

Warsaw, 27 May 2009

INFORMATION FROM THE MEETING OF THE MONETARY POLICY COUNCIL

held on 26-27 May 2009

The Council decided to keep the NBP interest rates unchanged, i.e.:

- **reference rate at 3.75% on an annual basis;**
 - **lombard rate at 5.25% on an annual basis;**
 - **deposit rate at 2.25% on an annual basis;**
 - **rediscount rate at 4.00% on an annual basis.**
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Data released since the last meeting of the Council point to a continuation of the recession in the United States and its deepening in the euro area. At the same time, some information on the United States may be signalling a certain revival of activity in this economy in the time to come, while – despite improvement in some economic climate indicators – the forecasts of economic growth in the euro area, which is Poland's main trading partner, were lowered again. Further deterioration of the economic climate is also observed in Central and Eastern European countries.

The latest information on the Polish economy confirms that economic activity has been continuing at a low level. Slowing growth is driven by the decline in demand connected with recession abroad, lowering of growth in households' real wages and worse financial standing of enterprises as well as limited credit availability. Despite persisting excess liquidity of the banking sector, the cost of credit remains at a relatively high level due to increased risk premium. Deterioration in the sentiment of economic agents is another factor limiting demand. At the same time, information on labour market developments confirms further decline in employment and gradual lowering of wage growth, which is conducive to curbing inflationary pressure.

Over the recent period the volatility of exchange rates of Central and Eastern European currencies, including the zloty, has seen some reduction, though it remains relatively high in most of these countries.

In April 2009 the annual growth of consumer prices in Poland increased to 4.0%, remaining above the NBP's inflation target of 2.5% and also above the upper limit for deviations from the target, set at 3.5%. High annual growth of administered prices, including the prices of energy and services related to maintenance of dwelling, has been conducive to inflation continuing at an elevated level. The rise of inflation in April primarily resulted from higher food prices and prices in the category *transport*, which was connected with earlier significant weakening of the zloty exchange rate, and from the rising prices of excise goods. All core inflation indices increased as well.

In the Council's assessment, inflation in the coming months will probably decrease, though it will remain at an elevated level, mainly as a result of the relatively high annual growth of food prices and administered prices, including primarily prices 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. Further deterioration of the situation in the labour market and the ensuing decline in the growth of real wages as well as worse than in the previous period financial standing of enterprises will also be conducive to curbing demand and, consequently, the inflationary pressure. The tightening of banks' lending conditions will have a similar effect. On the other hand, the previously observed considerable depreciation of the zloty exchange rate will drive price increases.

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. The Council's decisions in the coming months will take account of the incoming information on the outlook for economic growth and inflation, the situation in the financial markets in Poland and abroad, information on the public finance sector and zloty exchange rate developments. Moreover, the Council decided that a more comprehensive assessment of inflation outlook will be possible after considering the results of the June projection based on the NECMOD model.

The Council decided to lower the required reserve rate by 0.5 percentage points from 3.5% to 3%. This decision applies to the required reserve maintained from 30 June 2009. In the Council's assessment, the lowering of the required reserve rate should offer banks more space for credit expansion.

The Council will continue to 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 required for euro adoption in Poland.

The Council approved the *Report on the Operations of the NBP in 2008*.

At its meeting on 13 May 2009, the Council adopted the *Report on Monetary Policy Implementation in 2008* and positively assessed the Management Board of the National Bank of Poland as regards the implementation of the monetary policy guidelines for the year 2008 through open market operations, standing facilities, foreign exchange swaps as well as the calculation and maintenance of banks' required reserves.