

Warsaw, 8 October 2014

Information from the meeting of the Monetary Policy Council held on 7-8 October 2014

The Council set NBP interest rates at the following levels:

- reference rate at 2.00% on an annual basis;
- lombard rate at 3.00% on an annual basis;
- deposit rate at 1.00% on an annual basis;
- rediscount rate at 2.25% on an annual basis.

The Council also decided that required reserve funds will be remunerated at 0.9 of the NBP reference rate.

Growth in global economic activity remains moderate, although economic situation varies across countries. Economic recovery in the United States continues and economic outlook remains positive. At the same time, economic activity in the euro area is still subdued and the business climate indicators have recently deteriorated. In the largest emerging market economies GDP growth is also relatively low and in some of them, including Russia, has been decelerating.

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

Major central banks continue their expansionary monetary policy. At the same time, as economic situation varies across major economies, monetary policies in these economies are diverging. While the Federal Reserve has been tapering its asset purchase program, the European Central Bank has increased monetary expansion.

In Poland, data on economic activity in 2014 Q3 point to a further deceleration in economic growth. This is indicated by a slowing growth in industrial production, construction and assembly as well as retail sales in recent months. Lower economic activity growth is also indicated by a decrease in business climate indices.

Despite lower economic activity growth, employment in the corporate sector continues to rise. Growing employment contributes to a decline in unemployment. Yet, the unemployment rate remains elevated, which continues to contain wage pressure. As a result, wage growth in the enterprise sector remains moderate. At the same time, expansion in lending to the corporate sector and households has stabilized.

In August, the CPI inflation declined again and remained negative (-0.3% y/y). The decline in prices was mostly driven by falling food prices against high supply of agricultural products, lower prices of commodities in the global markets and the Russian

embargo on food imports. At the same time, core inflation remained very low, which confirms the absence of demand pressure in the economy. The continued decline in producer prices points, in turn, to the absence of cost pressure. This is accompanied by very low inflation expectations of enterprises and households.

In the opinion of the Council, the incoming data point to a deceleration in economic growth and an increased risk of inflation running below the target in the medium term. Therefore, the Council decided to lower NBP interest rates, except for the deposit rate, which remained unchanged, narrowing the spread between lombard and deposit rate. The Council does not rule out further adjustment of monetary policy, should the incoming data, including the November NBP projection, confirm a considerable risk of inflation remaining below the target in the medium term.