

Warsaw, 2 July 2014

Information from the meeting of the Monetary Policy Council held on 1-2 July 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, following a contraction in GDP in early 2014, indicators of economic activity have improved over recent months. In the euro area, weak recovery continues. Activity growth in major emerging economies remains slow as for these countries. Moderate growth in global economic activity is conducive to maintaining low inflation in many economies, including the euro area and Central and Eastern European countries.

Monetary policy of the major central banks remains expansionary. In June, the European Central Bank decreased interest rates and announced additional liquidity providing operations to banks in order to stimulate lending.

In Poland, a gradual economic recovery continues. Nonetheless, May data show that annual growth in industrial output, construction and assembly output as well as in retail sales was slower than in the preceding months. At the same time, a recent decline in some business climate indices points to a possible slowdown in economic recovery.

The economic recovery is accompanied by a moderate acceleration in lending growth, both to companies and households.

Labour market conditions are improving gradually. Corporate sector data for May indicate a stabilization of employment and a slight acceleration in wage growth. This was accompanied by a decline in unemployment rate, which however remains at an elevated level.

In May, CPI inflation was lower than expected and stood at 0.2%, remaining markedly below the NBP inflation target of 2.5%. At the same time, all core inflation measures remained very low. This was accompanied by a further fall in producer prices and a decline in inflation expectations of both companies and households.

The Council got acquainted with the inflation and GDP projection prepared by the Economic Institute, which is 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 2014 (projection cut-off date) – there is a 50-percent probability of inflation running in the range of -0.1-0.4% in 2014 (as compared to 0.8-1.4% in the March projection), 0.5-2.1% in 2015 (as against 1.0-2.6%) and 1.3-3.1% in 2016 (as against 1.6-3.3%). At the same time, the annual GDP growth – in line with the July projection – will be, with a 50-percent probability, in the range of 3.2-4.1% in 2014 (as compared to 2.9-4.2% in the March projection), 2.6-4.5% in 2015 (as against 2.7-4.8%) and 2.3-4.5% in 2016 (as against 2.3-4.8%).

In the opinion of the Council, in the coming months inflation will remain very low and may temporarily fall below zero. In the following quarters, the ongoing economic recovery and improvement in the labour market should support a gradual increase in inflation and its approaching the target in the projection horizon. This assessment is supported by the July projection of inflation and GDP. Nonetheless, uncertainty persists over the scale of further acceleration of economic growth and the prospects of inflation returning to the target.

The Council decided to keep NBP interest rates unchanged. The Council decisions in the coming months will depend on the incoming information, which impacts the assessment of the outlook for economic growth and inflation in the medium term.