

Warsaw, 5 November 2014

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

The Council decided to keep NBP interest rates unchanged:

- 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.

Growth in global economic activity remains moderate, although the economic situation varies across countries. In the United States, economic growth in 2013 Q3 remained relatively robust. In the euro area, economic activity is still low and the projections for economic growth in the euro area have been revised downwards. At the same time, the economic growth in the euro area next year is expected to be higher than this year. This is accompanied by a slowdown in GDP growth in China and growth in economic activity in Russia coming to a halt.

Commodity prices, including for crude oil, have been recently falling. Along with moderate global economic growth, this contributes to low inflation in many countries. In Poland's immediate environment – including the euro area and Central and Eastern Europe – inflation remains close to zero.

Major central banks continue their expansionary monetary policy. However, as the economic situation varies across major economies, monetary policies in these economies are also diverging. While the Federal Reserve has concluded its asset purchases, the European Central Bank has started purchasing assets and the Bank of Japan increased asset purchase programme significantly.

In Poland, data on economic activity point to deceleration in economic growth in 2014 Q3. Growth in industrial production, construction and retail sales was lower in 2014 Q3 than in the previous quarter. This was accompanied by a deceleration of exports growth driven by economic slowdown in Poland's major trading partners.

Despite lower economic activity growth, employment in the corporate sector continues to rise, which is conducive to a gradual decline in unemployment. Yet, the unemployment rate remains elevated, which continues to contain wage pressure. As a result, wages increase in a pace close to real GDP growth. At the same time, expansion in lending to households has been stable, while the growth in lending to the corporate sector has been increasing gradually.

In September, CPI inflation remained negative at -0.3% y/y. The decline in prices, in annual terms, was mostly due to falling fuel prices, which resulted from a fall in oil

prices in the global markets. Core inflation remained close to zero, which confirms the absence of demand pressure in the economy. The continued decline in producer prices points, in turn, to a lack of cost pressure. This is accompanied by very low inflation expectations of enterprises and households.

The Council got acquainted with the inflation and GDP projection prepared by the Economic Institute. In line with the November projection based on the NECMOD model – prepared under the assumption of unchanged NBP interest rates and taking into account data available until 20 October 2014 – there is a 50-per cent probability of inflation running in the range of 0.0-0.2% in 2014 (as compared to -0.1-0.4% in the July 2014 projection), 0.4-1.7% in 2015 (as against 0.5-2.1%) and 0.6-2.3% in 2016 (as against 1.3-3.1%). At the same time, the annual GDP growth – in line with the November projection – will be, with a 50-per cent probability, 2.9-3.5% in 2014 (as compared to 3.2-4.1% in the July 2014 projection), 2.0-3.7% in 2015 (as against 2.6-4.5%) and 1.9-4.2% in 2016 (as against 2.3-4.5%). The economic growth and inflation risk distribution points to a greater probability of these variables remaining below the central projection throughout the whole projection horizon than above the central projection.

In the opinion of the Council, the October adjustment of monetary policy and the stable, despite some slowdown, economic growth limit the risk of inflation remaining below the target in the medium term. Therefore, the Council decided to keep NBP interest rates unchanged. However, the Council highlights that uncertainty regarding the economic conditions in the environment of the Polish economy persists. Therefore, the Council does not rule out further adjustment of monetary policy, should the incoming data point to a risk of deterioration in economic growth outlook.

The Council adopted the *Inflation Report – November 2014*.