

Warsaw, 9 November 2016

Information from the meeting of the Monetary Policy Council held on 8-9 November 2016

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 uncertainty about its outlook. In the euro area, despite negative impact of weak economic conditions in the non-European emerging markets on exports, economic growth is stable, as indicated by national accounts data for 2016 Q3. In the United States, GDP growth picked up in 2016 Q3 following several quarters of deceleration. In China, economic growth has stabilised at a lower level than in previous years. In Russia, recession is gradually receding.

Amid moderate global economic growth and lower commodity prices than in previous years, price growth in the environment of the Polish economy is still very low. However, annual price growth in commodity prices has been positive, leading to slightly higher inflation in some economies.

The European Central Bank has kept interest rates close to zero, including the deposit rate below zero, and has continued financial asset purchases. The Federal Reserve – after a hike in December 2015 – has kept the interest rates unchanged, pointing to their probable increase in the future.

In Poland, stable economic growth has continued, although current data indicate that in 2016 Q3 it may have fallen slightly. The main driver of growth is rising consumer demand, which is supported by the gradual improvement in the labour market, favourable household sentiment and the child benefit payments under the "Family 500 plus" programme. Data on construction and assembly output indicate that declining investment is still containing economic activity. The decrease in investment is related to temporarily lower absorption of EU funds after expiration of the previous EU financial framework, as well as continued uncertainty about the regulatory environment of business.

Annual growth in prices of consumer goods and services has remained negative, yet deflation is gradually subsiding. Descending deflationary trends are also reflected by a growth in producer prices. The increase in price growth results from the dissipating effects of the earlier sharp fall in global commodity prices, and also the higher wage growth in Poland compared to previous quarters. Price growth is contained by low

inflation abroad and negative output gap in the domestic economy. At the same time, inflation expectations remain low.

The Council became acquainted with the projection of inflation and GDP prepared by the Economic Institute. In line with the November projection based on the NECMOD model – prepared under the assumption of unchanged NBP interest rates and taking into account data available until 21 October 2016 – there is a 50-percent probability that the annual price growth will be in the range of $-0.7 \div -0.6\%$ in 2016 (against $-0.9 \div -0.3\%$ in the July 2016 projection), $0.5 \div 2.0\%$ in 2017 (compared to $0.3 \div 2.2\%$) and $0.3 \div 2.6\%$ in 2018 (compared to $0.3 \div 2.6\%$). The annual GDP growth – according to this projection – will be with a 50-percent probability in the range of $2.5 \div 3.4\%$ in 2016 (against $2.6 \div 3.8\%$ in the July 2016 projection), $2.6 \div 4.5\%$ in 2017 (compared to $2.4 \div 4.5\%$) and $2.2 \div 4.4\%$ in 2018 (compared to $2.1 \div 4.3\%$).

In the Council's opinion, price growth will continue to gradually increase and in the coming quarters it will turn positive. Besides waned effects of the earlier falls in commodity prices, price growth in 2017 will be driven by an expected acceleration in GDP growth amid a further rise in wage growth and higher child benefits. In the coming quarters, the investment growth rate should also rise, supported by the good financial standing of enterprises and their high capacity utilisation, as well as the gradual increase in the absorption of EU funds. Such an assessment is supported by NBP November projection. The source of uncertainty for expected price developments is the risk of a fall in commodity prices.

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 – November 2016* and *Opinion on the 2017 Draft Budget Act*.