

National Bank of Poland

Monetary Policy Council

Warsaw, 8 May 2013

INFORMATION FROM THE MEETING OF THE MONETARY POLICY COUNCIL

held on 7-8 May 2013

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

- reference rate to 3.00% on an annual basis;
- lombard rate to 4.50% on an annual basis;
- deposit rate to 1.50% on an annual basis;
- bill rediscount rate to 3.25% on an annual basis;

Global economic activity remains weak. Despite an acceleration in economic growth in the United States in 2013 Q1, consumer and corporate confidence weakened somewhat in March 2013. Recession probably continued in the euro area, and in Germany – despite expected positive growth rate – the sentiment of economic agents weakened. A weakening of economic growth was also observed in China.

Weak global economic activity has contributed to a decline in inflation in many countries. The recent decrease in commodity prices in the global markets is also conducive to lower inflation.

In Poland, the incoming data confirm that economic growth is low. In 2012 Q4, GDP growth was weaker than previously estimated. Data on industrial and construction output as well as retail sales in the first months of 2013 show that economic activity growth remained weak also in 2013 Q1. Subdued economic activity is also confirmed by weak business climate indicators.

In 2013 Q1 employment in the enterprise sector declined, while the seasonally-adjusted unemployment rate rose. Wage growth continued to decrease. At the same time, lending growth, both to corporates and households, slowed down.

In March, CPI inflation declined again, reaching 1.0% y/y, i.e. a level markedly below the NBP inflation target of 2.5%. The decline in inflation was mainly driven by a decrease in food price growth. Core inflation measures and producer price inflation also declined, which confirms weak demand and cost pressures in the economy. This was accompanied by a decline in inflation expectations of households.

In the opinion of the Council, the incoming data indicate that economic growth in Poland remains weak, while inflation decline is stronger than forecasted in the March projection. At the same time, uncertainty about the pace and timing of the expected recovery in the euro area has increased, which can adversely affect economic activity in Poland. Hence, the risk of inflation staying markedly below the target in the medium term has risen.

Therefore, the Council decided to lower the NBP interest rates. The Council's decisions in the coming months will depend on the assessment of the incoming data with regard to probability of inflation remaining markedly below the NBP target in the medium term.