

Warsaw, 5 October 2011

INFORMATION FROM THE MEETING OF THE MONETARY POLICY COUNCIL

held on 4-5 October 2011

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

- **reference rate at 4.50% on an annual basis;**
- **lombard rate at 6.00% on an annual basis;**
- **deposit rate at 3.00% on an annual basis;**
- **rediscount rate at 4.75% on an annual basis.**

Since the previous meeting of the Council, there have been further signs of weaker global economic activity. Data on the US economy point to continued slow economic growth. Similarly, in the euro area and in some emerging economies business conditions deteriorated as compared to the previous quarters. At the same time, economic growth forecasts for many countries were revised downwards, whereas inflation remains elevated.

The heightened risk of a global economic slowdown along with the persisting fiscal problems in some countries give rise to enduring tensions in the financial markets worldwide. Given the increased risk aversion in the global financial markets, the currencies of emerging economies, including the zloty, weakened. The higher volatility of financial asset prices was still driven by ample liquidity in the global financial markets, connected with the strongly expansionary monetary policy of the major central banks.

According to the released data on the Polish economy the past few months have seen a deterioration in business indicators, which signals a possible decline in business activity. At the same time, growth in industrial output and retail sales accelerated in August 2011, whereas the upward trend in construction eased somewhat. Data from the enterprise sector point to continued moderate growth in wages, amidst a concurrent decline in employment. At the same time, the unemployment rate remains at an elevated level. Lending to enterprises, including investment loans, is rising although at a slower pace than earlier. The relatively fast growth in mortgage lending to households has also been sustained, while consumer loans continue to decline in annual terms.

In August, annual CPI inflation increased to 4.3%, remaining markedly above the NBP's inflation target of 2.5%. Higher inflation was related to an increase in the prices of telecommunication services, which also contributed to higher core inflation, and to higher energy prices. At the same time, the PPI inflation accelerated. Inflation expectations of households and enterprises declined.

NBP

In the coming months, annual CPI inflation will continue to run at an elevated level, primarily due to the previously observed sharp rise in global commodity prices.

In the medium term, inflation will be curbed by the anticipated decline in domestic economic growth amidst fiscal tightening, including reduced public investment spending, and interest rate increases implemented in the first half of 2011, as well as a likely global economic slowdown. On the other hand, the impact of the situation in the global financial markets on the zloty exchange rate constitutes an upside risk factor to domestic price developments.

In the opinion of the Council, the significant monetary policy tightening implemented since the beginning of 2011 should enable inflation to return to the target in the medium term. Given the above, the Council decided to keep the NBP interest rates unchanged. The Council does not rule out the possibility of further monetary policy adjustments, should the outlook for inflation returning to the target deteriorate.

In the recent period the National Bank of Poland sold some amount of foreign currencies in exchange for zlotys. Such transactions were consistent with the pursued monetary policy strategy defined in the *Monetary Policy Guidelines*.