



Warsaw, 9 May 2012

INFORMATION FROM THE MEETING OF THE MONETARY POLICY COUNCIL

held on 8-9 May 2012

The Council decided to increase the NBP interest rates by 0.25 percentage points:

- **reference rate to 4.75% on an annual basis;**
- **lombard rate to 6.25% on an annual basis;**
- **deposit rate to 3.25% on an annual basis;**
- **rediscount rate to 5.00% on an annual basis.**

Incoming data signal a stabilisation of economic activity in the global economy at a low level. Stagnation in the euro area is accompanied by moderate growth in the United States. At the same time, economic growth in emerging economies, despite some weakening in China, has slightly accelerated. Global economic growth is being hampered by the ongoing balance sheet adjustments of enterprises and households in some developed countries as well as by high fuel prices. Despite some decline, global inflation remains heightened, still driven by high commodity prices.

In April sentiment in international financial markets worsened which contributed to the depreciation of exchange rates of emerging market currencies, including the zloty. Worsening sentiment also led to the decrease in commodity prices in global markets, though those prices remain high.

In 2012 Q1, Poland's economic growth probably remained relatively high, although it has slowed down somewhat. Relatively high economic activity seems to be evidenced both by the continuously strong growth in retail sales and by the NBP business survey showing that in 2012 Q1 economic situation of enterprises remained good. Some improvement in expectations of the surveyed enterprises with regard to future business conditions also signals that economic slowdown in subsequent quarters could be limited. At the same time, a slowdown in economic activity is indicated by some other business indicators and weaker growth of industrial and construction output.

In March, the unemployment rate remained elevated and growth of employment in enterprises stayed low. At the same time, wage growth in the enterprise sector was still moderate. Lending to enterprises continued to rise fast, while growth in lending to households weakened, which was driven by ongoing decline in consumer loans and a further slowdown of mortgage lending.

In March, the annual CPI inflation decreased to 3.9%, remaining markedly above the NBP's inflation target of 2.5%. A slight decrease was also noted in core inflation. At the same time, households' inflation expectations remained high.

In the opinion of the Council, in the coming months inflation is likely to stay above the upper limit of deviations from the inflation target. Elevated inflation will be driven by the previously observed weakening of the zloty and high commodity prices. Strong growth in administered

prices will also contribute to elevated inflation. The above-mentioned factors may support heightened inflation expectations.

The Council assessed that in the medium term the expected economic slowdown will be conducive to lowering inflation. However, since inflation will continue to be negatively affected by factors beyond the impact of domestic monetary policy, the expected slowdown may be insufficient to allow inflation to return to the target in the medium term. The risk of inflation remaining elevated is also heightened by the persistence of relatively high inflation expectations.

The Council assessed that containing the risk of inflation remaining above the target in the medium term requires an increase of the NBP's interest rates. The incoming data will enable an assessment whether another adjustment of interest rates will be justified.