

Warsaw, 8 July 2015

## Information from the meeting of the Monetary Policy Council held on 7-8 July 2015

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

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

Growth of global economic activity remains moderate. In the euro area, economic conditions improve gradually, although activity is still low. In the United States, recent data suggest that the slowdown at the beginning of the year was temporary and the economic outlook is favourable. In turn, economic growth in China remains low as for this country, while recession continues in Poland's eastern trading partners, i.e. Russia and Ukraine.

Despite the ongoing recovery in developed economies, the sentiment in the financial markets has recently deteriorated in the wake of growing fears of a Greek insolvency. This was conducive to a fall in prices of some financial assets as well as a weakening of exchange rates of Central and Eastern European currencies, including the zloty.

Following a sharp and long-lasting fall, oil prices have risen slightly in recent months. This has weakened disinflationary forces in many countries, fuelling an increase in price growth in the euro area. However, price growth in the global economy remains very low, and in some European economies it is still negative. In these conditions, major central banks are keeping interest rates close to zero and the ECB is continuing its asset purchase programme.

In Poland, GDP growth in 2015 Q2 most likely continued at a previous quarter level. Increase in consumption and investment, fuelled by an improving labour market situation, good financial condition of enterprises and a rise in lending, has probably remained the main driver of economic growth. At the same time, recent data do not indicate acceleration of economic growth in the coming quarters.

Due to the moderate pace of growth in demand and the continuing negative output gap, there is no inflationary pressure in the economy. Moreover, low commodity prices and moderate nominal wage growth are contributing to the continued lack of cost pressure. As a result, the annual growth of consumer prices remains negative, although the increase in the annual growth of fuel and food prices in the recent period has limited the scale of deflation. The annual growth of producer prices is also negative, while inflation expectations 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 July projection based on the NECMOD model – prepared under the assumption of unchanged NBP interest rates and taking into account data available until 22 June 2015 (projection cut-off date) – there is a 50-percent probability that the annual price growth will be in the range of  $-1.1\div -0.4\%$  in 2015 (as compared to  $-1.0\div 0.0\%$  in the March 2015 projection),  $0.7\div 2.5\%$  in 2016 (as compared to  $-0.1\div 1.8\%$ ) and  $0.5\div 2.6\%$  in 2017 (as compared to  $0.1\div 2.2\%$ ). 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  $3.0\div 4.3\%$  in 2015 (as compared to  $2.7\div 4.2\%$  in the March 2015 projection),  $2.3\div 4.5\%$  in 2016 (as compared to  $2.2\div 4.4\%$ ) and  $2.5\div 4.7\%$  in 2017 (as compared to  $2.4\div 4.6\%$ ).

In the opinion of the Council, the annual price growth will remain negative in the coming months, mainly due to the earlier sharp fall in commodity prices. At the same time, the expected stable economic growth, amidst recovery in the euro area and good situation in the domestic labour market, reduce the risk of inflation remaining below the target in the medium term. Such an assessment is supported by NBP's July projection. Therefore, the Council decided to keep NBP interest rates unchanged.