Warsaw, 5 March 2014

# Information from the meeting of the Monetary Policy Council held on 4-5 March 2014

**The Council decided to keep NBP interest rates unchanged:**

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

Growth in global economic activity remains moderate, although the economic situation varies across countries. In the United States, economic conditions remain favourable despite signs of some weakening observed in the recent period. At the same time, the euro area has been experiencing a slow, yet somewhat limited recovery. Activity growth in the largest emerging economies continues to be weak as compared with their previous performance. Some of these economies have seen deterioration in business indicators in the recent period. Moderate growth in global economic activity is conducive to maintaining low inflation in many countries.

Data on domestic economic activity confirm a continuation of the gradual recovery in Poland. In 2013 Q4 economic growth was higher than in 2013 Q3. GDP growth was supported primarily by net exports. At the same time, domestic demand contribution to GDP growth increased. This was related to accelerating consumption and investment growth.

The gradual recovery at the beginning of 2014 is indicated by a further growth in industrial output and retail sales in January 2014. At the same time, growth in construction output was negative. Yet, business climate indicators suggest that recovery will continue in the coming quarters.

The gradual economic recovery is contributing to an improvement in labour market conditions. According to the LFS, in 2014 Q4 the number of persons working in the economy was higher than a year before. This helped to reduce somewhat the unemployment rate, which however remained elevated. Unemployment persisting at heightened levels is hampering wage pressure in the economy.

According to preliminary data, CPI inflation stood at 0.7% in January 2014, thus remaining markedly below the NBP inflation target of 2.5%. This was accompanied by a decline in core inflation measures, which confirms that demand pressure continues to be



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weak. In turn, weak cost pressure in the economy is manifested by a further drop in producer prices. This is accompanied by low inflation expectations.

Lending to the private sector – while accelerating slightly – remains limited. In particular, since mid-2013 there has been a gradual acceleration in consumer loans. The past few months have seen a slight growth in housing and corporate loans from a low level.

The Council got acquainted with the projection of inflation and GDP prepared by the Economic Institute, being one of the inputs to the Council's decisions on NBP interest rates. In line with the March projection based on the NECMOD model – prepared under the assumption of unchanged NBP interest rates and taking into account data available until 14 February 2014 (projection cut-off date) – there is a 50-percent probability of inflation running in the range of 0.8-1.4% in 2014 (as compared to 1.1-2.2% in the November 2013 projection), 1.0-2.6% in 2015 (as against 1.1-2.6%) and 1.6-3.3% in 2016. At the same time, the annual GDP growth – in line with the March projection – will be, with a 50-percent probability in the range of 2.9-4.2% in 2014 (as compared to 2.0-3.9% in the November 2013 projection), 2.7-4.8% in 2015 (as against 2.1-4.5%) and 2.3-4.8% in 2016.

In the opinion of the Council, gradual economic recovery is likely to continue in the coming quarters, however, inflationary pressures will remain subdued. Such assessment is confirmed by the March projection of inflation and GDP. Therefore, the Council decided to keep NBP interest rates unchanged. In the Council's assessment NBP interest rates should be kept unchanged for a longer period of time, i.e. at least until the end of the third quarter of 2014.

In the opinion of the Council, lowering interest rates in the first half of 2013 and keeping them unchanged in subsequent quarters, supports recovery of the domestic economy, gradual return of inflation to the target and stabilisation in the financial markets.



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