



Warsaw, 3 July 2013

INFORMATION FROM THE MEETING OF THE MONETARY POLICY COUNCIL

held on 2-3 July 2013

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

- **reference rate to 2.50% on an annual basis;**
- **lombard rate to 4.00% on an annual basis;**
- **deposit rate to 1.00% on an annual basis;**
- **rediscount rate to 2.75% on an annual basis.**

Available data indicate that global economic activity in the first half of 2013 remained low. However, economic growth continued to differ significantly across economies. A markedly better situation in the United States is accompanied by probably on-going recession in the euro area and the lack of visible rebound in some major developing countries, including China. Low global economic activity as well as the previously observed fall in commodity prices are conducive to low inflation in many countries.

Signals of a possible tapering of monetary expansion by the Federal Reserve have recently led to a deterioration of sentiment in financial markets. This, in turn, resulted in some outflow of capital from emerging markets and depreciation of their currencies, including the zloty.

In Poland, data on industrial output, construction and assembly output as well as retail sales in April and May indicate that growth in economic activity in Q2 remained weak. This development is also suggested by a number of economic climate indicators, though some of them have improved lately.

The continuing low economic activity supports weak wage growth. At the same time, May 2013 saw a halt in the decline of employment in the corporate sector and a slight decrease in the registered unemployment rate (in seasonally adjusted terms).

Growth in lending to the private sector remained limited. Growth in loans to both households and enterprises continued to be low.

CPI inflation declined again in May 2013, reaching 0.5% y/y, i.e. a level markedly below the NBP inflation target of 2.5%. The decline in inflation was mainly driven by further deceleration in the growth of energy prices, including fuel prices. Low level of core inflation as well as a stronger decline in producer prices, confirm persistently low demand and cost pressures in the economy. This is accompanied by a further decline in inflation expectations of households and enterprises.

The Council got acquainted with the inflation and GDP projection prepared by the Economic Institute, being one of the inputs to the Council's decisions on the NBP interest rates.

In line with the July projection based on the NECMOD model – prepared under the assumption of unchanged NBP interest rates and taking into account data available until 13 June 2013 (i.e. not encompassing the July decision of the Council) – there is a 50-per cent probability of inflation running in the range of 0.6-1.1% in 2013 (as compared to 1.3-1.9% in the March projection), within 0.4-2.0% in 2014 (as against 0.8-2.4%) and within 0.7-2.4% in 2015 (as against 0.7-2.4%). At the same time, the annual GDP growth – in line with the July projection – will be, with a 50-per cent probability, contained within 0.5-1.7% in 2013 (as compared to 0.6-2.0% in the March projection), within 1.2-3.5% in 2014 (as against 1.4-3.7%) and within 1.6-4.2% in 2015 (as against 1.9-4.4%).

In the opinion of the Council, the incoming data confirm continued low economic growth in Poland accompanied by lack of wage and inflation pressures. The July projection, however, indicates that from the second half of 2013 – together with the expected improvement of global economic activity – a gradual acceleration of GDP growth can be expected, which will be conducive to rising inflation in the coming years. However, despite this, a risk of inflation running below the target in the medium term persists. Taking this into consideration, the Council decided to lower the NBP interest rates again.

The Council assesses that the significant reduction of NBP interest rates implemented since November 2012 supports economic recovery and limits the risk of inflation running below the NBP target in the medium term. The decision to lower NBP interest rates made at the current meeting ends the loosening cycle of monetary policy.

The Council adopted the *Inflation Report – July 2013*.