

Warsaw, 4 March 2020

Information from the meeting of the Monetary Policy Council held on 3-4 March 2020

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%.

Incoming data from the global economy indicate a stabilisation of economic growth at a relatively low level. In the euro area, economic growth declined in 2019 Q4, amid the ongoing downturn in industry. In contrast, in the United States GDP growth remained stable in this period, despite the subdued activity in industry. In China, GDP growth stabilised in 2019 Q4 at a lower level than in previous years, and economic activity growth weakened markedly at the beginning of 2020.

Due to the spread of coronavirus, uncertainty about the global economic outlook has increased and sentiment in the financial markets deteriorated recently.

Global oil prices have fallen considerably. In turn, the prices of many food commodities remain high. As a result, inflation in the global economy, including the external environment of the Polish economy, has risen in the past few months.

The US Federal Reserve lowered interest rates in March 2020. The European Central Bank is keeping the deposit rate below zero, while conducting asset purchases and signalling the maintenance of loose monetary policy in the coming quarters.

In Poland, economic conditions remain good despite a slowdown in economic growth. In 2019 Q4, real GDP growth stood at 3.2%. GDP growth was supported by the steady consumption growth, albeit slightly slower than before, fuelled by favourable labour market conditions, strong consumer confidence and social benefit payments. At the same time, investment continued to rise and the contribution of net exports to GDP growth remained positive.

According to the preliminary GUS data, inflation rose to 4.4% y/y in January 2020. The rise in inflation above the upper bound for deviations from the inflation target was driven by regulatory and supply-side factors that remain beyond the influence of domestic monetary policy. These comprised, in particular, higher electricity prices, higher fuel prices, an increase in waste disposal charges and in the excise tax on alcohol and tobacco, as well as a further rise in the prices of unprocessed food. The favourable financial situation of households and the resulting rise in consumption demand also put an upward pressure on price growth.

The Council became acquainted with the results of the March projection of inflation and GDP, prepared under the assumption of unchanged NBP interest rates. The March

projection takes into account data and information published up to 18 February 2020. In line with the March projection based on the NECMOD model, there is a 50% probability that inflation will be in the range of 3.1-4.2% in 2020 (compared to 2.1-3.6% in the November 2019 projection), 1.7-3.6% in 2021 (against 1.6-3.6%) and 1.3-3.4% in 2022. At the same time, the annual GDP growth – according to this projection – will be with a 50% probability in the range of 2.5-3.9% in 2020 (compared to 2.7-4.4% in the November 2019 projection), 2.1-3.9% in 2021 (against 2.3-4.2%) and 1.8-3.7% in 2022.

In the Council's assessment, the outlook for economic conditions in Poland remains favourable, yet GDP growth in the coming quarters will probably be weaker than in the previous years. In the recent period, however, uncertainty about the scale and persistence of the economic slowdown abroad and its impact on domestic economic activity has increased.

In the coming quarters, the annual inflation may remain above the upper bound for deviations from the inflation target due to supply-side and regulatory factors, i.e. ones remaining beyond the direct influence of domestic monetary policy. As the impact of these factors fades and GDP growth weakens, inflation will gradually decrease. In the monetary policy transmission horizon inflation will be close to the target. Such an assessment is supported by the results of the March projection of inflation and GDP.

The Council judges that the current level of interest rates is conducive to keeping the Polish economy on a sustainable growth path and maintaining macroeconomic stability, while at the same time enabling to meet the inflation target in the medium term.

The Council adopted the *Inflation Report – March 2020*.