

Warsaw, 5 April 2011

INFORMATION FROM THE MEETING OF THE MONETARY POLICY COUNCIL

held on 4-5 April 2011

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

- **reference rate to 4.00% on an annual basis;**
 - **lombard rate to 5.50% on an annual basis;**
 - **deposit rate to 2.50% on an annual basis;**
 - **rediscount rate to 4.25% on an annual basis.**
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Incoming data confirm strengthening recovery of the global economy at the beginning of 2011. Economic activity has continued to rise in the United States. Economic conditions have been improving in the euro area, in particular, there has been a fast increase in economic activity in Germany, Poland's main trading partner. However, economic growth in the majority of developed countries is still being curbed by high unemployment and ongoing adjustments in the balance sheets of households, enterprises and financial institutions. In response to increasing inflationary pressures, major emerging economies and some small open developed economies have been tightening monetary policy.

The effects of high fiscal imbalances in several developed economies as well as strong monetary expansion by major central banks continue to add uncertainty about the global economic outlook. This uncertainty has been heightened by the disaster in Japan and the increased tensions in Northern Africa and the Middle East, as well as by the rise in commodity prices in global markets.

Moderately favourable macroeconomic data on major developed economies supported an improvement in financial market sentiment, yet, due to the disaster in Japan the volatility of financial asset and commodity prices has increased in the global markets. Surge in commodity prices has contributed to the rise in inflation across the world.

Data on the Polish economy signal that in the first quarter of 2011 the annual growth rate of GDP could be close to that observed in the previous quarter. Strong retail sales growth in February reduces the risk of household consumption growth weakening markedly as a result of the expiration of factors increasing it at the end of 2010. Investment activity remains curbed despite rising capacity utilisation and very good financial situation of enterprises. Uncertainty related to demand prospects remains a factor curbing enterprises' investment activity. The rise in employment in enterprises is still accompanied by a moderate wage growth. At the same time, unemployment has remained at a heightened level.

NBP

Lending to enterprises remains limited mainly due to reasons related to demand for credit. On the other hand, a relatively rapid growth in mortgage lending to households has continued (adjusted for the impact of foreign exchange rate fluctuations) whereas consumer loans declined.

In February 2011 CPI inflation remained at the level of 3.6% (with a downward revision of January data), i.e. above the NBP inflation target of 2.5%. At the same time, core inflation increased further, while inflation expectations rose markedly. The heightened level of inflation is connected primarily with increases in the prices of agricultural commodities and crude oil in the global markets, which have not been offset by changes in the zloty exchange rate, and additionally with a rise in most VAT rates at the beginning of 2011.

Recent data show that the risk of a slowdown of economic activity in Poland has decreased. In the assessment of the Council, continuing economic recovery in Poland and further employment growth may gradually increase wage and inflationary pressures in the medium term. At the same time, a rise in inflation expectations combined with a surge in commodity prices across the world create the risk that heightened inflation will persist. To reduce the risk of inflation running above the inflation target in the medium term the Council decided to raise the NBP interest rates, continuing the monetary policy tightening cycle. At the same time, the Council will continue to analyse possible signals of increased inflationary pressures.

An important factor affecting the monetary policy is the situation of public finances. An implementation of decisive measures aimed at permanently reducing the deficit of the general government sector and at curbing the increase of public debt is necessary for macroeconomic stability and will allow the meeting of euro adoption criteria.

Although the share of foreign currency loans in new mortgage loans to households has decreased, in the opinion of the Council, introducing measures aimed at preventing fast growth in foreign currency lending to households is important for macroeconomic stability. Such measures can contribute to increasing the effectiveness of the monetary policy transmission mechanism. Therefore, the Council expects that measures aimed at curbing the supply of new foreign currency loans to households will be introduced.

The Council maintains its view that Poland should join the ERM II and the euro area at the earliest possible date, after meeting the necessary legal, economic and organisational conditions.