

Warsaw, 6 July 2016

Information from the meeting of the Monetary Policy Council held on 5-6 July 2016

The Council decided to keep the NBP interest rates unchanged:

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

Global economic growth remains moderate. At the same time, uncertainty remains about future economic conditions in the global economy, associated additionally with the implications of the referendum on the United Kingdom's membership in the European Union. The result of the referendum has increased risk aversion in the global financial markets, which was reflected in a depreciation of currencies and a decline in asset prices in many countries.

A modest recovery continues in the euro area, despite the negative impact of weak economic conditions in developing countries. The expected slowdown in growth in the United Kingdom is a risk factor for economic conditions in the euro area. In the United States economic growth remains moderate. However, weaker data from the labour market impedes clear assessment of future economic conditions in the US. In China the economic growth has probably decelerated further, while Russia and Brazil remain in a recession.

Despite some increase in recent months, prices of oil and many other commodities in the global markets remain markedly lower than in the previous years. This development – combined with moderate global economic activity – is the main driver behind very low consumer price growth in a number of economies.

The European Central Bank is keeping its interest rates close to zero, including the deposit rate below zero, and continues financial asset purchases. In the United States, data from financial markets suggests a delay of further interest rate increases. At the same time, uncertainty about further decisions of the Federal Reserve has increased.

In Poland, incoming data shows that economic activity has accelerated after a GDP slowdown in 2016 Q1. A relatively strong increase in the wage bill and favourable consumer sentiment as well as a sound financial position of enterprises and their high capacity utilisation have a positive influence on domestic economic conditions. This is accompanied by a stable growth of credit to the non-financial sector. An increase in disposal income of households resulting from the "Family 500+" programme will contribute to GDP growth in the coming quarters. Yet, the uncertainty about economic

conditions abroad, including the effects of the UK referendum, is a risk factor for domestic economic activity.

With negative output gap and a moderate growth of average nominal wages, currently there is no inflationary pressure in the economy. Annual consumer price growth and producer price growth remain negative. External factors – particularly the earlier sharp fall in the global commodity prices and the low price growth in the environment of the Polish economy – continue to be the main sources of deflation. This is accompanied by low inflation expectations. The persisting deflation has not adversely affected decisions taken by economic agents so far.

The Council became acquainted with the projections of inflation and GDP 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 the projection cut-off date of 24 June 2016 – there is a 50-percent probability that the annual price growth will be in the range of $-0.9 \div -0.3\%$ in 2016 (compared to $-0.9 \div 0.2\%$ in the March 2016 projection), $0.3 \div 2.2\%$ in 2017 (compared to $0.2 \div 2.3\%$) and $0.3 \div 2.6\%$ in 2018 (compared to $0.4 \div 2.8\%$). In turn, the annual GDP growth rate – in line with this projection – will be with a 50-percent probability in the range of $2.6 \div 3.8\%$ in 2016 (compared to $3.0 \div 4.5\%$ in the March 2016 projection), $2.4 \div 4.5\%$ in 2017 (compared to $2.6 \div 4.8\%$) and $2.1 \div 4.3\%$ in 2018 (compared to $2.1 \div 4.4\%$).

In the Council's assessment, the CPI growth will remain negative in the coming quarters due to the earlier substantial decline in the global commodity prices. At the same time, GDP growth is expected to remain stable in the coming quarters, following a temporary deceleration at the beginning of the year. Consumer demand will continue to be the main driver of economic growth, supported by rising employment, the forecasted acceleration of wage growth and an increase in social benefits. This notwithstanding, the downside risks to the global economic conditions, aggravated by the uncertainty about the effects of the UK's EU referendum, and the volatility of commodity prices, remain the sources of uncertainty for the economy and the price developments.

The Council confirms its assessment 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 – July 2016*.