

Warsaw, 11 March 2016

## Information from the meeting of the Monetary Policy Council held on 10-11 March 2016

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

- reference rate at 1.50%;
- lombard rate at 2.50%;
- deposit rate at 0.50%;
- rediscount rate at 1.75%.

Global economic growth remains moderate and the uncertainty about its outlook has recently increased. Economic recovery is under way in the euro area, yet driven mainly by consumer demand amid weak investment and export growth. In the United States, GDP growth slowed down in the second half of 2015, following several years of recovery, and there is a risk of further economic weakening. In turn, economic growth continues to decelerate in China, while Russia and Brazil remain in recession. Concerns that activity in the emerging market economies might weaken further and the threat that this might translate into lower activity in the advanced economies currently pose the greatest risk for global economic conditions.

Uncertainty about the global economy has affected financial market sentiment abroad, leading to a decline in the prices of many financial assets in recent months. Prices of oil and other commodities, including agricultural commodities, also remain low. In consequence, consumer price growth in many economies, including in the euro area, is close to zero, and inflation forecasts for the coming years are being revised down.

The European Central Bank lowered interest rates in March and increased the scale of quantitative easing. In the United States, despite an increase in interest rate in December and indications of a further increase in the coming quarters, uncertainty about the future direction of monetary policy has risen.

In Poland, stable economic growth continues and data for 2015 Q4 has even confirmed a slight acceleration in GDP growth. Domestic demand continues to be the key driver of GDP growth, supported by stable consumption growth and rising investment. The rise in demand is supported by favourable labour market conditions, positive consumer sentiment, sound financial standing of enterprises and their high capacity utilization, as well as lending growth.

As the output gap remains negative and nominal wage growth is only moderate, there is no inflationary pressure in the economy. Annual consumer price growth and producer price growth remain negative. Yet, the persistence of deflation results mainly from the strong fall in global energy commodity prices in recent quarters. Inflation

expectations are still very low. The persisting deflation has not yet adversely affected decisions of economic agents.

The Council became acquainted with the projection of inflation and GDP prepared by the Economic Institute, which is 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 23 February 2016 (projection cut-off date) – there is a 50-percent probability that the annual price growth will be in the range of -0.9 – 0.2% in 2016 (against 0.4 – 1.8% in the November 2015 projection), 0.2 – 2.3% in 2017 (compared to 0.4 – 2.5%) and 0.4 – 2.8% in 2018. At the same time, the annual GDP growth – in line with this projection – will be with a 50-percent probability in the range of 3.0 – 4.5% in 2016 (against 2.3 – 4.3% in the November 2015 projection), 2.6 – 4.8% in 2017 (compared to 2.4 – 4.6%) and 2.1 – 4.4% in 2018.

In the Council's assessment, price growth will remain negative in the coming quarters due to the earlier strong fall in global commodity prices. At the same time, a gradual increase in core inflation is expected. It will be supported by stable economic growth, including an anticipated rise in consumer demand growth driven by rising employment, forecasted acceleration of wage growth and an increase in social benefits. This notwithstanding, the downside risks to the global economic conditions are a source of uncertainty for the domestic economy.

The Council continues to assess that – given the available data and forecasts – the current level of interest rates is conducive to keeping the Polish economy on the sustainable growth path and maintaining macroeconomic balance.

The Council adopted *Inflation Report – March 2016*.