



Warsaw, 7 November 2012

INFORMATION FROM THE MEETING OF THE MONETARY POLICY COUNCIL

held on 6-7 November 2012

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

- **reference rate to 4.50% on an annual basis;**
- **lombard rate to 6.00% on an annual basis;**
- **deposit rate to 3.00% on an annual basis;**
- **rediscount rate to 4.75% on an annual basis;**

Incoming data indicate that global economic activity remained subdued in 2012 Q3. In the euro area, economic growth was probably close to zero, and in the United States, despite some rebound, remained moderate. At the same time, following several quarters of economic slowdown, growth in the largest emerging economies probably stabilised at a relatively low level. Even though weak economic activity across the world contributes to a decline in inflation, still relatively high commodity prices are conducive to inflation remaining elevated in many countries.

Following the earlier improvement, the international financial market sentiment has deteriorated slightly. At the same time, some central banks have lowered their policy rates.

In Poland, both industrial output and retail sales (in real terms) declined in September, while the fall in construction and assembly output deepened. Economic activity data were worse than expected and reflected further economic slowdown in 2012 Q3. Furthermore, labour market figures, including continued decline in employment, slower wage growth in the enterprise sector and gradually rising unemployment rate, point to a lack of wage pressure and likely further weakening in private demand. This is also confirmed by deteriorating of most business indicators.

The economic slowdown is accompanied by a gradual deceleration in lending to households, including a further decrease in the consumer loans, as well as slower growth in corporate lending.

In September, CPI inflation was 3.8%, remaining above the NBP's inflation target of 2.5%. At the same time, both core inflation and producer price growth continued to decline, which confirms that demand pressure is weakening. Household and corporate inflation expectations also declined in the recent months .

The Council got acquainted with the inflation and GDP projection prepared by the Economic Institute, being one of the inputs to the Council's decisions on the NBP interest rates.

In line with the November projection based on the NECMOD model – assuming unchanged NBP interest rates – there is a 50-percent probability of inflation running in the range of 3.7-3.9% in 2012 (as compared to 3.6-4.2% in the July projection), within 1.8-3.1% in 2013 (as against 2.0-3.4%) and between 0.7-2.4% in 2014 (as against 1.0-2.7%). The annual GDP growth – in line with the November projection – will be, with a 50-percent probability, contained within 2.0-2.6% in 2012 (as compared to 2.3-3.6% in the July projection), within 0.5-2.5% in 2013 (as against 1.0-3.2%) and within 1.1-3.5% in 2014 (as against 1.7-4.2%).

In the opinion of the Council, incoming data confirm a considerable economic slowdown in Poland, which contains wage and inflationary pressure. At the same time, in line with the November projection prepared under the assumption of constant NBP interest rates, GDP growth will remain below potential in the coming years. According to the projection, inflation will return to the target in the coming quarters, and might fall below the target in the medium term.

Therefore, the Council decided to lower the NBP interest rates. The decrease in the interest rates should support economic activity and thus reduces the risk of inflation falling below the target in the medium term.

Should the incoming information confirm a protracted economic slowdown, and should the risk of increase in inflationary pressure remain limited, the Council will further ease monetary policy.

The Council adopted the *Inflation Report - November 2012*.