

Warsaw, 3 September 2014

Information from the meeting of the Monetary Policy Council held on 2-3 September 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. Following a contraction in GDP in early 2014, economic growth in the United States accelerated significantly in 2014 Q2. Moreover, economic indicators suggest that the recovery will continue in the coming quarters. At the same time, economic growth in the euro area came to a halt in quarterly terms, as GDP in Germany and Italy decreased and France remained in stagnation. Economic activity indicators for the euro area may be pointing to some improvement in economic activity in Q3, though a deterioration in industrial sentiment has been recorded of late. In the largest emerging market economies, economic activity growth remains weak relative to their previous performance.

Prices of many agricultural and energy commodities has decreased in recent months. Along with moderate global economic growth, this contributes to low inflation in many countries. In Poland's immediate environment – including in the euro area and the countries in Central and Eastern Europe – inflation remains close to zero.

Major central banks continue their expansionary monetary policy. While the Federal Reserve has been reducing the scale of quantitative easing, the European Central Bank intends to expand it. As a result, some central banks in the countries strongly linked with the euro area have recently reduced their interest rates.

In Poland, incoming data point to a slowing momentum of economic growth. In 2014 Q2, economic growth was slightly lower than in previous quarter. A decline in GDP growth resulted from a decrease in contribution of net exports below zero and a decline in investment growth. At the same time, a slight acceleration in consumption growth and a significant increase in inventories were conducive to a higher GDP growth rate.

According to data for July, the annual growth in industrial production and retail sales remained low, while construction and assembly output growth plunged. Also, some economic activity indicators have recently declined, which may point to a further slowdown in economic activity.

As economic growth decelerated in the second quarter, the number of the employed in the economy continued to rise. At the same time, wage growth eased. According to data for July, growth in employment continued in the enterprise sector, while the wage growth stabilized.

Expansion in lending to the corporate sector and households in recent months has stabilized at a moderate level.

In July, the annual CPI inflation declined and was negative (-0.2%), remaining well below the NBP inflation target (2.5%). The decline in inflation was driven by decline of food prices and lower core inflation, which indicates a lack of demand pressure. Also, a decline in producer prices confirms no cost pressures. It is accompanied by very low inflation expectations of businesses and households.

In the opinion of the Council, uncertainty about the outlook for economic activity in Poland has recently increased, which translates into higher uncertainty about the prospects of inflation returning to the target. The Council decided to keep NBP interest rates unchanged. If the incoming data confirm weakening of economic activity and an increase in risk of inflation remaining below the target in the medium term, the Council will start an adjustment of monetary policy.