

Warsaw, 8 March 2017

Information from the meeting of the Monetary Policy Council held on 7-8 March 2017

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, with signs of economic recovery strengthening in many economies. In the euro area, economic growth is stable, accompanied by favourable sentiment in industry. In the United States, economic conditions are supported by improving labour market, reflected both in rising employment and wages. In China, GDP growth picked up slightly in 2016 Q4, while Russia has probably recovered from recession.

Over past few months, inflation has risen considerably in many countries, mainly on the back of an increase in global commodity prices, which has recently come to a halt. At the same time, low demand pressure in many economies, including in the euro area, contains the rise in inflation and keeps core inflation at a moderate level.

The European Central Bank keeps interest rates close to zero, including the deposit rate below zero. The ECB also continues its asset purchase programme. The Federal Reserve indicates a further rise in interest rates this year.

In Poland, economic growth in 2016 Q4 was slightly higher than a quarter earlier. Economic growth was mainly driven by increasing consumer demand, supported by a rise in employment and wages, very good consumer sentiment and child benefit payments. At the same time, the fall in investment narrowed due to higher absorption of EU funds. Recent economic data, including industrial output, retail sales and labour market point to ongoing recovery.

The annual growth in prices of consumer goods and services in Poland has picked up considerably over recent months, mainly due to higher global commodity prices, i.e. factors beyond the direct impact of domestic monetary policy. Core inflation remains close to zero, which points to still low demand pressure. Despite growing employment and wages, growth in unit labour costs remains moderate.

In the Council's opinion, following a considerable rise in the first months of the year, inflation will stabilise at a moderate level. The stabilisation of price growth in the coming quarters will result on the one hand from fading effects of the past increase in global commodity prices and on the other hand from only a gradual increase in domestic inflationary pressure stemming from improving domestic economic conditions. In

consequence, the risk of inflation running persistently above the target in the medium term is limited.

Such an assessment is supported by the results of the March projection of inflation and GDP prepared by the Economic Institute under the assumption of unchanged NBP interest rates. In line with the March projection based on the NECMOD model – taking into account data available until 20 February 2017 – there is a 50-percent probability that the annual price growth will be in the range of 1.6 – 2.5 % in 2017 (against 0.5 – 2.0% in the November projection), 0.9 – 2.9% in 2018 (as compared to 0.3 – 2.6%) and 1.2 – 3.5% in 2019. The annual GDP growth – according to this projection – will be with a 50-percent probability in the range of 3.4 – 4.0% in 2017 (against 2.6 – 4.5 % in the November projection), 2.4 – 4.5% in 2018 (as compared to 2.2 – 4.4%) and 2.3 – 4.4% in 2019.

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 – March 2017*.