

Warsaw, 4 March 2015

## Information from the meeting of the Monetary Policy Council held on 3-4 March 2015

### **The Council decided to decrease NBP interest rates by 0.5 percentage points to:**

- reference rate to 1.50% on an annual basis;
- lombard rate to 2.50% on an annual basis;
- deposit rate to 0.50% on an annual basis;
- rediscount rate to 1.75% on an annual basis.

The rise in global economic activity remains moderate, although the situation varies across countries. In the euro area, GDP growth remains low despite a slight acceleration in 2014 Q4. In the United States, economic growth is significantly higher than in the euro area, though it slowed down somewhat in 2014 Q4. In the largest emerging market economies, including China, GDP growth remains low as for these countries, and in Russia it has probably slid below zero.

Since the previous Council meeting, oil prices have increased slightly, but remained far lower than in previous years. At the same time, the prices for other commodities, including agricultural products, continued to decrease. The fall in commodity prices amid moderate global economic growth has been adding to a deceleration in price growth in many countries, and has been deepening deflation in most European countries. At the same time, the fall in commodity prices is supporting economic growth in countries that are net commodity importers.

Major central banks have kept their interest rates at historical lows. The European Central Bank is starting to purchase government bonds, while the majority of non-euro area central banks have eased their monetary policies, also by lowering interest rates.

In Poland, the pace of economic growth in 2014 Q4 slowed down slightly, but stayed close to 3%. GDP growth remained stable due to further rise in consumer demand and still high, despite some deceleration, investment growth. Meanwhile, lending growth was stable and labour market conditions continued to improve. The seasonally-adjusted unemployment rate has been declining driven to a large extent by rising employment. At the same time, the uncertainty about demand outlook continues to contain economic activity in Poland.

Despite improving labour market, wage growth in the economy remains moderate which indicates low wage pressure. Moderate wage growth, the fall in global commodity prices and no demand pressure, all contribute to deepening deflation, both in terms of consumer and producer prices. Inflation expectations of enterprises and households remain very low.

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 17 February 2015 (projection cut-off date) – there is a 50-percent probability that the annual price growth will be in the range of  $-1.0\div 0.0\%$  in 2015 (as compared to  $0.4\div 1.7\%$  in the November 2014 projection),  $-0.1\div 1.8\%$  in 2016 (as compared with  $0.6\div 2.3\%$ ) and  $0.1\div 2.2\%$  in 2017. At the same time, the annual GDP growth rate – in line with this projection – will be with a 50-percent probability in the range of  $2.7\div 4.2\%$  in 2015 (as compared with  $2.0\div 3.7\%$  in the November 2014 projection),  $2.2\div 4.4\%$  in 2016 (as compared with  $1.9\div 4.2\%$ ) and  $2.4\div 4.6\%$  in 2017.

Taking into account prolonging deflation and a significant increase in risk of inflation remaining below the target in the medium term, as indicated by the March projection, the Council decided to decrease NBP interest rates. Decision to lower the interest rates at the current meeting concludes the monetary easing cycle.

The Council adopted *Inflation Report – March 2015*.