pressure.

Due to the global economic slowdown coupled with the fiscal problems faced by some euro area countries, tensions in the financial markets persist worldwide. Risk aversion remains heightened, which feeds into higher volatility of asset prices, including exchange rates. Increased asset price volatility is also fuelled by huge liquidity surplus in the global financial markets, related to strongly expansionary monetary policy pursued by major central banks.

In Poland, GDP data for 2011 Q3 confirmed continuously relatively high and stable growth in that period, running at a rate close to that recorded in 2011 Q2. GDP growth was mainly driven by expanding domestic demand, supported by, on the one hand, rising private consumption and, on the other, somewhat accelerated investment growth. Yet, as compared with the previous quarters, contribution of net exports to GDP growth rose considerably.

October retail sales remained robust, while industrial output growth slowed down slightly, accompanied by a more pronounced deceleration in construction and assembly output. As suggested by business indicators, we may expect flagging economic activity in the subsequent quarters, largely as a result of the anticipated slowdown affecting Poland's major trading partners.

LFS data suggest that in 2011 Q3 growth in the number of persons working in the economy was increasingly sluggish, while the unemployment rate remained at a heightened level. In October, also corporate employment continued to fall and wage growth remained moderate.

Lending to corporates saw a further rise in October. Similarly, zloty-denominated mortgage lending to households continued to grow relatively steeply, while consumer lending in annual terms went on shrinking.

Annual CPI inflation increased to 4.3% in October, remaining markedly above the NBP's inflation target of 2.5%. The rise in inflation was mainly driven by growing food and fuel prices, albeit core inflation eased as well. At the same time, PPI inflation stayed high, while households' inflation expectations remained elevated.

In the coming months, annual CPI will persist at a heightened 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.

In the opinion of the Council, in the medium term inflation will be curbed by gradually decelerating domestic demand 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. 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.