NBP
National Bank of Poland
Monetary Policy Council

Warsaw, 8 February 2012

INFORMATION FROM THE MEETING OF THE MONETARY POLICY COUNCIL

held on 7-8 February 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.**

In 2011 Q4 global economic growth remained low. Acceleration in GDP growth in the United States was most probably accompanied by stagnation in the euro area. Most major emerging economies saw some weakening of economic activity. Since the last meeting of the Council GDP forecasts for most economies have been further revised downwards. Yet, there have been signs of possible economic stabilization in some countries.

Inflation abroad remains elevated, albeit recently it abated somewhat. High commodity prices which have been recently on the rise again are one of the main factors behind heightened inflation. Sentiment in the global financial markets improved which contributed to a considerable appreciation of emerging markets currencies, including the Polish zloty. Yet, uncertainty about fiscal crisis in some euro area countries continues and volatility in asset prices, including exchange rates, remains high.

Preliminary data on GDP in 2011 in Poland confirmed that in 2011 Q4 relatively robust economic growth continued. Economic growth was most likely still driven by domestic demand. Consumption growth further declined, while recovery in investment intensified. Relatively low level of most leading economic indicators – despite recent improvement of some of them – suggests likely weakening of economic activity in the coming quarters.

Unemployment rate in December remained elevated, while employment in companies declined. Wage growth in enterprises remained moderate. Lending to corporates continued to rise (in annual terms). Similarly, mortgage lending to households remained strong, though its growth rate slowed down. On the other hand, consumer lending continued to fall.

Annual CPI inflation in December decreased to 4.6%, though remaining markedly above the NBP's inflation target of 2.5%. PPI inflation also saw some decline. At the same time, core inflation rose and inflation expectations of households and corporates increased.

In the coming months, the annual CPI will continue 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 annual inflation at the beginning of 2012.

On the other hand, persistently high commodity prices in the global markets and the effects of earlier zloty depreciation will be supporting heightened price growth. Heightened inflation will also be driven by continuously high dynamics of administered prices.

In the opinion of the Council, in the medium term inflation will be curbed by the gradually decelerating domestic demand. Decelerating demand growth will be driven by lower economic growth abroad, fiscal tightening in Poland and interest rate increases implemented in the first half of 2011.

The impact of the situation in the global financial markets on the zloty exchange rate and, in particular, the sustainability of the appreciation of the zloty in the recent period, continues to add uncertainty to the inflation outlook.

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 remains high. 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 March macroeconomic projection of the NBP will be helpful in the assessment of inflationary pressure in the medium term.

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.