

Warsaw, 23 December 2008

INFORMATION FROM THE MEETING OF THE MONETARY POLICY COUNCIL

held on 22-23 December 2008

The Council decided to lower the NBP interest rates by 0.75 percentage point to the level:

- **reference rate 5.00% on an annual basis;**
- **lombard rate 6.50% on an annual basis;**
- **deposit rate 3.50% on an annual basis;**
- **rediscount rate 5.25% on an annual basis.**

Data that have been released recently, in particular a marked decline in investment growth in 2008 Q3, confirm that the economic growth in Poland has been slowing considerably. Stronger than previously expected economic slowdown in the coming quarters will be driven by a significant decline in economic growth abroad, deteriorating expectations of economic agents as well as limited credit availability and its increased costs resulting from higher risk premium incorporated in market interest rates. At the same time, information on labour market developments points to declining employment, increasing unemployment and decelerating wage growth in the enterprise sector which will be conducive to diminishing inflationary pressure.

Since the Council's meeting in November growth forecasts for the global economy have been further revised downwards. Strong slowdown in the global economy – in particular, the deepening recession in the United States, the euro area and the United Kingdom – and the accompanying decline in commodity and food prices in the world markets contributing to faster than expected decline in inflation, have urged many central banks to pursue further considerable easing of their monetary policy. The turmoil in the global financial markets and increased risk aversion contribute to continued increased exchange rate volatility of currencies of many countries, including Central and Eastern European countries.

In November the annual growth of consumer prices in Poland decreased again (from 4.2% to 3.7%), although remaining above the NBP inflation target of 2.5% and also slightly above the upper limit for deviations from the target set at 3.5%. Further rise in the prices of some energy products and services related to flat maintenance as well as still high annual growth of prices of other services were major factors contributing to inflation persisting at an elevated level.

In the Council's assessment, in the coming months inflation will be within the tolerance range for deviations from the inflation target. In the medium term stronger than previously expected slowdown in the global economy – in particular, the recession in Poland's major trading partners – and, consequently, the significant decline in domestic economic growth will contribute to further lowering inflation in Poland. Decreasing GDP growth and the related falling labour demand as well as deteriorating financial condition of enterprises will contribute to easing the wage pressure, and, consequently, also the inflationary pressure. The tightening of banks' lending conditions will also contribute to lowering inflation. Factors limiting the decline in inflation may include further growth

NBP

in regulated prices as well as zloty depreciation observed in the past few months, although its impact on inflation may be limited amidst the economic slowdown.

The Council assessed the probability of inflation running below the target in the medium term to be higher than the probability of inflation running above the target and decided to lower the NBP interest rates.

The easing of monetary policy should contribute to stabilising economic growth around potential output growth which, in the medium term, will support the achievement of the inflation target. The Council's decisions in the coming months will take account of the incoming information on the outlook for economic growth and inflation in Poland and abroad. Maintaining fiscal discipline in the public finance sector may be conducive to easing monetary policy.

The Council will analyse the impact of developments in the domestic interbank market on the monetary policy transmission mechanism in Poland.

The Council maintains its view that Poland should join the Exchange Rate Mechanism II (ERM II) and the euro area at the earliest possible date, after achieving the necessary political support for amendments in the Constitution of the Republic of Poland and other legal acts necessary for the euro adoption in Poland.

The Council prolonged the period of using by the National Bank of Poland of the extended array of monetary policy instruments, in particular foreign exchange swaps, to 2009. This decision constitutes an amendment to the chapter on monetary policy instruments in the *Monetary Policy Guidelines for 2009*.

The Council has adopted *The Financial Plan of the National Bank of Poland for 2009*.