

Warsaw, 25 March 2009

INFORMATION FROM THE MEETING OF THE MONETARY POLICY COUNCIL

held on 24-25 March 2009

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

- reference rate to 3.75% on an annual basis;
- lombard rate to 5.25% on an annual basis;
- deposit rate to 2.25% on an annual basis;
- rediscount rate to 4.00% on an annual basis.

The decline in GDP growth in 2008 Q4 and fall in industrial output, exports and retail sales in the first months of 2009 confirm that economic growth in Poland has been slowing considerably. Strong economic slowdown which is mainly driven by recession in Poland's major trading partners has been spilling over to further sectors of the economy. Similarly to other countries, limited credit availability stemming from increased risk aversion and considerable tightening of banks' lending conditions as well as deteriorating sentiment of economic agents contribute to slowing economic growth. Despite persisting excess liquidity of the banking sector, the cost of credit remains at a relatively high level which results from high risk premium incorporated in market interest rates and from increased margins. At the same time, information on labour market developments points to declining employment, increasing unemployment and decelerating wage growth which is conducive to curbing inflationary pressure.

The recent period was marked by still heightened exchange rate volatility of currencies of Central and Eastern European countries, as well as currencies of developed economies. This has also affected the zloty exchange rate.

In line with expectations, the annual growth of consumer prices in Poland increased in February 2009 (to 3.3% as compared with the revised downwards 2.8% in January 2009), albeit remained below the upper limit for deviations from the inflation target set at 3.5%. The rise in inflation was mainly driven by rising fuel prices due to previously observed depreciation of zloty exchange rate. At the same time all core inflation indices increased. Considerable rise in the prices of energy and services related to flat maintenance observed in the first two months of 2009, was the main factor contributing to the annual price growth being maintained at an increased level.

In the Council's assessment, inflation in the coming months is likely to temporarily remain at an elevated level, mainly as a result of the already observed rise in administered prices, primarily of energy.

In the medium term, the recession in the global economy bringing about the decline in the domestic economic growth will lower the inflationary pressure in Poland. Deteriorating situation in the labour market and worsening financial condition of enterprises as well as banks' lending tightening will also be conducive to curbing demand and, consequently, inflationary pressure. On

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the other hand, the previously observed considerable depreciation of the zloty exchange rate will drive price increases. Weakening of the zloty exchange rate has also increased the zloty value of liabilities of economic agents (both households and enterprises) denominated in foreign currency, which might lead to lowering domestic demand.

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 supports the economy returning to the potential growth path, which in the medium term supports 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, inflation and situation in the financial markets in Poland and abroad and information on zloty exchange rate developments.

Maintaining fiscal discipline in the public finance sector may be conducive to easing the 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.