

Warsaw, 26 November 2008

INFORMATION FROM THE MEETING OF THE MONETARY POLICY COUNCIL

held on 25-26 November 2008

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

- **reference rate 5.75% on an annual basis;**
 - **lombard rate 7.25 % on an annual basis;**
 - **deposit rate 4.25% on an annual basis;**
 - **rediscount rate 6.00% on an annual basis.**
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Data that have been released recently indicate that economic growth in Poland will decrease in the coming quarters. Stronger than previously expected economic slowdown will be driven by a significant decline in economic growth abroad, increased uncertainty as to the economic outlook 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 a sustained high growth of wages and a continuously unfavourable relation between wage and labour productivity growth. Decelerating employment growth signals softening of the labour market and a likely diminishing wage pressure in the coming quarters.

Since the Council's meeting in October growth forecasts for the global economy have been further revised downwards due to the persisting turmoil in the global financial markets and its growing impact on the real economy. At the same time, strong slowdown in the global economy – in particular, recession in the United States, the euro area and Great Britain – and the accompanying decline in commodity and food prices in the world markets contribute to decline in inflation, which has urged many central banks to continue to decrease their policy interest rates. The turmoil in the global financial markets has led to increased risk aversion, accompanied by depreciation of exchange rates of many countries, including Central and Eastern European countries, and by increased volatility of these exchange rates.

In October the annual growth of consumer prices in Poland decreased again (to 4.2%), although remaining above the NBP inflation target of 2.5% and also above the upper limit for deviations from the target set at 3.5%. Further rise in the prices of energy and considerable part of services, including primarily services related to flat maintenance, was contributing to inflation persisting at an elevated level.

In the Council's assessment in the near future inflation will continue above the upper limit for deviations from the inflation target which will mainly result from the increase in regulated prices. Yet, 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 decline in domestic economic growth will contribute to 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

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tightening of banks' lending conditions will also contribute to lowering inflation. Factors delaying the decline in inflation may include – apart from high annual growth in regulated prices – growing prices of some services, which may be partly driven by the growth in energy prices.

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 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.

At the meeting the Council got acquainted with the *Report on the Condition of Polish Banks in 2007* prepared by the Polish Financial Supervision Authority.