



Warsaw, 11 January 2012

INFORMATION FROM THE MEETING OF THE MONETARY POLICY COUNCIL

held on 10-11 January 2012

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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The recently released data suggest weakening of growth in the global economy; yet, the situation varies across regions. The United States saw some improvement in business sentiment, and its economic growth might have slightly accelerated in the recent period. In the euro area, on the other hand, economic growth continued to slow down, with forecasts for subsequent quarters being revised downwards. This negatively affects economic outlook for countries being euro area main trading partners. Data on many emerging economies indicate a certain weakening of their economic activity. Inflation in the world remains elevated, which is largely driven by still high commodity prices, including crude oil prices.

Weaker global economic activity, fiscal imbalance and deteriorating situation in the banking system observed in some euro area countries are contributing to persistently high risk aversion and heightened volatility of asset prices, including exchange rates. Increased asset price volatility is further fuelled by huge liquidity surplus in the global financial markets related to strongly expansionary monetary policy pursued by major central banks.

Despite worsening sentiment of domestic economic agents, favourable data on industrial output, construction and assembly output and retail sales indicate that in 2011 Q4 economic growth in Poland might have declined only slightly and remained at a relatively high level. On the other hand, deteriorating leading business condition indicators suggest that economic activity in the subsequent quarters may slow down, largely as a result of weaker economic growth in countries being Poland's main trading partners.

November saw a modest increase in the registered unemployment rate, which was however accompanied by a slightly rise of the employment in the corporate sector. Wage growth in enterprises remained moderate.

Lending to corporates continued to rise in November. Similarly, zloty-denominated mortgage loans to households maintained their relatively steep growth, while consumer lending in annual terms went on shrinking.

Annual CPI inflation in November increased more than anticipated, i.e. up to 4.8%, remaining markedly above the NBP's inflation target of 2.5%. The rise in inflation was driven by growing food and fuel prices and higher core inflation. An increase was also noted in PPI inflation and inflation expectations of households and corporates.

In the coming months, the annual CPI will continue to run at an elevated level. On the one hand, 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. On the other hand, persistently high commodity prices in the global markets and the previously observed weakening of the zloty exchange rate will be supporting heightened price growth.

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 together with a possible rise in commodity prices continues to be an upside risk to domestic price developments.

In the opinion of the Council, the monetary policy tightening implemented in the first half of 2011 supports inflation return to the target in the medium term, however the risk of elevated inflation in the coming months has increased. At the same time the recent domestic economic developments indicate that the expected demand deceleration in the coming quarters may prove weaker than previously anticipated. 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.

In the recent period the National Bank of Poland sold some amount of foreign currencies in exchange for zlotys. Such transactions were consistent with the pursued monetary policy strategy defined in the *Monetary Policy Guidelines*.

The Council stresses that the *Monetary Policy Guidelines for 2012* do not allow for the possibility of the NBP purchasing Treasury securities as monetary policy instrument. In the context of the current distortions in the international financial markets the Council reiterates that the National Bank of Poland is a lender of last resort to banks.