



Warsaw, 4 July 2012

**INFORMATION FROM THE MEETING OF THE MONETARY POLICY
COUNCIL**
held on 3-4 July 2012

The Council decided to keep the NBP interest rates unchanged:

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

Incoming data suggest weakening activity in the global economy. Stagnation in the euro area is accompanied by moderate growth in the United States. At the same time, economic activity in the major emerging economies is deteriorating. Weakening growth in the global economy contributes to falling commodity prices. Deceleration in growth of energy prices, and – in some countries – also food prices, is conducive to the decline in global inflation.

Despite persisting uncertainty about the situation in the euro area, the sentiment in the international financial markets has stabilized in the recent weeks. This contributed to appreciation of most emerging economies' currencies, including the zloty.

In Poland, data on output and retail sales in May were better than expected. However, the total growth in output and sales in the first months of Q2 decelerated as compared to the previous quarter, which, amidst leading business indicators persisting at relatively low levels, confirms further gradual slowdown in economic growth. In May employment growth in the corporate sector remained weak and the unemployment rate persisted at elevated level. Wage growth in the corporate sector was still moderate.

At the same time, growth in lending to enterprises weakened somewhat. Lending to households decelerated further, driven by a decline in consumer loans and lower growth of housing loans.

In May, CPI inflation fell to 3.6%, remaining above the NBP's inflation target (2.5%). Decline was also noted in core inflation and inflation expectations of households and corporates.

The Council got acquainted with the inflation and GDP projection prepared by the Economic Institute of the NBP, being one of the inputs to the Council's decisions on the NBP interest rates. The July inflation and GDP projection implies that GDP growth in 2013 will fall below its 2012 level and then accelerate in 2014. At the same time, inflation, after a temporary rise in 2012 Q3, will be gradually declining and will be close to the inflation target in 2013.

In line with the July projection based on the NECMOD model – prepared under the assumption of constant NBP interest rates – there is a 50-percent probability of inflation falling within the range of 3.6-4.2% in 2012 (as compared to 3.6-4.5% in the March projection), 2.0-3.4% in 2013 (as compared to 2.2-3.6%) and 1.0-2.7% in 2014 (as compared to 1.2-3.0%). In turn, in line with this

projection there is a 50-percent probability of the annual GDP growth falling within the range of 2.3-3.6% in 2012 (as compared to 2.2-3.8% in the March projection), 1.0-3.2% in 2013 (as compared to 1.1-3.5%) and 1.7-4.2% in 2014 (as compared to 1.9-4.4%).

In the opinion of the Council, in the coming months inflation is likely to increase temporarily and remain above the upper limit of deviations from the inflation target. However, in the medium-term, economic slowdown amidst fiscal tightening and interest rates increases implemented in 2011 and 2012 will be conducive to inflation returning to the target. This assessment is also supported by the July projection of inflation and GDP.

Therefore, the Council decided to keep the NBP interest rates unchanged.

The Council does not rule out the possibility of further monetary policy adjustment, should the outlook for inflation returning to the target deteriorate.

The Council adopted the *Inflation Report – July 2012*.