



Warsaw, 5 December 2012

## **INFORMATION FROM THE MEETING OF THE MONETARY POLICY COUNCIL**

**held on 4-5 December 2012**

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

- **reference rate to 4.25% on an annual basis;**
- **lombard rate to 5.75% on an annual basis;**
- **deposit rate to 2.75% on an annual basis;**
- **rediscount rate to 4.50% on an annual basis.**

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Incoming data show that global economic activity continues to be weak. Although economic growth in the United States accelerated in 2012 Q3, recession in the euro area persisted. At the same time, economic activity in the largest emerging economies was relatively low. Even though weak global economic activity supports inflation decline, the previously observed increase in commodity prices, which continue to be relatively high, has contributed to inflation remaining elevated in many countries.

In the recent weeks, risk aversion in the global financial markets has stabilised and commodity prices have increased slightly.

A marked economic slowdown in Poland was confirmed by the data on GDP in Q3. A decline in domestic demand deepened, which was driven by decreasing investment and decelerating consumption growth. At the same time, the contribution of change in inventories to GDP growth remained negative. Net exports continued to be the main factor behind GDP growth, which was related to a further decline in imports amidst still positive exports growth.

Incoming monthly data, including the persistently slow growth in industrial production and retail sales, as well as a decline in the construction output, indicate that at the beginning of 2012 Q4 activity remained low.

Weaker business conditions are accompanied by a deteriorating situation in the labour market. In 2012 Q3, employment growth in the economy, including the corporate sector, slowed down. At the same time, the unemployment rate increased. Slower employment growth and higher unemployment rate contributed to wage growth deceleration.

Simultaneously, in the recent months lending to households continued to weaken, including a further decline in the volume of consumer loans. Growth in corporate loans slowed down as well.

In October, CPI inflation decreased and amounted to 3.4%, while remaining above the NBP's inflation target of 2.5%. At the same time, most of the core inflation measures, as well as producer price growth continued to decline, which confirms weakening of demand and cost

pressures in the economy. Declining inflation was accompanied by lower inflation expectations of households.

In the opinion of the Council, incoming data confirm a considerable economic slowdown in Poland, which results in limited wage and inflationary pressures. At the same time, the Council assesses that GDP growth will remain moderate in the coming years, which poses a risk of inflation declining below the NBP's inflation 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.